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Integrated Reporting (IR) and Business Responsibility and Sustainability Reporting (BRSR) – Literature Review

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ABSTRACT:

This research paper conducts a thorough literature review to explore the interconnected domains of Integrated Reporting (IR), Business Responsibility and Sustainability Reporting (BRSR). As global business landscapes evolve, there is an increasing recognition of the need for organizations to go beyond mere financial disclosures and embrace a more holistic approach to reporting that incorporates environmental, social, and governance (ESG) factors. The review begins by examining the emergence and evolution of Integrated Reporting as a paradigm that integrates financial and non-financial information, providing stakeholders with a more comprehensive understanding of an organization's value creation. It delves into the key frameworks, such as the International Integrated Reporting Council (IIRC) framework and evaluates the adoption and impact of Integrated Reporting across industries. this literature review synthesizes existing knowledge on Integrated Reporting, Business Responsibility, and Sustainability Reporting, providing a comprehensive understanding of the synergies and tensions among these reporting frameworks. The findings contribute to the ongoing discourse on corporate reporting practices, offering insights for scholars, practitioners, and policymakers alike to navigate the complex landscape of responsible and sustainable business practices.

Introduction

The relationship between business and the society is one based on mutual benefits and trust. The nature of this relationship in the mong run is a crucial parameter fir the success of the company. The extent to which an individual organization transforms itself and helps transform its relationships depends on what value creation means to the organization and how stakeholder concerns affect value. (Morris, 2016). With the corporates across globe converging their views about financial capital alone being just not enough for driving success but there is also an integral role played non-financial capitals like natural, social, intellectual and human which also are the drivers for growth and success. The highlight about these non-financial capitals is that they are all interdependent and interconnected and hence impact each other and together constitute the value creation for the firm and not just financial returns. India as an emerging economy has a huge potential for growth and is a attractive investment destination. The Indian companies are looking for global affiliations and investments which makes it all the more essential for India to keep itself abreast with the changing demands of the business world. And one major shift is about creating more transparency and accountability of businesses through reporting both financial and no financial performance.

The Ministry of Corporate Affairs (MCA) in the year 2011 took its first step towards making business responsibility a mandate by issuing the National Voluntary Guidelines (NVGs) on Social, Environmental, and Economic Responsibilities of Business. The basic concept of NVGs was framed keeping UN Millennium Development Goals (UNMDGs) in mind. In the year 2012 Securities Exchange Board of India (SEBI), the market regulator in India introduced the Business Responsibility Report (BRR) in 2012.

Looking at the need of the hour SEBI in alignment with the Companies Act 2013 and the other mandatory regulations initiated voluntary non-financial disclosure through notified SEBI (listing obligations and disclosure requirements) Regulations (hereinafter referred as "LODR" or "Listing Regulations") on September 02, 2015. As per clause (f) of sub regulation (2) of the SEBI LODR 2015 Regulation 34, the Annual Report should contain a Business Responsibility Report (Clause 55 of Listing Agreement) where the corporates are required to describe their various initiatives in the domain of the social, environment and governance as per the prescribed format given by SEBI. With the introduction of SEBI (LODR) Regulations, 2015, India made its first attempt to ensure holistic value creation process by the corporates and ensuring a uniform disclosure policy which would confirm transparency and good governance practices. This would lead to a better and more trustworthy relation between business and its stakeholders and investors. (www.aicl.in)

With the ESG genie captivating the globe, India had to make a paradigm shift to keep itself at par in the reporting standards by the countries across and hence SEBI launched the new Business Responsibility and Sustainability Reporting **(BRSR)** framework in May 2021 to replace the existing Business Responsibility Reporting **(BRR)** framework. BRSR is a standard framework prepared to keep the Indian reporting scenario in line with the current international norms and regulations. This would be a single source for disclosing information pertaining to sustainability and therefore a document of prime importance for various stakeholders especially the investors.

Literature Review

History of Integrated Reporting

Way back before the 1970s the focus of corporate reporting was mainly about the financial performance and the management commentary reports were the only way to showcase the happenings of the 12 months between the two annual reports. These reports were brief, historically focused with no future direction of the company mentioned. In the 1970s environmental reports began to be publicized stating the disclosures about the impact of the company's activities on the natural environment. This trend was followed in the 1980s where broader sustainability reports addressing issues about health and safety, corruption and human rights were made public especially after some high-level scandals occurring in the business world (Nylander, 2015). Along with this, there was identified a need of the businesses to be involved in broader array of activities, over and above their core and help in handling social and environmental issues. These activities are revealed in the environmental, social and governance (ESG) reports and corporate social responsibility (CSR) reports (Baron, 2014).

In 2008, the global financial crisis hit the corporate world and questions were raised on the creditability and reliability of corporate reporting, alarming concerns about lack of comprehensive risk appraisal, comparability and coherence (Baron, 2014; The Association of Chartered certified Accountants, 2013). Many reports lacked the reflection of long-term sustainability but rather focussed on short term gains though data was available in abundance but it missed on being linked coherently and its associated relevance. "Also, these reports lacked giving explanation on the means of measuring the non-financial data and how it is associated with corporate strategy and their importance (The Association of Chartered Certified Accountants, 2013). To overcome these challenges, the International Integrated Reporting (IIRC) was formed from the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI), the two sustainability accounting organizations" (Flower, 2015).

International Integrated Reporting Council

The main agenda behind formation of the IIRC was to "establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors" (IIRC, 2017). Integrated reporting should be the integrator of sustainability into the organization's main business and needs to establish the connections between an organisation's financial performance, governance, strategy to the economic, social and financial performance [Eccles reported in Godelnik (2012)].

