EMERGING ECONOMY PERSPECTIVE OF INTEGRATED REPORTING AS A DISCLOSURE TOOL

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ABSTRACT

Purpose: *The purpose of the study of the study is to contribute in linking the business strategy with the sustainability strategy through Integrated Reporting. In order to increase stakeholder trust, the study examines how integrated reporting acts as a channel for identifying gaps and communicating strategy.*

Design/ Methodology/Approach: *The current study is supported by secondary sources, including journals, books, websites, and integrated business reports. Because IR practices are not mandated in India, Indian companies were chosen using the convenience sample method. As a result, all Indian corporations do not record or disclose information under the Integrated Reporting framework. The data is analyzed using the content analytical method, which is the most often utilized method in accounting research. The study also explores into IIRC's six capital categories, which are the foundation of an organization's value production. The most prevalent capitals reported by the entity are financial and manufacturing capitals. But Integrated Reporting takes a broader view by also considering Financial, Manufactured, Intellectual, Human, Social & Relationship and Natural Capital.*

Findings: *The result of the study indicates that Integrated Reporting is a tool for enterprises to gain a competitive edge, but that it will take a major regulatory structure to encourage IR in India. By strengthening the qualitative and information under a more holistic, concise, and efficient corporate reporting method, IR might satisfy the expectations of stakeholders.*

Research Limitations and Implications: *There is no defined structure for Integrated Reporting disclosure practices helping business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is truly performing.*

Originality: *As a new advancement in reporting, Integrated Reporting meets all multidimensional information needs for diverse company stakeholders to make their own decisions on various aspects of the firm. Several standards and guidelines exist in India to promote IR. Since they aid in the international harmonization of integrated reporting techniques, the IIRC recommendations stand out among standards and guidelines.*

Keywords: Corporate Governance; Integrated Reporting Framework; Stakeholder; Strategy; Sustainability Reporting; Value Creation.

INTRODUCTION

Integrated Reporting

Corporate reporting has developed significantly over the years, both internationally and domestically, to become more open, relevant, and thorough in giving information to all

Citation Information: Arora, A., & Sharma, T. (2023). Emerging economy perspective of integrated reporting as a disclosure tool. *Academy of Marketing Studies Journal, 27*(6), 1-8.

stakeholders. The important regulatory initiatives in India, such as the Companies Act, 2013, Corporate Social Responsibility under Section 135, SEBI Listing Requirements, and Business Reporting Legislation, etc., are aimed at improving disclosure standards and responsibility in societal viewpoints. Despite the fact that more sustainability and corporate social responsibility reports are being released, financial and non-financial data is not being disclosed in a manner that permits various users to make better and more informed decisions. Businesses must explain their business models and how they add value in the short, medium, and long term and refine them. The most recent reporting structure places an emphasis on non-financial information and data in addition to and independently from financial reporting, driving a desire to make irrevocable investments in environmental, social, and governance (ESG), as well as financial and natural capital.

The IIRC has developed an integrated reporting framework to handle all areas of business performance, rather of concentrating only on financial aspects, and to present a holistic perspective of a company by overcoming the existing duality in publishing traditional corporate reports (Eccles & Armbrester, 2011).

Corporate financial reporting focuses solely on quantitative financial data, whereas other reporting, such as business sustainability reports and CSR reports focus on non-financial data. The combined use of qualitative and quantitative information in integrated reporting, on the other hand, results in a comprehensive view of the organisation. A novel method in the corporate reporting which is integrated reporting makes clear the performance, plans, and accountability of the organisation as well as the manner in which it develops value over time. The reporting in form of Integrated Reporting compiles the entire pertinent data into a compact report that is very beneficial to stakeholders. There is not a refined structure and framework in the disclosure practice of integrated reporting to assist stakeholders in making wiser financial and investment decisions and determining and linking sustainability and economic values. Integrated reporting considers the demands of stakeholders. By analysing and evaluating the company's capacity to create and maintain value over the medium and long terms, integrated reporting seeks to satisfy the expectations of stakeholders. The primary goal captures the essential nature of IR , which is to link different avenues such as sustainability, business, governance, and other qualitative interest areas in order to assist the organization and its stakeholders in determining qualitative interest areas. In a nutshell, the IR process is integrated thinking that leads to an entity's quarterly integrated report on value creation and communication about value creation. Integrated Reporting is referred as a clear and comprehensive justification of how the success of a business entity is influenced by its strategy, governance, performance, and prospects.

