Understanding Integrated Reporting (<IR>) and the UN Sustainable Development Goals

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Financial accounting has long been viewed as a major mechanism for communicating information about firms and aligning the interests of different user groups of financial statements (particularly shareholders, investors, creditors, and managers). It serves the purposes of financial performance assessment, internal control, and valuation of firms. Traditionally, students who study an accounting degree are taught to prepare financial statements in accordance with the requirements of generally accepted financial accounting and reporting standards, analyse financial ratios and performance, and conduct income measurement and asset valuation. Over the past two decades, the importance of non-financial reporting has increased considerably through the growing awareness of the United Nations (UN) Sustainable Development Goals (SDGs), environmental issues, corporate social responsibility (CSR), the proliferation of non-financial reporting standards/frameworks (including sustainability/CSR reporting, integrated reporting <IR>, or other equivalents), and the increasing adoption of non-financial reporting by organisations in both private and public sectors. Nowadays, accounting students are expected to have a broader understanding of corporate reporting, value creation, and sustainable development.

In a lecture of ACC3010 Advanced Financial Accounting, around 130 3rd year BSc Accounting students were taught to identify the limitations of traditional financial reporting, understand the purposes of non-financial accounting, reporting, and assurance, and critically evaluate the role of non-financial reporting in the evolution of corporate reporting and the achievement of the SDGs. Further, they were asked to write an assignment on <IR>, based on the knowledge covered in the lecture and a recommended reading list provided [1]. After submitting this assignment, they attended a workshop where <IR>, sustainable development, sustainability accounting and reporting, and stakeholder accountability were further discussed. Through this learning process, the students gained an understanding of sustainable development, the SDGs, contemporary accounting issues, and the evolving non-financial reporting field. Meanwhile, they honed their skills in critical thinking, in-depth reading, and academic writing. Their perspectives reveal how the reform of corporate reporting could/should be linked to the achievement of the SDGs and reflect the importance of integrated thinking for modern enterprises.

Assignment Question

Students were required to write an essay and answer the following question:

Drawing on the relevant academic literature, critically discuss: (1) What is integrated reporting (<IR>)? (2) Whether <IR> can lead to an evolution of corporate reporting? (3) Whether <IR> can contribute to the achievement of the sustainable development goals (SDGs)?

They were advised to refer to the relevant literature (articles and additional resources provided in class and online, and/or other literature they found relevant/useful) to support their answers. Notably, students were required to submit a separate page including a bibliography/reference list with their answers to show the reading they had done.

