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INTEGRATED REPORTING AND THE DIRECTIONS OF ITS DEVELOPMENT

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Key words: integrated reporting, management commentary, social accounting.

Abstract

The aim of the paper is to present the concept of integrated reporting. Its aim is to explain to the stakeholders how value is created by a company with the use of its resources and relations as well as interactions with the external environment. The integrated reporting framework has been developed by the International Integrated Reporting Council, and the reason for this was the economic crisis. It seems that in view of the limitations of traditional financial accounting, it is advisable for companies to start practicing integrated reporting. This issue is also worth addressing within contemporary accounting research.

SPRAWOZDAWCZOŚĆ ZINTEGROWANA I KIERUNKI JEJ ROZWOJU

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Słowa kluczowe: sprawozdawczość zintegrowana, sprawozdanie z działalności, rachunkowość społeczna.

Abstrakt

W opracowaniu przedstawiono koncepcję sprawozdawczości zintegrowanej. Jej celem jest dostarczenie interesariuszom informacji o tym, jak przedsiębiorstwo tworzy wartość, wykorzystując dostępne zasoby i relacje oraz wchodząc w interakcje ze środowiskiem zewnętrznym. Wytyczne jej sporządzania opracowano w *International Integrated Reporting Council*, a przyczyną powstania był kryzys ekonomiczny. Wydaje się, że w obliczu ograniczeń tradycyjnej rachunkowości finansowej wskazane jest rozpoczęcie praktykowania zintegrowanej sprawozdawczości przez spółki. Warto także podejmować ten problem w ramach współczesnych nurtów badawczych rachunkowości.

Introduction

Integrated reporting is a process founded on a comprehensible approach to a company's economic, social and environmental performance. It results in a periodically published integrated report informing the stakeholders how an organization's strategy, governance, performance and prospects contribute to the creation of its value in the context of the external environment. There are two basic principles underlying the development of the concept of integrated reporting, namely, accountability and transparency.

Reference to accountability and attempts at translating this term into Polish can be found in the papers of many authors (Among others BURZYM 2008, p. 83, DOBIJA 2003, p. 10, FRANEK 2013, p. 99, GABRUSEWICZ 2010, p. 36, JABŁOŃSKI 2013, p. 70, KOSMAŁA McLULLICH et al. 2005, p. 71, MUĆKO 2008, p. 16, SZOT-GABRYŚ 2013, p. 94). *Rozliczalność* and *odpowiedzialność* are the most commonly used Polish equivalents of the term. Accountability is understood as the company's obligation to report to the stakeholders on the actions taken and thereby accounting for the results obtained. The obligation results from the fact that the company receives consent to act (legitimacy) from the public, resulting in its taking responsibility for the effects obtained including not only the financial, but also social and environmental ones.

Transparency refers to the way companies disclose information to external users. Accounting regulations in conjunction with the concept of accountability aim at ensuring that the information presented by the company reflects its actual (true) situation. Transparency in the process of an entity's communication with the environment makes the real and comprehensive information on its performance be provided in an appropriate form and in due course to all interested parties. It is ensured by various regulations and guidelines forming companies' information policies. These include the guidelines for integrated reporting, published in December 2013.

The aim of the paper is to present the concept of integrated reporting and to indicate the premises for its further development and wider application in accounting. The author has reviewed the literature on the subject paying particular attention to the guidelines in question and papers of selected authors related to them.

Guidelines for integrated reporting

On August 2, 2010, the International Integrated Reporting Committee (IIRC) was created and its objective was to develop a global framework for integrated reporting which could be used worldwide¹. The guidelines combine

financial, environmental, social and governance information in a clear, concise, consistent and comparable form. They use the principles-based approach due to the need for ensuring a sufficient degree of comparability of presented information while preserving the flexibility which results from the specific circumstances under which different organizations may operate and carry out the process of value creation.

In December 2013 IIRC presented the final version of the integrated reporting framework. The document consists of two major parts and four chapters. Its overall structure is presented in Figure 1.

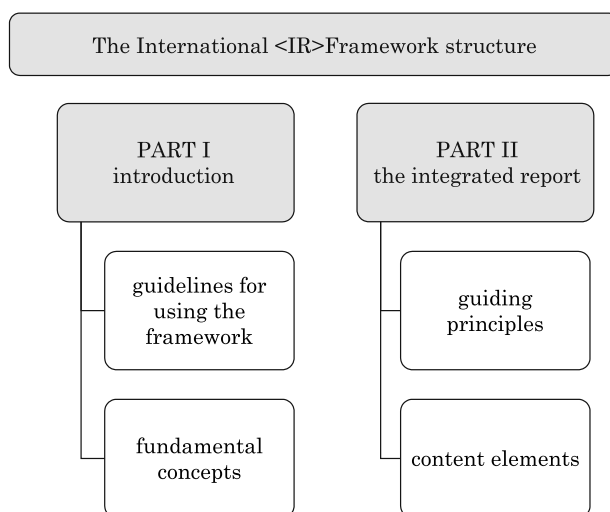


Fig. 1. The International <IR>Framework overall structure

Source: The International <IR>Framework (2013).

