



## BENEFITS AND CHALLENGES OF IMPLEMENTING INTEGRATED REPORTING FOR ROYAL SCHIPHOL GROUP – A STUDY FOR SCHIPHOL GROUP TO ACHIEVE THEIR 2050 GOAL OF ZERO EMISSION AIRPORT

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### ABSTRACT

*The new corporate reporting tool, integrated reporting, combines financial and non-financial data into a single document. Despite numerous studies describing the potential benefits of integrated reporting, it is still not widely used. One reason for the slow adoption is the lack of empirical evidence demonstrating the actual concreteness of these benefits for firms who choose to use integrated reporting. Through a case study, this paper examines the process of implementing integrated reporting, as well as the benefits and obstacles connected with it. The instance of Royal Schiphol Group in particular is examined in order to show the adoption path and the effects of implementing integrated reporting in a setting. The findings reveal that the adoption of integrated reporting was the consequence of a clear willingness of working together on the part of senior management, and that it has had a decisively good influence both internally and externally.*

*Keywords: Integrated Report, IIRC's Framework, Royal Schiphol Group, SWOT-analysis*

### BACKGROUND

In the past few years, criticisms have increased about how organizations report their information. Investors are not just interested in financial performance anymore; hence their interest in the nonfinancial performance of companies has grown significantly. Merely reporting financial information does not meet the needs of all stakeholders, as it covers just a part of the business activities and ignores the social and environmental impact organizations make. Initially, the solution proposed by companies was to separately disclose non-financial information in sustainability or corporate social responsibility reports, in addition to their annual reports. However, the link between the social and environmental reports and the financial reports was unclear. The IR framework was created to offer this link and to meet the need from stakeholders for non-financial information from management in addition to financial data to gain a better understanding of the business. However, the lack of a proper disclosure framework and guidelines results in ongoing challenges and criticism from stakeholders concerning nonfinancial disclosures. These recurring issues spawned the concept of an integrated disclosure, which led to the creation of the IR framework. One of the framework's goals is to provide a systematic and integrated approach to financial and non-financial disclosure, with all of the above elements interconnected in a single report. In doing so, the stakeholders get a clearer view and more insight into the company.

The purpose of an integrated report is to combine all information relevant to stakeholders into one report, in which financial and non-financial information is interrelated. The adoption of integrated reporting within Europe starts to increase. Currently, about 1,500 global companies started adopting it, including 36 top companies in

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Spain and a third of all listed companies in The Netherlands. France is even targeting to have all top listed companies adopting integrated reporting within three years. Despite the growing interest in and use of integrated reporting, there is no universal mandated reporting standard in place. This formality is crucial to investors, particularly those from other business settings because it ensures a fair and equitable analysis of business transactions, as well as an accurate peer-to-peer comparison of businesses operating in different legal countries. Integrated reporting, it is believed, should be at the centre of every institution to generate accountability for the future society.

Amsterdam Schiphol Airport portrays itself as a dependable organization that encounters new problems every year. High quality, dependability, and, last but not least, sustainability are its most important traits. Through its website, the airport provides clear and useful information to all the stakeholder involved. Because aviation accounts for 2% of global CO<sub>2</sub> emissions and 7% of emissions in the Netherlands, Amsterdam Schiphol Airport has decided to work toward reducing aviation emissions. The sole operator of Amsterdam Schiphol Airport, the Royal Schiphol Group, <sup>3</sup> has set a goal of becoming a zero-emission airport by 2050, which would entail eliminating all emissions from airport activities and ground operations on the airside. They devised a plan dubbed Smart and Sustainable with an objective that aims to reduce the aviation sector's environmental effect. Furthermore, the airport management created a Sustainable Passenger Journey section that actively informs passengers about sustainability and offers sustainable travel options, facilitates sustainable choices for passengers, and raises awareness on how to increase positive social and environmental impact, as well as fighting wildlife and human trafficking and conservation of nature.

On the one hand, The Dutch Government are demanding Royal Schiphol Group to become more sustainable (for example, through the Green Deal, the Paris Agreement, and the SDGs). On the other hand, society (and investors within that society) are pressuring Royal Schiphol Group to change its existing unsustainable practices. This is where an Integrated Reporting comes into play. It increases an organization's transparency, explains how it is working to become more sustainable, and shows how it generates value today and in the future. Integrated reporting, as this thesis will demonstrate, is more than just preparing a report; it is also a method of thinking. The question here is whether integrated thinking leads to more environmentally friendly practices. If this is the case, integrated reporting can have a significant impact on society around Schiphol Airport as a whole. Taking into account these different needs between the authorities and the society for Royal Schiphol Group in terms of reporting standards into the pursue of sustainable development goals (SDG) in 2050.

## **THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

### **Integrated Reporting**

The International Integrated Reporting Committee has created their own framework for integrated reporting. The following is their definition of integrated reporting in their 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 over the short, medium and long term" (IIRC, 2013, p. 7). The ability to satisfy information needs is a highly practical method to describe why a business should build an integrated report. There are, of course, government-mandated regulatory disclosures and accounting rules. The social and environmental disclosures included in annual reports are next which are "largely motivated by organizational or managerial desires to meet the perceived information requirements of the stakeholders who held the most economic power in relation to a reporting organization". Shareholders, consumers, society, and other stakeholders are clamoring for



greater information about a company's financial, social, and environmental plan. This information is provided by an integrated report, which emphasizes an organization's strategy, provides transparent disclosure on the organization's (financial) performance, discloses information on social and environmental issues or opportunities, and warns readers about future risks in all of these areas.