Workshop Learning Activity

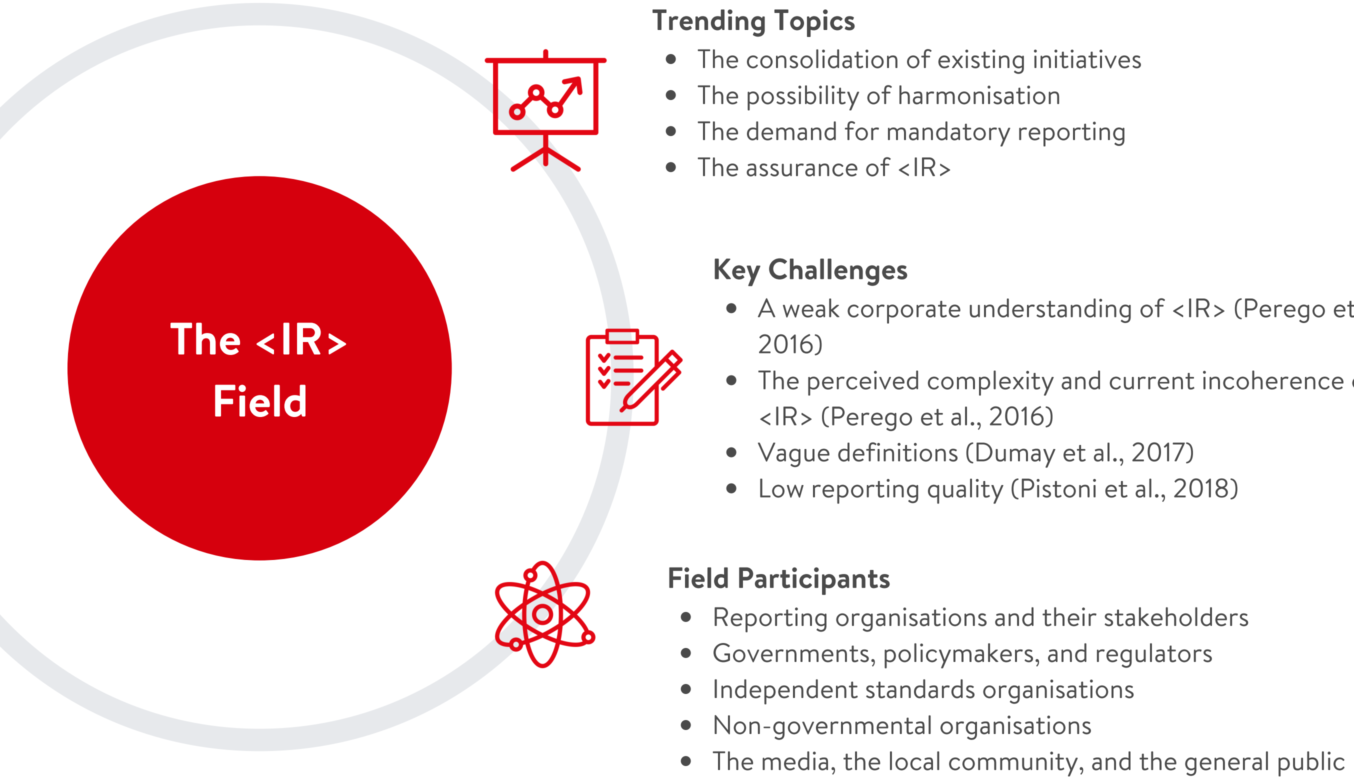
In a workshop, students were divided into small groups to discuss the topic of <IR> based on their knowledge from pre-reading. They were given a framework (as shown in Figure 1, below) set by the lecturer and asked to discuss the trending topics, key challenges, and field participants within the <IR> field.

Each group was given an answer sheet, and one student was responsible for summarising her/his group members' responses and filling in the sheet. After a 15-minute discussion, one representative of each group presented the answers to all students.

Students' Answers

The workshop instructor collected the answer sheets and summarised the responses from the small groups.

Figure 1: Understanding the <IR> Field from Three Aspects



Source: Author

Understanding <IR>: Trending Topics, Key Challenges, and Field Participants

<IR> is a process founded on integrated thinking and focusing on conciseness, strategic relevance, and future orientation, which results in a periodic integrated report by an organisation communicating about its strategy, governance, performance, prospects, and reflecting a value creation story within the context of its external environment over the short, medium, and long term (Integrated Reporting, 2021). Essentially, <IR> encompasses integrated thinking which requires the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or influences (Integrated Reporting, 2021). The International <IR> Framework, developed by the International Integrated Reporting Council (IIRC) in 2013 and revised in 2021, establishes and explains Fundamental Concepts, Guiding Principles, and Content Elements governing the preparation and presentation of an integrated report (Integrated Reporting, 2021). <IR> is increasingly being discussed as an evolution, or the future, of corporate reporting (Deloitte, 2021; Integrated Reporting, 2021).

Students identified several topics gaining recent popularity within the <IR> field. First, the consolidation of existing initiatives. According to VRF (2021), the IIRC and the Sustainability Accounting Standards Board (SASB) merged into the Value Reporting Foundation (VRF) [2] in June 2021. Moreover, the International Financial Reporting Standards (IFRS) Foundation will complete the consolidation of the Climate Disclosure Standards Board (CDSB) and the VRF by June 2022. The technical standards and frameworks of the CDSB and the VRF, along with those of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Forum Stakeholder Capitalism Metrics, will provide a basis for the technical work of the newly formed International Sustainability Standards Board (ISSB). The recent change and proposed merger signal significant progress towards simplification and clarity in the non-financial reporting landscape.

