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THE INTEGRATED REPORTING FRAMEWORK: BETWEEN CHALLENGE AND INNOVATION

Theoretical
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Abstract

Integrated Reporting has lately shown a great amount of interest for the business community, as it can offer a greater information value to all types of users. Thus, creating a proper framework for this type of reporting has been a top priority for the regulating bodies, with significant input from other interested parties. This paper aims to analyze the comments submitted to the Consultation Draft and to determine which questions gained more focus. Moreover, through this paper, we intend to reveal which types of respondents were more interested in discussing the Framework and to split them into several groups of interest. Finally, the main goal of the paper is to provide an overview on the discussions leading to the Framework's final form and to determine how the comment letters can provide further perspectives on the implementation of Integrated Reporting.

INTRODUCTION

In the modern business community, information is considered an influential component in the decision-making process. Stakeholders are no longer biased on financial indicators, for each one of them is seeking a balanced overview of the reporting entity's situation. Therefore, the need for improved disclosure of financial and non-financial elements within the companies' reports has brought into attention the opportunity to implement Integrated Reporting (<IR>).

Over the past years, Integrated Reporting has been a trending topic, with almost all discussions concentrating on how it can be regulated and to which extent it can improve reporting performance. The International Integrated Reporting Council (IIRC) – as the primary governing body– has been working intensely to promote and regulate the Integrated Reporting concept. In this respect, in April 2013, the Council issued a Consultation Draft for the Integrated Reporting Framework, thus inviting companies, organizations and various stakeholders worldwide to provide feedback for the Integrated Reporting construct. According to the IIRC website, the project has shown great success as the Council received 359 comment letter submissions, most of them providing a useful contribution to the development of the published framework draft.

Within this paper, we intend to analyze the comments which came from significant professional bodies, policy makers, regulators and standard setters and to show whether it would be opportune for these organizations to mediate the collection of feedback from other stakeholders. In other words, we intend to emphasize the response rates for each question in the case of the mentioned entities from the sample in comparison to the response rates for the entire set of submissions and to reveal which aspects of the Framework gained more focus and were more intensely discussed.

A BRIEF REVIEW OF THE RELEVANT LITERATURE

Integrated Reporting is a relatively new concept and the research within this field is still in a complex developmental process. Given the fact that it has practical implications and the use of Integrated Reporting can actively lead to a greater level of disclosure, practitioners have been significantly more interested in this field than theorists.

Nevertheless, we acknowledge the contribution of researchers like Robert G. Eccles to the development of Integrated Reporting, as they provided significant elements to the development process of “integrated thinking”. The leading research tracks for the Integrated Reporting have been towards the emphasis on its strengths and challenges, as well as the collaboration opportunities between private, public and nongovernmental sectors in order to establish a worldwide movement for sustainable actions (Eccles & Saltzman, 2011). Moreover, there has been an intense debate whether Integrated Reporting should become mandatory for companies in order to bring further value to corporate reporting (Eccles, Cheng & Saltzman, 2010).

During an interview for the Massachusetts Institute of Technology in March 2012, Robert Eccles stated that *“good companies will see integrated reporting as an opportunity to communicate on and implement a sustainable strategy, [...] one that creates value for shareholders over the long term while contributing to a sustainable society. However, accomplishing this at a global scale means that integrated reporting needs to be mandatory, not voluntary exercise. It also needs to be done to a set of standards”* (Eccles & Kiron, 2012).

According to Krzus (2011), *the core concept underlying the term “integrated reporting” is providing one report that fully integrates a company's financial and non-financial (including environmental, social, governance, and*

intangible) information. However, integrated reporting is far more than simply combining a financial report and a sustainability report into a single document. His article is well focused on a future <IR> implementation perspective, with adequate emphasis on the benefits induced by this type of reporting.

Beside the relevant work mentioned from the theoretical background, Integrated Reporting has been the subject of many reports and studies issued by practitioners. A significant research in this respect was conducted by the company Nkonki Incorporated (2012), with the main purpose of analyzing the implementation status for mandatory integrated reporting in the case of South African public-listed companies and establishing whether <IR> has significantly influenced disclosure levels.

Other relevant reports on Integrated Reporting were issued by accounting professional bodies (ACCA, 2011), but also Big Four accounting companies (KPMG, 2012; PricewaterhouseCoopers, 2012; Deloitte, 2013; Ernst&Young, 2013).

The entirety of the literature in this field of research is meant to contribute to the accurate understanding of the Integrated Reporting construct and to provide proper guidance in terms of regulating and implementing the reporting methodology. The first step in this direction has been made as the IIRC has officially released the Framework for Integrated Reporting and has set the grounds for a change of bias in corporate reporting. In this respect, research within the <IR> field is connected with the news and actions conducted by the governing body.

RESEARCH METHODOLOGY

Within this paper, we have set several objectives, in order to provide added value to the field. The general objective of the paper, as previously stated, is to determine how the comment letters

submitted to the Consultation Draft can provide further perspectives on the implementation of Integrated Reporting. Subsequently, we have set three specific objectives:

- We intend to split the respondents into groups of interest (by stakeholder type);
- Afterwards, we intend to analyse the submissions from relevant professional bodies, regulators, policy makers and standard setters;
- Ultimately, we intend to show whether it would be opportune for these organizations to mediate the collection of feedback from other stakeholders.

For research material, we have consulted the IIRC website (more precisely, the Consultation Draft section) and we have acquired the printed Draft, as well as the comment letters which were submitted and placed for public access. Afterwards, by consulting the letters and the <IR> Summary of Significant Issues, we have split the submissions into several categories of stakeholders and generated an approximate percentage structure (as it can be seen in *Figure No. 1*).

From the two selected categories (“professional bodies” and “policy makers, regulators, standard setters”), we have selected a number of 50 submissions that will be considered our sample. The entities were selected by their relevance and statement of interest to the accounting profession and <IR> field (a comprehensive list with the organizations is embedded in *Table No. 1*).

After the sampling phase, we have consulted the proposed questions from the Consultation Draft, to determine the main focus points in terms of feedback. There are 24 standard questions proposed, but the contributors are welcome to provide any further feedback for issues which are not in the content of the questions. We have split the 24 questions into three main groups (as it can be seen in *Table no. 2*), in order to have a better comparative view

over similar types of comments (in terms of form).

As we have completed the form analysis for the questions, the next phase has been the quantitative analysis of the comment letters from the sample. In this respect, we analysed for each question if there is a response or not in the comment letter, in the case of each organization from the sample. After the construction of the response rates for each question, we have compared the results with those already summarized by the IIRC (available in the <IR> Summary of Significant Issues).

Given the mentioned aspects, the research question that gains focus is the following: *Are professional bodies and regulators appropriate for the role of mediators in the process of comment collection and submission?*

This research is of significant importance because it can improve feedback provision effectiveness (if the proof of the findings is valid). The mediation would be an advantage to the proper understanding of several issues proposed in the questions (which are not well comprehended by some users), as well as to the supply of a unitary submission (with accurate conciliation on opinion differences, conducted by several organizations and not by only one entity – the IIRC). A proper strategy in this direction would significantly reduce costs in the standard-setting process.

RESULTS AND DISCUSSION

The attempt to regulate a complex construct like <IR> is not an easy task for the governing body. Therefore, the feedback provided by different stakeholders to the Consultation Draft is essential in order to meet the requirements of the actual users. As we analyzed the comment letters in terms of response rates, several interesting facts have risen.

According to *Figure No. 2*, in over 76% of the letters from the sample there is an actual answer for Questions 1, 3, 13, 17,

19, 22 and 23. This group of questions represents a set of qualified opinions on several aspects of the Framework (see *Table No. 2*). By contrast, in case of the entire population of submissions, the response rate is between 70% and 74%. The only exception is Question No. 1, where the response rate is 100%.

This result reveals the fact that other types of stakeholders (mostly report preparers, but also NGOs) avoid issuing a qualified opinion due to various reasons (e.g. lack of understanding, lack of expertise, the complexity of the issue). However, the smaller response rate in the case of the entire population may signal the fact that some issues proposed in the questions that require specific indications from the submitting organization is of little or no interest for the respondent.

Following the analysis of *Figure No. 3*, we can notice a similar stereotype. Over 86% of the letters from the sample have an answer for Questions 2, 5, 7, 8, and 11. This group of questions represents a set of questions that state the agreement or disagreement with the given definition or approach (see *Table No. 2*). In case of the entire population of submissions, the response rate for these questions is between 72% and 86%.

This particular result reveals the fact that even if the question is of a simpler nature (agreement or disagreement), the other types of stakeholders may not provide an answer unless the discussion is of specific interest to them. The greatest interest, for both the sample entities and the other stakeholders, is shown in Question No. 5 – the discussion on the six types of capitals.

In the case of the additional comments for sections and chapters, according to *Figure No. 4*, the focus of interest is better defined. In other words, we can see from the response rates to Questions 4, 6, 9, 10, 12, 14, 15, 16, 18, 20, 21 and 24 that the organizations from the sample are more or less focused on providing additional feedback and

comments for the sections and chapters which are of greater interest to them.

Also, in the case of this type of question, the gap between the sample and the entire population is significantly greater. In the case of other stakeholders, the interest and incentive to provide further comments on chapters of the Framework is reduced. For the sample organizations, there is an evident interest to provide further comments on the end of the Chapters; with response rates over 50% (see *Table no. 2* for the questions' description). Question 18, with comments about the involvement of those in charge with governance, has the lowest response rate for both the sample and the entire population (mainly, because it resumes issuing from a previous question).

Also, for all three figures, we can notice that the response rates decrease as the question number advances. This implies the fact that respondents may lose interest and patience as it completes the submission form, due to the fact that there are a lot of open questions that require an elaborate response.

Given the stakeholder structure (with 32% report preparers) and the previously mentioned findings, we can state that the submissions from the companies are limited in feedback quality by their understanding of various concepts, as well as their interest in the discussions. The professional bodies and regulators, on the other hand, have a different approach, given the fact that their mission is to contribute to the good functioning of their respective fields of expertise. Also, they have a global perspective due to their geographic spread and range of activity. Thus, these types of organizations may have a more experienced and structured approach on any comments provided in the interest of standard-setting.

In connection to the other stakeholders, they can contribute to a much better understanding of the concepts regarding Integrated Reporting and improve corporate reporting methodology.

The disadvantage of the mediation process is that the organization might alter the independent feedback from the vast majority of stakeholders (as there is the need for conciliation and a structured response).

We consider that these types of organizations can be of assistance to the IIRC, by creating a worldwide communication network and filter the feedback from different interested parties (as mentioned in the <IR> Summary of Significant Issues), with a proper assessment and comprehension of the proposed comments and discussions.

CONCLUSION

Integrated Reporting is a trending subject in the field of effective corporate reporting, due to the fact that different groups of stakeholders no longer rely solely on financial information and seek improved disclosure in terms of non-financial information as well. Thus, the utility of an "integrated report" is greater given the fact that it offers a balanced view on the entire entity.

Regulating the <IR> construct has been an intense need, but also a challenge for the IIRC. However, there has been significant feedback from the worldwide community to the proposed Framework.

The response rate was higher for some stakeholders (like professional bodies and regulators) than in the case of others (report preparers – which were greater in numbers, but had targeted comments). Our papers, through the quantitative comment analysis, propose a decentralization of the feedback circuit, from the IIRC to nominated professional bodies and regulators, as they have shown a greater amount of interest for all questions and have a better expertise on all topics. These organizations have had appropriate response rates, respectively: over 76% for qualified opinions; over 86% for agreement / disagreement comments; mostly over 40% for additional comments.

We would be interested to conduct further research on this topic, through a qualitative analysis of the submissions, in order to provide comparisons between different topics of interest to different stakeholders.

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FIGURES:

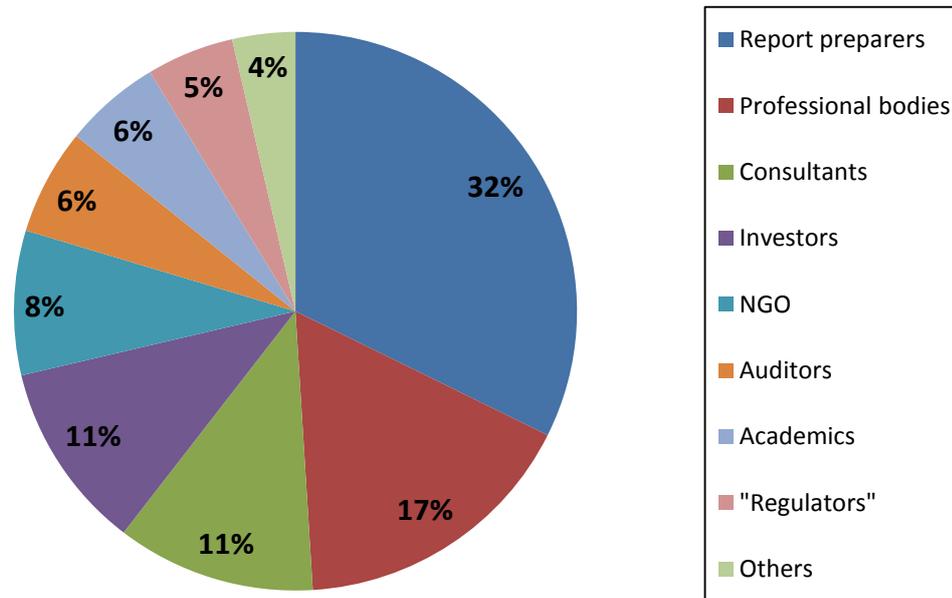


Figure No 1. Stakeholder groups (% from total number of comment letter submissions)
Source: own processing with data from the <IR> Consultation Draft, retrieved from <http://www.theiirc.org/consultationdraft2013/>

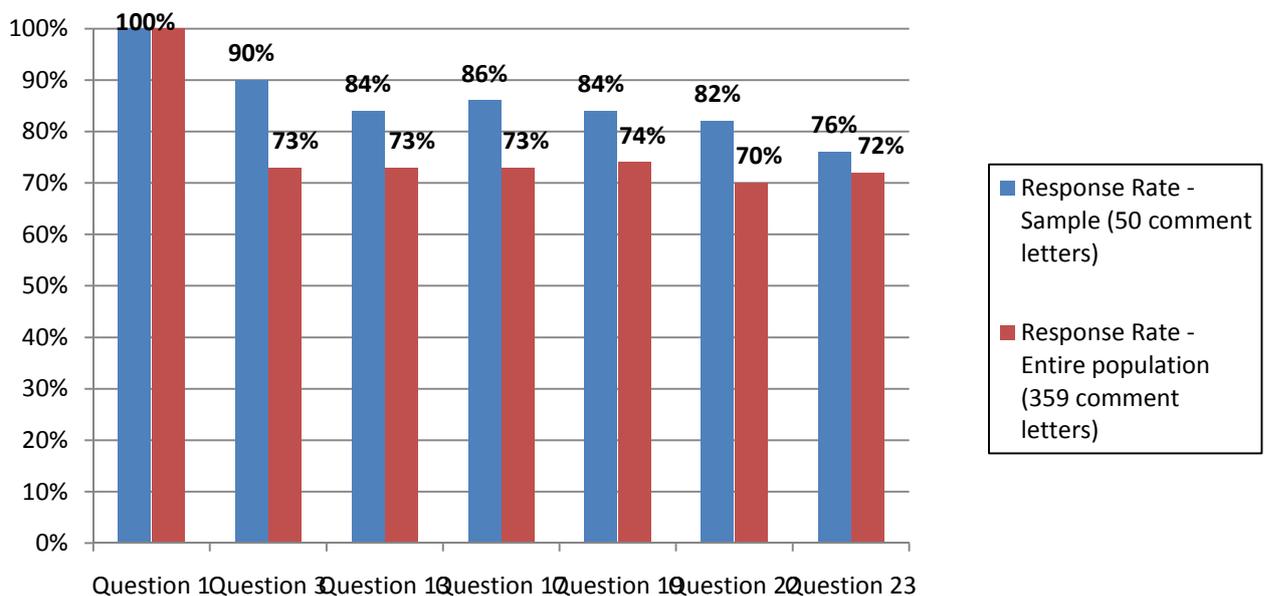


Figure No 2. Comparison of response rates between the sample and the entire set of comment letters in the case of qualified opinions
Source: own processing with data from the comment letters, retrieved from <http://www.theiirc.org/consultationdraft2013/>

