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Integrated Reporting: A New Paradigm for Corporate Reporting

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Abstract

Listed companies are required to publish financial information in their annual reports mandatorily and also publish sustainability and social reports, which comprise their non-financial performance regarding social and environmental issues. To solve this problem would be to create a single report providing a clear link between the financial and nonfinancial issues. In this sense, integrated reporting (IR) has emerged as a new reporting paradigm to provide a more comprehensive view of the entity, rather than the traditional financial report, by combining the financial and non-financial dimensions of the corporate performance. In Bangladesh banks and non-bank financial institutions started to disclose integrated reporting. The study mainly focuses on the integrated reporting disclosure in the financial statement of NBFI (Non-banking financial institutions). The sample for research involved total 20 (twenty) financial institution's annual report from 2016 to 2017 out of 34. The analysis showed that few financial institutions have taken initiatives to disclose such information voluntarily.

Keywords

Voluntary disclosure, Integrated reporting, Sustainability, Non-financial disclosure.

Introduction

Integrated reporting is a new development in corporate reporting seeks to concisely communicate a firm's value through a holistic approach that combines financial and non-financial information. Integrated reporting is the most recent corporate reporting innovation designed to provide a comprehensive account of how an organization is creating value and managing different types of financial and non-financial capital in order to generate sustainable returns (International Integrated Reporting Council, 2013, Higgins, Stubbs and Love, 2014 and King, 2016). Though in our county this concept is new and very few organizations have started to report this in their annual report. Most of the adopters of integrated reporting are more likely to disclose future estimations regarding their financial and non-financial figures in qualitative terms instead of quantitative. This paper is divided into three distinct parts. First, the relevant literature on integrated reporting is critically reviewed along with a theoretical perspective to develop the conceptual framework. In the second part, methodological issues are discussed to identify IR disclosure in the annual report. The final section of the paper discusses results and concludes with direction on future research related to corporate reporting.

Integrated reporting outlines the organization's material social, environmental and economic risks and opportunities and how, from a forward-looking and holistic perspective,

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they have been integrated into core vision and strategy, over the short, medium and long term. According to the IIRC (2013) an integrated report includes the following eight content elements: (a) organizational overview and external environment; (b) governance; (c) business model; (d) risk and opportunities (e) strategy and resource allocation; (f) performance; (g) outlook; and (8) basis of preparation and presentation. An integrated report describes key outcomes including (a)"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), (b) 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)" (IIRC 2013).

In reviewing previous research, we find that both institutional and stakeholder theories provide a rationale for the reporting framework of the IR. Institutional theory often analyses the effects of pressure from supra-level structures, such as countries, on organizational practices (Aguilera & Jackson, 2003; Delmas & Toffel, 2004; Jackson & Apostolakou, 2010). Stakeholder theory has been used to analyze value creation at a firm level resulting from the collective efforts described in the IR (Haller & van Staden, 2014 and Dumitru, 2015).

Integrated reporting has rapidly gained considerable prominence since the formation in 2010 of the International Integrated Reporting Committee (IIRC – subsequently renamed the International Integrated Reporting Council). Although the IIRC has become the dominant body globally in developing policy and practice around integrated reporting, it is not the first mover in this area. Some innovative reporting organizations had individually pioneered such practices, and in South Africa, where integrated reporting is a listing requirement, guidelines for integrated reporting were being developed before the formation of the IIRC (Cheng et al 2014).

In the process of implementing IR, individual organizations are asked to justify their actions based on multiple, material capitals, which are either owned or available for use. These capitals present as a diversity of worth, designed to make visible any value depletion, value maintenance, or value creation over time (IIRC 2013). Over the last few years, several IR implementation challenges have surfaced (Dumay, Bernardi, Guthrie and La Torre, 2017), resulting in debates over quality and readability (Du Toit, Van Zyl, and Schütte, 2017) and emerging rhetoric around IR as merely window dressing and a management satellite activity (Schaltegger, Freund and Hansen, 2012 and Guthrie, Manes-Rossi and Orelli, 2017. Notwithstanding academic representational concerns, IR is being purposively used to communicate strategies that meet expectations and draw attention to selected activities that are deemed material and worthy of disclosure (Stubbs and Higgins, 2014).