The chapter which deals with the guidelines for the framework application discusses the following problems:

- integrated report definition, its purpose and users,
- objective of the framework,
- form of report and relationship with other information,
- responsibility for an integrated report.

Other issues, such as fundamental concepts, guiding principles and content elements are briefly characterized in Table 1.

¹ Cf. KRASODOMSKA (2012a). At present Committee operates under the name International Integrated Reporting Council.

Table 1

The fundamental concepts, guiding principles and content elements of The International <IR>Framework

Fundamental concepts	the capitals: <ul style="list-style-type: none"> – financial – manufactured – intellectual – human – social and relationship – natural and the value creation process
Guiding principles	<ul style="list-style-type: none"> – strategic focus and future orientation – connectivity of information – stakeholder relationships – materiality – conciseness – reliability and completeness – consistency and comparability
Content elements	<ul style="list-style-type: none"> – organizational overview and external environment – governance – business model – risks and opportunities – strategy and resource allocation – performance – outlook – basis of preparation and presentation – general reporting guidance

Source: The International <IR>Framework (2013).

At the core of the framework there lies the concept according to which the company uses resources and relationships (referred to as capitals) and interacts with the external environment to create value in the short, medium and long term. The ability to create value allows the company to provide the suppliers of capital with return on investment and has a number of social and environmental consequences. All relevant information related to this process is reflected in the integrated report. Its development is in line with the use of new technologies which makes it easier to use by the stakeholders, although it is not intended to be just a simple summary of information provided elsewhere e.g. in financial statements, a sustainability report, or on a corporate website.

Many accounting professionals are involved in the development of the integrated reporting framework. The Board of the IIRC comprises I. Ball, former Chief Executive Officer of IFAC Principal Advisor at IFAC and Chairman of CIPFA International and P. Druckman, formerly a Director of the UK Financial Reporting Council and President of the Institute of Chartered Accountants in England and Wales (ICAEW). The Council includes representatives of the IIRC's member organizations, such as AICPA, ACCA, CIMA, BDO,

Ernst Young, Deloitte, IASB, ICAEW, IFAC, KPMG and PwC. In addition to the involvement of accounting specialists in the development of IR framework, other reasons can be indicated for its inclusion in the current accounting research. These are:

- the use of management commentary as a place for presenting information included in the framework,
- reference to social accounting, which is recognized as an accounting discipline,
- interest in the concept shown by Polish authors representing the accounting discipline.

Management commentary as supplement of the information presented in financial statements

Integrated reporting is a response to the changes that have occurred in the companies' operation in recent years. They are due to the rise in the importance of intangible factors of their success which are not presented in the financial statements and a growing belief that their social and environmental impacts affect their financial results. The reporting provides financial and non-financial information concerning the results of the company's activities useful to users in decision-making processes. Thus its objectives are consistent with the main objective of accounting and its most important – informative – function. Financial statements, in the current form, do not meet the utility requirements. Nowadays, users (stakeholders) often rely on additional sources of information, such as management commentary in order to make decisions. This commentary can be regarded as a „connector” between the integrated reporting and traditionally understood accounting that provides financial information. Management report is the subject of the provisions of the accounting Act (art. 49), the new accounting directive of the European Union (Dyrektywa Parlamentu Europejskiego i Rady 2013/34/UE, art. 19), the IASB guidelines (*Praktyczne stanowisko* 2011) and the Accounting Standards Committee (*Krajowy standard rachunkowości nr 8*, 2013). According to some authors' opinion it is „a report on the borderline of accounting” (MUĆKO, HOŃKO 2013). However, when integrated with financial statements, it supplements and complements presented information (in particular with regard to the problems that cannot be contained therein due to existing constraints) and at the same time is a source of relevant forward looking information also derived from the accounting system (SOBAŃSKA 2013). One of the stages of integrated reporting implementation can be presenting the information included in the management commentary guidelines (*Towards Integrated Re-*

porting 2011, p. 20). Wider coverage of the information relating to the environment, social issues and workers, respect for human rights and tackling corruption is also proposed in the draft amendments to the recently adopted directive of the European Union (DADACZ 2014, p. 8).

Integrated reporting and social accounting

Basing on the existing literature on integrated reporting, it may be assumed that this is an innovative concept. Its provisions are, however, consistent with the problems undertaken within the framework of the social accounting² that flourished in the 1970s in the United States. Although it does not belong to the mainstream accounting research, it is considered to be its important area, which was reflected in the fact that it took up a separate section during the Annual European Accounting Association Congress (EAA)³.

The definition of social accounting which is probably one of the most widely cited in the literature on the subject is that by GRAY et al. (1987 as cited in CROWTHER 2000, p. 26). It describes social accounting as the process of informing different groups of stakeholders and the general public about the social and environmental impact of economic activities. It requires extending the obligations of the companies beyond the traditional provision of financial reports to the owners of capital, in particular shareholders. The need for this is based on the premise that companies have other obligations than making money for shareholders.

