Benefits and challenges with adoption of the integrated reporting framework

Abstract

The focus of this article is to outline the benefits and challenges with the adoption of the integrated reporting framework in the developing countries, however, the aim of it is to encourage the private and public sector organizations in Lesotho to embed the integrated reporting into their mainstream business practice.

As set out in the Integrated Reporting framework, 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 in the short, medium, and long term. Framework enables a business to bring these elements together through the concept of “connectivity of information” to tell an organization’s value creation story. Note that the IR Framework is principles-based with the aim of achieving a balance between flexibility and prescribing strict headings and content.

Why Lesotho companies should adopt Integrated Reporting practice

Integrated Report shows the holistic picture of a company about future targets, it also shows the links between financial and non-financial performances, thus the links between financial and sustainability performances in the single document. Bringing governance issues, financial capital, intellectual capital, social capital and environmental capital onto common platform could enhance the transparency and accountability on corporate governance which is normally the cause of concern in the State-owned Companies.

For companies providing different separate reports, IR enables them to avoid the prioritization dilemma that they experience as to which stakeholder group should the particular report be produced first with respect to their relative importance. The confusion arise due to huge publication costs, press conference costs for each report, therefore for small and medium sized local companies which could ideally be aiming to reduce costs, adoption of integrated reporting could bring about substantial savings.

Integrated reporting promotes greater clarity, lowers reputational risk. For instance, normally in the State-Owned Companies, there are issues of transparency of how resources are allocated, IR would enable better understanding of the capitals and their related outcomes, therefore lowers reputational risk. There are perceived internal benefits involving improved internal resource allocation decisions, greater engagement with shareholders and other stakeholders.

Integrated reporting enhances the reputation and the brand of an organization to the external market, as it is able to meet the needs of the stakeholders who want environmental, social and governance information, consequently evaluation of performance and
assessment of company’s ability to create value over time is facilitated. Furthermore, it improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

IR assist in achieving a more holistic reporting format that reports immediately about interactions and implications of financial, social, environmental and governance-related activities for stakeholders. Integrated reporting is able to reduce costs related to information processing where the operations and information are complex.

It serves as an advanced platform to present more detailed data than what is only in a single report, as a result the organization could leverage on the internet with the balanced view on the entire entity, stakeholders could also be enabled to communicate their thoughts and opinions easily. In addition, by providing the balanced view on the entire entity, the report is greatly utilized. Integrated reporting will enable companies who wish to develop their narrative reporting around their business model to explain how their business has been developed. It promotes change towards integrated thinking and the linking of strategy, risks and opportunities.

Challenges that could hinder the adoption of the integrated report in Lesotho

There could be perceived challenges of the need to change the management information systems, which could be costly for micro and small and medium-sized companies in order to implement the requirements of the report content.

The practical realization of benefits depends on the ethical qualities, such as honesty, fairness and integrity embedded in the companies’ values being upheld.

The Integrated Report’s ability to influence accounting for value creation is also dependent on the company’s ability to stimulate new thinking and action towards major business model adoption.

Corporate reporting of companies in Lesotho is generally regulated by the Companies Act 2011, however the Act does not provide for integrated reporting, therefore the Act is not currently an effective tool to the promotion of IR in the country.

However, institutions such as Central bank of Lesotho and Lesotho Institutes of Accountants are promoting corporate governance, apart from that, the country also subscribes to international and regional standards and codes for assessing corporate governance, the challenge is that, compliance to governance requirements is slowly.

Conclusion

Overall, from the practical perspective, implementing IR could be complex but what it can do for business entities are realizable, for instance; potential to make accountability and performance in an organization transparent. Hence this article would like to recommend local business entities to adopt IR as their business reporting tools.

Furthermore the focus of integrated reporting on value creation, and the “capitals” used by the business to create value over time contributes towards a more financially stable economy, henceforth adoption of it in developing economies such as Lesotho in all diverse background of industries could give hope for a more future stable financials.

References