

**Integrated Reporting (IR) Practices In India With Reference To Content Elements Of IR: A Study Of Select BSE Sensex Companies**

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**Abstract:**

The primary objective of the study examined the adoption of content elements of Integrated Reporting (IR) framework to prepare integrated annual report of select BSE Sensex companies. The study based on descriptive and analytical research using un-weighted disclosure index. For the purpose of study only those companies who have published Integrated Reporting in the year 2016-17. The data have been collected, primarily, from integrated annual report of 5 select BSE companies. The study reveals that significance development taking places in the disclosure of content elements in Integrated Reporting as per IIRC Guidelines.

**Key words:** companies, integrated, report & value creation.

**1.1 Introduction**

Integrated Reporting (IR) involves reporting both financial and nonfinancial (ESG) information in a single document called “Integrated Report” or “One Report”. Environmental, social and governance (ESG) information being accessible distinctly in sustainability or CSR reports has led to criticism of that ESG information is not being given the same position and significance as financial information e.g. by Investors. Moreover, separate reporting of financial and ESG presentation makes it different for the users to see how these are related and how they influence each other (Eccles et. al 2010). As a response to these challenges minimizes in the world International Integrated Reporting Council (IIRC) has suggested to every country that their company should adopt to prepare Integrated Annual Report for better linked to understand the report. An integrated report is “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term (Eccles et. al 2015). In this background few Indian Companies have voluntarily prepared Integrated Annual Report for the financial year 2016-17. In India, on 6<sup>th</sup> Feb, 2017, the Securities and Exchange Board of India (SEBI) has advised to top 500 listing companies in stock exchange adopted on a voluntary basis IR Framework developed by International Integrated Reporting Council (IIRC) to prepare Integrated Annual Report for the year up coming year. This was a relevant to emphasis of the study to investigate the disclosure practices of the listed companies

by using IR framework prescribed by the International Integrated Reporting Council (IIRC). On 8<sup>th</sup> Dec.2013, International Integrated Reporting Council (IIRC) published **Integrated Reporting (IR) Framework** version 1.0 to establish **Guiding Principles** and **Content Elements** that govern the overall content of an integrated report to identify information included in an integrated report for use in assessing the organization's ability to create value. The Guiding Principles support the preparation of an integrated report, informing the content of the report and how information is presented. The guiding principles are Strategic focus and future orientation, Connectivity of information, Stakeholder relationships, Materiality, Conciseness, Reliability & completeness and Consistency & comparability. An integrated report also includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive viz. Organizational overview & external environment, Governance, Business model, Risks & opportunities, Strategy & resource allocation, Performance, Outlook and Basis of preparation & presentation (Eccles et. al 2015).

## 1.2 Review of Literature :

Brugman (2010) observed that integrated reporting practice leads to better and more material assessment of sustainability matters vis-à-vis core business activities. It adds value to stakeholder's relationship in terms of increased transparency and trust. At the same time, it is clear that integrated reporting has much more to offer than being an innovation in stakeholder communications. But, he also found that the major challenge in implementing IR was striking a balance between professional, administrative and legal traditions underlying financial and sustainability accounting and reporting. Rochlin and Grant (2010) analyzed that Integrated Reporting requires its own integrated strategy – a corporate vision and goals that reflect environmental, social and governance-related (ESG) risks and opportunities while emphasizing financial, environmental and social sustainability- and integrated systems-structures that enable the real-time flow of information and resources as needed across organization silos. Integrated Reporting requires new commitments and related systems along with four areas: Vision, Leadership, Management and knowledge. Perego et al.(2016) contents that the adoption of IR is higher in civil law, compared to common law, countries, the investigation on the country of origin of the firms adopting IR deserves more attention due to contextual variables that can affect the decision and the implementation of IR and its thinking. Westerforts and Vesterberg (2011) analyzed that the implementation of IR requires companies to fully integrate ESG issues throughout their annual reports. However, to fully utilize Integrated Reporting the relationship between ESG performance and the financial performance needs to be visualized. They have also found that GRI indicators and ESG key performance indicators (KPI) is a common way to present ESG performance. Diana (2015) has made a study on Integrated Reporting with main purpose to ascertain the current state of Social Responsibility Concerns and the Integrated Reporting Entities; stressed on the need for a more comprehensive reporting system showing how the activity of large companies affects the public interest, environment and society. Athma and Rajyalaxmi, (2016) have

studied on Integrated Reporting of 30 select BSE Companies and they recommended that Indian Companies can go for adopting Integrated Reporting though not mandatory as per the Companies Act. However, most of the companies are covering financial and nonfinancial aspect required under Integrated Reporting in different reports. Instead of preparing several reports, they can prepare only one report and save time and money. Stakes holders will get all the information in one report.

