After studying this chapter, you would be able to

- Understand the authority issuing Framework of Integrated Reporting
- Examine the purpose and objective of Integrated reporting.
- Analyse integrated reporting as better reporting tool by examining and applying guiding principles and content elements of integrated reporting.
1. INTRODUCTION

In the last few decades, the concept of value is slowly and gradually shifting from price based or market value of an entity to asset based whether it is tangible or intangible assets. Since the dynamics of the global economy are changing, today’s organizations require to assess the value created over the time by actively managing a wider range of resources. Resources like intangible assets such as intellectual capital, research and development, brand value, natural and human capital have become as important as tangible assets in many industries. However, these intangible assets are not universally assessed in current financial reporting frameworks even though they often represent a substantial portion of market value.

2. ORGANISATIONAL STRUCTURE/ ISSUING AUTHORITY

Integrated Reporting (IR) is a concept first introduced in South Africa. Later on, this concept travelled to many countries like German, France, Spain, Brazil and UK and integrated reporting was made along with their financial statements in one or the other manner. In 2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.
The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that **communication about value creation** should be the next step in the evolution of corporate reporting. With this purpose they issued the International Integrated Reporting (IR) Framework. The framework has been developed keeping in mind the greater flexibility to be given to the entity and the management in the reporting but at the same time should target to report the value created by the organisation through various capital.

Integrated Reporting as the name suggest will integrate both financial and non-financial information. In future, it will become the only report to be issued by the organisation.

**3. WHAT IS INTEGRATED REPORTING <IR>??**

Integrated reporting is a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role organizations play in society. Integrated Reporting is enhancing the way organizations think, plan and report the story of their business. Central to this is the proposition that value is increasingly shaped by factors additional to financial performance, such as reliance on the environment, social reputation, human capital skills and others.

This value creation concept is the backbone of integrated reporting and is the direction for the future of corporate reporting. In addition to financial capital, integrated reporting examines five additional capitals that should guide an organization’s decision-making and long-term success — its value creation in the broadest sense.

"Integrated Reporting reflects how our company thinks and does business. This approach allows us to discuss material issues facing our business and communities and show how we create value, for shareholders and for society as a whole."  

Dimitris Lois, CEO, Coca-Cola HBC

Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance.
Integrated Reporting (<IR>) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

Integrated Reporting (<IR>) is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.

An integrated report is a **concise communication** about how an organization’s:
- Strategy
- Governance
- Performance And
- Prospects

in the context of its **external environment**

It leads to the **creation of value** over:
- Short
- Medium And
- Long term

It’s a portal by which the organisation communicates a holistic view of:
- Its Current position
- Where it’s going And
- How it intends to get there

The report enables readers to make an assessment of the organisation’s ability to create value in
the future, with value creation referring to the value created for both the organisation and for others.

4. PURPOSE OF INTEGRATED REPORTING

The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time.

An integrated report benefits all stakeholders interested in an organization’s ability to create value over time, including:

- Employees
- Customers
- Suppliers
- Business partners
- Local communities
- Legislators
- Regulators and
- Policy-makers

5. SALIENT FEATURES OF INTEGRATED REPORTING FRAMEWORK

5.1 Principle Based Approach

The International <IR> Framework (the Framework) takes a principles-based approach. This Framework identifies information to be included in an integrated report for use in assessing an organization’s ability to create value; it does not set benchmarks for such things as the quality of an organization’s strategy or the level of its performance.

It intent to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.
5.2 Targets the Private Sector or Profit Making Companies

This Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

5.3 Identifiable Communication

An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. It should include, transitionally on a comply or explain basis, a statement by those charged with governance accepting responsibility for the report.

An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time.

5.4 Financial and Non-financial Items

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It, therefore, contains relevant information, both financial and other.

5.5 Value Creation

Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization’s business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large)
6. THE CAPITALS

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization.

This is interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships. When these are material to the organization's ability to create value for itself, they are included in the integrated report.

The concept of capitals seeks to assist an organisation in identifying all the resources and relationships it uses and affects to report in a comprehensive manner.

The Framework has categorise the capital into 6 main forms. However, at the same time, it stresses upon that not necessary the same categorisation of capital be followed by the entities in their integrated reporting.

6.1 Financial Capital

The pool of funds
- available to an organization for use in the production of goods or the provision of services
- obtained through financing, such as:
  - Debt, equity or grants; or
  - Generated through operations or investments

6.2 Manufactured Capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:
- Buildings
- Equipment
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants)
Note: Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.

