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INTEGRATED REPORTING: A REVIEW ARTICLE

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Abstract:

Most studies have shown the great importance of integrated reports, especially after the occurrence of many financial crises for a number of major companies in the world, which emphasized the importance of disclosing non-financial information and events in addition to financial events and information due to the shortcomings of traditional financial reports and their failure to provide sufficient information about non-financial performance. Integrated reports provide users with the financial information and non-financial information they need with economic, environmental and social dimensions that enable them to obtain a clear picture of the current and future performance of institutions. Therefore, the research aimed to identify the concept of integrated reports, know the importance and objectives of these reports, identify their informational content and the challenges facing their implementation.

Keywords: Integrated reporting, traditional reports

INTRODUCTION

With the change in the business environment and the increase in economic growth and technological progress in global markets, in addition to the globalization of financial markets and the increase in multinational economic units, traditional reports of economic units have faced a lot of criticism because they provide information about the unit's performance that benefits investors in the short term in the first place and which depends largely on financial information that does not provide sufficient vision for stakeholders to enable them to form a comprehensive picture of the unit's performance and its ability to create and retain value, and thus the lack of interest in providing information related to the strategy and growth of Institutions and creating value for it in the long term. (Abdo, 2024) Therefore, a new type of reports has emerged, which is integrated reporting, as it has become a new approach to disclosure that depends on integrating and unifying financial information and non-financial information in a regular and homogeneous context, as these reports provide an integrated and comprehensive vision of the financial performance in all its social, economic and environmental aspects of the economic unit. Integrated reporting is defined as "unifying the numbers of all the different reports for the entire financial, non-financial, environmental, and social business in a regular and coherent context that makes the economic unit accountable to stakeholders and beneficiaries for its performance in achieving the planned long-term strategy through the use and exploitation of its multiple resources" (Kazem & Hussein, 2023).

Part One: Concept, Origin and Objectives

1.The concept of integrated reporting

Integrated reporting emerged and spread as a new accounting method that helps economic units understand how to create value and communicate with stakeholders. The International Integrated Reporting Council issued the framework for preparing and presenting integrated reports in 2013. This framework was amended in 2021 (Abdo, 2024). The council explained in its definition of these reports that they are "a brief and clear message from the management of the economic unit about how it manages to create value, whether this value is in the short or long term, by integrating financial and non-financial information about the unit's strategy in addition to environmental, social and economic performance, as well as the governance aspect." (Hijazi, 2023) The benefits that result from using these reports are mainly represented in the idea of combining financial and non-financial information and providing additional measures to provide the necessary essential information about the risks and performance of economic units. (Al-Mihi & Salim, 2022)

2. Origination and motivations of integrated reporting

There are many motives for units to move towards implementing integrated reporting or expanding the disclosure of their information, including those related to the shortcomings in the current financial and non-financial reporting

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models. Some of them are related to the need for economic units to develop their reports in order to achieve transparency and thus gain the trust of stakeholders, and other motives related to professional organizations as follows:

2.1 Deficiencies of Traditional Financial Reporting

Traditional financial reports no longer adequately meet the needs of stakeholders due to their inability to provide a complete picture of the current and future performance of the economic unit and its ability to create value, especially in light of the rapid developments in the business environment, the globalization of financial markets, the global financial crises and the collapses that some major companies in the world have been exposed to, which confirmed these events the importance of disclosing non-financial information in addition to financial information. There are many weaknesses that traditional financial reports suffer from, the most important of which are: (Radwan et al., 2024)

- It does not provide sufficient insight into the overall performance of the company, nor does it clarify the causal relationships between the different aspects of the unit's performance.
- Financial reports focus on maximizing profit, i.e. maximizing the interests of a specific group at the expense of other categories of stakeholders.
- Financial reports focus on providing information about financial capital only, and ignore many other types of capital such as intellectual, human and social capital, which are currently value drivers.
- Current financial reports focus on the short-term time frame.
- Financial reports in their traditional form and content have become more ambiguous, confusing and complex.
- Traditional financial reports do not take into account long-term social, economic and environmental performance, although economic units do not operate in isolation from their surrounding environment.

