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INTEGRATED REPORTING REPORTS AND THEIR IMPACT ON THE IRAQI ECONOMIC UNITS RETURNS

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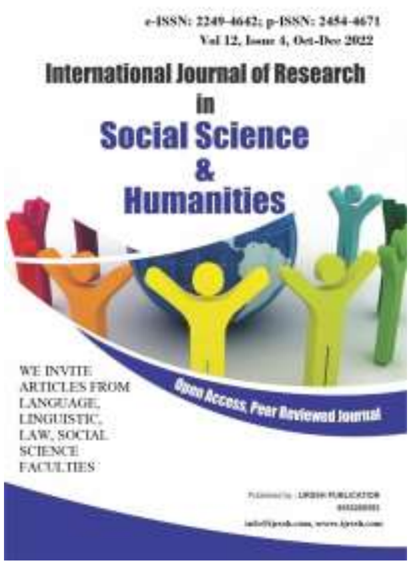

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ABSTRACT

Expanding the scope of reporting for economic units to include, in addition to financial information, non-financial information that discloses non-financial performance and merging it with financial information in unified lists called integrated reporting lists. The main objective of integrated reporting is to report to stakeholders about everything related to the economic unit from its strategy and performance of its financial, economic, environmental and social activities for the purpose of value creation and sustainability over time. Therefore, some Iraqi economic units adopted this perspective and disclosed the non-financial, environmental, social and economic information in addition to the financial information, which led to the enhancement of their financial returns. To prove this, a statistical analysis was conducted using the (Mann-Whitney Test) for two independent samples, and when it was proven that there are significant differences between the returns of the research sample units, the arithmetic means of the units that adopt work in integrated reporting were compared with those that do not work with it, and they are Two banks that operate with integrated reporting and two banks that do not work for the period from (2017-2020). The research found that there is a significant difference between the economic units that adopt integrated reporting reports on their counterparts that do not, and that this difference is an increase in the revenues of the economic unit and thus an increase in the share of one share of profits, which led to an increase in the value of the share in the market. Which leads to enhancing the market value of the economic unit.

Keywords: *Integrated reporting, Sustainability*

RESEARCH METHODOLOGY

First: The Research Problem

Economic units adopt this type of reporting that has been accepted by users of their information, as it has helped enhance transparency, as economic units carry out activities, events and future plans to clearly inform stakeholders. Hence, the problem can be formulated according to the following question:

Does integrated reporting have a significant impact on the returns of Iraqi economic units?

Second: The Importance of Research

Explanation of the impact of the integrated reporting lists on the returns of Iraqi economic units (banks).

Third: The Purpose of The Research

1- A statement of the impact of integrated reporting on the returns of Iraqi economic units.

2- A statement of the types of financial returns achieved for stakeholders from the adoption of the Iraqi economic units for integrated reporting.

Fourth: The Research Hypothesis

The adoption of integrated reporting by Iraqi economic units (banks) leads to the enhancement of their financial returns, with significant differences between economic units that adopt integrated reporting (financial and non-financial) with their counterparts that do not.

Integrated reporting: the conceptual framework and procedures for its application

INTEGRATED REPORTING CONCEPT

The release of an International Integrated Reporting Framework by IIRC can be interpreted as the latest development in efforts to integrate financial and non-financial information into integrated reporting with stakeholders. (Athins & Maroun, 2015: 4).

Integrated reporting requires a new and innovative approach to the reporting practice of economic units, because it combines most of the financial and non-financial elements of the information that is reported in a unified report, showing how this information affects the ability of the economic unit to create and maintain value in the short, medium and long term. The International Integrated Reporting Council (IIRC) notes that integrated reporting is "a brief communication on how an economic unit's strategy, governance, performance and prospects, in the context of its external environment, creates value in the short, medium and long term." Thus, integrated reporting aims at a comprehensive reporting model for economic units that depicts the interdependence between the economic unit's strategies and performance and the economic, social and environmental context in which it operates (Cooray, et al, 2020:4).

Steyn also mentioned that the integrated reporting report must specify the economic unit's short, medium and long-term goals, the strategies it has set to achieve those goals, and plans to allocate its resources to implement its strategy, and how it will measure the short, medium and long-term goals and accomplishments, which also indicates the extent to which the economic unit has been achieved. for its strategic objectives (Steyn, 2014:485) .

The integrated reporting consists of information on the contributions of the sustainable economic unit (environmental, economic and social) and periodic financial information in one report issued periodically to provide integrated financial and non-financial information to stakeholders to help them make their decisions rationally (Al-Sultani, 2018: 17).

OBJECTIVES OF INTEGRATED REPORTING REPORTS

There is a set of objectives that the integrated reporting framework lists as follows: (Bhasin, 2017: 19), (IRC, 2018:3)

1- Improving the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

2- Promote a more consistent and effective approach to business unit reporting that draws on a variety of reports, and communicate the full range of factors that materially affect the unit's ability to create value over time.