6.3 Intellectual Capital

Organizational, knowledge-based intangibles, including:
- Intellectual property, such as patents, copyrights, software, rights and licences
- “Organizational capital” such as tacit knowledge, systems, procedures and protocols

6.4 Human Capital

People’s competencies, capabilities and experience, and their motivations to innovate, including their:
- Alignment with and support for an organization’s governance framework, risk management approach, and ethical values
- Ability to understand, develop and implement an organization’s strategy
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate

6.5 Social and Relationship Capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

Social and relationship capital includes:
- Shared norms, and common values and behaviours
- Key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
- Intangibles associated with the brand and reputation that an organization has developed
- An organization’s social licence to operate

6.6 Natural Capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.
It includes:

- Air, water, land, minerals and forests
- Biodiversity and eco-system health

**Note:** Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.

### 7. CONTRIBUTION OF CAPITALS IN VALUE CREATION

The stock of capitals available to the organization are increased, decreased or transformed as a result of the value it is creating through various activities.

The connectivity and interdependence among the various capitals or inputs — specifically their influence on the organization’s long-term financial performance — should be communicated in an integrated report.

The capitals not only interact with each other, but they are also influenced by external factors. These include the economic climate, technological progress, social changes and environmental issues. Many a times, the capitals become an internally generated intangible asset.

To understand how an organization uses its capitals, how they relate to each other and the influence of external factors, it’s vital to define the strategy, and a series of KPIs, to measure the strategy’s progress.

(Source of the above diagram: Framework of IR issued by IIRC)
One of the distinguishing features of Integrated Reporting is that in contrast to compliance based reporting, there can be no model report.

Every report must be built around the unique business model of the preparer. This requires a very different mind-set when looking at examples of good reporting.

There are many good illustrations of how to report specific matters but examples can only provide a starting point for a company’s own reporting, not a template.

The starting point for understanding how Integrated Reporting works is considering the application of the content elements and guiding principles of the IIRC’s Integrated Reporting framework.

The following Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:
8.1 Strategic Focus and Future Orientation

An integrated report should provide:

- Insight into the organization’s strategy and
- How it relates to the organization’s ability
to create value and to its use of and effects on the capitals in:
  - Short
  - Medium and
  - Long term
- An integrated report should answer the question that where does the organization wants to go and how does it intend to get there?
- The report should clearly show the linkages between strategy, risks and opportunities, current performance, as well as future outlook and targets.

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**Extract of ABC LTD Sustainability Report Year 2016**

**Building Natural Achievements and Social Capital**

ABC’s vision of sustainable and inclusive growth has led to the adoption of a Triple Bottom Line approach that simultaneously builds economic, social and environmental capital.

It’s Social Investment Programmes, including Social Forestry, Soil & Moisture Conservation, Sustainable Agriculture, Livestock Development, Biodiversity, Women Empowerment, Education, Skilling & Vocational Training and Health & Sanitation, have had a transformational impact on rural India.

*These Programmes strive to empower stakeholder communities to conserve, manage and augment their natural resources, create sustainable on and off-farm livelihood sources and improve social infrastructure in rural areas.*

Through its Businesses and associated value chains, ABC has supported the generation of around 6 million livelihoods, touching the lives of many living at the margins in rural India. In line with its commitment to environmental goals, ABC has constantly strived to reduce the impact of its Businesses, processes, products and services and create a positive footprint.

*ABC has adopted a low-carbon growth strategy through reduction in specific energy consumption and enhancing use of renewable energy sources.*

*ABC also endeavours to reduce specific water consumption and augment rainwater harvesting activities both on site and off site at watershed catchment areas, as well as minimise waste generation, maximise reuse & recycling and use external post-consumer waste as raw material in its units.*
8.2 Connectivity of Information

An integrated report shows the connections between the different components:

- Organisation's business model
- External factors that affect the organisation
- Various resources and relationships on which the organisation and its performance are dependent upon

**Note:** The report should highlight the connection, for example, between past, present and future performance, between financial and non-financial information, and between qualitative and quantitative information.

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**Sample Report**

**Schiphol Group Company – An Extract**

**Mission**

*We aim to rank among the world’s leading airport companies.* We create sustainable value for our stakeholders by developing Airport Cities and by positioning Amsterdam Airport Schiphol as Europe’s preferred airport. Schiphol ranks among the most efficient transport hubs for air, rail and road connections and offers its visitors and the businesses located at Schiphol the services they require 24 hours a day, seven days a week.

**Profile**

XYZ Group is an airport operator, focusing particularly on Airport Cities. A prime example of an Airport City is Amsterdam Airport Schiphol. Europe’s fifth-largest airport in terms of passengers and third-largest in terms of cargo.

In addition to our Dutch operations (Amsterdam Airport Schiphol, Rotterdam The Hague Airport, Eindhoven Airport and Lelystad Airport), we have direct and indirect operations in the United States, Australia, Italy, Indonesia, Aruba and Sweden.
Activities

The operation of airport and development of airport cities involve 3 inextricably linked business areas: Aviation, Consumers and Real Estate. The integrated activities of Aviation, Consumers and Real Estate form the core of the Airport City concept. This concept is not only applied to Amsterdam Airport Schiphol but also – either in part or in full – to other airports, particularly through the Alliances & Participations business area. Our revenues derived from this broad range of activities are made up for the most part of airport charges, concession fees, parking fees, retail sales, rents and leases, and income from our international activities.

