# INTEGRATED REPORTING: NEW DIMENSION OF FIRMS' PERFORMANCE REPORTING

Somnuk Aujirapongpan [1], Sarapee Chanatup [2]
[1]School of Management, Walailak University
[2]Faculty of Management, Suratthani Rajabhat University
[1]E-mail: asomnuk@wu.ac.th, [2]E-mail: Sarapee.Ch@walailak.net

***Abstract:*** *This article reviews the literature on the concept of integrated reporting which is the concept of firms' performance reporting. This concept reflects the financial and non-financial performances that are vital to the business and its stakeholders; including investors, shareholders, creditors, employees and clients. Therefore, this paper is focused on the developing concepts and findings related to the integrated reporting.*

*The integrated approach should be based on international reporting framework of the International Integrated Reporting Council. There are five factors that made the application effective. First, they engage directors and top management early in the process. Second, they use the process to interrogate the strategies. Third, they provide reporting teams with clear mandates and ensure integration between corporate functions. Fourth, they embed reporting within new and existing management systems. Fifth, they use the report to communicate the outcome of the process effectively.*

*The results found that integrated reporting reports corporate performance in a holistic way. They provide financial and non-financial performance which are important for the business to allocate resource within the organization and to create a good image and risk management about rules and regulations effectively. For the stakeholder's perspective, integrated reporting is important to improve the stakeholder's engagement and investor's demand.*

**Keyword: Integrated Reporting, Performance Reporting, Financial Reporting**

## 1. Introduction

Today business environment has been under pressure from the external factors such as climate change, resource shortages, the increasing in population and the development of the global economy. These reasons are driving forces for business sectors to focus on the results of reporting in more than just the financial reporting )Lynch, Lynch, & Casten, (2014. Firms operation and their supply chain have been highly impacted on economy, environment, society and local community )Tilley, (2012. This fact has made the stakeholders aware of these impact on the globe) Lynch et al., (2014.

Being aware of the effect of business activities on environment and society , many companies have started reporting on social and environmental performance under various names such as corporate social responsibility report, environmental report and sustainability report, etc.) Roth, (2014. In general, the companies listed have to disclose material at least must also disclose the annual financial statements; which were required to meet the international standard by the International Accounting Standard Board (IASB) or the Financial Accounting Standards Board (FASB) (Eccles & Saltzman, 2011). Mervyn King, Chairman of the International Integrated Reporting Council believed that the performance reporting model has weakness. Moreover, the current financial reporting is complex )Main & Hespenheide, (2012 and presents matter about information in the past )KPMG, (2013; while the Microsoft

Company has commented that the corporate reporting is not connected between corporate strategy, the opportunities and risks in the short and long term ) Investor Responsibility Research Centre Institute, (2013. Financial report shows only fair value of corporate without reporting the performance of non-financial issues which is a tool to monitor the financial health of the company in the long run. As a result, the investors also have an interest in the non-financial information increased as well) Eccles & Saltzman, (2011. This has made the companies need to focus on growing the business, together with the sustainable social and environmental dimensions ) International Federation of Accountants, (2012.

Several decades ago, tangible assets demonstrate value of business. However, the current value of a business is positively correlated with significant intangible assets, including goodwill and brand value )Deloitte, (2013. Ocean Tomo, the leading vendor of intellectual property in 2010, has studied the composition of the market value of equity securities. They found that intangible assets are accounted for 80 percent of market value. While tangible assets accounted for only 20 percent of market value ) Main & Hespenheide, (2012. More than 80 percent of the business valuation are not disclosed in the financial report, and such information is not disclosed in the disclosure of the traditional parties) Monterio, (2014. This study suggests that the value of the tangible assets does not reflect the full value of their business. The disclosure of social and environmental affairs is another way to show the value of the business. The social and environmental disclosure including the corporate governance of the company may be stated in the annual report or can be prepared in a separate report from the annual report, called the sustainability report. )Schuater & O'Connell, (2006.

The aspects of the corporate disclosure disconnected between financial and non-financial information. Therefore, firms need to be modified the form of business communication and appropriate to comply with the requirements of the user. In addition, the reporting system is required to develop a new method that can be linked to the corporate strategy, governance, financial performance and non-financial performance )Tilley, (2012. So integrated reporting to be a very useful tool for the management and the effectiveness of business communication in the era of the ocean of information )Oberholzer, (2011. This article aims to identify definition, importance, approach, elements, and application the integrated reporting.