3- Enhancing accountability and supervision of the broad base of capital (financial, manufactured, intellectual, human, social and natural) and enhancing the understanding of their interrelationships.

4- Support integrated thinking, decision-making, and actions that focus on creating value in the short, medium and long term.

BENEFITS OF INTEGRATED REPORTING REPORTS

Integrated reporting moves beyond the conventional approach to information gathering and reporting, towards a more comprehensive assessment and presentation of the value and performance of the economic unit, providing various advantages, such as giving the economic unit a more comprehensive view of information related to its strategy and business model, and the ability to create and maintain value them in the short, medium and long term. More specifically, the potential benefits are: (PWC, 2012:5)

1- Greater access to and transparency of information from a wide range of internal and external information sources, through integrated processes and information consolidation.

2- Simplify the understanding of reports through more use of the elements of reporting, transparency and cooperation in preparing them. 3- More relevant and understandable information available to management and stakeholders to enable better decision-making.

4- Better allocation of capital and other resources.

5- Better access to capital markets and trading partners.

6- Competitive advantage through cost savings, operational efficiencies and differentiation.

CONTENTS OF INTEGRATED REPORTING REPORTS

Perhaps defining the contents of the integrated reports begins by answering the following question: What is the information on the basis of which the ability of the economic unit to create value is evaluated? The integrated reporting framework included eight main elements for the contents of any integrated report, and the framework clarified the main contents of each of these elements, and these elements must be dealt with interrelatedly with each other, and these elements are: (IIRC, 2013: 24) (Abda, 663-664 (Al-Sultani, 2018: 80) (Bhasin, 2017: 20)

1- An overview of the economic unit and the external environment: What does the economic unit do and what are the conditions in which it operates?

2- Governance: How does the economic unit's governance framework support its ability to create value in the short, medium and long term? 3- Business model: What is the business model of the economic unit? 4- Risks and opportunities: What are the risks and opportunities that affect the ability of the economic unit to create value in the short, medium and long term, and how does the economic unit deal with them?

5- Strategy and resource distribution: Where does the economic unit want to go and how do you intend to get there?

6- Performance: To what extent has the economic unit achieved its strategic objectives for the period specified for the report, and what are the results and impact of this on the capital?

7- Future prospects: What are the challenges and uncertainties of the economic unit and likely to face during the implementation of its strategy, and what are the possible effects of its business model and performance in the future?

8- Basis of presentation: How does the economic unit determine what important topics should be included in the integrated report and how their importance is evaluated.

REVENUE FROM INTEGRATED REPORTING REPORTS

Return Concept

The large number of definitions of return creates a problem of confusing and sometimes contradictory terms for the different concepts of returns (Barnes & Biktimirov, 2003:3), as many researchers and writers have gone to launch multiple definitions about the concept of return, starting from the angle from which each of them looks.

Where Nothrup defined it as the function or indicator by which it is possible to judge the success of the investment in achieving profits. As for Walker, agrees with Nothrup that it is a function to prove the success of the investment as it is heading in the right direction that achieves the set goals represented by profits. (Salman, 2016: 344)

The Capital Market Authority also defined it as "the total income that the investor achieves from his investment every year, and it is expressed as a percentage of the original investment value. The investor gets a return from his investment in stocks or investment funds when these investment vessels distribute profits

https://cma.org.sa/Awareness/InvestmentBasics/Pages/Return.aspx

Practical Side

In the practical aspect, the results and indicators of some Iraqi banks operating in the integrated reporting system will be analyzed and compared with their counterparts that do not use integrated reporting to see the extent of the impact of integrated reporting on the returns of the economic units operating in them.

Defining and Measuring Integrated Reporting in The Returns of Economic Units

Banks that have integrated reporting will be identified as a sample for the banking sector and data will be collected for the return variable that represents:

1- net profit after tax

2- Dividends (share of dividends)

3- The market value of the share

4- Return on capital

The research sample was selected from the banking sector from the economic units that adopt integrated reporting reports, and they are:

1- Investment Bank of Iraq

2- Al-Mansour Commercial Bank

After selecting the samples that carry out the integrated reporting and mentioned above, the published accounts of the rest of the banks that do not carry out the integrated reporting were reviewed, and two samples were selected from them to compare their results with the previously selected banks:

1- Union Bank of Iraq

2- Credit Bank of Iraq

Which will be compared between their financial indicators for the previous four years with the banks that carry out integrated reporting through the following table:

The following tables show the indicators of the financial returns of the economic units, the sample of the research

