EVOLUTION OF CORPORATE REPORTING: SUSTAINABILITY TO INTEGRATED REPORTING

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The ultimate business language is named as financial reporting; which in turn endorses the tagline of corporate reporting. The focal point of those reporting was to inform shareholders about financial performance & position of the company. During that development phase it was barely looked into the shareholder's profit cum wealth maximization. In that flow of time it got some transformation, in broader sense "evolution" which is in reality started to look into the welfare of larger community of stakeholders even the society & environment. As a consequence, the environmental reporting, sustainability reporting and finally the integrated reporting emerged with the objective to demonstrate how the organization creates value over time and how it utilizes diverse capital generated from the environment & society and what is the magnitude it appends or eaten up those capital.

Globalization and connectivity apprehend that the world's finance & resources are inevitably linked, as evidenced by the global financial catastrophe, the desire to promote financial stability and sustainable development by better linking investment decisions, corporate behavior and reporting has become a global need.

Businesses necessitate advancement in the system for reporting, facilitating and communicating the trends without the complexity and inadequacy of current reporting. Currently there are significant information gaps in reports, with the organizations such as World Bank and IMF calling for a greater focus on aspects such as risk and future development. Moreover, the need for sustainable development is in center of this entire thought process.

Throughout this process the new reporting arena evolved for the organizations to understand & communicate their impacts on issues such as climate change, carbon footprint, human rights and even corruption. An organization with the name The Global Reporting Initiative (GRI) has been established by them during 1997. The GRI started work as an independent international organization that has pioneered sustainability reporting over the time and throughout the world. The GRI standards are the first and most widely adopted global standards for sustainability reporting.

The practice of disclosing sustainability information inspires accountability, helps identify and manage risks, and enables organizations to seize new opportunities. Reporting with the GRI Standards supports companies, public and private, large and small, protect the environment and improve society, while at the same time thriving economically by improving governance and stakeholder relations, enhancing reputations and building trust.

In a summary the core achievement of the GRI move is used as force for positive change – companies with revenues larger than the GDPs of entire countries and supply chains that stretch the globe. As a result, the impact of the GRI's work on social well-being, through better jobs, less environmental damage, access to clean water, less child and forced labor, and gender equality has enormous scale.

Latest development of this journey is <IR> (the symbolic presentations of Integrated Reporting) another wing from the same school of thoughts. An international council- The International Integrated Reporting Council (IIRC) has been established with the vision to align capital allocation and corporate behavior to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. IIRC is a global coalition to promoting communication about value creation as the next step in the evolution of corporate reporting.

To facilitate the vision of IIRC the <IR> framework has been created, it includes principles-based guidance and content elements to govern and explain the information within an integrated report. The IIRC published this framework following extensive consultation and challenging by businesses and investors in all regions of the world, including the 140 businesses and investors from 26 countries that participated in the IIRC Pilot Program. This inclusive, market-led approach means that the Framework has been developed by business as a response to the new wider value creation model businesses have in the 21st century.

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. It has been created to enhance accountability, stewardship and trust as well as to harness the information flow and transparency of business that technology has brought to the modern world. Providing investors with the information they need to make more effective capital allocation decisions will facilitate better long-term investment returns.

To understand the overall integrated reporting framework, a glimpse of three major area i.e Guiding principles, Contents elements & type of capitals are depicted throughout the below sections. At the end the value creation process flow will be explained in a short– how the organization creates value over the period.

GUIDING PRINCIPLES

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- **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 in the short, medium and long term, and to its use of and effects on the capitals
- **Connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time
- **Stakeholder relationships:** An integrated report should provide insight into the 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
- **Materiality:** An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term
- **Conciseness:** An integrated report should be concise
- **Reliability and completeness:** An integrated report should include all material matters, both positive and negative, ina balanced way and without material error
- **Consistency and comparability:** The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) 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.

CONTENT ELEMENTS

An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive:

- **Organizational overview and external environment:** What does the organization do and what are the circumstances under which it operates?
- **Governance:** How does the organization's governance structure support its ability to create value in the short, medium and long term?

- **Business model:** What is the organization's business model?
- **Risks and opportunities:** What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term and how is the organization dealing with them?
- **Strategy and resource allocation:** Where does the organization want to go and how does it intend to get there?
- **Performance:** To what extent has the organization achieved its strategic objectives for the period and what are its out comes in terms of effects on the capitals?
- **Outlook:** What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- **Basis of presentation:** How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

CAPITALS

All organizations depend on various forms of capital for their success. In the International <IR> Framework, the capitals comprise financial, manufactured, intellectual, human, social and relationship, and natural.

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. For example, an organization's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained. The overall stock of capitals is not fixed over time.