Evolution of Integrated Reporting

Since the International Integrated Reporting Council (IIRC) released a global framework, integrated reporting has revolutionized corporate reporting by focusing on the short-, medium-, and long-term value creation of an organisation. By reflecting not only past performance but also information about future prospects and by taking a more condensed and connected approach to communicating such information, integrated reporting is intended to more effectively meet the needs of the business and investment communities of the twenty-first century. The world's first country to adopt integrated reporting is South Africa in the year 1994 with the publication of King I, or the first set of King Code of Corporate Governance Principles (Abeysekera, 2013).The King I report was created at the same time that other more industrialised and democratic nations, like the UK, were developing corporate governance frameworks (Makiwane & Padia, 2013). As

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South Africa started down the path to true democracy, the private sector realised that it, too, needed an innovative form for governing the system (Stewart, 2010). The King II report was published in 2002 after the Johannesburg Earth Summit persuaded Mervyn King that King I needed to be updated. The notion of integrated sustainability reporting was introduced by King II's report, which was built on the Triple Bottom Line Reporting and Global Reporting Initiative foundations. A set of IR principles are contained in report of King III, and on March 1, 2010, the Johannesburg Stock Exchange (JSE) imposed IR on an optional "apply or explain basis." As a result of the fact that "there are always ways of getting around a rule," King III supports the voluntary basis for IR. It is much more difficult to circumvent a principle. The only country that currently requires IR on a "apply or explain basis" is South Africa. In addition to South Africa's integrated reporting activities, there has been tremendous advancement in integrated reporting worldwide. For instance, France passed the Grenelle II Legislation in 2012, requiring all significant listed and unlisted enterprises to reveal their impact on society and the environment as well as their contributions to the development of a sustainable society. (Cheng et al., 2014). Being a comprehensive reporting method, integrated reporting enables the company to provide more contexts for both financial and non-financial data. One of the most significant moves towards encouraging sustainability reporting in Turkey was the introduction of the Sustainability Index. The interaction of both financial and non-financial capitals, such as natural, intellectual, social, and human, permits a business to develop and prosper. Across the globe greater than 2500 companies and more than 65 countries have embraced the integrated reporting which overcome the major drawbacks and limitations of traditional way of financial reporting. This increase in the adoption of integrated reporting which are the most recent insights of reporting is leading the framework which demonstrates the ability to create, preserve and grow for the diverse base. More than 90 companies in India have adopted the integrated reporting framework which is a value based reporting.

Need For Integrated Reporting

In order to meet the growing demand for more extensive information, a well-defined structure is required as a solution for improved reporting practices. The paradigm shift from value creation towards the environment, social and governance has radically changed the company's models and strategies of operations. In regard to the long term growth and sustainability, Integrated Reporting is observed as a powerful vehicle presenting the holistic picture of all six capitals namely Financial Capital, Manufactured Capital, Intellectual Capital, Human Capital, and Social and Relationship Capital, and Natural Capital. Integrated Reporting, as a single report, strives to provide insight into the evolution of value over period of time. The performance of the organization's finances and sustainability will be impacted by the growth and contraction of the six capitals that make up the Integrated Reporting framework.

1. **Financial Capital**: Reserves of cash that are accessible for use in the production of goods or the delivery of services and have been acquired by an organisation through debt, equity, grants, or a combination of debt and equity to optimize surplus funds from corporate operations and pertinent asset and investment monetization. The variables include Revenue, EBITDA, PAT, balance sheet size with return on asset, return on equity etc.