Table of indicators for samples doing integrated reporting

Banks	Banks that carry out integrated reporting							
	Iraqi Investment Bank				Al-Mansour Commercial Bank			
Time period	2017	2018	2019	2020	2017	2018	2019	2020
capital	250 billion ID	250 billion ID	250 billion ID	250 billion ID	250 billion ID	250 billion ID	250 billion ID	250 billion ID
net profit after tax	17 million ID	339 million ID	3996 billion ID	4673 billion ID	14833 billion ID	21164 billion ID	8278 billion ID	7005 billion ID
Earnings per share	0.000067	0.0013	0.015	0.018	0.053	0.076	0.033	0.028
share market value	0.265 ID	0.280 ID	0,420 ID	0.530 ID	0.640 ID	0.790 ID	0.670 ID	0.520 ID
rate of return on capital	0.06%	0.15%	1.91%	2.13%	5.33%	7.62%	3.89%	3.25%

Source: economic unit reports, research sample

Table of indicators for samples that do not do integrated reporting

Banks	Banks that do not do integrated reporting							
	Union Bank of Iraq				Iraqi Credit Bank			
Time period	2017	2018	2019	2020	2017	2018	2019	2020
capital	252 billion ID	252 billion ID	252 billion ID	252 billion ID	250 billion ID	250 billion ID	250 billion ID	250 billion ID
net profit after tax	97 million ID	67 million ID	1628 billion ID	853 billion ID	6707 billion ID	5597 billion ID	(5121) billion ID	(3427) billion ID
Earnings per share	0.0003	0.00062	0.0065	0.0023	0.027	0.022	(0.020)	(0.014)
share market value	0.240 ID	0.230 ID	0,470 ID	0.390 ID	0.68 ID	0.40 ID	0.43 ID	0.41 ID
rate of return on capital	0.15%	0.06%	0.74%	0.43%	0.32%	0.26%	no thing	no thing

Source: economic unit reports, research sample

Analyzing the Results of the Economic Units

The financial indicators selected above are among the most important indicators that show the result of the activity of the economic unit and the efficiency of the administration in managing its resources, which are:

1- Net income after tax:

The net income after tax is one of the most important financial indicators that clearly express the result of the activity of the economic unit in terms of profit or loss at the end of the fiscal year, through which administrative decisions can be taken by the management of the economic unit regarding these profits and the percentages of their distribution to shares or to keep them as reserves or Other.

From the above tables, we see that the net profit (loss) after tax for the specified time period for the selected economic units is as follows:

A- There is a clear increase in the amount of income after tax for the economic units that do the integrated reporting, as the relevant table shows, and for the Investment Bank of Iraq that in 2017, the income after tax was only 17 million Iraqi dinars only, and it increased in the following year to 339 million dinars, As for the following years, which are 2019 and 2020, we see a significant increase, as profits after tax amounted to three billion nine hundred million, and four billion and six hundred million dinars, respectively.

As for Al-Mansour Commercial Bank, the table shows that the profits after tax for the years from 2017 to 2020 were: 14,833 billion, 21,164 billion, 8,278 billion and 7.005 billion dinars, respectively.

B - As for the banks that do not do the integrated reporting: including the Union Bank of Iraq, the relevant table shows that the profits after tax for the financial period from 2017 to 2020 were: 97 million dinars, 67 million, 1,628 billion, and 853 million dinars, respectively.

As for the Iraqi Credit Bank, the financial period shows: The years 2017 and 2018 achieved good profits by 6.707 billion and 5.597 billion, respectively. As for the years 2019 and 2020, they achieved a significant loss of (5,121) billion and (3,427) billion dinars, respectively.

This shows the extent of the impact of integrated reporting on the net income after tax for the economic units referred to above.

To prove this statistically, and since the sample is very small, we will use the nonparametric tests, including (Mann-Whitney Test) for two independent samples, and in the event that there are significant differences, the arithmetic means of the units that adopt work in integrated reporting will be compared with those that do not use it, and the comparison was made. Among the research samples referred to previously, they are two banks that work with integrated reporting and two that do not work for the years (2017-2020), as follows:

	Arithmetic mean	mean rank	Mann-Whitney Test	Z	p-value	indication
Units that adopt integrated reporting	7538.13	6.50	0.000	2.31	0.021	There are differences
Units that do not work with integrated reporting	- 4961	2.50				

Through Table (1), the value of (p-value) reached (0.021), which is less than the level of significance of (0.05), and this means that there are significant differences between the units that adopt the work of integrated reporting and those that do not, and the arithmetic mean value of the units that work with reporting has reached Integrated (7538.13), which is greater than the arithmetic mean value of the units that do not work with it, which is (4961-) and this means that the units that adopt the integrated reporting work affect the net profit after tax

2- Dividends (share of dividends):

We find the dividend distributions for the economic units in kind, directly related to the realized profits, and that these profits directly and directly affect the market value of the share, so the integrated reporting also affects the share of the distributed profits, and as we note in the above tables led to an indirect increase in the share of the share As a result of the increase in net income due to the use of integrated reporting.