### **1.3 Objective:**

The primary objective of the study is to examine the adoption of content elements of IR framework to prepare integrated annual report of select BSE Sensex Companies in India.

### **1.4 Methodology:**

The study based on descriptive and analytical one. The data collected from the Annual Report of select companies for the financial year 2016-17. The total population of the study was 500 top listed companies as per market capitalization (as on 31st March 2018) in the Bombay Stock Exchange. However, until 2016-17 only five companies so far adopted Integrated Reporting. Therefore these five companies constitute the sample of the study. The purpose of the study period is considered the Annual Report for the year 2016-17 of select companies. For the purpose of the in-depth study a checklist of 74 items covering seven major content elements of Integrated Reporting (viz., Governance, Business model Risks & opportunities, Strategy & resource allocation, Performance, and Outlook) has been prepared and Un-weighted Disclosure Score assigned as 1(one) for item disclose; 0 (zero) for item not disclose and accordingly score computed. Further to rationalize the study arithmetic mean, standard deviation (S.D.) and coefficient of variance (C.V.) were used.

### **1.5 Analysis of the Annual Reports**

The Companies who have prepared Integrated Annual Report for the session 2016-17:

1. Reliance Industries Limited (RIL)
2. Tata Chemicals Limited(TCL)
3. Tata Steel Limited(TSL)
4. Wipro Limited(WL)
5. Mahindra and Mahindra Limited(MML)

Companies	Statistical Tools	Content Elements(CE)						
		CE1	CE2	CE3	CE4	CE5	CE6	CE7
RIL	S (Max..S.)	7(7)	8(8)	8(9)	15(22)	10(12)	10(11)	4(5)
	Mean	1	1	0.89	0.682	0.833	0.909	0.80
	PSC	100	100	88.89	68.18	83.33	90.91	80
	SD	0	0	0.441	0.461	0.373	0.287	0.40
	C.V.	0	0	49.55	67.60	44.78	31.57	50.00
TCL	S (Max..S.)	6(7)	7(8)	7(9)	15(22)	11(12)	10(11)	5(5)
	Mean	0.85	0.875	0.79	0.682	0.917	0.909	1
	PSC	85.71	87.50	78.89	68.18	91.67	90.91	100
	SD	0.3499	0.331	0.606	0.461	0.276	0.287	0
	C.V.	40.82	37.82	76.71	67.60	30.10	31.57	0
TSL	S (Max..S.)	7(7)	8(8)	7(9)	15(22)	9(12)	10(11)	4(5)
	Mean	1	1	0.79	0.682	0.75	0.909	0.80
	PSC	100	100	78.89	68.18	75	90.91	80
	SD	0	0	0.606	0.461	0.464	0.287	0.40
	C.V.	0	0	76.71	67.60	61.87	31.57	50.00
WL	S (Max..S.)	7(7)	8(8)	7(9)	15(22)	10(12)	10(11)	4(5)
	Mean	1	1	0.79	0.682	0.833	0.909	0.80
	PSC	100	100	78.89	68.18	83.33	90.91	80
	SD	0	0	0.606	0.461	0.373	0.287	0.40
	C.V.	0	0	76.71	67.60	44.78	31.57	50.00
MML	S (Max..S.)	7(7)	6(8)	7(9)	8(22)	7(12)	8(11)	4(5)
	Mean	1	0.75	0.79	0.364	0.583	0.727	0.80
	PSC	100	75	78.89	36.36	58.33	72.73	80
	SD	0	45.07	0.606	0.119	0.595	0.481	0.40
	C.V.	0	60.09	76.71	32.69	102.00	66.16	50.00