Amsterdam Airport Schiphol is an important contributor to the Dutch economy. It serves as one of the home bases for Air France-KLM and its SkyTeam partners, from which these airlines serve their European and intercontinental destinations. Amsterdam Airport Schiphol offers a high-quality network serving 301 destinations.

Strategy

The maintenance and reinforcement of the Main Port’s competitive position, and that of Amsterdam Airport Schiphol in particular, is the single most important objective on which our strategy is focused. This strategy combines the airport’s socio-economic function with our entrepreneurial business operations.

The interconnection and interaction between these two elements are crucial for the robust and future-proof development of Schiphol Group going forward. Corporate Responsibility is an integral part of this strategy and has been permeating increasingly all aspects of our operations.

Stakeholders

Schiphol Group has many stakeholders and their interests can be quite divergent. We do our utmost to conduct an active dialogue with all our stakeholders. In this, and in everything else that we do, our core values play a key role: reliability, efficiency, hospitality, inspiration and sustainability. Achieving the ambition to be Europe’s preferred airport calls for a culture driven by a desire to fulfil or, better yet, surpass the expectations of customers and local stakeholders.

8.3 Stakeholder Relationships

An integrated report should provide insight into:

- Nature and Quality of the organization’s relationships with its
- Key stakeholders

including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
8.4 Materiality

An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over:

- Short
- Medium
- Long term

**Note:** A focus on materiality should assist in avoiding irrelevant and detailed information from cluttering the report. The integrated report is a high-level, concise report that contains only the most material matters and information affecting the organisation and its ability to create value over time. Additional information can be placed in supporting reports.

8.5 Conciseness

An integrated report should be concise.

**Note:** Conciseness implies more than ‘as short as possible’. It implies that the information should be accessible through crisp presentation, the omission of immaterial information, and a logical easy-to-follow structure.

8.6 Reliability and Completeness

An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

**Note:** Integrated reporting requires that consideration is given to both good and bad news and performance. Furthermore, both the increases and reductions in the value of the important capitals should be reflected. Where the information is not perfectly accurate, estimates...
should be used and appropriate processes in place to ensure that the risk of material misstatement is reduced.

8.7 Consistency and Comparability

The information in an integrated report should be presented:

- On a basis that is consistent over time.
- In a way that enables comparison with other organizations to the extent it is material to the organization’s own ability to create value over time.

Note: The use of industry benchmarks, indicators of best practice, and ratios are tools that can improve reporting consistency and industry comparability.

9. CONTENTS OF INTEGRATED REPORTING

An integrated report includes the eight Content Elements.

The Content Elements are fundamentally linked to each other and are not mutually exclusive. The order of the Content Elements is not the only way they could be sequenced.

The Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content Elements apparent.

The content of an organization’s integrated report will depend on the individual circumstances of the organization. The Content Elements are therefore stated in the form of questions rather than as checklists of specific disclosures. Accordingly, judgement needs to be exercised in applying the Guiding Principles to determine what information is reported, as well as how it is reported.

The eight content elements suggested by the Framework are:

9.1 Organizational Overview and External Environment

Question to be answered through this element in the integrated reporting is

“What does the organisation do and what are the circumstances under which it operates?”

9.1.1 Organisational Overview

An integrated report identifies the organization’s mission and vision, and provides essential context
by identifying matters such as:

A. The organization’s:
   - Culture, ethics and values
   - Ownership and operating structure
   - Principal activities and markets
   - Competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry)
   - Position within the value chain

B. KQI: Key quantitative information
   
   Example:
   - Number of employees
   - Revenue
   - Number of countries in which the organization operates
   - Highlighting, in particular, significant changes from prior periods

C. Significant factors
   - Significant factors affecting the external environment and the organization’s response

9.1.2 External Environment

Significant factors affecting the external environment include aspects of:

- Legal
- Commercial
- Social
- Environmental
- Political context

That affects the organization’s ability to create value in the short, medium or long term
9.2 Governance

Question to be answered through this element in the integrated reporting is

“How does the organisation’s governance structure support its ability to create value in the short, medium and long term?”

An integrated report provides insight about how such matters as the following are linked to its ability to create value:

- The organization’s leadership structure, including the skills and diversity (e.g., range of backgrounds, gender, competence and experience) of those charged with governance and whether regulatory requirements influence the design of the governance structure.

- Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues

- Particular actions those charged with governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management

- How the organization’s culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders
21.18 FINANCIAL REPORTING

- Whether the organization is implementing governance practices that exceed legal requirements
- The responsibility those charged with governance take for promoting and enabling innovation
- How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals.

