APPLICATION OF INTEGRATED REPORTING IN INDIAN CORPORATE SCENARIO

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ABSTRACT

Integrated Reporting is a new approach for Indian corporate sector. With the inclusion of business responsibility reporting guidelines given by SEBI (Security Exchange Board of India), Indian reporting has been changed. Now, listed companies report financial as well as social performance in their annual reports. This study gives a content analysis about various aspects of Indian corporate reporting with integrated reporting framework. For this purpose, 10 large scale organisations have been selected in which 5 are public and 5 are private sector organisations. A comparative study has been conducted with content analysis, t-test & anova between public & private sector organisation on the basis of their reporting elements of Annual reports for the financial year 2013-14. The finding of this study shows that all companies are reporting almost all the aspects and there is no significant difference among reporting of all selected companies.

Keywords: Integrated Reporting, Reporting, Business Responsibility Reporting, Content Analysis.

INTRODUCTION

Integrated reporting (IR) means reporting in an integrated manner. It is a process in which organisation's strategy, governance, performance are communicated for value creation in short, medium and long run.(IIRC, 2011) Under this, a report is prepared which fully integrates a company's financial and non-financial performance aspects. In other words, it is the combination of financial report and sustainable report. Companies can use it as a management tool as it helps management and stakeholders for decision-making.

In 2013, an integrated reporting framework has been developed by The International Integrated Reporting Council (IIRC) which is a principle-based framework rather than a detailed disclosure and this measurement standard is named as integrated reporting. The framework has given overall content of integrated report (IR). IR is mainly meant for private sector to report about the organisation's strategy, its governance and its performance but public sector and NPOs (not for profit organisations) can also adopt this framework. The prime objective of an integrated report is to explain to the providers of financial capital about the way an organisation generates value over time. In integrated reporting, only material aspects are needed to be disclosed.

Source: <IR>Framework, IIRC (2011)

There are 3 fundamental concepts on which Integrated reporting framework is based i.e. value creation, value creation process, and 6 types of capitals.

Elements of integrated reporting:

1. "Organisational overview (what do we do and how do we do it) and the external environment under which it operates.
2. Governance structure and how this supports its ability to create value.
3. Business model
4. Risks and opportunities and how they are dealing with them and how they affect the company's ability to create value.
5. Strategy and resource allocation
6. Performance and achievement of strategic objectives for the period and outcomes.
7. Outlook and challenges facing the company and their implications.
8. The basis of presentation needs to be determined, including what matters are to be included in the integrated report and how the elements are quantified or evaluated." Source: <IR>Framework, IIRC (2011)

Integrated reporting in Indian context

International Integrated Reporting Council and Confederation of Indian Industry (CII) have launched the Indian <IR> Lab on 19August 2014 in Mumbai to create better relationship between company and its shareholders. Koushik Chatterjee, CFO of Tata Steel, has chaired the Lab, which included some of India's leading CFOs. On December 2014, "India report on <IR>" acted as a support in practical implementation of IR in Indian business & regulatory framework. In India, companies follow a systematic and regulatory framework for reporting financial aspects in their annual report. There are various laws for financial and non - financial reporting such as labour laws, environmental laws and financial laws on which Indian reporting is based. These laws give a regulatory framework to corporate reporting system. Various voluntary standards are given by different authorities for non- financial performance reporting such as corporate responsibility for environmental protection (CREP), 2003, Greenco Rating System guidelines on economic, social & environmental responsibilities of business launched by ministry of corporate affairs. Many Indian large scale organisations prepare separate sustainability reports for reporting non- financial performance which is based on international framework such as United Nations Global Compact (UNGC), Global reporting initiatives (GRI). After introduction of Annual business responsibility reporting by SEBI in 2012 and The Companies Act 2013, it is the new era of the corporate reporting system in India which has made the financial and non- financial performance reporting mandatory after considering various factors. On 31 March 2012, SEBI has made business responsibility report mandatory for 100 top listed companies on the basis of market capitalisation. The business responsibility reporting (BRR) guidelines are based on national voluntary guidelines, 2011(NVGs) and its 9 principles & core elements.

Firms should require the following to report as per BRR:

- Business's vision, mission & values
- Current laws & regulations
- National voluntary guidelines/ principles for responsible business.
- Determine the ambition of each principle
- Explain the important elements to the business as core elements.
- Define business responsibility policy & adoption of indicators for principle and core elements
- Ensure that all legal requirements are complied with regulatory framework.

Annual report with business responsibility report has almost all elements of integrated reporting. Some companies are also reporting sustainability related non-financial performance in sustainability reports based on GRI (Global Reporting Initiatives) guidelines separately. If these companies adopt integrated reporting with existing reporting, then there is no need of separate sustainability report.