For the proponents of IR, there is a view that IR will broaden the current shareholder focus and accountability by specifying different forms of capital, associated externalities, and their respective interests (Serafeim, 2015; Adams, 2015 and Dumay & Guthrie, 2017). IR is seen as a pre-requisite for framing corporate sustainability and moral responsibility (Lodhia, 2014) supposedly rendering as transparent the entity's input-output management of precious resources and ability to create value. As such, this new reporting paradigm is argued to drive a more (Adams, 2015). Unlike other prescriptive and calculable accounting reports, such as sustainability-related Global Reporting Initiative Standards (GRI), the IIRC framework is not proposed to be a compliance-based approach and only offers guidelines for reporting (Eccles & Saltzman, 2011). This low level of prescription and a high level of flexibility supposedly introduces a greater degree of professional judgment for IR report preparers. When forming an opinion on the extent to which IR is prepared in accordance with the Guiding Principles and Content Elements of the IIRC framework, IR users must similarly rely on value judgments. There is certain scepticism among preparers who are not necessarily convinced that investors take the IR seriously. As a result, any push-down approach by management towards IR generates a more compliance-driven tool, disaggregating the reporting of capitals to the distinct responsibility centers within the organization, thereby stifling the proactive search for holistic integration (Eccles and Serafeim, 2013; Tweedie and Martinov-Bennie, 2015 and McNally, Cerbone, and Maroun, W., 2017).

Although integrated reporting is a relatively new area of policy and practice, both public policy and organizational practices in this area have developed rapidly. Integrated reporting has also attracted a great deal of academic attention, and a body of literature is beginning to develop. As a rapidly developing accounting regulatory arena, studying integrated reporting provides an opportunity to study many aspects of the development of accounting regulation over a much shorter period than has typically been the case for financial accounting standards. It may, therefore, be possible for individual studies focusing on integrated reporting to provide a richer and more holistic picture of the development of reporting regulations than when studying financial accounting standard setting. As academic interest in integrated reporting continues to grow, academic documentation of initial developments in integrated reporting – along with a range of insights into aspects of integrated reporting – can provide academics researching in this area with a solid foundation upon which to build their research. It can also provide regulators and reporting organizations with valuable insights to help inform further development of policy and practice.

Methodology

Non-Bank Financial Institutions (FIs) are those types of financial institutions which are regulated under the Financial Institution Act, 1993 and controlled by Bangladesh Bank. Now, 34 FIs are operating in Bangladesh while the maiden one was established in 1981. Out of the total, 2 is fully government owned, 1 is the subsidiary of State-owned Commercial banks (SOCB), 15 were initiated by private domestic initiative and 15 were initiated by joint venture initiative. Major sources of funds of FIs are Term Deposit (at least three months' tenure), Credit Facility from Banks and other FIs, Call Money as well as Bond and Securitization. Since in Bangladesh, the concept of integrated reporting is new and from 2016 many banks and financial institutions just started to report integrated reporting in the annual report. In this study out of 34 non-banking financial institutions listed in Dhaka Stock Exchange (DSE), 10 NBFIs were taken into consideration from 2016 and 2017. Data were collected from secondary sources like annual reports.

Results and Discussion

In recent years, then, a belief has arisen in businesses and in society that reporting has a wider role than that expressed in the traditional 'stockholder/shareholder' perspective. In this research, we have developed this following checklist for integrated reporting according to ICAB.

Initially, the checklist was prepared to identify the parameters of integrated reporting components. Then these disclosure components are checked with the annual report of 2016 and

2017. The findings of this study were laid down in Table 1.

Table 1. Integrated Reporting Checklist Issued by ICAB (The Institute of Chartered Accountant of Bangladesh)