	Arithmetic mean	mean rank	Mann-Whitney Test	Z	p-value	indication
Units that adopt integrated reporting	0.028	6.50	0.000	2.31	0.021	There are differences
Units that do not work with integrated reporting	0.003	2.50				

Through Table (2), the value of (p-value) reached (0.021), which is smaller than the level of significance of (0.05), and this means that there are significant differences between the units that adopt integrated reporting and those that do not, and the arithmetic mean value of the units that It works with integrated reporting (0.028), which is greater than the arithmetic mean value of the units that do not work with it, which is (0.003). This means that the units that work with integrated reporting affect the share of profits per share.

3- Market value of the share:

Ordinary shares are considered one of the most common buying and selling tools in the stock markets. However, these shares may not be priced at their fair value, especially in the absence of efficient stock markets. Therefore, these markets do not reflect the available accounting information about the economic units listed in the market. , which makes investors and stock owners in a state of distrust in these markets, which reduces the money invested in them, and for the weakness of the market efficiency, different accounting measurement models are used to determine the true value of common shares (Ismail and Saleh, 2016: 2).

	Arithmetic mean	mean rank	Mann-Whitney Test	Z	p-value	indication
Units that adopt integrated reporting	0.514	6.25	1.000	2.02	0.043	There are differences
Units that do not work with integrated reporting	0.406	2.75				

Through Table (3), the value of (p-value) reached (0.043), which is smaller than the level of significance of (0.05), and this means that there are significant differences between the units that work with integrated reporting and those that do not, and the arithmetic mean value of the units that work By integrated reporting (0.514), which is greater than the arithmetic mean value of the units that do not work with it, which is (0.406), and this means that the units that work with integrated reporting affect the market value of the share.

4- The rate of return on capital (ROC)

The rate of return on capital is one of the most important financial indicators through which it is possible to measure the efficiency of the economic unit in managing its resources. In addition to the efficiency of the financial decisions taken by the financial management. (Al-Zubaidi, 2008: 141)

The return on capital employed is a measure of the returns achieved by an economic unit of capital employed. ROCE refers to the efficiency and profit-generating ability of the capital investments of an economic unit. Return on Capital Employed (ROCE) is a measurement tool that measures the efficiency and profitability of capital investments made by a company. Return on capital employed ratio also indicates whether the company is generating sufficient revenue and profits in order to make the best use of its capital assets. It is expressed in the form of a percentage, and the higher the percentage, the better. (SINGH&YADAV, 2013: 2)

	Arithmetic mean	mean rank	Mann-Whitney Test	Z	p-value	indication
Units that adopt integrated reporting	3.043	6.50	0.000	2.31	0.021	There are differences
Units that do not work with integrated reporting	0.245	2.50				

Through table (4), the value of (p-value) reached (0.021), which is smaller than the level of significance of (0.05), and this means that there are significant differences between the units that adopt integrated reporting and those that do not, and the arithmetic mean value of the units that It works with integrated reporting (3.043), which is greater than the mean value of the units that do not work with it, which is (0.245), and this means that the units that work with integrated reporting affect the rate of return on capital.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1- Integrated reporting reports are unified reports prepared by economic units that include all financial and non-financial information (sustainability information).

2- Integrated reporting reports work on defining the vision and strategy of the economic unit and its sustainable performance (environmental, social, economic), which improves the relationship between the economic unit and stakeholders.

3- Adopting the work of integrated reporting reports leads to achieving benefits inside and outside the economic unit for all stakeholders because it includes the presentation of the negative and positive aspects of its work, which necessitates taking internal corrective and reinforcement decisions and this enhances the confidence of stakeholders in it.

4- Integrated reporting reports enhance the returns of the financial economic units, which enhances the position of the economic unit in its business environment.

5- There is a significant difference between the economic units that adopt the integrated reporting reports from their counterparts that do not, and that this difference is the increase in the revenues of the economic unit and thus the increase in the share of one share of the profits, which led to an increase in the value of the share in the market, which leads to Enhancing the market value of the economic unit.

Recommendations

1- Economic units should adopt the practice of reporting their financial and non-financial (environmental, social and economic) information in a unified, comprehensive and integrated report so that users of this information can make rational decisions.

2- Conducting educational courses and seminars for accountants and all workers in the economic units on the sustainable performance of the economic units and its future benefits for them and for all stakeholders.

3- A statement of the effect of adopting integrated reporting reports on the non-financial information of the economic units on the non-financial returns that can be achieved, such as the confidence of stakeholders in the economic unit, the accuracy of making investment decisions, and others.

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