INTEGRATED REPORTING - A MORE HOLISTIC PICTURE FOR A COMPANY

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Abstract: *Following recent trends and events – such as the global financial crisis along with environmental disasters, trust in business has lost so much and the investors and other stakeholders has been affected. Financial reporting has changes over the last years and is currently being challenged if it provides an accurate picture of the present and future performance of companies. Annual reports based on financial information cannot to provide sufficient information to potential investors in order to make a correct investment decision.*
A new concept has emerged in order to answer their challenge. This is integrating reporting and it offers the opportunity to provide investors strategy and value creation, how companies make decisions and if they should continue to be invested in the business or not. A integrated report go beyond the traditional financial metrics.
The aim of this discussion paper is to describe this new concept and to give a literature review analysis of the framework regarding integrated reporting evolution from the non-financial reporting, through environmental stage, until now. Based on literature overview, this paper gives an explanation of the companies need to disclose in addition to financial information of the other information: non-financial, sustainability and corporate social responsibility. A good and very known example for the integrated reporting is Philips Electronics, the Dutch healthcare and lighting company, a pioneer that embrace this concept, and the paper make an analysis of its experience. In 2008, company Philips decided to publish an integrated financial social and environmental report which reflecting the progress and embedding sustainability in way of doing business. This is also supported by the inclusion of sustainability in the Philips Mission, Vision and the company strategy. This is seventh annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework. Company Philips is a frontrunner in this field, because publishes annual report with the highest (reasonable) assurance level on the financial, social and environmental performance.

Keywords: financial reporting, integrated reporting, integrated thinking, integrated report

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1. Introduction
The financial crisis was a kind reminder that financial reporting alone cannot provide an accurate picture of business performance and cannot satisfy the need of the investors and of heterogeneous stakeholders. At the same time, the world has changed due to globalization and resulting interdependencies in economies, advances in technology, rapid population growth and increasing global consumption and against this background, many companies, investors and governments trying to assess an organization's overall governance and performance in the short, medium and long term.

Because traditional financial reporting prepared financial statements under generally accepted accounting principles, with independent audit reviews for accuracy and compliance with accounting standards and don't capture relevant market information and the non-financial measures that drive value and cannot provide full picture of corporate health, the big challenge for company is to development one report that connects material financial and sustainability information.

Corporate reporting's answer to this issue is represented by the integrated reporting. Integrated reporting's main result is an integrated report, which includes the financial information, management commentary, governance and remuneration, social and environmental matters, in a way that shows the connectivity between them and explains their impact on the entity's long, medium and short term value creating process (International Integrated Reporting Committee – IIRC, 2011).

Integrated reporting begins with a single document, One Report, combining an organization's financial and nonfinancial (environmental, social and governance) performance and illuminating the relationship between the two. But it also extends beyond a paper document, utilizing the Internet to facilitate the integration of performance reporting, as well as provide detailed information of particular interest to different stakeholders. It is about listening as much as talking - a conversation with all stakeholders about their expectations of the company's commitments and the performance metrics that ensure sustainability in economic, environmental, social and governance terms (Eccles and Krzus, 2010).

A good example is Philips, the Dutch healthcare and lighting company, whose annual report website contains the 2011 integrated annual report and annual reports dating back to 1998.

Philips provides three different reports, called 'Analyst selection', 'Sustainability selection', and 'Employee highlights', that contain information of particular interest to different users.

In addition to a wide variety of PDF reports which can be accessed and created, the website includes Excel spreadsheets which can be downloaded (financial statements, five-year overview, and performance highlights) and interactive charts (balance sheet, statement of income, profitability, cash flow, key figures per share, employees and sustainability). Each chart, which may be viewed as a bar or line graph and downloaded into an Excel spreadsheet, provides data for 2007-2011 and may be viewed by year (each data item in the category for each year) or by data item (all years for each data item). Since the information in these charts may be downloaded into a spreadsheet, the user is able to perform his or her own analysis, looking for relationships between different performance metrics – such as Green Product Sales, Green Innovation, and Lost Workday Injuries as a function of sales growth and profitability – and combine the information provided by Philips with other information, such as comparing the performance of Philips to that of its competitors (Eccles and Schulschenk and Serafeim, 2012).

