

## Original Paper

# Integrated Reporting: Its Benefits, International Framework and Quality Evaluation

Rong Jin<sup>1\*</sup>

<sup>1</sup> SILC Business School, Shanghai University, Shanghai City, China

\* Rong Jin, E-mail: jr0404@shu.edu.cn

Received: February 3, 2021

Accepted: February 25, 2021

Online Published: March 2, 2021

doi:10.22158/jepf.v7n2p47

URL: <http://dx.doi.org/10.22158/jepf.v7n2p47>

### **Abstract**

*This article gives an explanation of the major objectives and crucial benefits of integrated reporting (IR). In addition, it describes the Guiding Principle “Stakeholder Relationships” and Content Element “Risks and Opportunities” of The International <IR> Framework, which is followed by the demonstration on how each of them supports the attainment of those benefits. Finally, this article critically chooses the 2016 annual report of Hyundai Motor Company as an example, evaluates the quality of report and examines its IR practice by assessing whether this company applies the selected Guiding Principle and Content Element effectively to help achieve major benefits of IR. The research method comprises the establishment of evaluation criteria and content analysis of annual reports.*

### **Keywords**

*integrated reporting, stakeholder relationships, risks and opportunities, quality evaluation*

## **1. Introduction**

Company annual report serves as a primary source for stakeholders to reach relevant information. Nevertheless, giving priority to compliance instead of merits for stakeholders has sparked controversy over the quality of annual reports. The demand for more comprehensive information disclosures has become a contributing factor to the evolution of Integrated Reporting (IR). Incorporating non-financial aspects and financial aspects, IR makes up for the shortcomings of financial reporting (Dumay et al., 2016). Despite the increasingly popular practice in IR adoption, the degree to which IR is used and the quality of reports vary from company to company. In addition, *The International <IR> Framework* is not effectively implemented when IR is used (de Villiers, Rinaldi, & Unerman, 2014). Effective application of the framework and report quality determines the usefulness of IR to a company's stakeholders (Pistoni, Songini, & Bavagnoli, 2018). This article primarily gives an explanation of IR's

major objective and crucial merits, and then describes the selected Guiding Principle “Stakeholder Relationships” and Content Element “Risks and Opportunities” in *The International <IR> Framework* as well as indicating the way they use to achieve those merits. Additionally, the article evaluates the quality of Hyundai Motor Company Annual Report (2016) and examines its IR practice by assessing whether it applies the selected Guiding Principle and Content Element effectively. Finally, some recommendations are made to help improve the quality of Hyundai’s annual reports.

## 2. Literature Review

IR is a concise communication tool that helps achieve value creation through the interaction between organisations’ strategies, business model, performance and external environment. The International Integrated Reporting Council (IIRC) (2013) expects IR to be a facilitator of business practices that fully embodies integrated thinking. As the latest outcome of company report evolution, IR attaches importance to the simplification and effectiveness of company reports by telling the value creation stories (Stubbs & Higgins, 2018), which can be regarded as proof of efforts to achieve its major objective. Furthermore, the implementation of IR benefits an organisation and its stakeholders in many aspects.

### 2.1 Main Purpose

The overarching purpose of IR is to incorporate multidimensional reporting strands and communicate the factors affecting organizations’ value creation capability over time. Namely, IR aims to make clear to users how an organization creates and sustains value by combining financial and non-financial aspects (Stubbs & Higgins, 2018). This requires the consideration of enhanced accountability and stewardship for six capitals used or influenced by companies (financial, manufactured, intellectual, human, social and relationship, natural). Based on the main goal, IR promises to make high-quality information accessible to stakeholders and improve resource allocation efficiency (IIRC, 2013).