Second, the possibility of harmonisation. In some groups, students found a demand for broader and deeper international collaborations within the <IR> field. This may require further development of international practical communities bringing together practitioners, policymakers, and academics worldwide to facilitate debates, connect knowledge and practice, and improve international harmonisation. Drawing on Dumay et al. (2016), some students said what the Global Reporting Initiative (GRI) had done over the past two decades set a perfect example of creating and institutionalising the international practical communities.

Third, the demand for mandatory reporting. Currently, <IR> remains voluntary in almost all countries [3]. Students noticed much recent debate about whether <IR> (or non-financial disclosures) should become mandatory. Moreover, some students argued that the lack of force was a significant barrier to the wider adoption of <IR>. This argument is in line with Dumay et al. (2017) indicating that lack of regulation is an early academic criticism of the IIRC's ambitions. Fourth, the assurance of <IR>. Assurance on sustainability/integrated reporting (or, more broadly, Extended External Reporting [EER], according to Street et al. 2021) is a practice that has long been overlooked. Recently, it has attracted increasing attention as various stakeholder groups are demanding a greater range of accountabilities (Street et al., 2021). Some students further stressed the fear of greenwashing and the importance of assurance as a credibility enhancing technique in <IR>.

In considering key challenges that might potentially hider the wider adoption and implementation of <IR>, students primarily paid attention to the weak understanding of the business value of <IR>. Some students argued that many firms were reluctant to engage in <IR> because they simply regarded <IR> as an additional reporting burden and did not fully recognise its potential value. Some students also emphasised that firms might be further discouraged by the perceived complexity and current incoherence of <IR>. These arguments are endorsed by the evidence discussed by Perego et al. (2016). Moreover, one student expressed that "integrated thinking" seemed a vague concept, and different organisations might have different interpretations. This view is in line with Dumay et al. (2017) pointing out that two of <IR> Framework's prime concepts, "integrated thinking" and "value creation", are vaguely defined. "While definitions that require professional judgement and allow for interpretation are adaptable so organisations can adjust them to suit their needs, they also present a barrier to implementing" the International <IR> Framework "because how they can or should be applied is not clear" (Dumay et al., 2017, p. 468).

Students commonly expressed concerns over the low quality of <IR> in practice. Many firms claimed what they published was an integrated report but merely disclosed limited information on the business model, capitals, sustainability performance, and business strategy. Some students argued that the firms tended to prioritise the form rather than the content of <IR>.

Further, the firms viewed <IR> as a novel (external) communication tool rather than an (internal) managerial process. Consequently, firms currently engaging in <IR> are implementing it superficially/symbolically, without genuinely generating "integrated thinking" and radically changing their core internal activities. These arguments are in line with the research findings of Perego et al. (2016) and Pistoni et al. (2018).

Identifying participants engaged within the <IR> field allows the description of interactions between the participants and the consideration of their different views, logics, and ideologies (Smith et al., 2011). The field participants identified by students included reporting organisations and their employees, managers, shareholders, (potential) investors, creditors, suppliers, customers, business partners. The students also viewed governments, policymakers, regulators, independent standards organisations, non-governmental organisations, the media, the local community, and the general public as the field participants.

The lecturer marked 109 assignments submitted by the students and summarised their insightful views and comments on <IR>, corporate reporting, and the SDGs, as discussed below.

Whether <IR> Can Lead to an Evolution of Corporate Reporting?

Some students argued that <IR> could lead to an evolution of corporate reporting. They divided their answers into two parts, analysing the disadvantages of traditional financial reporting and the advantages of <IR> respectively. Traditional financial reporting constantly fails to provide a complete picture of an organisation and its business performance because it is only based on a historical overview of the organisation's financial performance. It leads to a reporting mismatch between how business value is created and how business performance is reported. For example, intangible assets that do not appear in the balance sheet have increasingly become a significant proportion of business value. The students further stated a multitude of benefits associated with <IR>, including:

- A concise, clear, easily accessible single report.
- Encouraging integrated thinking.
- Improving internal managerial activities and decision-making processes.
- Better identification and measurement of both financial and non-financial risks and opportunities.
- Clearer presentation of strategy and business model.
- Concise articulation of a value creation story useful and relevant to all stakeholders.