The concept of integrated reporting represents one of the most innovative concepts introduced in the reporting arena in the last decade. The main aim of the paper is to describe this new concept, brief history and the motivation for the importance of this subject related to the emergence of the framework that regulates integrated reporting.

The International Integrated Reporting Council (IIRC) described <<IR>> to be a 'new reporting paradigm that is holistic, strategic, responsive, material and relevant across multiple time frames' (Adams and Simnett 2011, p. 292). Also, according to the IIRC, <IR> is an opportunity for not only improving transparency and governance but also 'decision making for organizations of all types' (Adams and Simnett 2011, p. 293).

2. Integrated reporting - concept

The research methodology used to achieve this article was to analyze the literature regarding integrated reporting and the main research method was a qualitative analysis, a method that helps to highlight the advantages of this new concept.

Integrated reporting has been developed by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about businesses' value creation should be the next step in the evolution of corporate reporting (International Integrated Reporting Framework - IIRC, 2013).
The emergence of integrated reporting is in 2009 when South Africa's King III Code of Governance Principles was released and recommended that companies prepare and publish integrated reports. In 2010 complying with the King III and publishing an integrated report or explaining why not was made a listing requirement by Johannesburg Stock Exchange making South Africa the first country to have reporting requirements around integrated reporting. This lead to the establishing of the Integrated Reporting Committee of South Africa in May 2010, with the aim to develop guidelines on good practice in integrated reporting. In August 2010 the Prince's of Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the International Integrated Reporting Committee (IIRC). IIRC was formed in August 2010 and aims to create a globally accepted framework for a process that results in communications by an organization about value creation over time (Integrated reporting - Global Reporting Initiative, 2011).
International Integrated Reporting Council (IIRC) include the following groups: regulators and standard setters (including the International Organization of Securities Commissions (IOSCO), the International Accounting Standards Board (IASB), and the American Institute of Certified Public Accountants); the current Chairs of the Big 4 accounting firms and other global audit firm networks; leading international groups with broad sustainability mandates (including the Global Reporting Initiative (GRI), and the Carbon Standards Disclosure Board (CDSB)); international bodies (including the World Bank, the United Nations Global Compact, World Business Council for Sustainable Development (WBCSD), and Principles for Responsible Investment (PRI)); international accounting and auditing bodies (including the International Federation of Accountants (IFAC) and the Institute of Internal Auditors (IIA)), investor groups, representatives from leading corporate reporters, and leading academics in corporate and extended reporting (IIRC, 2013a).
This new concept has been initiated by two separate bodies: the International Integrated Reporting Council in the United Kingdom (IIRC) and the King Report on Governance for South Africa. The IIRC has the mission to create a globally accepted Integrated Reporting Framework. According to the King report, integrated reporting is: "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability" (Institute of Directors of Southern Africa, 2009). The IIRC defines Integrated Reporting as: "A process that results in communication, most visibly a periodic "integrated report", about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term" (International Integrated Reporting Framework - IIRC, 2013).
According to the King Report on Governance for South Africa, the overall objective of integrated reporting is to help stakeholders assess whether an organization can create and sustain its value over the short, medium, and long term. King III states that integrated reporting is an approach by which organizations demonstrate their responsibility towards the global economy and the three major stakeholders: shareholders, society, and the environment (IRCSA, 2011).
Integrated reporting (stylized by the IIRC as '<IR>') is described by the IIRC as the basis fundamental change for reporting and a important aim of <IR> is to support integrated thinking and decision-making. Integrated thinking is seen by the <IR> Framework as "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects"(Eccles and Krzus, 2014).

3. From Integrated thinking to Integrated Reporting

Integrated Reporting is a process that results in communicating—through the annual integrated report— value creation over time. According to Robert Eccles "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).

Integrated reporting is an expression of the "integrated thinking," a reflexion of the management's capacity to monitor, manage and disclose the entire complexity of the value creation process and how it contributes to success in time, and communication of this process can help the stakeholders, and particularly the investors, understand both the way a company is performing at present and how it is likely to perform in the future (Indra, 2011).

Integrated reporting can connecting information about an organization's current decisions with future prospects; connecting information about strategy, risk, remuneration and performance; and recognizing that the economy, environment and society are inseparable and therefore information provided to understand an organization's performance in each of these areas needs to be viewed as part of a whole. So, integrated reporting and integrated thinking go hand-in-hand.