### 2.2 Key Benefits

The implementation of IR is of great merits to a company and its stakeholders. One prominent benefit is that it has instrumental in strengthening stakeholder relationships (Steyn, 2014). Laszlo (2008; cited in Steyn, 2014) argues that solid stakeholder collaboration plays an essential role in addressing complex issues involving multiple stakeholders. By regulating particular disclosure requirements, IR contributes to maintaining continuous relationships between an organisation and its stakeholders. In addition, the enhancement in stakeholder engagement is attributed to the implementation of IR (Steyn, 2014). Since stakeholders are encouraged to exchange opinions and express expectations, they have the chance to shape the content of company reports directly or indirectly. In this way, they are more likely to comprehend the whole business in an insightful and holistic view (CIPFA, 2016; cited in Farneti et al., 2019). Apart from that, the maintenance of a positive corporate reputation is another benefit of IR (Steyn, 2014). The research conducted by IIRC sheds light on the fact that IR could interact organisational strategic plans and business models with the external environment, leading to transparent information disclosure and reputable corporate image (IIRC, 2012; cited in Steyn, 2014).

### 3. Methodology

The research methods comprise the establishment of evaluation criteria and content analysis of annual reports.

#### 3.1 *The Establishment of Evaluation Criteria*

In 2013, *The International <IR> Framework* was published by the International Integrated Reporting Council (IIRC), it includes seven Guiding Principles and nine Content Elements that guide the content of IR. These Guiding Principles and Content Elements can help achieve the benefits of IR, which will be illustrated in section 4. The article chooses one of them respectively, and whether the selected Guiding Principle “Stakeholder Relationships” and Content Element “Risks and Opportunities” facilitate the achievement of IR’s merits is set as the criterion for judging the quality of reports and the effective application of *The International <IR> Framework*.

#### 3.2 *Content Analysis of Annual Reports*

The annual report of a company in the auto industry--Hyundai Motor Company is selected as the research object. Hyundai Motor Company is a global manufacturer of automobiles such as cars and SUVs. This article will use content analysis method to scrutinize every module in Hyundai’s 2016 report (the latest one) for quality evaluation.

### 4. Guiding Principles and Content Elements of *The International <IR> Framework*

*The International <IR> Framework* sets up Guiding Principles and Content Elements with the intention of assessing what information could be contained in IR. Specifically, Guiding Principles leads the compilation of IR, stipulates the content included in the report and the form in which information is presented (IIRC, 2013). Content Elements and their interconnection guide a company’s story-telling in terms of value creation process (Liu, Jubb, & Abhayawansa, 2019). The principles-based guidance motivates complicated, disconnected and short-term communications to change towards an innovative way, unlocking the benefits of IR (IIRC, 2013). As the selected Guiding Principle and Content Element of IR, respectively, “Stakeholder Relationships” and “Risks and Opportunities” help demonstrate how those benefits are achieved.

#### 4.1 *Stakeholder Relationships*

IR is accountable for the presentation of information indicating whether organisations deal with the legitimate interests and needs of their key stakeholders through full consideration and reasonable responses. As one of the guiding principles of IR, “Stakeholder Relationships” underlines that creating and sustaining value relies heavily on responsiveness in these relationships. That means an organisation can hardly create value by itself, instead, stakeholders identify material matters to them which have potentially substantive impacts on the value creation process (IIRC, 2013). The principle enables organisations to acknowledge the role of stakeholders and their information rights. It changes the approach to which organisations treat the information needs of their stakeholders (Farneti et al., 2019). As a consequence, organisations are inclined to provide them with the required information. In this way,

a trust relationship between an organisation and its stakeholders is gradually established. Moreover, “Stakeholder Relationships” bolsters stakeholder engagements by including it as an indispensable part of report preparation. For instance, when preparing IR, New Zealand Post employs a dialogue-driven method, solicits opinions of its stakeholders via surveys and specific consultation to decide which significant issues should be contained in the report (Farneti et al., 2019). Such practice generates dynamic interaction between organisations and stakeholders and ensures meaningful communication.

#### *4.2 Risks and Opportunities*

IR’s content element “Risks and Opportunities” requires companies to identify specific risks and opportunities as well as answering how to handle them. External sources of risks and opportunities are the uncertainties deriving from external environment, while internal sources are largely ascribed to business activities (IIRC, 2013). Effective risk management lays the foundation for corporate reputation. In an external context, the ability to identify changes in the industry and seize opportunities is an enabler of companies’ clear future orientation and sustainable development. In an internal context, adequate disclosures of risk issues such as tax risk-management help indicate companies’ adherence to tax morality as well as high transparency (Segal, Segal, & Maroun, 2017), which brings about IR users’ positive perception of companies’ image. Therefore, effective risk management can be deemed as a guarantee of companies’ reputation and trustworthiness.

### **5. Results**

To evaluate the quality of Hyundai Motor Company Annual Report (2016) and the extent to which it embodies integrated thinking, this article assesses whether it applies the selected Guiding Principle and Content Element effectively to help achieve major benefits of IR. According to this criterion and through content analysis, the results are shown as follows.

In Hyundai Motor Company Annual Report (2016), Hyundai makes comparably effective use of the “Stakeholder Relationship” principle in spite of some limitations. Through detailed disclosures, the integrated reporting enables stakeholders to obtain relevant information in a concise and understandable manner. However, Hyundai fails to reveal how they encourage stakeholders to engage in business practices. Therefore, this report is able to enhance stakeholder relationships but fails to promote stakeholder engagement. In terms of “Risks and Opportunities”, although Hyundai demonstrates how external risks are handled by strategic plans, it ignores internal risks and opportunities stemming from business activities. The inadequate disclosures of risk issues and opportunities cannot show Hyundai’s risk management ability and its adherence to high transparency. Thus, the effectiveness of using this Content Element is limited, which hardly plays a role in improving the company’s reputation.

## 6. Discussion

### 6.1 *The Use of Stakeholder Relationships*

The Guiding Principle of Stakeholder Relationship emphasizes the importance of meeting stakeholders' information needs. Stakeholders pay attention to material matters including social, environmental and governance issues (IIRC, 2013).

The Hyundai Motor Company Annual Report (2016) comprehensively reveals the major concerns of stakeholders. Hyundai describes how it fulfils corporate social responsibilities through six campaign activities such as promoting traffic safety and assisting disabled people. The environmental considerations are presented in a whole section titled "Anticipating a greener future, green car". As for governance, there is a diagram showing Hyundai's governance structure, with an introduction of its board of directors and three subcommittees. Most of the information is disclosed in a detailed and transparent manner, reflecting that Hyundai responds to stakeholder's needs to a large extent. In addition, the appropriate utilisation of figures, pictures and tables make information clearly presented and easily understood. However, even though stakeholders have access to a significant amount of communicable information, the annual report lacks content concerning engagement with stakeholders. Hyundai presents neither the specific activities on how it communicates with stakeholders in its regular course of business nor the future plans about maintaining ongoing liaison with them.

### 6.2 *The Use of Risks and Opportunities*

Content Element "Risks and Opportunities" requires a company to carefully identifies potential threats and opportunities, and take corresponding steps to handle them. External environment, internal business activities or a mix of the two are major sources of risks and opportunities (IIRC, 2013).

Compared to external aspects, the Hyundai Motor Company Annual Report (2016) conducts a relatively superficial internal risks and opportunities analysis. In the "CEO's message" section, Hyundai (2016) clearly points out various external challenges covering an uncertain market environment, increasingly fierce competition, changing consumer trends, stricter emissions controls. It also demonstrates how to mitigate these risks and turn them into opportunities by setting strategic objectives and formulating specific strategies. For example, it promises to enhance the competitive edge in environmentally-conscious technology. On the other hand, Hyundai discloses its internal risk management merely from a financial perspective, including the management of capital risks, financial risks and derivative instruments. It ignores risks owing to business activities such as changes in business model and product innovation. Meanwhile, the insufficient analysis impedes exploiting business opportunities internally. Apart from that, information about risks and opportunities is in different modules, causing difficulty for readers in seeking and connecting the same type of information. In general, the incomprehensive evaluation of risks and opportunities reduces the effectiveness of using the selected Content Element.