## 2. Definition

The integrated reporting is a new dimension to the performance reporting of an organization that provides information on all aspects of the organization's operations. Whether the results of operations, financial, environmental, social and other data management) Roth, (2014. The European enterprises have adopted this form of reporting right in the beginning. For instance, Novozymes Company was the first to accept as a preparation for integrative in 2002, followed by Novo Nordisk Company in 2004 and Philips Company in 2008. Then it began to spread to North America and South America in 2008 )Eccles & Saltzman, (2011. For South Africa, the companies listed on the Stock Exchange have prepared an integrated report since 1 March 2010 (Abeysekera, 2013)

Although the integrated reporting is performed continuously since 2002, but it is currently in the process of developing a reporting definition, framework and standards) Eccles & Serafeim, (2015. There are two leading organizations which play an important role in the development of a framework for integrated reporting and reporting standards. First, the Integrated Reporting Committee of South Africa (IRCSA) was established in 2009, with professor Mervyn King as the Chairman. Second, the International Integrated

Reporting Committee (IIRC) founded in 2010 by a partnership between The Prince of Wales Accounting for Sustainability Project and The Global Reporting Initiative (Main & Hespenheide, 2012). These organization play a key role in the development of a framework for the international integrated reporting with traditional financial accounting and reporting responsibilities to society ) Velte, ( 2 0 1 4 . The Board of Directors of IIRC defines the meaning of the integration as the following:

*" Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation"* (International Integrated Reporting Council, 2013a, p. 4).

The King Report on Governance for South Africa 2009 (King III) defines integrated reporting as the following:

*" Integrated reporting as a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability "* (Integrated Reporting Committee, 2011, p. 3). Professor Robert G. Eccles considers that the integrated reporting approach presents the results of financial and non-financial issues , including social, environmental and corporate governance in one report ) Eccles & Saltzman, ( 2 0 1 1 . Thus, the author provides a definition of integrated reporting as a corporate performance reporting in a holistic way to present the financial and non-financial performance that affect the future value of the firm.

## 3. Statement of Problem

The integrated reporting is an opportunity to communicate and conduct sustainability strategy as part of creating value for shareholders over the long term, resulting in a sustainable society.) Kiron, ( 2 0 1 2 . The integrated reporting can be seen as concrete through the annual integrated report, the communications on strategy, governance, performance and prospects of the external environment. It leads to creating the future value in the short-term, medium and long-term (International Integrated Reporting Council, 2013b). The objective is to enable the stakeholders to assess the ability to create and sustain value in the short-term, mid-term and long-term business (Integrated Reporting Committee, 2011). Although the integrated reporting has only recently received attention, but the concept of the integrated reporting into the corporate reporting is beneficial for all stakeholders to analyze the ability of the organization in the future value. Such as employees, customers, suppliers and business partners, local communities and regulators ) International Integrated Reporting Council, 2013a).

The Black Sun, a leading strategic communications consultant in Europe and the IIRC has examined the benefits received after the publication of integrated report between the countries. They found that the integrated reporting is vital to the business and stakeholders for five reasons )Black Sun, (2014. These are the increasing of corporate ability to understand the value of the business, improve information management and decision making, develop performance indicators, build relationships with stakeholders, and cooperate with the reporting team and the other in an organization.

The adoption of integrated reporting entity can be classified into the following initial three dimensions ) Eccles & Saltzman, 2 0 1 1 ; Main & Hespenheide, ( 2 0 1 2 . The first is the internal benefits which include the allocation of resources within the organization are better. Apart from this, the increasing of the stakeholders' engagement can reduce reputation risk. The second is the external benefits are responding to the needs of investors looking for environmental, social and corporate governance information which appeared in the sustainability Index and to ensure that reporting of non-financial information of traders are accurate. The third is the benefits of risk management in rules are prepared to support worldwide regulatory trends and response to the requirements of the Stock Exchange Act.

The concept of the integrated reporting is applied in many industries during a discussion on the framework of the international integrated reporting. Druckman, the CEO of the International Integrated Reporting Council specifies the five dimensional concept of integrated reporting) Holmes, (2013. First of all, the basic building partnerships are more meaningful to investors. The concept support strategy and business model in the communication, this gives a better investment. The second dimension is the destruction of the silo within the organization which is fostering the exchange of information between departments to explain what organizations are doing and what management assumes the performance in the future; creating the links and interdependency information which affects the ability to create value in the future. The third dimension is the disclosure in financial and non-financial information. The stakeholders understand more about the full story of the creation of business value, including resources of the business and the relationship between resources. Moreover, the conveying of information is clear and concise. Finally, the focus of the future is more meaningful to investors for investment decisions.