The best example to highlight the relationship between integrated reporting and integrated thinking is Philips' report. In 2008, company Philips decided to publish an integrated financial social and environmental report which reflecting the progress and embedding sustainability in way of doing business. This is also supported by the inclusion of sustainability in the Philips Mission, Vision and the company strategy. This is seventh annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework. Company Philips is a frontrunner in this field, because publishes annual report with the highest (reasonable) assurance level on the financial, social and environmental performance.

Philips Annual Report is a good example for other entities interested in applying the integrated reporting because this company already has a history in integrated reporting and it is interested in finding the best practices in order to provide all information for its stakeholders.

In this reports, Philips uses relevant best practice standards and international guidelines while reporting on the sustainability performance, most important are the Global Reporting Initiative's (GRI) new G4 - Sustainability Reporting Guidelines as well as the International Integrated Reporting Council (IIRC), regarding Integrated Reporting <IR> framework.

Also, the goal of Philips is to understand the specific challenges, to ensure that success is repeatable and the most important thing is to create the value for all stakeholders. Following, The 'Creating value for our stakeholders' diagram issued by International Integrated Reporting Council framework, company Philips created the diagram Creating value for our stakeholders with the Philips Business System at the heart of our endeavors- using six different forms of capital to drive value in the short, medium and long term (human, intellectual, financial, manufacturing, natural and social).

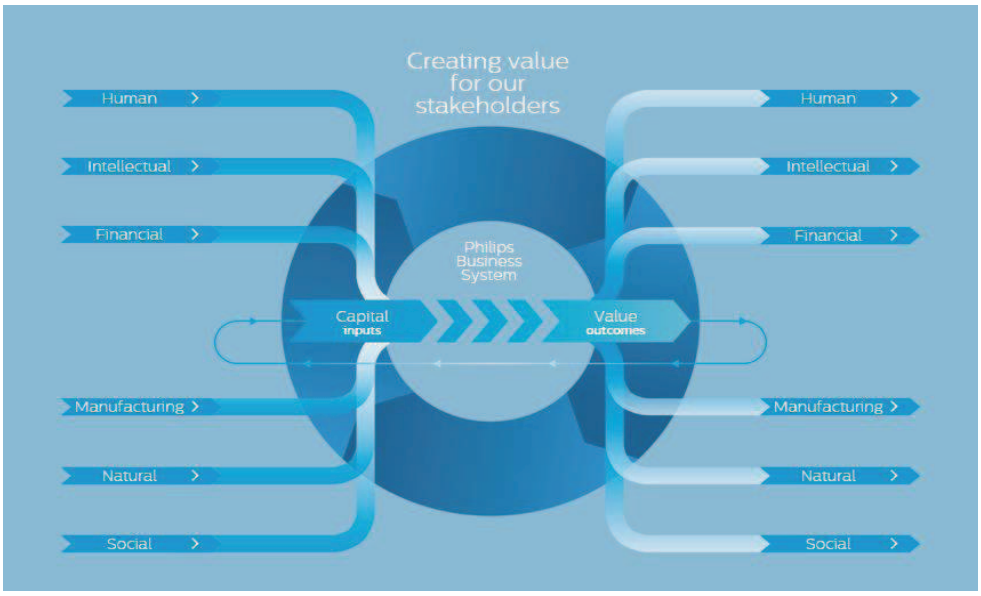

Figure 1. Creating value for our stakeholders with the Philips Business System
Source: PHILIPS ANNUAL REPORT 2014
http://www.2014.annualreport.philips.com/#!/home/

In 2014, Philips has published data on its sustainability activities as part of its integrated annual report, covering its financial, social and environmental performance. The company announced that it made solid progress in its EcoVision program which sets sustainability performance targets for the end of 2015. Metrics beyond financials is most important part of Philips report, such as social performance, environmental performance and sustainability statements (Philips Annual Report, 2014).

Social performance is an important element because the company trying to provide innovative solutions that address major trends affecting the world – the demand for affordable healthcare, the need for greater energy efficiency and the desire for personal well-being. Products and solutions from portfolio that directly support the curative (care) or preventive (well-being) side of people's health, determine the contribution to the social dimension.