Absence of regulatory framework around integrated reporting will also have a bearing on the vision of IIRC to act as a driving force for important changes to happen at the system level towards integrated thinking (Thomson, 2015). And this ability to change also rests upon the management perception to acknowledge this need yet embracing their accountability of profit maximization to the principal shareholders and stakeholders (Adams, 2015). Thomson (2015) also expressed that there has been suppression of visibility and hindrances by the accounting practices for emergence of new forms of governance. Several criticisms have been done about the control baton being passed on to investors and accountants for the positive dialogue between the stakeholders and hence understanding their needs will not be achieved. Also, authentic negotiation between the stakeholders will be lost (Bommel, 2014; Flower, 2015).

Brown and Dillard (2014) reinforced a similar thought that though the intentions are good yet the flow of the usual business may impact the accountability and decision-making expectations of the other stakeholders apart from the shareholders. And this may also become just a "box ticking exercise" obstructing the transition to integrated thinking (Atkins and Maroun, 2015).

The pioneers in integrated reporting initiatives are Novo Nordisk and the South African King Commission. With the idea of developing the philosophy of integration of management and measurement Novo Nordisk's approach began and Novo Nordisk being the leader-initiated development and expansion of non-financial disclosures. Being a pioneer to the idea of integrated thinking being implanted with sustainability in the business strategies, this is known as the Novo Nordisk Way of Management (Dey and Burns, 2010). South Africa, at a country level pioneered in the concept of accountability for non-financial performance. "Way back from 1990 to 1994 there have been negotiations for a new order to be formed and the existing economic and social order was questioned especially regarding the ingrained social and economic inequalities which further created the background for the King's report on corporate Governance, issued by the Institute of Directors in South Africa in 1994 (King I), 2002 (King II) and 2009 (King III) (Villiers and Staden, 2006)."

Integrated reporting can be viewed as a blend of two aspects of corporate reporting that have been developed over a period of time. The first being the requirement of the investors for information to evaluate the future economic development of the company and the second being the readiness to be accountable to all the stakeholders for the environmental and social impacts of the business (Haller and Staden, 2014). DeVillers et al, 2014 emphasised that the development of the two aspects independently has been the reason for increase in reporting of financial disclosures and sustainability information disclosures.

BRSR- Indian Scenario

The Securities and Exchange Board of India (SEBI) is the government organization in India that is in charge of monitoring the country's stock and commodity markets. On April 12, 1988, an executive body was responsible for its establishment, and on January 30, 1992, the SEBI Act of 1992 gave it the authority to carry out the statutory tasks that had been assigned to it. The SEBI Act of 1992 gave it the authority to carry out these activities. It was responsible for making legislation as one of its responsibilities. In the Business Responsibility Report (BRR), which is governed by the SEBI principles (SEBI), some of the themes that are discussed include corporate citizenship, the responsible use of resources, and environmental effect. These are only a few of the issues that are discussed. On May 5, 2021.1, the Securities and Exchange Board of India (SEBI) announced that the SEBI (Listing Obligations and Disclosure Requirements) had been amended in 2015 and that the new version would go into effect on that day. These details were incorporated into the relevant notifications (LODR). As a consequence of this, the BRSR criteria are implemented in a wide range of different medical contexts.

The Securities and Exchange Board of India pioneered corporate sustainability reporting early on (SEBI). International business practices are now being adopted by SEBI. Public companies were not required to submit the BRR, which includes ESG disclosures, until 2012. Before that year, this wasn't required. Business Responsibility Reporting (BRR) is encouraged to be upgraded by adopting "Business Responsibility and Sustainability Reporting" (BRSR) by August 2020. Sustainability reporting based on the NGRBC might then be linked to international norms through this process. The Committee reached this decision after considering numerous obstacles and worries that, under some conditions, may increase the value of transparency. The top one thousand listed Indian companies are required by SEBI circular SEBI/HO/CFD/CMD-2/P/CIR/2021/562 to file a Business Responsibility Report (BRR) by May 10, 2021, as part of their annual reports. Having this data available in annual reports is mandatory.

The Listing Regulations' Regulation 34(2)(f) was set to be updated, and it was stated on May 5, 2021 that this update would take effect. As a result of this adjustment, BRSR is now included in the requirements set by the market regulators. The move was made for the benefit of the public. As of May 10, 2021, the BRSR format and a guide note were approved by SEBI in a circular. These were made as a reference for businesses to help them better understand the scope of the disclosure rules to which they were subject.

According to research published in 2016, Laskar & Maji, the Global Reporting Initiatives framework must be updated in order for any corporate concern to submit its sustainability report. According to Laskar & Maji (2017), Laskar et al. (2017), Laskar (2018), and Hongming et al. (2020), corporate disclosure performance improves company performance in South Korea, Japan, and India. According to Ezhilarasi & Kabra (2015), only a small number of businesses have begun to provide environmental reporting after recognizing how important social factors are.

Furthermore, Ganapathy & Kabra (2017) argued that corporate governance has a good impact on Indian business organizations' environmental disclosure. Subsequently, Ezhilarasi (2019) observed a favorable correlation between the environmental disclosure of 130 polluting Indian corporations and the corporate governance index. In order to solve the problem of sustainable development funding in Indian situations, Kumar & Prakash (2017) created a sustainable development model for the banking sector that finds helpful idiots.

Conclusion

In conclusion, this literature review has delved into the intricate and evolving landscape of Integrated Reporting (IR), Business Responsibility and Sustainability Reporting (BRSR) . The synthesis of existing research has illuminated the interconnectedness of these reporting frameworks and their profound implications for organizational transparency, accountability, and sustainability practices. The examination of Integrated Reporting has underscored its capacity to integrate financial and non-financial information, providing stakeholders with a comprehensive view of an organization's value creation over time. However, challenges persist in the implementation of IR, requiring further exploration and refinement in both conceptual frameworks and practical applications.

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