## 7. Conclusion

This report has explained the major objectives and crucial benefits of IR. The primary purpose of IR is to enable stakeholders to understand an organisation's value drivers. Maintaining trust relationships with stakeholders, promoting meaningful stakeholder engagement and improving corporate reputation constitute three key merits of IR. These merits can be achieved by the application of the Guiding Principle "Stakeholder Relationship" and Content Element "Risks and Opportunities". "Stakeholder Relationships" allows an organisation to fully respect stakeholders' information rights and builds a trust relationship with them through transparent information disclosures. Moreover, stakeholder involvement is undertaken as an indispensable part of day-to-day business operations and the report preparation process due to the principle, ensuring the ongoing communication between an organisation and its stakeholders. With respect to "Risks and Opportunities", identifying external challenges and opportunities as well as handling them could indicate companies' sustainable prospects; Transparent disclosures of internal risk issues shape the responsible image of companies. Through the evaluation of Hyundai Motor Company Annual Report (2016), it is concluded that Hyundai makes relatively effective use of "Stakeholder Relationships" but the opposite situation about "Risks and Opportunities". Hyundai satisfies stakeholder's information needs to a large extent although stakeholder engagement information is not made available. Nevertheless, instead of identifying the major internal source of risks, it analyzes risks from a narrow view, which restricts the effectiveness of utilising the Content Element. In a nutshell, this report only helps achieve a few benefits of IR. The usefulness of IR to Hyundai's stakeholders is limited because its adoption of IR has not reached a mature stage. It is suggested that Hyundai presents information about how stakeholders engage in its material business issues to show that it acknowledges the role of stakeholders. Furthermore, to avoid the incomprehensive analysis of risks and opportunities, Hyundai needs to establish a more extensive risk identification and management system.

## References

- de Villiers, C., Rinaldi, L., & Unerman, J. (2014). Integrated Reporting: Insights, gaps and an agenda for future research. *Accounting, Auditing, & Accountability*, 27(7), 1042-1067. <https://doi.org/10.1108/AAAJ-06-2014-1736>
- Dumay, J., Bernardi, C., Guthrie, J., & Demartini, P. (2016). Integrated reporting: A structured literature review. *Accounting Forum*, 40(3), 166-185. <https://doi.org/10.1016/j.accfor.2016.06.001>
- Farneti, F., Casonato, F., Montecalvo, M., & Villiers, C. D. (2019). The influence of integrated reporting and stakeholder information needs on the disclosure of social information in a state-owned enterprise. *Meditari Accountancy Research*, 27(4), 556-579. <https://doi.org/10.1108/MEDAR-01-2019-0436>
- Hyundai Motor Company. (2016). Hyundai Motor Company Annual Report 2016. *Hyundai Motor Company*. Retrieved May 18, 2020, from <https://www.hyundai.com/worldwide/en/company/ir/>

financial-information/financial-statements

- International Integrated Reporting Council (IIRC). (2013). The International <IR> Framework. *International Integrated Reporting Committee(IIRC)*. London.
- Liu, Z., Jubb, C., & Abhayawansa, S. (2019). Analysing and evaluating integrated reporting: Insights from applying a normative benchmark. *Journal of Intellectual Capital*, 20(2), 235-263. <https://doi.org/10.1108/JIC-02-2018-0031>
- Pistoni, A., Songini, L., & Bavagnoli, F. (2018). Integrated Reporting Quality: An Empirical Analysis. *Corporate Social-Responsibility and Environmental Management*, 25(4), 489-507. <https://doi.org/10.1002/csr.1474>
- Segal, T. G., Segal, M., & Maroun, W. (2017). The perceived relevance of tax risk-management in a South African context. *Meditari Accountancy Research*, 25(1), 82-94. <https://doi.org/10.1108/MEDAR-01-2016-0008>
- Steyn, M. (2014). Organisational benefits and implementation challenges of mandatory integrated reporting: Perspectives of senior executives at South African listed companies. *Sustainability Accounting, Management and Policy Journal (Print)*, 5(4), 476-503. <https://doi.org/10.1108/SAMPJ-11-2013-0052>
- Stubbs, W., & Higgins, C. (2018). Stakeholders' Perspectives on the Role of Regulatory Reform in Integrated Reporting. *Journal of Business Ethics*, 147(3), 489-508. <https://doi.org/10.1007/s10551-015-2954-0>