There is a constant flow between and within the capitals as they are increased, decreased or transformed. For example, when an organization improves its human capital through employee training, the related training costs reduce its financial capital. The effect is that financial capital has been transformed into human capital. Although this example is simple and presented only from the organization's perspective, it demonstrates the continuous interaction and transformation between the capitals, with varying rates and outcomes.

Many activities cause increases, decreases or transformations that are far more complex than the above example and involve a broader mix of capitals or of components within a capital (e.g., the use of water to grow crops that are fed to farm animals, all of which are components of natural capital).

In the IIRC framework the capitals are categorized and described as underneath;

- **Financial Capital:** The pool of funds that is:
  - o available to an organization for use in the production of goods or the provision of services
  - o obtained through financing, such as debt, equity or grants, or generated through operations or investments
- **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:
  - o buildings
  - o equipment
  - o infrastructure (such as roads, ports, bridges, and waste and water treatment plants)

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.

- **Intellectual capital:** Organizational, knowledge-based intangibles, including:
  - o intellectual property, such as patents, copyrights, software, rights and licenses
  - o "organizational capital" such as tacit knowledge, systems, procedures and protocols
- **Human capital:** People's competencies, capabilities and experience, and their motivations to innovate, including their:
  - o alignment with and support for an organization's governance framework, risk management approach, and ethical values
  - o ability to understand, develop and implement an organization's strategy
  - o loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate
- **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:
  - o shared norms, and common values and behaviors
  - o key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
  - o intangibles associated with the brand and reputation that an organization has developed
  - o an organization's social license to operate
- **Natural capital:** All renewable and nonrenewable

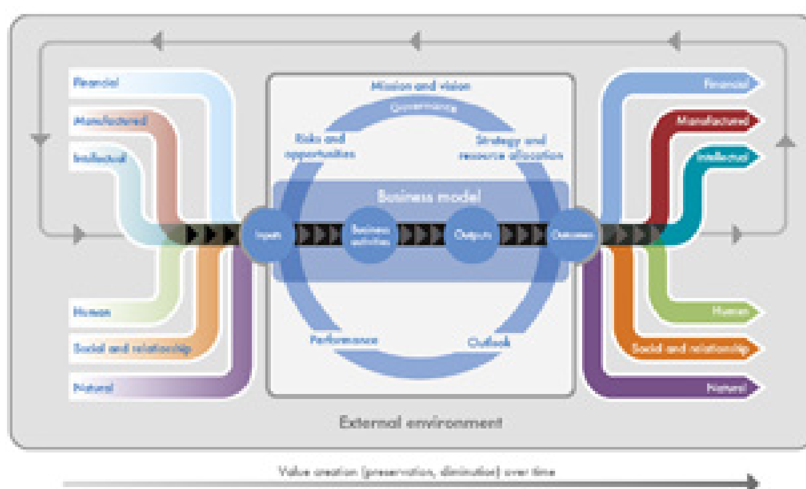
environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes:

- o air, water, land, minerals and forests
- o biodiversity and eco-system health.

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.

THE VALUE CREATION PROCESS

The value creation process flow depicted as underneath. It is also important to explain briefly how the value creation process aligned with the contents elements of<IR>.



[Source: The international <IR> Framework]

The ***external environment***, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates. The mission ***and vision*** encompass the whole organization, identifying its purpose and intention in clear, concise terms.

Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organization to create value.

At the core of the organization is its ***business model***, which draws on various capitals as inputs and, through its ***business activities***, converts them to ***outputs*** (products, services, by-products and waste). The organization's activities and its ***outputs*** lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs) can affect the organization's longer term viability.

Business activities include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services. Encouraging a culture of innovation is often a key business activity in terms of generating new products and services that anticipate customer demand, introducing efficiencies and better use of technology, substituting inputs to minimize adverse social or environmental effects, and finding alternative uses for outputs.

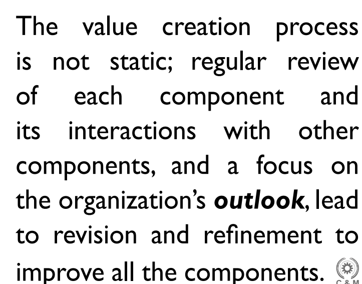
Outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.

Continuous monitoring and analysis of the external environment in the context of the organization's mission and vision identifies **risks and opportunities** relevant to the organization, its strategy and its business model.

The organization's ***strategy*** identifies how it intends to mitigate or manage risks and maximize opportunities. It sets out strategic objectives and strategies to achieve them, which are implemented through ***resource allocation*** plans.

The organization needs information about its ***performance***, which involves setting up measurement and monitoring systems to provide information for decision-making.

The value creation process is not static; regular review of each component and its interactions with other components, and a focus on the organization's ***outlook***, lead to revision and refinement to improve all the components.



Reference:

1. Website of The International Integrated Reporting Council (IIRC)
2. Website of Global Reporting Initiatives (GRI)
3. The International <IR> Framework – Part I & II
4. GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures