International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677
Volume 2, Issue 10, March 2016

INTEGRATED REPORTING: COMMUNICATING VALUE TRANSPARENTLY

Dr. Manoj D. Shah

Associate Professor, School of Commerce & Management , Dr.BabasahebAmbedkar Open University, Ahmedabad

ABSTRACT

Annual reports of the companies are considered to be the most important part and hence were ruled by various regulations and principles. There are certain facts which are expressed in terms of financial or tangible and can be conveyed by financial statements but certain other factors like people, natural resources, intellectual capital, markets, competition etc. are harder to express or convey in terms of financial and the concept of Integrated Reporting emerges. The author has put on sincere efforts to understand the Integrated Reporting, its importance, emergence and portrayed a case of Kirloskar Brothers Ltd. India

Key words: Integrated Reporting, Sustainability, capital

I. INTRODUCTION

It is unavoidable on the part of corporate to report the facts related to the performance, strategy and the governance practiced. Corporate reporting has experience vast change in the last two decades. Annual reports of the companies were considered to be the most important part and hence were ruled by various regulations and principles. Every company listed on stock exchange is required to issue at least on an annual basis its financial performance report. The set of accounting standards i.e. International Financial Reporting Standards or Generally Accepted

International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677
Volume 2, Issue 10, March 2016

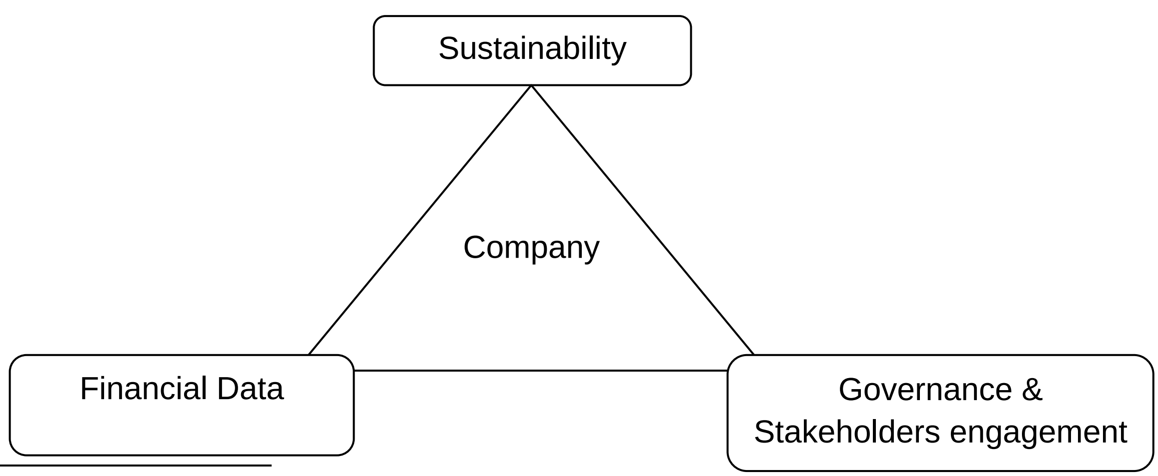
Accounting Principles which defines the income statement and balance sheet of the companies and the other notes forming the part of annual report.

Nowadays a new trend is seen in reporting that is reporting both financial and non-financial data. There are certain facts which are expressed in terms of financial or tangible and can be conveyed by financial statements but certain other factors like people, natural resources, intellectual capital, markets, competition etc. are harder to express or convey in terms of financial and the concept of Integrated Reporting emerges. Integrated reporting enables corporate to communicate in a clear manner on how it is utilizing its resources and relationships to create, preserve and grow value.

The International Integrated Reporting Council (IIRC) defines integrated reporting as "a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization's strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term."

Integrated reporting is the integration of a company's financial report and its corporate social responsibility or sustainability report into a single document. An integrated report provides readers with a complete picture of how an organization is performing by including non-financial information on environmental, social and governance performance along with financial information.[1]

Financial Data + Non-Financial Data = Integrated Reporting



[1](Gupta, MAY 2015)

International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677
Volume 2, Issue 10, March 2016

Source: A Study of Integrated Reporting In Indian Banks authored by Dr. V. UshaKiran and M. MaschenderGoud (the Management Accountant) May - 2015

The aim of an integrated report is to tell the organization's stakeholders about the organization and its strategies and risks which will link its financial and sustainability performance, in a clear and concise way providing stakeholders comprehensive view of the organization and its future prospects.

Conceptually, integrated reporting is aimed at presenting additional information about a company's strategy, governance, and performance apart from the existing financial reporting. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value.

Integrated reporting is more than creating a comprehensive annual report. It can be used as an effective governance tool for performance-oriented management[2].

Today, stakeholders (employees, local communities, non-government organizations, customers and investors) increasingly turn to a company's management and shareholders, asking if its business practices take full account of the environmental and social dimensions of its activities, and if its governance structures meet the expectations of society. Integrated reporting helps stakeholders to understand an organizations strategy, governance, performance and prospects that will lead to the creation of value over the short, medium and long term. An integrated report thus communicates the factors most important to the creation of value over time.[3]

---

[2](Nieland, August 213)

[3](STEEL, 2012-13)

International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677

Volume 2, Issue 10, March 2016

Good corporate governance, ongoing stakeholder's relationships, integrated thinking and the integrated report are four of the tools being used by businesses today in learning to make more with less.[4]

Professor Mervyn E. King S C, Chairman – International Integrated Reporting Council has stated that integrated reporting is playing a role in meeting the world's two great challenges- financial stability and sustainability.

There are number of corporates whose experiences prove that integrated reporting is not just about producing reports; it is about integrated thinking and the way an organization creates value over time. Every business uses different types of capital to create value. These capital become inputs to business activities. In the process of becoming an organizations output, they can be increased, decreased, enhanced, consumed, modified, destroyed or otherwise transformed. Different capitals apply to different organizations, depending on the level of their dependence or impacts on them. Integrated reporting articulates financial capital, manufactured capital, human capital, intellectual capital, natural and social and relationship capital. Financial capital consists of funds available for production of goods and services, funds generated through financing and investments and operations. Manufactured capital means fixed assets of the organization. Human capital is the most important and sensitive part of the organization- peoples competencies, capabilities, experiences and innovations by them. Intellectual capital is the intangible asset of the organization empowering organizations intellectual property, its brand value, reputation in the economy. Natural capital of the organizations are the natural or environmental resources either renewable or nonrenewable which helps the organizations to prosper in their existence. The last capital is social and relationship with the key stakeholder (customers, suppliers, business partners, communities, legislators, regulators and policy makers) groups and other networks and their ability to share information.

[4](IIRC, 2013)

International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677

Volume 2, Issue 10, March 2016

CMA Dr S K Gupta stated that "The world is changing….. Corporate reporting too must change"[5]

Even though the importance of integrated reporting is understood by the corporate houses in India, there are certain factors which delay the acceptance and adoption of integrated reporting in practice. There are some of the stumbling blocks which are to be cleared so as to assimilate the integrated reporting in corporate reporting effectively. Professional assistance for effective and efficient adoption of Integrated Reporting, ensuring credibility of information in the integrated report, what matters to include in integrated report, taking ownership of integrated ownership, conversion of non-quantifiable forces to quantifiable, ensures true and fair view, challenge to maintain transparency in both positive and negative aspects of business are the challenges for implementation of integrated reporting.

In every movement, there are those who move first: the pioneers. They see opportunity early. They combine vision with action. They aim to learn – and to lead. The businesses in this book are the innovators of integrated reporting. as participants in the IIRC pilot programme, they are leading the way in evolving from a promising concept to a powerful practice with transformational effects not just on the way an organization reports, but on the way it thinks and acts.[6]

IIRC has initiated the efforts to implement the concept of integrated reporting at the global level. There were many corporate groups all over the world have contributed in the pilot programme of IIRC. The Indian companies like Tata steel, Kirloskar Brother Pvt.Ltd. India have adopted this concept in exercise from the financial year 2013-14.

These companies have already successfully presented with integrated reporting. The case of Tata Steel has already been studied by Dr. Gupta in the article titled "Walk the Talk" (2015) in the journal of CIMA.

[5](Gupta, MAY 2015)
[6](IIRC, 2013)

ISSN: 2349-5677
Volume 2, Issue 10, March 2016

The IIRC in its 'The IIRC Pilot Programme Yearbook 2013' has mentioned sector wise participation of corporates all over the world. The sectors such as consumer goods, health care, industrial consumer service, financial, telecommunication, oil and gas, are represented by various leading corporates of the world. They are the forerunner assenters of this concept.

Tata Steel is the first Indian company to be a part of the International Integrated Reporting Council (IIRC) – an international initiative towards voluntary communication on how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long-term.[7]

HDFC is the only bank in India to comply the integrated reporting with a great extent. The best example for the integrated reporting by Banks can be Standard Bank, Africa.[8]

II. KIRLOSKAR BROTHERS LTD.: A CASE STUDY

Kirloskar Brothers Ltd. India is one of the pioneers to participate in IIRC Pilot Programme at the global level and presented their first Integrated Report for year 2013-14. They have followed the International Integrated Reporting framework released by International Integrated Reporting Council released in December, 2013. Mr.SanjayKirloskar, Chairman and Managing Director has addressed that "Integrated Thinking" will help the KBL to create sustainable value for their stakeholders. He further stated that KBL believe that the process of Integrated Reporting will help KBL grow as a "Sustainable Enterprise" enhancing its credibility for all its stakeholders.

KBL adopts seven steps in Integrated Reporting: Organization Overview, Governance, Risk and Opportunities, Strategy, Business Model, Performance and Future Outlook.

III. ORGANIZATION OVERVIEW

[7](STEEL, 2012-13)
[8](Goud, 2015)

ISSN: 2349-5677
Volume 2, Issue 10, March 2016

In this heading, company has expressed about their major operations in India with export to more than 90 countries in different business verticals namely Power, Water Resource Management, Irrigation, Gas Oil and Defence, Industry, Building and Construction, Distribution, Customer Service and Spares. Apart the product wise and plant wise sale, the significant changes regarding size, and ownership are specified. As a part of change in ownership, they have declared with the sanction of Honorable High-Court, the name of 'Kirloskar Constructions and Engineers Limited' was changed as 'Karad Projects and Motors Limited'.

IV. GOVERNANCE

The Board of Directors of KBL comprises of 11 directors out of which 1 Managing Director, 1 whole time Director and 9 non-executive directors of whom 6 are independent directors. There are four committees: Audit Committee, Remuneration Committee, Investors Grievance Committee and Executive Committee called Committee of Directors including Managing Director and one full time director. On 13th March, 2014 KBL has constituted "Corporate Social Responsibility Committee" for formulating and recommending CSR policies to the Board.

V. RISK AND OPPORTUNITIES

The material issues like Debtor Management and Cash generation, OTIF (On Time Delivery in Full), High rate of Attrition, Profitability are identified and to resolve these material issues short and long actions are even thought of and implemented. The major risks like inability to attract and retain key personnel, non-favorability of contractual orders, continuous pressure on margin, cost competitiveness, delay in project execution and closure. The solid actions like value engineering process, material cost sales ratio evaluation, periodic review of plant and monitoring, participation in tenders comprising favorable terms and conditions, review of compensation structure and improvement in work environment are exercised.

VI. STRATEGY

KBL has pursued with the strategy of being selective in project businesses. The reason behind the success of KBL is their sector specific strategy adoption. As a result international business is contributed 33% of the total revenue to KBL. The acquisition of SyncroFlo Inc. in Atlanta Georgia boosted KBL's product portfolio and helped to reach in the North American Market. Promotion of Energy Efficient Solutions, Institutionalization of project management practices leading to better project control and closure of the projects ahead of time with healthy cash flows, information technology based tools for streamlining marketing, after sale service, supply chain management are some of the inherent strategies of KBL to create value for their stakeholders around the world.

VII. BUSINESS MODEL

In this vertical, KBL has presented their business models of their business sectors like Industry, Building & Construction, Valves, Water Resource Management and Customer Service and Spares. The value is created for the customers through the "Value Propositions" and the business activities are performed to deliver value to the customers. The value proposition describes how KBL differentiates in the market place (through product differentiation, market segmentation, delivery channels and marketing) and gain competitive advantage.[9]

VIII. PERFORMANCE

In this part value created by the capitals input by KBL are illustrated.

- **Financial Capital:** KBL is a listed company with 62% holding of its promoters. KBL has generated 22.1% return on Capital employed with earning per share of Rs. 6 as compared to Rs. 5.47 in the year 2012-13. KBL has generated the operational revenue of Rs. 17516 million.

[9](KBL, 2013-14)

- **Manufactured Capital**: KBL has 6 manufacturing plants namely at Kirloskarvadi, Dewas, Kondhapuri, Shirwal, Kaniyur and Sanand. KBL output is in terms of different types of pumps and pumping systems to be used in different sectors.
- **Intellectual Capital:** KBL has developed intellectual capital of designing, manufacturing and testing of pumps which cater to requirements of various segments of the business. Capability to design engineered Concrete volute pumps, Metallic Volute Pumps, Lowest Life Cycle Cost Pumps and total Pumping system solutions as per customer specific requirements are the intellectual capital of the company. KBL has implemented global management systems like ISO 9000, ISO 14000, OHSAS 18000. KBL's expertise of designing and manufacturing custom designed pumps developed over many years is the output in terms of intellectual capital.[10]
- **Human Capital:** KBL has vision to be the most preferred employer. KBL consider the human talent as an asset of KBL.
- **Social and Relationship Capital:** KBL works with Vikas Charitable Trust and Kirloskar Foundation is active for implementing social initiative. It is actively participating in the activities of industrial bodies like CII, FICCI, IGBC. A long term relationship with customers and suppliers has resulted in trust and they continue to work with KBL.
- **Natural Resources:** KBL products use natural resources like materials – metals and non-metals for pump components, tools and consumable materials for manufacturing processes, power and fuel and water.

IX. FUTURE OUTLOOK

The global pump market is estimated to grow at a compounded annual growth rate of nearly 7 percent for the period 2013-18. The key markets of oil and gas, power generation, chemical and other general industries will drive a significant portion of the overall pump demand globally. The

[10](KBL, 2013-14)

International Journal of Business Quantitative Economics and Applied Management Research

ISSN: 2349-5677

Volume 2, Issue 10, March 2016

organized pump market in India in 2013 was Rs. 10,500 crores and is expected to reach Rs. 13,419 crores in 2018 at a compounded annual growth rate of 5%.[11]

X. CONCLUSION

As the pioneers of Integrated Reporting at the global base, every company in India should follow the practices of integrated reporting to project the financial as well as non-financial information which is useful to the stakeholders, investors, policy makers, government banks and financial institutions. Some of the banks like Andhra Bank, Indian Bank, HDFC Bank, State Bank of Hyderabad, ICICI Bank have already initiated the efforts for adopting integrated reporting in their reporting system.

REFERENCES

1. Goud, D. V. (2015). A Study of Integrated Reporting in Indian Banks. (C. D. Nandy, Ed.) The Management Accountant, 50(5), 29.
2. Gupta, C. D. (May 2015). Integrated Reporting – Walk the Talk. (C. D. Nandy, Ed.) The Management Accountant, 50(5) 28.
3. IIRC. (2013). The IIRC Pilot Programme Yearbook 2013. IIRC.
4. KBL. (2013-14). Integrated Report 2013-14. Annual Report.
5. Nieland, E. P. (August 213). Point of View Integrated Reporting – Going beyond the financial reporting. United States.
6. STEEl, T. (2012-13). 106th Annual Report. Annual Report.

[11](KBL, 2013-14)