Regarding to environmental performance and sustainability statements, Philips has a long tradition of sustainability reporting, beginning in 1999 when we published our first environmental annual report. This was expanded in 2003, with the launch first sustainability annual report, which provided details of social and economic performance in addition to environmental results and in 2008 the company decided to publish an integrated financial, social and environmental report. In the performance section an overview is given of the most important environmental parameters of the program such as Improving people's lives, Health & Safety, and Supplier Sustainability. Sustainability is strongly embedded in business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Involvement Program), manufacturing (Green Manufacturing 2015) and Logistics (Green Logistics). The Sustainability Board is the highest governing sustainability body in Philips, chaired by Jim Andrew, member of the Executive Committee. Sustainability is integrated in company strategy and embedded in the organization, to reflect this "integrated thinking" (Philips Annual Report, 2014).

In the article “Six Reasons Why CFOs Should Be Interested in Sustainability” (Braaksma, 2010- Philips Annual Report) are described the benefits that Philips has already received from integrated reporting which are identified in three areas targeted for improvement: improved engagement by feedback loops, improved workflow management, and providing reasonable assurance.

The benefits of Philips’ integrated reporting are obvious. The process improvements result in more timely and higher-quality data that is now delivered more frequently to a very senior audience in many categories of stakeholders. More frequent information also means that corrective action can be taken in a timely manner—and the company can deliver on its sustainability commitments. Another effect is that more internal stakeholders review the data which results in further data quality improvements (Philips Annual Report, 2014).

4. Integrated report-new perspective in corporate reporting

The main result of integrated reporting is the integrated report: the kind of report the IIRC predicts will replace current corporate reports. This means a report that combines financial information (annual reports) with non-financial information (environmental, social and corporate governance)

The IIRC defines integrated report: “An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.”

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.

In other words, integrated reports tell us the organization’s value creation story in a clear, concise and understandable way. It’s an important document by which the organization communicates a holistic view of its current position, where it’s going, and how it intends to get there. So, it is a report explaining investors and other stakeholders the strategy, behavior and activities of an organization in terms which assess the ability to create and maintain value in the short, medium and long term

The structure of an integrated report is not prescribed by the Framework; nor should the guiding principles and content elements be seen as a tick box exercise. The Framework cannot provide the structure of integrated report but suggested the most important elements, referring to information which is interconnected.

The most important elements are as follows, as defined by the IIRC:

“1. Organizational overview and business model:

What does the organization do and how does it create and sustain value in the short, medium and long term?

2. Operating context, including risks and opportunities:

What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?

3. Strategic objectives and strategies to achieve those objectives:

Where does the organization want to go and how is it going to get there?

4. Governance and remuneration:

What is the organization’s governance structure, how does governance support the strategic objectives of the organization and how does it relate to the organization’s approach to remuneration?

5. Performance:
How has the organization performed with respect to its strategic objectives and related strategies?
6. Future outlook:
What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?”**5. In conclusion**
It is important that you write for a general audience. It is also important that your work is presented in a professional fashion. These guidelines should help to achieve that goal. By adhering to these guidelines, you help the conference organisers tremendously in ensuring impressive presentation of your paper and we thank you for your co-operation.

5. Conclusions
Since the main purpose of this article and also the above, the integrated reporting is a new important concept that will change the corporate reporting. For understanding why integrated reporting is so important to the future of sustainable business it is necessary to read an integrated report, for example Philips Annual Report. Philips Electronics is a leader in integrated reporting, after its first report in 2008, Philips' integrated reports and its integrated reporting website had a continuing evolution, and every new report it was much improved, so 2014 it produced its seventh generation report. Philips wanted to live up to its brand promise of —sense and simplicity - and offer its stakeholders a single website and paper versions of the integrated report have been reduced to the minimum, also, a single report enabled cost savings.
The most important aims of the integrated reporting is to include in the same annual report information regarding financial performance and governance together with social and environmental performance and one of the tasks of the IIRC—to bring financial and ESG information together in a clear, concise, useful, balanced and comparable format. The problem is that sustainability reporting history has been around 15 years, after GRI guidelines introduction, the world‘s most widely-used framework for sustainability reporting and financial reporting has been around 150 years, and elements of integrated reporting need to be brought together gradually in order to ensure that the end result is a good one.

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