An integrated report includes information regarding an organisation's business strategy, corporate governance, implementation plans, and other business performance, enabling readers to gain a comprehensive view of the organisation. It effectively mitigates the reporting mismatch caused by traditional financial reporting. It also encourages integrated thinking within the organisation and drives radical changes in the identification and measurement of various risks, the process of decision-making, and the creation of business value in the long term. Therefore, the students argued that <IR> was an evolution of corporate reporting, both within an organisation and from an external perspective.

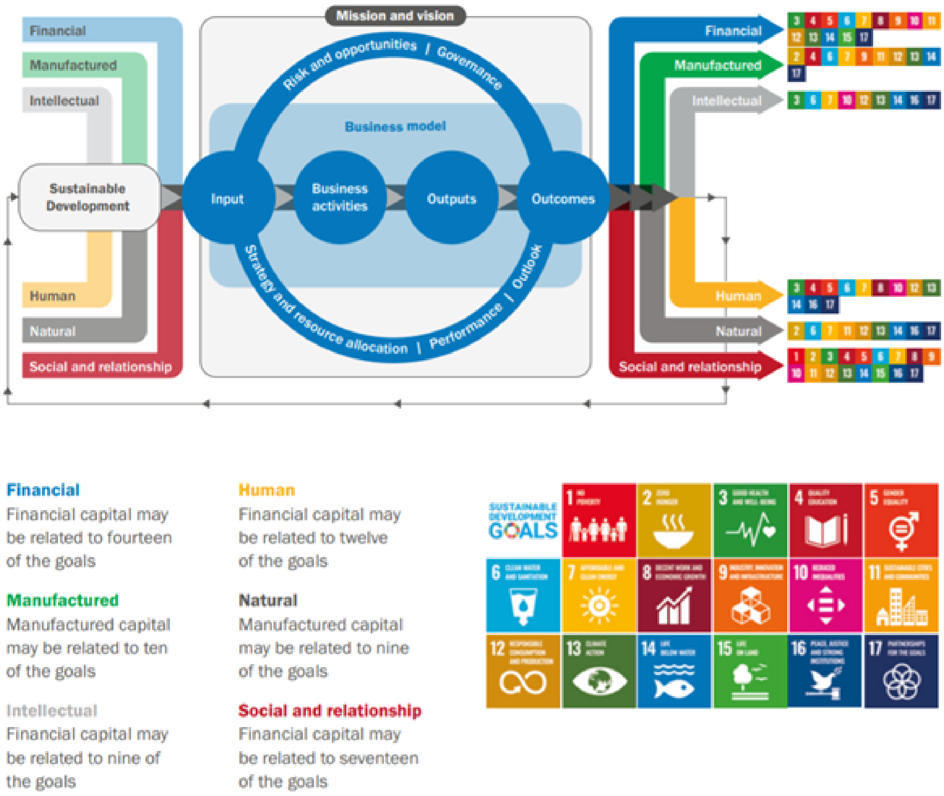
In contrast, other students hesitated to state that <IR> could lead to an evolution of corporate reporting. They argued that <IR> was still in its embryonic stage and facing various implementation challenges (as mentioned in the above section). Moreover, the recent changes (for example, the consolidation of existing initiatives, the formation of a new ISSB, and the proliferation of reporting standards) within the non-financial reporting field intensified the uncertainty. The students expressed that the changes might increase complexity, cause confusion, and thus further discourage organisations from fully recognising the potential value of <IR>. Consequently, it would be difficult to achieve the wider adoption and implementation of <IR>, let alone the evolution of corporate reporting.

Whether <IR> can contribute to the achievement of the SDGs?

Further to the arguments in the last paragraph, the students were also unsure of whether <IR> could contribute to the achievement of the SDGs. They expressed concerns over the lack of regulation, greenwashing (or "colour washing" in the SDGs disclosures), and lack of assurance, and thus doubted whether <IR>, as a voluntary and low-quality practice, could properly contribute to the SDGs.