9.3 Business Model

Question to be answered through this element in the integrated reporting is

“What is the organisation's business model?”

An integrated report describes the business model, including key:

- Inputs
- Business activities
- Outputs
- Outcomes

9.3.1 Inputs

An integrated report shows how key inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization, to the extent they are material to understanding the robustness and resilience of the business model.

9.3.2 Business Activities

An integrated report describes key business activities. This can include:

- How the organization differentiates itself in the market place?
9.3.3 Outputs

An integrated report identifies an organization’s key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality.

9.3.4 Outcomes

An integrated report describes key outcomes, including:

- Both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)
- Both positive outcomes (i.e., those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the capitals and thereby diminish value).

9.4 Risks and Opportunities

Question to be answered through this element in the integrated reporting is

“What are the specific risks and opportunities that affect the organisation’s ability to create value over the short, medium and long-term, and how is the organisation dealing with them?”

An integrated report identifies the key risks and opportunities that are specific to the organization, including those that relate to the organization’s effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.
9.5 Strategy and Resource Allocation

Question to be answered through this element in the integrated reporting is

“Where does the organisation want to go and how does it intend to get there?”

An integrated report ordinarily identifies:

- The organization’s short, medium and long term strategic objectives
- The strategies it has in place, or intends to implement, to achieve those strategic objectives
- The resource allocation plans it has to implement its strategy
- How it will measure achievements and target outcomes for the short, medium and long term.

9.6 Performance

Question to be answered through this element in the integrated reporting is

“To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?”

An integrated report contains qualitative and quantitative information about performance that may include matters such as:

- **Quantitative indicators** with respect to targets and risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them
- The *organization’s effects (both positive and negative) on the capitals*, including material effects on capitals up and down the value chain
- The state of key stakeholder relationships and how the organization has responded to key stakeholders’ legitimate needs and interests
- The linkages between past and current performance, and between current performance and the organization’s outlook

9.7 Outlook

Question to be answered through this element in the integrated reporting is

“What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?”

An integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:
• The organization’s expectations about the external environment the organization is likely to face in the short, medium and long term
• How that will affect the organization
• How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.

9.8 Basis of Preparation and Presentation

Question to be answered through this element in the integrated reporting is

“How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?”

An integrated report describes its basis of preparation and presentation, including:

• A summary of the organization’s
  ◆ Materiality determination process
• A description of:
  ◆ Reporting boundary and how it has been determined
• A summary of
  ◆ Significant frameworks and methods used to quantify or evaluate material matters

9.9 General Reporting Guidance

The following general reporting matters are relevant to various Content Elements:

• Disclosure of Material matters
• Disclosures about Capitals
• Time frames for short, medium and long term
• Aggregation and disaggregation

10. INTERNATIONAL ACCOUNTING STANDARDS BOARD
LOOKING AT THE ROLE OF WIDER REPORTING

The International Accounting Standards Board (IASB) as part of its 'better communication' work is studying and consulting on wider corporate reporting, including developments in Integrated
Reporting, as it considers the role the IASB may take going forward.

One possibility is that the IASB might consider a project to revise and update its existing Practice Statement Management Commentary.

Businesses that are looking to communicate a broader story of value creation can use the International IR Framework alongside IFRS.

11. SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI vide its circular no. SEBI/HO/CFD/CMD/CIR/P/2017/10 February 6, 2017 has advised top 500 companies [to whom Business Responsibility Report (‘BRR’) have been mandated under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (“SEBI LODR”)], to adopt Integrated Reporting on a voluntary basis from the financial year 2017-18.

The objective behind recommending voluntary adoption of Integrated Reporting is to improve disclosure standards. An integrated report aims to provide a concise communication about how an organisation's strategy, governance, performance and prospects create value over time so that interested stakeholders may make investment decisions accordingly. Today an investor seeks both financial as well as non-financial information to take a well-informed investment decision.

Therefore, towards the objective of improving disclosure standards, in consultation with industry bodies and stock exchanges, the listed entities are advised to adhere to the following:

(a) The information related to Integrated Reporting may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared as per IR framework).

(b) In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, it may provide appropriate reference to the same in its Integrated Report so as to avoid duplication of information.

(c) As a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.
TEST YOUR KNOWLEDGE

Theoretical Questions

1. State the categories defined in the International IR Framework for capitals. Comment whether an organisation has to follow these categories rigidly.

2. Can a Not-for-Profit organisation do the Integrated Reporting as per the Framework?

3. Can an Integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports?

Answer to Theoretical Questions

1. Various categories of capital are:
   - Financial
   - Manufactured
   - Intellectual
   - Human
   - Social and Relationship
   - Natural

   Organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the above lines of the capitals.

2. The Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

3. An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.