**Table 1: Comparison of Intra Companies Integrated Reporting Practices**

Source: Compiled from Companies Annual Reports

*NB:*

**CE1:** Organizational overview & external environment, **CE2:** Governance,

**CE3:** Business Model, **CE4:** Risks & opportunities, **CE5:** Strategy & resource allocation

**CE6:** Performance, **CE7:** Outlook

**S-** Score, (**Max. S**) -Maximum Score of each Content Element, **Mean-** Mean Score,

**PSC-** Percentage Mean Score, **SD-** Standard Deviation and **CV-** Coefficient of Variance

From Table 1 revealed that RIL had disclosed 100 % information on Organizational overview & external environment and Governance. RIL has provided less information i.e.68.18% on risk and opportunities. In

addition to that, RIL also disclosed information on business model; risks & opportunities strategy & resource allocation, performance, and outlook were 88.89%, 83.83%, 90.91% and 80% respectively. It reveals that the mandatory information of Financial and Governance has been disclosed 100 % but less information disclosed on non-financial matter. Furthermore, TCL has also disclosed 100 % information on Outlook. TCL has provided less information i.e., 68.18% on Risk and Opportunities out of the seven content elements. The range of percentage mean score is 68.18-100 of RIL. It also found that TCL has 100% information disclosed on outlook. Rather outlook, TCL has also disclosed information on Organizational overview & external environment, Governance, business model, risk & opportunities, strategy resources & allocation and performance were 85.71%, 87.50%, 78.89%, 68.18%, 91.67% and 90.91% respectively. The statistics has shown that TSL has disclosed 100 % information on Organizational overview & external environment and Governance. Results of percentage mean score have shown that nearly 91 percentage information disclosed on performance and 68.18% on risk and opportunities. Results presented above shown that WL has also disclosed 100 % information on Organizational overview & external environment and Governance. It has been observed that out of seven content elements, two- business model and risk and opportunities have disclosed less than 80% information. Also, it observed that MML has disclosed less information on risk and opportunities i.e. 32.69% on the other hand the companies has disclosed 100% information on organizational information and external overview. MML has disclosed 75% or above information on three content elements out of seven. MML provided less details of the relationship between financial capitals with non-financial capital.

**Table 2: Comparison of Inter Companies Integrated Reporting Practices**

Companies	Content Elements							Total items disclosed	Total list of Items	Percentage of items Disclosed	Rank
	Organizational overview and external environment	Governance	Business model	Risks and opportunities	Strategy and resource allocation	Performance	Outlook				
	Number of items disclosed										
RIL	8	7	8	15	10	10	4	62	74	83.78	1
TCL	7	6	7	15	11	10	5	61	74	82.43	2.5
TSL	8	7	7	15	9	10	4	60	74	81.08	4
WL	8	7	7	15	10	10	4	61	74	82.43	2.5
MML	6	7	7	8	7	8	4	47	74	63.51	5

Source: Compiled from Companies Annual Reports

From Table 2 it has been showed that RIL secured 1<sup>st</sup> rank in respect of integrated reporting practices in India for the session 2016-17 as per checklist prepared. On the other hand MML got 5<sup>th</sup> rank but the percentage of items disclosed as per content elements is 63.51 i.e. satisfactory. Results from the table it has been observed that TCL and WL have got same rank. TSL has disclosed 60 items out of 74 items. All the companies rather than MML have disclosed more than 80% information on Content Elements on the other hand the companies have disclosed less non-financial matters compare to financial matters. However, the information on risk and opportunities have been disclosed 15 and 8 items out off 22 items by the four companies and MML; the Companies have provided less information compare to other content elements.

## **1.6 Conclusion**

Integrated reporting in India is still at a very emerging stage. Integrated Report is proposed to intend the integration of financial performance with other aspects of organizational performance towards reaching an organization's vision. A very few companies have to prepare Integrated Annual Report, which reflects the commercial, social, and environment context. Integrated Annual Report is the means of communications of an organization to the extent world, and it influences the decisions of investors, suppliers, customers, regulatory bodies, Government and other stakeholders, it is advisable to adopt Integrated Report of its consequences benefits for nation's interest. Indian regulators of reporting practices SEBI has taken initiative advising the companies voluntarily to adopt IR Framework for preparing Annual report to top 500 listed companies in Stock exchange but the others regulators of reporting practices in India viz. the Reserve Bank of India (RBI), the Institute of Chartered Accountants of India, The Government of India should make it mandatory to prepare integrated Annual Report by following IIRC Integrated Reporting Framework for all Indian Companies. Lastly, there is an immense opportunity for further research on integrated reporting practices in India. In this regard, integrated reporting is a welcoming step towards this end.

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