It was also found that the company which has integrated reporting will have the proportion reporting for long-term investors, rather than short-term investors. Thus, the dynamic of the integrated reporting leads to change on the type of investors) Serafeim, (2014. Meanwhile, the proportion of long-term investors is likely to increase the importance of the implementation of the integrated reporting (Association of Chartered Certified Accountants, 2014). However, this concept aims to all stakeholders who interested in the report but the investor is the primary focus of these reports. Hence, the integrated reports are different from the sustainability reports of the business) PWC, (2013.

Therefore, the author summarized that the integration is more useful to organization and their stakeholders. The organization is collaboration among colleagues, even cooperates with the board and senior management. Moreover, it optimizes organizational management such as reputation risk management and regulation of the company. The integrated report allows users of these reports to have greater confidence and trust.

The integration is building relationships and engagement with stakeholders. It meets the information demand of investors and increases the proportion of long-term investors for business.

## 4. Reporting Framework

Report preparing should be in accordance with the international integrated reporting framework with the basic concepts and principles in the following report ) International Integrated Reporting Council, 2013c).

4.1 Fundamental concepts

Corporate value will be created by the organization, but also influenced by the external environment and is built through employees, suppliers and local communities. So, the basic idea of the scope of this report discusses on the concept of capital and ideas about the value of the business. The details are as the following:

4.1.1 Capitals

The value created by the organization in the future shown by the changes in equity arising from the business and organizational productivity. Creating value for the organization including, financial return to the provider of funds and value to other stakeholders and society at large. The relationship between organizations with the resources that are the foundation of success under the value creation process is mentioned in six categories of capital resources which are financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, natural capital).

Financial capital is the funding's of an organization which is used to produce goods or provide services through financing such as debt and equity or arising out of the operation of the business and investment.

Manufactured capital is the material for the production of goods or services including buildings, equipment and utility infrastructure, such as roads, ports, bridges, sewage treatment plants, waste and so on.

Intellectual capital is the intangible assets base on knowledge and intellectual property rights such as patents, copyrights, software licenses and latent knowledge, systems, procedures and regulations, brand and corporate reputation.

Human capital is human resource, personnel ability and experience, loyalty and motivation. The consistency and the promotion of corporate governance framework manage the risks and ethical values.

Social and relationship capital are the relationships between the institution, community and stakeholders. They include shared norms, traditional values and behavior relationships with key stakeholders and trust and a willingness to participate, the organization has developed and is committed to creating and protecting its external stakeholders such as customers, suppliers, business partners and local communities.

Natural capital is the environmental resource that can be renewable or nonrenewable. It provides products and services such as air, water, soil, minerals and forest biodiversity and plenty of eco-system.

4.1.2 Value creation

The value can be presented as images conveying a clear value of creation process is shown in figure 1

The organization's ability to create value for itself allows financial return to fund providers. The value creation process has six inputs including finance capital, manufactured capital, intellectual capital, human capital, social and relationships capital and natural capital.