LITERATURE REVIEW

There are various studies on integrated reporting in past few years which have explained about integrated reporting framework, elements, and its link with corporate reporting of India, South Africa, UK and Australia. Eccles and Saltzman (2011) has discussed about integrated reporting in USA, its benefits and challenges. Main and Hespenheide (2012) has explained about integrated reporting and the challenges and benefits of preparing business reports based on integrated reports. Makiwane and Padia (2013) has examined the corporate governance disclosures and non - financial information included in annual reports of 92 companies. An analysis has been made on the basis of 111 indicators from king –iii and GRI (2011) and changes have been examined from 2009 to 2011 with the help of spearman correlation coefficient and mean difference of disclosure score. Loana and Adriana (2013) have provided a brief history of integrated reporting and have also identified the three stages of evolution of integrated report such as introduction of non-financial reporting, sustainability reporting, contemporary integrated reports. Abeysekera (2013) has outlined the integrated reporting concept and provided a template for integrated reporting in organisations. Basu and Sangeeta (2015) have discussed the management tools for corporate reporting such as EPM (Enterprise performance management) systems and have given an overview of integrated reporting with emerging realities of corporate reporting. Link between IR and EPM has also been established and have concluded that IR with EPM could be useful for investors. Gupta (2015) has explained the integrated reporting, apprehensions inhibiting integrated reporting and IR as an imperative for corporate reporting in near future. Kiran and Goud (2015) have analysed the integration of financial and non-financial data of selected banks. The need for integrated reporting in banks, elements of integrated reporting and integrated reporting practices of selected banks has been studied. This study has concluded that Indian banks should report more parameters and move from partial integration to full integration. Labrey (2015) has described IR as powerful tool which is valuable to the board having various benefits. Better and integrated decision making and good governance can be possible with integrated reporting for better performance. Raju (2015) has examined the integrated reporting of Tata steel ltd. for 2013-14 and has suggested some more parameters which should be included in integrated reports.

RESEARCH GAP

Even though numerous studies have been conducted on integrated reporting worldwide but a few studies are related to Indian corporate reporting with integrated reporting. Most of the above studies are theoretical and have explained about integrated reporting, its evolution, process and its various dimensions. Further, it is evident from the above reviews that no study has been conducted on comparative analysis of Indian public and private sector companies based on integrated reporting.

Contribution of the study

This study examines the integrated reporting disclosures of Indian public and private sector companies. It not only focuses on integrated reporting but also provides view on non- financial reporting which Indian companies have included in their annual reports. This study contributes to understand the present and future of Indian corporate reporting. It also discusses the integrate thinking on financial and non-financial reporting which acts as an agent of change in Indian corporates.

OBJECTIVES OF THE STUDY

1. To explore different aspects of corporate reporting based on integrated reporting elements.
2. To make comparative analysis of the reporting aspects of selected companies on the basis of integrated reporting elements.

RESEARCH METHODOLOGY

Type of the study

This study is explorative as well as analytical in nature. Different aspects of Indian corporate reporting are explored with the help of integrated reporting elements. Disclosure categories are used to analyse the reporting aspects of selected sample.

Sample

Sample size of this study is 10 Indian companies in which 5 are public and 5 are private sector companies. These companies are among the top 50 Indian companies on the basis of revenue from operations for 2013-14. Sample is selected randomly from these companies. The selected sample is as follows:

Table1: Sample of Companies

Public Sector Companies	Private Sector Companies
Indian Oil Corporation Ltd. (IOCL)	Reliance Industries Ltd. (RIL)
Hindustan Petroleum Corporation Ltd. (HPCL)	Tata Steel Ltd. (TSL)
Coal India Ltd. (CIL)	Essar Oil & Gas Ltd.
National Thermal Power Corporation Ltd.(NTPC)	Hindalco Industries Ltd.
Bharat Heavy Electrical & Engineering Ltd.(BHEL)	Larsen & Toubro (L&T)

Source: author's compilation

Period of study: One year i.e. financial year 2013-14.

Method of Data Collection: The study is based on secondary data collected from Annual reports for the financial year 2013-14 of selected companies from their respective websites to fulfil the identified objectives.