Conversely, most students argued that <IR> could contribute to the achievement of the SDGs. They referred to Adams et al. (2020) and highlighted the framework depicting the alignment of the SDGs with the value creation process (a prime concept within the <IR> field). As Figure 2 (below) shows, this framework draws on the International <IR> Framework (IIRC, 2013) and shows the process of long-term value creation for an organisation and the society and its relationships to the SDGs (Adams et al., 2020). The students explained that based on this framework, organisations could effectively contribute to the achievement of the SDGs by implementing <IR>, generating integrated thinking, and embedding sustainable development issues in their decision making, strategies and business model. Sustainable development issues (which gave rise to the SDGs) pose limitations on the availability of capitals on which organisations rely (Adams, 2017). Thus, the organisations should consider and address the risks and opportunities associated with sustainable development issues while creating value over time within their sustainability development context and industry/sector (Adams, 2017; Adams et al., 2020). Aligning the SDGs with <IR> (and more specifically, the value creation process) allows better identification of sustainable development risks and opportunities, transformation of multiple capitals (social and relationship capital, natural capital, human capital, intellectual capital, financial capital, and manufactured capital), and consideration of trade-offs in impact on the achievement of the SDGs.

Figure 2: Aligning the SDGs with the Value Creation Process



Source: Adams et al. (2020, p.8), “Figure 1: Aligning the SDGs with the value creation process”.

Several students also highlighted the five-step process to align an organisation’s approach to the SDGs with integrated thinking and long term value creation (Adams et al., 2020, p.14-15): (1) “understand sustainable development issues relevant to the organisation’s external environment”; (2) “identify material sustainable development issues that influence long term value creation for organisations and society”; (3) “develop strategy to contribute to the SDGs through the business model”; (4) “develop integrated thinking, connectivity and governance”; and (5) “prepare the annual report”. They argued that this five-step process showed how the implementation of <IR> could effectively contribute to the achievement of the SDGs.

Comments

By reading research articles, writing the assignment, and doing group discussions, students have obtained a general understanding of <IR> and the SDGs. They have also acquired the ability to critically analyse the strengths and weaknesses of <IR> and identify gaps in practice and opportunities for future developments. More importantly, they have gained a sustainability mindset through this teaching and learning process.

To advance the 2030 Agenda for Sustainable Development, it is crucial to involve students and youth whose role will be pivotal in tackling the development challenges in the 21st century (PRME, 2021). Universities significantly influence a large proportion of the world’s future leaders through education and research. As a lecturer at Queen’s Management School and an early career researcher passionate about the research area of sustainability accounting, reporting, and assurance, I believe it is my responsibility to integrate the UN SDGs into teaching, raise students’ awareness of responsible management and sustainability, and encourage students to engage in critical and in-depth analysis.

Notes

[1] Recommended Reading List:

Adams, C. A., with Druckman, P. B., Picot, R. C., 2020. Sustainable Development Goal Disclosure (SDGD) Recommendations, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8 EAN: 9781909883628. Available at: Adams_Druckman_Picot_2020_Final_SDGD_Recommendations1581066540.pdf (scaak.org) (assessed 20/12/2021).

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[2] The Value Reporting Foundation is a global non-profit organisation that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved, and eroded (VRF, 2021).

[3] South Africa was the first country to mandate listed companies to produce an integrated report. However, Dumay et al. (2017) argue that there is a significant difference between <IR> as a concept and the specifics of the International <IR> Framework (IIRC, 2013), and the <IR> Framework is NOT the basis for mandatory reporting in South Africa.

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Adams, C.A., 2017. The Sustainable Development Goals, integrated thinking and the integrated report, published by the IIRC and ICAS. Available at: 2017-adams-sustainable_development_goals.pdf (swinburne.edu.au) (assessed 20/12/2021).

Deloitte, 2021. Integrated Reporting. Available at: Integrated Reporting | Deloitte UK (assessed 20/12/2021).

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