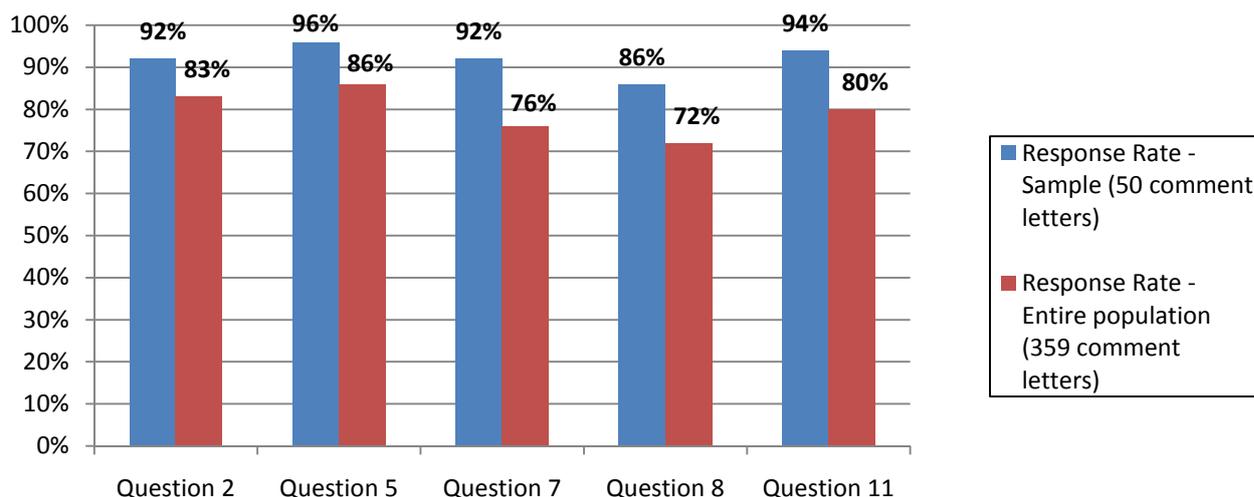


Figure No3. Comparison of response rates between the sample and the entire set of comment letters in the case of agreement/disagreement questions

Source: own processing with data from the comment letters, retrieved from <http://www.theiirc.org/consultationdraft2013/>

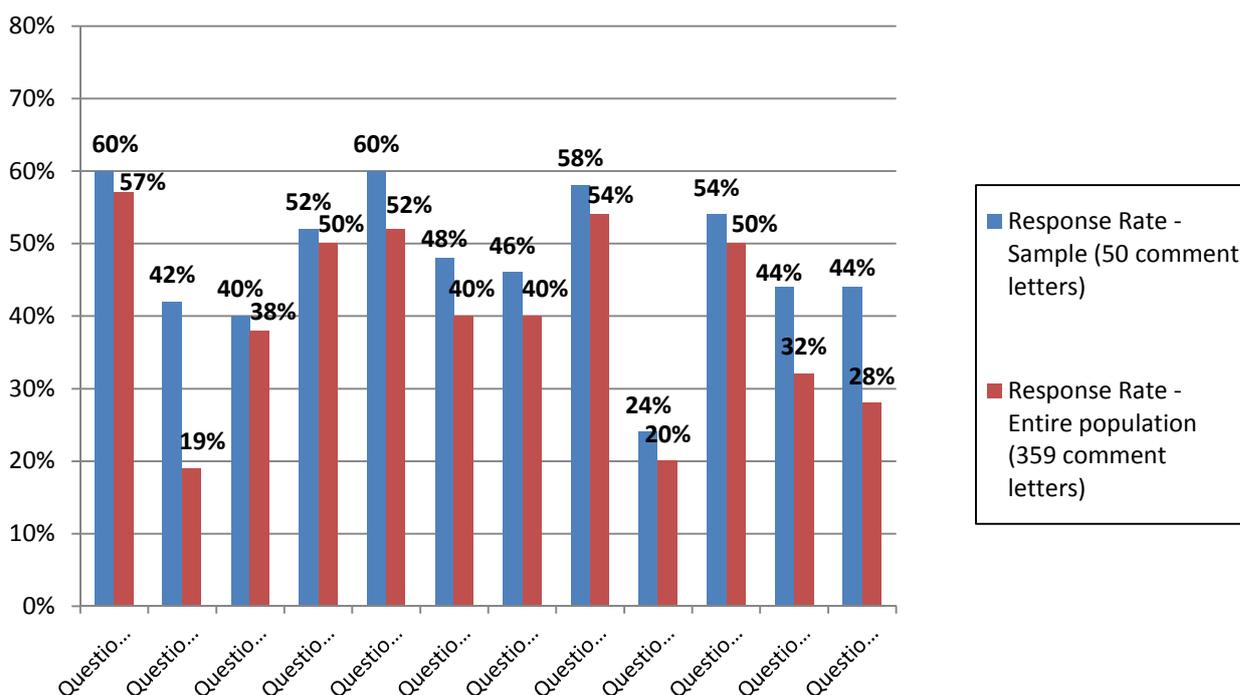


Figure No4. Comparison of response rates between the sample and the entire set of comment letters in the case of “additional comments” questions.