2. Manufactured Capital: The tangible assets of an organisation that can be utilised to produce things or provide services, such as machinery and structures. It consists of a nationwide network

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of branches, corporate offices, and structures. It serves as a platform for interaction with clients, people, society, and other stakeholders and serves as the foundation of our created capital. Additionally, it covers our reliable IT infrastructure and data centres.

3. Intellectual Capital: Intangibles such as Intellectual property that is held by an organization, including patents, copyrights, software, rights, and licences. It emphasis on research and innovation, on strengthening the commitment to Standard Operating Procedures and compliances together with promoting the operational effectiveness and resource optimization.

4. Human Capital: Individuals' skills, knowledge, and experience as well as their innovation-related motivations, such as adherence to and support for the governance structure, risk management strategy, and ethical standards of an organisation. The success of the entity is fundamentally dependent on its people and culture. The human capital is made up of their combined expertise, wide range of skills, and wealth of experience. The entire workforce gives the flexibility, adaptability, creativity, and ability to provide competitive solutions.

5. Social and Relationship Capital: Institutions and connections between and among communities, stakeholder groups, and other networks, as well as the capacity to share knowledge to advance both individual and societal well-being, are all examples of social and relationship capital. It takes into account a comprehensive strategy for long-term value development through fostering our strong connections with the stakeholders. The social and relationship capital consists of how an enterprise manages stakeholder expectations.

6. Natural Capital: All environmental processes and resources—both renewable and nonrenewable that are important to an organization’s past, present, and future prospects. Natural capital is created using the effective use of natural resources in business operations and the provision of goods and services. Natural resources include the amount of energy and water used, the amount of waste created, and the effects that our commercial activities have on the environment and the climate.

The interplay of both qualitative and quantitative information under the Integrated Reporting aids entities to overcome the drawbacks of conventional financial reporting. Integrated reporting gives a clear and comprehensive view of how an organization performs on various levels, including commercial, social, environmental, financial, and human factors. Stakeholders are informed about a entity's strategy, governance, as well as long-term viability by the quality of its IR disclosure processes. Integrated reporting helps management better control risks and discover investment opportunities by simplifying an organization's perspective. By giving relevant information about the working conditions of their supply chain workforce, connections with the bodies where plants and other amenities are situated, and compensation plan structure, companies that use IR boost the value and create the long term interests of the stakeholders. As per the statement by International Integrated Reporting Council (IIRC), the existing financial reporting structure's short-term framework restricts top-level management's ability to establish long-term plans and arrange their decisions on future course of action. The existing financial reporting structure's short-term framework hinders top-level management's ability to establish long-term plans and arrange their decisions on future course of action. Data structure, particularly that relating to Environmental, Social, and Governance information, is frequently overlooked by management (KPMG, 2013). The IIRC's main objective is to "create an internationally recognized IR framework that combines financial and ESG data in a way that is

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"clear, comprehensive, standardized, and relevant" so that stakeholders, including investors, can fully comprehend way the company functions. By presenting both quantitative and qualitative data under the one combined and extensive report, this approach builds the gap between the corporate and sustainability reporting. Although publicly traded corporations are required to issue a yearly financial report on their financial performance, the majority of countries do not require non-financial information reports. When companies use IR, they deliver qualitative and quantitative information to their stakeholders, which is the most recent innovation in the reporting framework.

Integrated Reporting Disclosure Quality and Reliability

Integrated Reporting provides greater insights into the elements during the performance of an entity. It is anticipated to increase reporting comparability within the sector, clarify performance metrics, and give disclosures more credibility. Providing stakeholders with accurate, comprehensive, and time-efficient information is a key component of integrate reporting disclosure practice. In order to prevent stakeholder dispersion, IR decreases the volume of reports. Because integrated reports accurately depict an organization's social, environmental, and ethical activities, investors and other stakeholders rely on them.