Variables used for study: Integrated reporting elements are taken as variables to study the selected sample. Disclosure score has been calculated for 7 main elements and 31 sub- elements for 10 companies with the help of disclosure checklist. The variables are as follows:

Table2: Reporting aspects for selected companies

Elements	**Sub- elements**
1. Organisational overview	1. Organisational overview of Business model 2. Employees' engagement initiatives/schemes 3. Human resource development related activities 4.Environment, water, energy and biodiversity conservation related activities 5. Occupational Health, safety and security related activities
2. Governance Structure	1. Governance system/ ethical standards/code of conduct 2. Corporate governance report
3. Business/ Operation Model	1. Operations overview 2. Business model overview 3. Core business of the company 4.Sustainability information/ sustainable development 5. Research & development/ innovation
4. Risks and Opportunities	1. Operating risks 2. Operating opportunities
5. Strategy & Resource Allocation	1. Strategies and strategic objectives 2. Tangible assets 3. Intangible assets 4. Sources and utilisation of funds 5. Human resource accounting
6.Performance& Achievement	1. Operational performance 2. Financial performance 3.Triple bottom line performance 4. Separate Social report 5. Directors' report 6. Auditors' report 7. Business responsibility report 8. Marketing performance

7. Outlook & Challenges	1. Objectives, Vision & mission of the organisation 2. Management commentary/ Mgt. discussion & analysis 3. Sustainability information/ sustainable development 4. Outlook/ growth plan/ future plan

Source: author's compilation

HYPOTHESES

H_{01}: There is no significant difference between reporting of selected companies on the basis of integrated reporting elements.

H_{02}: There is no significant difference between public and private sector companies on the basis of integrated reporting elements.

Statistical Tools Used: Statistical tools of this study comprised of content analysis, mean of disclosure score, standard deviation, Anova and T-test for hypothesis testing with the help of SPSS and Microsoft Excel.

ANALYSIS & DISCUSSIONS

Here content analysis has been applied on 31 combined elements of Indian corporate reporting based on elements of integrated reporting. These reporting elements have been prepared on the basis of guidelines of integrated reporting and business responsibility reporting for corporate sector. Annual reports of selected companies have been studied to calculate disclosure score of reporting elements. The reporting aspects are the variables from integrated reporting elements while sub- elements under these headings are the reporting aspects of the annual reports of selected companies. '1' is assigned for reporting and '0' for not reporting the element for making check list.

Table3: Summary of content analysis of selected companies

Combined aspects of corporate reporting & integrated reporting (X)	**IOCL**	**HPCL**	**CIL**	**NTPC**	**BHEL**	**RIL**	**TSL**	**ESSAR**	**HINDALCO**	**L&T**	**Disclosure variables mean score**
Organisational overview	0.8	1	1	1	0.8	1	1	1	1	1	9.6
Governance	1	1	1	1	1	1	1	1	1	1	10

Structure											
Business/ Operation Model	1	1	1	1	1	1	1	1	1	1	10
Risks & Opportunities	1	1	1	1	1	1	1	1	1	1	10
Strategy & Resource Allocation	0.8	1	0.8	0.8	0.8	1	0.8	0.8	0.8	0.8	8.4
Performance & Achievement	0.75	0.63	0.6	0.6	0.8	0.9	0.8	0.6	0.8	0.8	**7.1**
Outlook & Challenges	1	1	1	1	1	1	1	1	1	1	10
Mean of reporting disclosure	6.35	6.63	6.4	6.4	6	**6.9**	6.6	6.4	6.6	6.6	

Source: author's compilation

Table 3 reveals that all aspects of integrated reporting are disclosed by selected companies and elements such as governance structure, business model, risks & opportunities, outlook & challenges are having full score (10). The reason is that reporting of these are mandatory as per Indian corporate reporting framework. Organisational overview has 9.6 score out of 10 because IOCL and BHEL are not disclosing all sub- elements under organisational overview. Strategy and resource allocation has 8.4 score out of 10 because all selected companies except HPCL and RIL are not disclosing all sub-elements under this head. Performance & achievement element is having lowest score (7.1) among all elements. It may be due to the fact that every company has different aspects and view point about reporting their performance and achievement. However, there is very slight difference among all selected companies on the basis of reporting aspects and reporting of Reliance industries is best out of them.

All companies have reported mostly elements but some terms for disclosing these elements are not the same as given in integrated reporting such as operations overview, business model overview, and organisational overview of business model, 6 types of capital (financial, manufacturing, human, social, intellectual and natural). These elements are disclosed by selected companies under other names/ heads.

Hypothesis Testing:

H_{01}: There is no significant difference between selected companies on the basis of integrated reporting elements.

Table 4: Hypothesis testing Anova table

Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F-criteria**
Between Groups	1.157	9	0.128	0.0585	0.999	2.040
Within Groups	131.71	60	2.195			

Total	132.871	69				

Source: Calculation with MS- Excel

Table4 shows that F value of mean score of disclosures is 0. 0585 which is less than F-criteria 2.040 and P value is 0.999 which is more than 0.05. Thus the null hypothesis (**H_{01}**) cannot be rejected. It means that all selected companies are reporting on the same pace and there is no significance difference on the basis of integrated reporting elements.

H_{02}: There is no significant difference between public and private sector companies on the basis of integrated reporting elements.