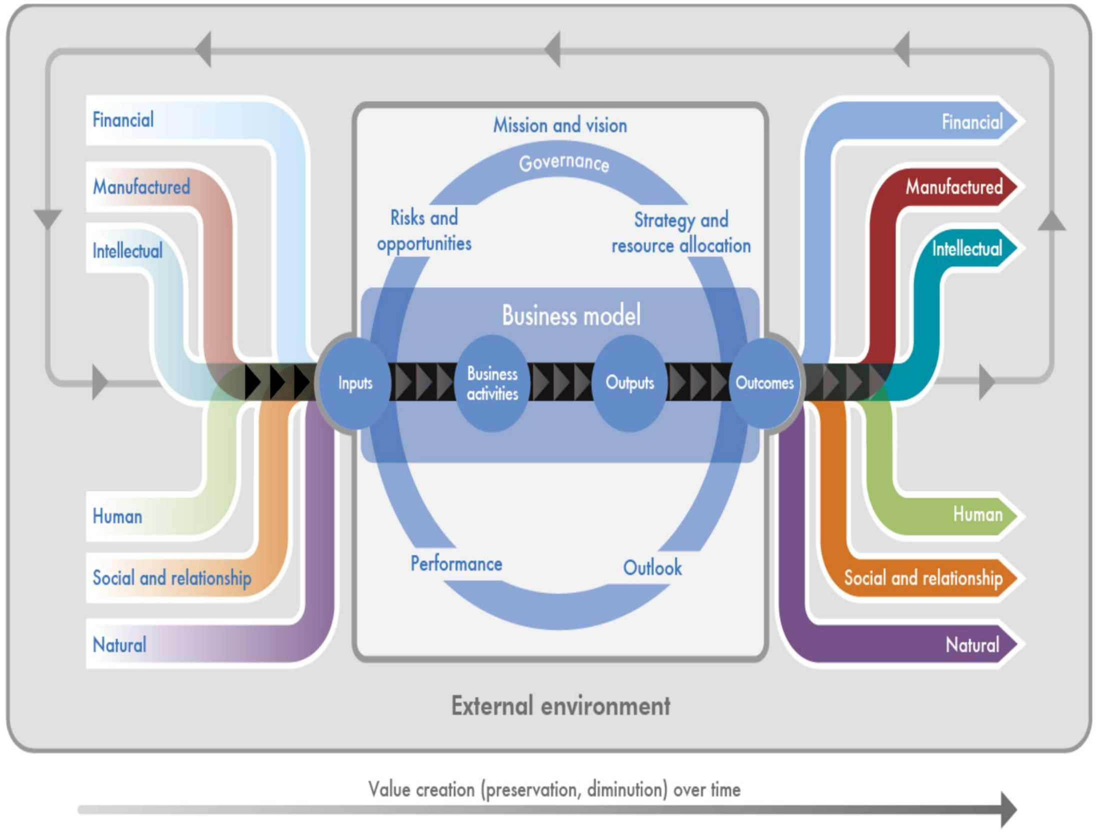


Figure 1 Value Creation Process
Source: The International Integrated Reporting Council

All this will go through business activities inputs to the outputs in the form of products, services or waste, depending on the business model of the organization and content component oriented framework for the international integrated reporting.

4.2 Guiding principles

The reporting framework has guided to determine what to report and structure the report. There are seven guiding principles: strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency and comparability.

1) Strategic focus and future orientation. The integrated report should provide insight into the strategies of the organization and how it relates to the ability to create value in the short, medium and long-term including the use of capital and its impact on capital.

2) Connectivity of information is the integrated report that demonstrate a holistic picture of integration and dependencies among the factors which affect the organization's ability to create value in the future.

3) Stakeholder relationship is the integrated approach that provide insight information into the nature and quality of our relationship with the main stakeholders.

4) Materiality is the integrated report that disclose information which affect the organization's ability to

create value in the short, medium and long term.

5) Conciseness is the integrated report that should be concise.

6) Reliability and completeness are the integrations that is the balance of both positive and negative.

7) Consistency and comparability are the information in integrated report that should be presented on the basis of information which is consistent with the future. They allow comparison with other organizations on the organization's ability to create value in the future.

## 5. Reporting Elements

Integrated reporting is also practical according to the report framework , which is based on the basic concepts and guidelines principle. The International Integrated Reporting Committee has set the international presentation of the eight elements: organizational overview and External environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, future outlook, and basis of presentation

1) The Organizational overview and external environment element present the content about the organization does and operate under any circumstances.

2) The Governance element shows that how the corporate governance structure supports the ability to create value in the short, medium and long term.

3) The Business model element shows the business model of the organization.

4) The Risks and opportunities element demonstrates what the specific risks and opportunities that affects the organization's ability to create value in the short term, medium and long-term.

5) The Strategy and resource allocation element focuses on how organizations are going to go and how to get there.

6) The Performance element focuses on measuring the achievement of strategic objectives for the period.

7) The Future outlook element shows what the challenges and uncertainties, which are often found in the pursuit of corporate strategy. And what is the potential to have a significant effect on our business and results of operations in future.

8) The Basis of presentation element suggests how organizations monitor critical content to be included in the integrated report and how the matter can be measured or estimated.

The author has analyzed the elements of the content in the integrated report , which was published in the IIRC's database (2014) between countries, 89 samples were found that most organization report the overview of the organization and the external environment 41.6 percent, followed by reporting content related to strategy and resource allocation of 37.1, while the business model was reported by 27 percent and the risk and business opportunities and results of operations are reported in 20.2 and 19.1 percent, respectively. However, there are four elements as Governance, Performance, Future outlook, and Basis of presentation cannot find result because samples did not publish these elements.

## 6. Reporting Adoption

Integrated reporting is partially influenced by the external motivation. From the Rio Earth Summit in 2012, this represents a group of investors in managing assets of approximately 1.6 billion dollars. UN members were called in to state and adopt a policy framework for the integration into the practice. These consist of a group of investors, financial institutions and professional organizations )Boerner, (2012. The study of investors' demand to corporate reporting which found more than 90 percent who agreed with the integration of financial and non-financial issues in an integrated report is valuable to the company (Association of Chartered Certified Accountants, 2014). Meanwhile some have been influenced by the internal motivation such as increased efficiency, reduced costs and better communication )Eccles & Saltzman, (2011. In a survey of the social responsibility of the KPMG audit firm in 2013 found that 71 percent of 100 large companies in 41 countries have reported social responsibility. 51 percent of the sample reported social responsibility as part of the annual report. It has increased significantly, from 8 percent in 2008 to 20 percent in 2011. However, 58 percent of the company, including its corporate social responsibility report on the financial statements in the annual report is only a part of the content related to social responsibility rather than integrating such information.) Lynch et al., ( 2 0 1 4 Organizations with integrated reporting, mainly large private companies, and Europe is the region with the most integration. The leading industries that have adopted integrated reporting include financial services industry, Industrial energy infrastructure, energy and mining industries. Although the integrated report has various names such as sustainability report or integrated report but is name that has been the most popular of the annual report )Global Reporting Initiative, (2013.

The results of the company in the forefront of the integration of 40 companies operating in South Africa found that the effective integration is composed of the following five components. First of all, the integration needs the involvement of the directors and senior executives at the start of the reporting process. The second component is the strategic process of inquiry which helps users determines the structure of governance of the organization. Furthermore, the report provides team that combines many functions in the organization. Moreover, the integration makes the report as part of a new management system or existing systems. Finally, the companies can use the results of the report to communicate effectively) Hanks & Gardiner, (2012.

## 7. Reporting Limitations

Although the integration of financial and non-financial issues in an integrated report is valuable to the company that prepared and is capable of a better understanding of the long-term prospects of the company; there are many reasons for not adopting this form.

First, the main reason is that some investors still do not see the value of the integration. They think that it's too complex and do not believe they can achieve the goals. In addition, investors are concerned about the turmoil in the annual report that policy makers will have to plan carefully about the integration (Association of Chartered Certified Accountants, 2014).

Second, the direction of the integrated reporting in the future, depending on many factors such as the scope of the organization's adoption of the report, reporting quality and the satisfaction of the investors in the content integration (KPMG, 2011).

Finally, the spread of the integrated reporting depends on the region or country. Thus, the level of integration of the countries with common law higher than countries with civil law (Todor-Tiron & Dragu, 2014).

## 8. Summary

Integrated reporting is the performance reporting of the company by providing holistic financial and non-financial issues. This is important for the company to allocate resources within the organization, including a good image, and risk management on regulatory efficiency. The guidelines of integrated reporting should be based on the international integrated reporting framework which determines the composition of the eight elements: organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, future outlook, and basis of presentation

The effective integrated reporting adoption will be composed of these following components: the directors and senior management, the strategic processes of inquiry, the arrangement of report team, reporting as a part of a new or existing management system, and the use of the outcome of the report to communicate more effectively.

However, region or country plays a more important role in the policy and regulation. This is the key of the diffusion in the future.

## 9. Reference


Abeysekera, I. (2013). A template for integrated reporting. *Journal of Intellectual Capital, 14*(2), 227-245.

Association of Chartered Certified Accountants.(2014). Understanding investors: directions for corporate reporting. Retrieved February 5, 2015, from http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/pol-afb-ui02.pdf.

Black Sun. (2014). Realizing the benefits: The impact of integrated reporting. Retrieved June 23, 2015, from http://integratedreporting.org/wp-content/uploads/2014/09/IIRC.Black_.Sun_.Research.IR_.Impact.Single.pages.18.9.14.pdf

Boerner, H. (2012). Trendwatching: The coming of integrated corporate reporting. *Corporate Finance Review, 17*(2), 29.

Deloitte. (2013). The era of sustainability disclosure. *Audit Committee Brief, September*, 1-5.