Integrated Reporting and its Relevance

The information contained in an integrated report is verifiable considering the legitimate needs and interests of stakeholders. In order inform stakeholders, companies are encouraged to provide more ESG principles. As a result, businesses tell investors information that is valuable to them about how effective their organizations are in comparison to those of their rivals. Non-financial information lowers investor uncertainty and affects the stock price of the company. Investors nowadays are eager to assess the long-term implications of exposures to ESG risks such as climate change, resource pressures, regulatory pressures, changing demographics, data privacy, and most recently, pandemics. Additionally, there is an apparent connection between an organization's ESG focus, market overall performance, and financial returns with integrated reporting.

Quality of Integrated Reporting and Creation of Value

All material matters related to qualitative and quantitative information are included in an integrated report. Integrated Report is a holistic representation of the quantitative and qualitative information of an entity. Integrated reporting should be clear and concise in nature which enables better informed decisions. The report that results from this gives all stakeholders a clear picture of how an organisation creates value. The reporting under the capitals is all interconnected and interdependent, which indicates the inputs of one have an effect on the end product of the others and vice versa. Business must view value creation through the larger lens of stakeholder returns in order to create sustainable financial returns and be relevant in the long run.

LITERATURE REVIEW

The review of the literature examines the research that has previously been done on the subject at hand to determine the primary domain that requires additional study.

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The sustainability reports must be extensive, adaptable, and compliant with the applicable laws depending on the nature and size of the organisation. The more unusual as well as unconventional styles utilized, the more willing people are to read the report and remember its contents, and the more likely it is that even negative stakeholders would like it (Chakrabarty, 2005).

An examination of reports revealed a greater focus on detail in the main subjects of economic, environmental, and social reporting. The organization that already uses Integrated Reporting has the difficulty of relating ESG data to financial data. An examination of reports demonstrated a greater emphasis on detail in the areas of significance of economic, environmental, and social reporting. The organisation that already uses Integrated Reporting has the difficulty of relating ESG data to financial data (Westerfors & Vesterberg, 2011).

Due to a number of limitations and drawbacks, such as short-termism, lack of cohesiveness, intricacy, and the absence of qualitative information (such as social, health, carbon emissions, and labour rights), these changes cannot be accounted for by conventional company financial reporting.

(Haji & Ghazali 2013; Frias-Aceituno et al. 2013) found that IR supports better corporate reporting that demonstrates the way organisations may produce value over time and boosts resource allocation in the decision-making process. International Integrated Reporting Council [IIRC] 2013. Unlike financial reporting, the disclosure of sustainability parameters to the market is mainly controlled but mostly voluntary. Stakeholder needs could be met by IR through raising accountability and stewardship, as well as improving the quality of information supplied to stakeholders.

Without fully comprehending the guideline's actual requirements, other information is provided that falls short of expectations. For example, community development actions conducted to offset the impact of the product on local areas are anticipated on social indicators.

Integrated Reporting disclosures are positively associated with the firm's valuation. This indicates that the advantages of Integrated Reporting outweigh the costs generally. In companies with a complex operating and informational environment, Integrated Reporting also lowers information processing costs (Lee &Yeo, 2016). From the risk as well as from opportunity standpoint, the firms' Integrated Report provided value over time. Integrated reporting has become a concept for merging several aspects of non-financial data into "One Report." (Romolini et al, 2017). Integrated reporting is a communication endeavour that emphasises the role of integrated reporting in influencing corporate culture, governance, and strategy. Integrated Reporting is now widely recognised as a significant corporate reporting tool as well as a method of smart business management American Institute of Certified Public Accountants, 2018.

IR is a useful accounting tool since it aids firms in rethinking and integrating their goals and business models in accordance with stakeholder expectations, and capital markets are likely to reward its adoption. (Pavlopoulos et al., 2019) and also through the assessment of the three integrated components of sustainable development, namely the economy, environment, and society, integrated reporting has the potential to greatly improve the long-term health of corporations and the external environment they impact (Robertson, 2021).

Integrated reporting is the most effective technique to interact with stakeholders since it shows the company's whole image in terms of future goals (Hoque, 2017).