Table5: Group statistics of elements

	Sectors	N	Mean	Std. Deviation	Std. Error Mean
Elements	Public	7	19.4286	6.85218	2.58988
	Private	7	20.1429	7.64697	2.89028

Source: Calculation with SPSS

Table 5 reveals that mean value for public sector is 19.42 and for private sector are 20.14. Mean value of both sectors are not having so much difference for 7 disclosure variables.

Table6: Independent samples test for comparison

Elements	Levene's Test for Equality of Variances		t-test for Equality of Means			
	F	Sig.	t	df	Sig. (2-tailed) p value	Std. Error Difference
Equal variances assumed	.04	.84	-.184	12	.857	3.881
Equal variances not assumed			-.184	11.86	.857	3.881

Source: author's compilation with SPSS

Table 6 shows that P value is 0.857 which is more than 0.05. Null hypothesis (H_{02}) cannot be rejected at 5% level of significance. It means that there is no significant difference between public and private sector companies on the basis of integrated reporting elements.

DISCUSSION

Even if various studies have been made in this area in India and worldwide. Some studies have been reviewed and these are not same as the present study. Jonathan, (2015), the chief strategy officer of International Integrated Reporting Council, London has explained IR with reference to various authorities reports such as KPMG, PWC and treated it as a powerful tool for any organisation's governance and performance. Kiran & Goud (2015) and Raju (2015) have made studies in Indian context and find out the reasons to follow integrated reporting. Many companies are moving from informal reporting to formal reporting of non- financial performance due to the standardized framework available worldwide. The present study is the first study of its type in which integrated reporting applied in Indian corporate reporting. This study is an effort to check Indian corporate reporting with integrated reporting. In this, all selected companies are large business houses of India and annual reports of these companies are according to the Indian reporting framework. They all have included business responsibility reports in their annual reports except HPCL, CIL and Essar. Even if all companies have reported about sustainability performance but BHEL has reported about Triple bottom line performance under separate heading. Proper record of employees are maintained and reported by selected companies but RIL and HPCL record these under human resource accounting separately. Hindalco and RIL have included Special social report as part of their annual report. Reporting of Reliance industries is best on the basis of above disclosures. But annual report of Tata Steel in based on integrated reporting elements. It is the first Indian company who become the part of IIRC. It has reported as per the integrated reporting components which are as follows:

1. Business Model Overview: In this, TSL has explained about Products and brands, Supply chain and logistics, Research and development, Technology, Customer focus and market segments, Manufacturing, Raw material & mining.

2. Organisational Overview of Business Model: In this, company has explained about responsible development, significant CSR achievements, and global initiatives for education, environment & health.

3. Operations Overview: TSL has explained about the journey so far in terms of production and sales and other global operations in India, South East Asia, South Africa, Canada, and Europe.

4. Risks and Opportunities: It includes sustainable mining in which activities like environment conservation, water harvesting etc. have been performed and Excellence through innovation in which various high impact innovations have been outlined.

5. Strategic Objectives: In this, company has given details about the new steel plant at Kalinganagar, Odisha.

6. Governance Systems: The reputation of Tata Steel group is the result of its transparent and ethical approaches. In this, Tata code of conduct is given with 4 pillars which are Leadership, Communication & awareness, Evaluation of effectiveness and Compliance structure.

7. Performance: The Company has shown its all - round performance mainly non-financial performance i.e. about health awareness and healthcare facilities, drinking water, education, adult literacy programme, scholarships, employment, safety etc.

8. Outlook: TSL has steady vision and focussed & comprehensive growth strategy. It is ready to face challenges and grab right opportunities.

9. Vision: Sustainable growth.

CONCLUSIONS

With the introduction of Companies Act 2013 and Business Responsibility Reporting (BRR), corporate reporting framework of India has various components for reporting financial and non-financial performance of companies but in the globalised, instable and changing business environment, stakeholders' expectations are evolved and to meet these expectations, integrated reporting can be added in the management's agenda. For this purpose, this study gives the overview about the Indian reporting in present scenario and shows that integrated reporting is incorporated inevitably in Indian corporate sector with the application of BRR as a part of annual report. The results of this study show that if selected companies publish business responsibility reports or social report as part of their annual reports then annual reports become integrated reports having integrated reporting elements with different names. These integrated reporting notions may provide a useful framework to reveal governance, economic, social and environmental matters. Now, the tendency to report non-financial information is growing and will likely to continue. Companies which have dealt with the integrated reporting have regarded it such a process that has empowered them to think differently about their businesses.

LIMITATION AND FURTHER SCOPE OF THE STUDY

In this study, content analysis has been performed as per reporting elements. Reporting of some of these elements are not mandatory for selected companies but all the elements are considered for comparative analysis. This study can be extended with large sample size and longer time period.

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