Source: own processing with data from the comment letters, retrieved from <http://www.theiirc.org/consultationdraft2013/>

TABLES:

Table No. 1

List of respondents selected in the sample

Professional bodies, policy makers, regulators and standard setters

1. Association of Chartered Certified Accountants (ACCA)	26. Institute of Chartered Accountants of Scotland (ICAS)
2. Accountability	27. The International Federation of Accountants (IFAC)
3. Accountant and Appraiser Supervisory Centre – Ministry of Finance of Republic Indonesia	28. Institute of Chartered Accountants Australia
4. Afep	29. Institute of Internal Auditors
5. American Institute of Certified Public Accountants (AICPA)	30. Institute of Management Accountants (IMA)
6. Spanish Accounting and Business Administration Association	31. Institute of Singapore Chartered Accountants
7. L'Associazione Italiana Revisori Contabili (ASSIREVI)	32. Integrated Reporting Committee
8. Association of Accounting Technicians	33. International Association of Consultants Valuers and Analysts (IACVA)
9. Australia Financial Reporting Council	34. International Controller Association (ICV)
10. Australian Government Auditing and Assurance Standards Board	35. Kammer der Wirtschaftstreuhänder
11. Certified General Accountants Association of Canada	36. Marketing Accountability Standards Board
12. Chartered Institute for Public Finance and Accountancy (CIPFA)	37. MEDEF (Mouvement des entreprises de France)
13. Chartered Institute of Building	38. Nederlandse Beroepsorganisatie van Accountants
14. Chartered Institute of Public Relations	39. The Nordic Federation of Public Accountants
15. Chartered Institute of Management Accountants	40. SFAF (Société Française des Analystes Financiers)
16. CPA Australia	41. The Financial Reporting Council
17. CPA Canada	42. The Hong Kong Institute of Chartered Secretaries
18. Dutch Accounting Standards Board	43. The Institute of Chartered Accountants of Sri Lanka
19. FAR – The Institute for the Accountancy Profession in Sweden	44. The Institute of Cost Accountants of India
20. Federation of European Accountants	45. The Institute of Directors in Southern Africa and the King Committee on Corporate Governance in South Africa
21. French Committee for IR	46. The Japanese Institute of Certified Public Accountants
22. German Council for Sustainable Development	47. The Malaysian Institute of Certified Public Accountants
23. Global Reporting Initiative (GRI)	48. WSBI-ESBG
24. International Association for Accounting Education and Research (IAAER)	49. XBRL Europe
25. Institute of Chartered Accountants in England and Wales (ICAEW)	50. XBRL Spain

Source: own processing, with data collected from <http://www.theirc.org/consultationdraft2013/>

Table No. 2

Types of consultation questions from the <IR>Framework Draft

Type	Question No.	Description
Qualified opinion	Q1	Addition/elimination of principle-based requirements
	Q3	References for online databases of authoritative sources of indicators or measurement methods
	Q13	Demonstration of <IR> reliability
	Q17	Statement of responsibility for the <IR> from those in charge with governance
	Q19	Assurance (covering <IR> as a whole or specific aspects)
	Q22	Evolution and opportunity for <IR> implementation
	Q23	Recommended topics for <IR> explanatory material
Agreement or disagreement with given definition or approach	Q2	Characterization of the<IR> interaction with other reports and communications
	Q5	Approach to the six categories of capitals
	Q7	The business model definition
	Q8	The outcome definition
	Q11	Approach to materiality
Contribution to the Framework through additional comments	Q4	Further comments about Chapter 1
	Q6	Further comments about Section 2B
	Q9	Further comments about Section 2C
	Q10	Further comments about Chapter 2
	Q12	Further comments about Section 3D
	Q14	Further comments about Section 3E
	Q15	Further comments about Chapter 3
	Q16	Further comments about Chapter 4
	Q18	Further comments about involvement of those in charge with governance
	Q20	Further comments about Section 5E
	Q21	Further comments about Chapter 5
Q24	Further comments about issues which were not previously addressed	

Source: own processing, with data collected from
<http://www.theirc.org/consultationdraft2013/>