There is a significant association between integrated reports' size and quality. Due to disparities in profitability, board composition, gender, and business size, there are differences in

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the quality of integrated reports that organisations create. There was no association between leverage and integrated reporting quality (Iredele, 2019).

The main intent of the Integrated Reporting (IR) Framework is to provide practitioners as well as researchers an improved comprehension of the relationship between Corporate Governance and Integrated Reporting. The study provided an explanation of the importance of Corporate Governance and Sustainability Reporting in the transition to Integrated Reporting.

Integrated reporting encourages firms to actively explore the relationships between their various operating and functional divisions, as well as the types of capital that they utilise and influence. According to the findings of the literature review, the integrated reporting disclosure practices that assist businesses in making more environmentally friendly decisions and make it possible for stakeholders to comprehend an organization’s actual performance lack a defined structural framework. From the earlier studies, the lot of the literature is focused on integrated reporting systems in foreign contexts, but just a few studies have been undertaken in India. The present study focused on Integrated Reporting Disclosure procedures in India to fill this research gap. According to the findings from the literature review, few research studies have been undertaken to analyse the firm's performance in both qualitative and quantitative terms in one report, with a focus on financial stability and sustainability. As a result, when six capitals are reported—financial, manufactured, intellectual, human, social and relationship, and natural capital—this research will establish a link between integrated reporting disclosure requirements and an entity's creation of value over a period of time.

METHODOLOGY

The current study is supported by secondary sources, including journals, books, websites, and integrated business reports. Because IR practices are not mandated in India, Indian companies were chosen using the convenience sample method. As a result, all Indian corporations do not record or disclose information under the Integrated Reporting framework. The data is analyzed using the content analytical method, which is the most often utilized method in accounting research. The International Integrated Reporting Council guidelines were used for this research. The study also explores into IIRC's six capital categories, which are the foundation of an organization's value production. The most prevalent capitals reported by the entity are financial and manufacturing capitals. But Integrated Reporting takes a broader view by also considering Financial, Manufactured, Intellectual, Human, Social & Relationship and Natural Capital.

Year wise Integrated Reporting Disclosure Practices by Indian Companies

Over the recent years, Integrated Reporting has gained momentum in India over disclosure practices. This reporting practice has been widely accepted fulfilling the need of investors and stakeholders and adding to the value creation of an entity. In 2017, the multi capital reporting accelerated in more than 8 companies. In 2018, more than 32 companies adopted Integrated Reporting. By year 2020, more than 80 companies reported on IR framework setting the global standards of disclosures.

CONCLUSION

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As a new advancement in reporting, Integrated Reporting meets all multidimensional information needs for diverse company stakeholders to make their own decisions on various aspects of the firm. Several standards and guidelines exist in India to promote IR. Since they aid in the international harmonisation of integrated reporting techniques, the IIRC recommendations stand out among standards and guidelines. The fact of the matter is that India is one of the countries that are actively promoting IR on a worldwide scale, allowing Indian companies to get international recognition and gain a competitive advantage. In this context, India's current situation is still developing because corporations are beginning to implement integrated reporting on an optional basis, which has made comparison of financial reports challenging. Finally, the study believes that IR will be a tool for enterprises to gain a competitive edge, but that it will take a major regulatory structure to encourage IR in India. By strengthening the qualitative and information under a more holistic, concise, and efficient corporate reporting method, IR might satisfy the expectations of stakeholders.

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Received: 09-May-2023, Manuscript No. AMSJ-23-13575; **Editor assigned:** 10-May-2023, PreQC No. AMSJ-23-13575(PQ); **Reviewed:** 26-Jun-2023, QC No. AMSJ-22-13575; **Revised:** 02-Aug-2023, Manuscript No. AMSJ-23-13575(R); **Published:**13-Sep-2023

Citation Information: Arora, A., & Sharma, T. (2023). Emerging economy perspective of integrated reporting as a disclosure tool. *Academy of Marketing Studies Journal, 27*(6), 1-8.