2.2 Deficiencies in non-financial reporting:

Financial reports do not adequately reflect the different dimensions of the economic unit's value at present, which has created the need for more disclosure of non-financial information on governance, risk management, and social and environmental performance in order to measure the unit's success in achieving its social, environmental, and economic goals, and thus evaluate the unit's ability to achieve sustainability. Annual financial information that discloses the unit's economic and financial position may be accompanied by supplementary reports such as the social responsibility report and sustainability reports, as the aim of these reports is to show stakeholders and society as a whole the appropriateness of the unit's behavior with regard to economic, social, and environmental aspects. However, these reports are criticized for being formulated in isolation from each other, and thus this information may overlap with each other. Moreover, there may be a lack of coherence and consistency between the contents of the different reports, which may hinder the decision-making process. (Rizk & Aqili, 2024)

In addition to the shortcomings of current reporting models, there are other motives, which are: (Mustafa, 2022)

2.3 Motives related to economic units

The need for integrated reporting came as a result of the moral commitment of economic units. Units have come to realize that their survival and continuity in the competitive market depends mainly on the amount of support provided to them by society. Therefore, they are morally obligated to work to enhance their positive contribution to society, which makes stakeholders expect that the units' reports reflect their role in society and disclose both positive and negative performance.

2.4 Motives related to professional organizations

The globalization of economies, the development of financial markets, the dominance of multinational corporations, and the increased demand for information that reflects the economic, environmental, and social aspects in which economic units operate have made financial information insufficient on its own for decision-making, in addition to the lack of standards on the basis of which non-financial information is produced, which represents an obstacle to its acceptance by investors and other stakeholders, which has prompted many professional organizations to focus on the need to develop current reports to become integrated reporting that achieve integration between the inter-social, economic, and strategic fields of economic units.

3. The importance and objectives of integrated reporting

The importance of using integrated reporting in accounting disclosure of all developments and events that economic units are exposed to is evident, which helps in interpreting financial and operational performance in a way that serves the interests of users of financial statements and reports in identifying financial and non-financial information related to the unit's strategy and governance of environmental and social performance, which helps beneficiaries in making investment decisions based on accounting disclosure of financial information and non-financial information in integrated reporting related to performance and operation. (Abdul Aziz, 2023)

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Integrated business reporting seek to achieve a set of main objectives that can be summarized as follows: (Al-Mihi & Raphael, 2023)
* Presenting the organization's strategy, activities and performance in a way that enables stakeholders to evaluate overall performance as well as the organization's ability to maximize value in the short, medium and long term.
* Improving the quality of available information in order to help stakeholders allocate capital more productively and efficiently.
* Meeting the needs of all stakeholders, especially investors, for information in the long term in order to help make decisions more effectively.
* Enhancing accountability, transparency and trust in business organizations.
* Evaluating the ability of the institution's management to manage economic, social and environmental risks.
* Estimating the future cash flows of the economic unit and assessing its ability to continue.
* Clarifying how capital is used for economic units.
* Reducing information asymmetry between the economic unit and various stakeholders.

Part Two: Contents, Principles and Challenges

1. Contents of integrated reporting

Integrated reporting should contain eight basic elements according to the Integrated Reporting Framework issued by the International Integrated Reporting Council: (Wasel, 2024) and (Mahmoud et al., 2024)
* **An overview of the institution and its surrounding environment**: meaning that integrated business reporting disclose the nature of the unit's work and the circumstances surrounding it
* **Governance**: Integrated reporting demonstrates how the governance structure of an economic unit helps it maximize value in the short, medium and long term.
* **Business model**: Integrated reporting determine the business model of the economic unit.
* **Risks and opportunities**: Integrated reporting identify the risks and opportunities that may affect the ability of the economic unit to create and increase value in the short, medium and long term, and how the unit deals with these risks.
* **Strategy and resource allocation**: Integrated reporting clarify the goal that the economic unit seeks to achieve, what its strategy is for reaching this goal, and the plans in place for how to allocate the resources necessary to implement the strategy in the short, medium and long term.
* **Performance**: Integrated reporting show the challenges that the economic unit may face in implementing its strategy in uncertain conditions, and what are the potential impacts on its performance and business model in the future.
* **Expectations**: Integrated reporting show an overview of the uncertainties and challenges that the economic unit may face in pursuing its strategy, and what are the potential impacts on its business model and performance in the future.
* **Preparation and presentation principles**: Integrated reporting show how the economic unit identifies the important issues that are included in the integrated report, and how the importance of these issues is assessed.