The social accounting referred to, should not be equated with the social accounting understood as a statistical-economic discipline. Also, it should not be assumed that it concerns separate social reports prepared by companies apart from the annual reports. Research on problems from its scope had started 30 years before the Global Reporting Initiative (GRI) was created as an organization that develops standards for report preparation and they were based on the information disclosed by the companies on a voluntary basis in the annual reports beside the financial statements.

The pioneers of social accounting include Gray, Owen, Mathews, Guthrie and Parker (GORDON 2007, p. 30). Related issues were also undertaken by a few Polish authors in the 1980s. They pointed out in their studies that there was the need to include social and environmental issues in the near future in the framework of the accounting principles/standards. JAGLIŃSKA (1984, pp. 18, 19) deemed it necessary to develop „new general accounting principles

² Also called social responsibility accounting or social and environmental accounting.

³ During the Congress in Paris in 2013, 79 papers on the topic of Social and Environmental Accounting were presented, which in terms of popularity puts it in the 5th place out of 10; one of the 9 plenary sessions was also devoted to the social accounting issues.

taking into account also social aspects of business performance apart from the economic ones". Similarly, in 1993, Burzym forecast that IASC would develop standards covering the issue of „accounting for social responsibility and, in particular, issues related to the protection and restitution of the environment [...] This will be the result of accounting adjustments to meet the needs arising from socio-economic changes occurring in the world today” (BURZYM 1993, p. 19). It can be stated, that after 20 years the world of accounting lived to see the development of such standard in the form of IIRC framework. More importantly, the standards do not hold independent of financial reporting and are not limited to separate thematic issues. Their aim is to provide a holistic picture of organizations’ performance.

Integrated reporting in Polish authors’ research

Integrated reporting is the subject of research conducted not only by foreign but also Polish authors representing mostly the Accounting Departments, which allows it to be recognized as one of the trends of contemporary accounting research (Table 2).

Table 2
The authors dealing with the problem of integrated reporting in the years 2011–2013

Author, publication year(s)	Authors’ affiliation
ELJASIAK (2011)	Department of Accounting, University of Gdansk
JAWORSKA (2011)	Department of Managerial Economics and Accounting, West Pomeranian University of Technology in Szczecin
JĘDRZEJKA (2012)	Department of Finance and Bank Accounting, University of Lodz
KOBIELA-PIONNIER (2012, 2013)	Department of Corporate Finance, Warsaw School of Economics
KRASODOMSKA (2012a, 2012b, 2013a, 2013b)	Department of Financial Accounting, Cracow University of Economics
MARCINKOWSKA (2012)	The Institute for Finance, Banking and Insurance, Department of Banking, University of Lodz
SOBCZYK (2012, 2013)	Department of Accounting, University of Social Sciences, Łódź
BAK (2013)	Department of Finance and Accounting, Wrocław University of Economics
PASZKIEWICZ (2013)	Department of Accounting University of Gdansk
SAMELAK (2013)	Department of Accounting, Poznan University of Economics
SZCZEPANKIEWICZ (2013)	Department of Accounting, Poznan University of Economics
ZUCHEWICZ (2013)	Department of Finance and Accounting, Wrocław University of Economics
ANIOŁ (2013)	National Chamber of Statutory Auditors, Regional Branch in Poznan

Source: author’s own elaboration.

As indicated by the information contained in the table, the authors' interest in issues of integrated reporting began in 2011 and has been growing ever since. The author of the paper lists in the table only the names of the authors whose articles referring to the concept of integrated reporting she is familiar with. It should be noted that these author as well as others whose names have not been mentioned have written important papers concerning similar issues such as the relations between corporate social responsibility and accounting.

Increased interest in the changes in companies' reporting in the context of the corporate social responsibility concept, sustainable development and integrated reporting can also be observed when analyzing issues discussed by the participants of the annual Nationwide Congress of Accounting Departments. It is also worth mentioning the initiative to establish the Polish Association of Sustainable Development in Finance and Accounting.

Conclusion

As Mattessich wrote in 1994 (1994 as cited in BURZYM 2008, p. 79): „[...] the need for the settlement of the liability (accountability) will exist as long as we do not become angels. It also appears that in some circumstances, this feature of our discipline [...] becomes more significant than others. It's not hard to predict because the era of irresponsibility (both in administration and in business), which overwhelmed us over the past decades is, fortunately, coming to an end – either people will become more responsible, or there will be economic chaos which will probably be replaced by a new era of greater responsibility”.

Referring to the above remarks, one can risk a statement that the predicted chaos turned into the 2008 economic crisis, and „the era of greater responsibility”, which followed, is associated with increased transparency and changes in the approach to business reporting. A leading concept in this regard is the idea of integrated reporting proposed by the IIRC. This reporting shows a consistent picture of companies' achievements and meets the needs of users. Its product – the integrated report – provides financial and non-financial information which is not subject to legal regulations but is frequently used also for managerial purposes. Its coherent presentation demonstrates adaptation of accounting to the changing conditions in which businesses operate.

In the light of the above, it seems appropriate to suggest that companies should start reporting according to the IIRC framework. It is also time non-financial, non-measurable problems were recognized within the framework of accounting science as an expression of its evolution.

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