1.1 Organization overview and external environment	Reference
a. Culture, ethics and value b. Ownership and operating structure including the size of the organization, location of its operations c. Principal activities and markets d. Competitive and market positioning e. Position within the value chain f. Key quantitative information: Include aspects of the legal, commercial, social, environmental and political context.	Organizational overview, Business Model
1.2 Governance a. Organizations leadership structure b. A mandatory and voluntary code of corporate governance c. Ethical conduct d. Culture e. Strategic directions f. Innovation g. Value creation	Corporate Governance Report, Code of conduct and ethical guidelines
1.3 Stakeholder identification/relationships Capitals: a. Financial capital b. Manufacturing capital c. Intellectual capital d. Human capital e. Social and relationship capital f. Natural capital	Stakeholder Engagement, Stakeholders' Information, Human Capital, Capital Planning and Management, Business Model and value creation
1.4 Business Model a. Inputs b. Business Activities c. Outputs d. Outcomes	Business Model and value creation, Our Products and Services, Business Review, External Environment
1.5 Performance a. Qualitative indicators b. Effect on capital c. Key stakeholder relationships d. The linkage between past and present performance	Financial Highlights, Directors' Report, Horizontal and Vertical Analysis, Financial Review, Business Review, Sustainability Report, NPL Management, Human Resources Accounting, Stakeholder Engagement
1.6 Risk, opportunities and internal control a. Source of risk and opportunities b. Risk management report c. Internal control and boards responsibility	Risk Management, External Environment, Business Review, Corporate Governance
1.7 Strategy and resource allocation	Value Creation for the Stakeholders, Strategic Priority, Business Model, External Environment, Directors' Report, Value Added Statement, EVA, Business Model and value creation, Review of the Managing Director and CEO, Stakeholder Engagement
1.8 Outlook	Business review, External environment, Capital Planning and Management, Chairman's Statement, Review of the Managing Director, Directors' Report, Risk Management
1.9 Basis of preparation and presentation	Scope and Boundary of the Integrated Annual Report
2.0 Responsibility for an integrated report	Scope and Boundary of the Integrated Annual Report
3.0 Other qualitative characteristics	

3.1 Conciseness	An integrated report should be concise.
3.2 Reliability and completeness	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
3.3 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.
3.4 Connectivity of information	Interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time.
3.5 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.
3.6 Assurance of the report	Scope and Boundary of the Integrated Annual Report.

We found that every organization just started integrated reporting disclosure in their annual report from 2016 onwards. Even some companies even don’t disclose information in their financial statements. IDLC Finance Limited and Lanka Bangla Finance both lead top position in disclosing financial and non-financial information.

Table 2. Findings of the study

NBFI	Findings related to IR
1. IDLC Finance Limited	Scope and boundaries of the report, comparability, Determining materiality of the report, External assurance. (2016 & 2017)
2. Lanka Bangla Finance Limited	Scope and boundary, materiality, External assurance. (2016 & 2017)
3. IPDC Finance Limited	Reporting framework, Scope and boundary, Materiality determination. (2017)
4. Delta Brac Housing Finance	Sustainability reporting (2017)
5. Infrastructure Development Company Ltd	Scope and reporting boundaries, External assurance, Comparability and materiality. (2017)
6. United Finance Limited	Sustainability and efficiency statement. (2016 & 2017)
7.Phoenix Finance & Investment Limited	No information is available in the annual report.
8. BD Finance Limited	No information is available in the annual report.
9. Bay Leasing & Finance Limited	No information is available in the annual report.
10. International Leasing and Financial Services Limited	Sustainable development report is found. (2016 & 2017)
11. Industrial and Infrastructure Development Finance Limited	No separate report for integrated reporting.in 2016 & 2017.
12. Meridian Finance Limited	No separate report for integrated reporting in 2016 & 2017.
13. United Capital Limited	Sustainability development report and integrated reporting found in 2016 and 2017.
14. Fareast Finance and Investment Limited	No information available for integrated and sustainability reporting.
15. Prime Finance Limited	No information is available in the annual report.
16. GSP Finance Limited	No separate report for integrated reporting in 2016 & 2017.
17. Islamic Finance & Investments Ltd	No separate report for integrated reporting in 2016 & 2017.
18. National Finance Limited	No separate report for integrated reporting in 2016 & 2017.
19. Bangladesh Industrial Finance Company Limited	An only a sustainability report is found in 2017.
20. Premier Leasing and Finance Ltd	No information is available for integrated reporting.

Conclusions

Reporting should be driven by business models linked to strategic and potential value generation. IR provides sustainable value additions for relevant stakeholders-enabling better decisions, consistent with sustainable development and economic growth of Bangladesh (country or region). Finally, bringing together the main parties involved in corporate reporting; the IIRC has recently produced a conceptual framework for the preparation of an integrated report. Still, this is voluntary; the regulatory bodies like Bangladesh Bank, ICAB, and ICMAB play a vital role. The aim of our study was first to analyze whether IR can be used to explain differences in corporate reporting. Second, we aimed to provide further explanations and understandings of reporting, namely, IR. Our research contributes to both objectives. In particular, we show that IR is determined by the financial system, educational and labour system, cultural system and economic system of a country, while political factors show no significant effect. There are strong potentials for implementation of IR practices in the long-term, in the financial and corporate sectors, NGOs and public sector entities of Bangladesh in future.

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