2. Integrated Reporting Guidelines

The integrated reporting is based on a number of guiding principles that clarify the content of the report and how to present information in it in order to increase transparency, credibility, reliability and the ability of Institutions to continue generating value in the future. These principles are as follows: (Al-Shafie, 2024) (Khalifa, 2023)
* **Strategic focus and future direction**: The integrated reporting must provide a vision of the Institution's strategy and the extent to which this strategy is related to the unit's ability to generate value in the short, medium and long term.
* **Information interconnection**: The purpose of information interconnection is to activate the relationships between the components of the internal system of the economic unit from inputs, operations and outputs and to activate feedback from stakeholders.
* **Relations with stakeholders**: The integrated reporting must provide a vision of the quality and nature of the economic unit's relationship with its stakeholders, meaning how and to what extent the unit realizes, takes into account and responds to the needs and demands of legitimate stakeholders.
* **Relative importance**: Integrated reports should disclose information that represents issues and processes that can fundamentally indicate the ability of the institution to create and increase value in the long, medium and short term.
* **Brevity**: The integrated reporting should be brief and free of verbosity, meaning that the content of the report should include all the strategies of the economic unit, governance and future trends without including unnecessary and unimportant information.

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* **Reliability and completeness**: The integrated reporting should include all the essential issues and matters related to the economic unit, whether positive or negative, in a balanced and unbiased manner in selecting and presenting information and free of any intentional or unintentional material errors.
* **Consistency and comparability**: The information contained in integrated reporting should be interconnected and consistent, far from complexity, enabling users to conduct financial and non-financial analysis. The performance of the economic unit in the past, present and future should also be taken into consideration in order for the information to be balanced and comparable.

3. Integrated Reporting Features

The most important distinguishing features of integrated reporting can be presented as follows: (Ibrahim et al., 2024)
* Integrated reporting provide a comprehensive view of the economic unit by integrating social, economic and inter-related performance information with financial performance information.
* Integrated reporting include appropriate financial and non-financial economic, social, inter-related, ethical and governance information, because there is a global agreement on the need to improve reports for economic units to ensure understanding of the business for which the unit's management is responsible.
* Integrated reporting include disclosures about the organization’s mission, vision, and strategy, the objectives that arise from them, and an assessment of the current situation in terms of opportunities, threats, strengths, weaknesses, and risks.
* Integrated reporting should detrmine the extent to which the organization has achieved its goals for a specific period, and what are the expected results in terms of their impact on capital, and identify key performance indicators that combine financial and non-financial measures.
* Integrated reporting should identify sources of risks, whether internal or external, and steps to reduce and confront these risks, with the need to disclose future performance and make comparisons between actual results and previously planned goals.

4. Challenges Facing the Implementation of Integrated Reporting

Despite the benefits and advantages of the integrated reporting approach, there are some challenges when applying and preparing it, as there are major problems and challenges facing the preparation of integrated reporting, the most important of which is the large volume of information and the difficulty of integrating non-financial information with financial information, the problem of the relative importance of information when disclosing it, as well as the lack of skill in the preparers of the integrated reporting in addition to the lack of specific and fixed standards for measurement, as there is no globally accepted standard for measuring and disclosing non-financial information and the lack of sufficient guidelines regarding how to prepare and content the integrated reporting and the method of presentation so that it is understandable to all users. Also, one of the most important challenges facing the preparation of integrated reporting is the process of reviewing and auditing these reports, whether external or internal, because integrated reporting contains a lot of non-financial information. (Mutawa et al., 2023)

5. Recommendations that economic units can rely on to improve the quality of integrated reporting

There are a set of recommendations that economic units can rely on to improve the quality of integrated reporting, as follows: (Kazem & Hussein 2023)
* Economic units should follow a consistent approach when preparing and preparing integrated reporting in order to avoid unnecessary complexity and excessive length in the report and work to increase the ability to read and understand the report and the ease of using the information contained therein by users.
* Economic units should know and take into account the opinions, viewpoints and requirements of stakeholders in a manner that depends on effectiveness and transparency when preparing the integrated reporting, and work to strengthen the mutual relationship with them and knowing the financial and non-financial information they need.
* A confirmation and assurance statement should be issued stating the accuracy and validity of the information in its financial and non-financial aspects contained in the report, which works to enhance users' confidence in the credibility and reliability of the information disclosed by the economic unit in the integrated reporting.
* Economic units should adhere to the requirements of the International Integrated Reporting Council framework, and focus on the quality of the information included in the report, in addition to providing information through which the activities in which the unit operates are identified and which users expect to obtain this information from the reports that have been prepared.

CONCLUSION

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Based on what has been mentioned about the topic of integrated reporting, we can conclude the great importance of these reports, especially after the global crises of a number of major companies due to the shortcomings in traditional reports. Most studies and international professional bodies have confirmed the necessity of disclosing non-financial information of economic units in addition to financial information in reports. Therefore, integrated reports have emerged as a new type of reports that work to provide financial and non-financial information to users. This information has economic, environmental and social dimensions through which a clear picture of the current and future performance of economic units can be obtained.

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