Eccles, R. G., & Saltzman, D. (2011). Achieving sustainability through integrated reporting. *Stanford Social Innovation Review, Summer*, 56-61.

Eccles, R. G., & Serafeim, G. (2015). Corporate and Integrated Reporting: A Functional Perspective. *Chapter in Stewardship of the Future, edited by Ed Lawler, Sue Mohrman, and James O'Toole, Greenleaf*.

Global Reporting Initiative. (2013). The sustainability content of integrated reports–a survey of pioneers. *Amsterdam: Global Reporting Initiative*.

Hanks, J., & Gardiner, L. (2012). Integrated reporting: lessons from the South African experience. Retrieved May 22, 2015,from http://openknowledge.worldbank.org/handle/10986/11052

Holmes, L. (2013). The whole story (so far): The case for adopting integrated reporting. *Financial Management,* 28-31.

Integrated Reporting Committee. (2011). Framework for integrated reporting and the integrated report–Discussion paper. Retrieved March 15, 2015, from http://www.sustainabilitysa.org/Portals/0/IRC%20of%20SA%20Integrated%20Reporting%20Guide%20Jan%2011.pdf.

International Federation of Accountants. (2012). Investor demand for environmental, social, and governance disclosures: Implications for professional accountants in business. Retrieved Febuary 5, 2015, from http://www.ifac.org/publications-resources/investor-demand-environmental-social-and-governance-disclosures

International Integrated Reporting Council. (2013a). Basis for conclusions International< IR>

Framework. Retrieved March 15, 2015, from http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-Basis-for-conclusions-IR.pdf.

International Integrated Reporting Council. (2013b). Consultation draft of the International< IR> framework. *Author, London.* Retrieved January 20, 1015, from http://www.rjnet.nl/Documents/Overige%20publicaties/IIRC%20Consultation%20Draft%20of%20the%20International%20IR%20Framework.pdf

International Integrated Reporting Council. (2013c). The international <IR> framework. Retrieved January 20, 2015, from http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf.

Investor Responsibility Research Centre Institute. (2013). Integrated financial and sustainability reporting in the United States. Retrieved May 22, 2015, from http://irrcinstitute.org/pdf/FINAL_Integrated_Financial_Sustain_Reporting_April_2013.pdf

Kiron, D. (2012). Get ready: mandated integrated reporting is the future of corporate reporting. *MIT Sloan Management Review, 53*(3), 1-5.

KPMG. (2011). Integrated reporting: Performance insight through better business reporting. Retrieved May 15, 2015, from https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/road-to-integrated-reporting.pdf

KPMG. (2013). The future of corporate reporting: Towards a common vision. Retrieved November 18, 2015, from https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Better-Business-Reporting/Documents/future-corporate-reporting-towards-common-vision.pdf

Lynch, N. C., Lynch, M. F., & Casten, D. B. (2014). The expanding use of sustainability reporting: Standard setting and assurance opportunities for CPAs. *The CPA Journal, March*, 18-24.

Main, N., & Hespenheide, E. (2012). The integrated reporting: The new big picture. *Deloitte University Press*(10), 124-137.

Monterio, B. J. (2014). Integrated reporting and corporate disclosure. *Strategic Finance, 96*(3), 54.

Oberholzer, A. (2011). Integrated reporting: Why should you care? *Communication World, 8*(5), 48.

PWC. (2013). Towards better business reporting. *World Watch*(1), 1-3.

Roth, H. P. (2014). Is integrated reporting in the future? Considering the costs, benefits and role of CPAs. *The CPA Journal, March*, 62-67.

Schuater, P., & O'Connell, V. (2006). The trend toward voluntary corporate disclosures. *Management Accounting Quarterly, 7*(2), 1-9.

Serafeim, G. (2014). Integrated reporting and investor clientele. *Harvard Business School Accounting & Management Unit Working Paper, No.14-069,February*(Revised April), 1-35.

Tilley, C. (2012). Corporate reporting needs new approach. *Financial Management, November*, 65.

Todor-Tiron, A., & Dragu, I. (2014). From sustainability to integrated reporting-the political perspective of institutional theory. *Studia Universitatis Babes-Bolyai Oeconomica, 59*(2), 20-33.

Velte, P. (2014). Improving corporate governance quality through modern controlling. Integrated Reporting in the German Two Tier System. *Business and Economics Journal, 5*(1), 1-5.