Integrated reporting is about more than simply reporting. The objective of the IIRC is to mainstream integrated thinking into conventional business formation. Internal company activities are likewise directed toward integrated reporting in terms of strategy, according to integrated thinking. Finally, the purpose of Integrated Reporting is to allow capital providers to make better judgments based on what the reports indicate about future value development. The IIRC is also one of the few organizations that have developed an integrated reporting architecture. The International IR Framework will be used in this study to describe what integrated reporting is and what it would take for Royal Schiphol Group to adopt integrated reporting into their operations. However, since most integrated reporting theory is built on principles, the Framework will be assessed, analyzed, and challenged as needed.

### **The International Framework explained**

The IIRC Framework will be utilized as the primary framework for integrated reporting. Three primary components describe the essential principles of an integrated report: Value Creation; The Capitals That an Organization Uses and Affects; and The Organization's Business Model. Organizations create value over time, not only for themselves, but for all kinds of stakeholders. An integrated report explains how an organization creates this value. It is not created by or within an organization alone but is influenced by the external environment, created through relationships with stakeholders, dependent of various resources. An organization creates value for itself (allowing financial return to financial capital providers) and for others (different stakeholders and society at large). Financial capital providers are naturally interested in the value an organization makes for itself, since this value has some form of return to them (for example in the form of dividends). But this isn't the only thing that piques their curiosity.

Value creation is a major influence for an organization. Nowadays, an organization's value creation for itself is crucial, but the value it provides for others is becoming more important. All variables in the value generation process are interconnected. The capitals that an organization has a say over (or is impacted by) have a direct effect on the business model's input. The governance outlined in relation to the organization's goal and vision has a significant impact on the business model. The six capitals may be used to split the results of the whole company model. These intended and unintended outcomes have both positive and negative effects individually and collectively on the capitals, the organization, providers of financial capital, society and the environment. In this sense, the organization's activities may either produce or destroy value. The indirect value that the organization has an impact on is an essential aspect of the value generation (or destruction) process. An organization's ability to create value is closely linked to the supply chains, communities and natural environment, which may share in value creation or destruction.

### **SWOT Analysis**

Choosing to implement integrated reporting as part of an organization's strategic management can be considered as a strategic decision. The continuous process of formulating, implementing, and assessing decisions that enable a company to attain its objectives is known as strategic management. It enables an organization to shape its own destiny in a proactive rather than reactive manner. The strategic management process, according to Gurel (2017), consists of seven steps, beginning with an organization's vision



and ending with providing a competitive advantage. SWOT analysis is a tool for generating strategic planning and management within enterprises. It's a "simple but effective technique for assessing an organization's resource capabilities and shortcomings, market possibilities, and external risks to its long-term viability". According to Gurel (2017, p. 2), it is a "strategic planning framework utilized in the evaluation of an organization, a plan, a project, or a commercial activity, and is thus a key instrument for scenario analysis that assists managers in identifying organizational and environmental aspects." There are two dimensions to a SWOT analysis: internal and external. Organizational elements (strengths and weaknesses) are included in the internal dimension, whereas environmental aspects are included in the external dimension (opportunities and threats).

Organizational Strengths	Internal Benefits of Royal Schiphol Group that support the use of IIRC's Framework of Integrated Reporting to achieve their 2050 goals of zero-emission airport
Organizational Weaknesses	Internal Challenges of Royal Schiphol Group that support the use of IIRC's Framework of Integrated Reporting to achieve their 2050 goals of zero-emission airport
Environmental Threats	External elements in the environment that will support the use of IIRC's Framework of Integrated Reporting to achieve their 2050 goals of zero-emission airport
Environmental Opportunities	External elements in the environment that might challenge the use of IIRC's Framework of Integrated Reporting to achieve their 2050 goals of zero-emission airport

## RESEARCH METHODOLOGY

The research will consist for the largest part of qualitative research. The research will describe, explore and evaluate experiences with integrated reporting by Royal Schiphol Group, based on the literature that is written about it. In fact, the process of approaching integrated reporting and the advantages deriving from its adoption are little explored by previous studies. The selection of case study was not based on sampling logic, peculiar of surveys and of statistical methods. This analysis is based on both primary and secondary data. The primary data were collected from interviews by members of Royal Schiphol Group's Public Affairs Team, while the secondary data were collected through the Royal Schiphol Group's website, through the content analysis of the Royal Schiphol Group's integrated reports and through Royal Schiphol Group's Annual Reports. The combined use of primary data and secondary data makes empirical evidence more convincing and the research design more consistent.

## RESULT AND DISCUSSION

### Benefits: comparing theory with practice

Royal Schiphol Group mentions that they have heavily integrated thinking into the strategic level, even at the highest management levels. However, they indicate that this is also a challenge, as they must ensure that integrated reporting is not a process that aims to produce a single document annually, but that they use it as an opportunity to have a fully integrated mindset, so that environmental aspects are not just there for the reporting process, but as an opportunity to change management internally and become even more systematic in the way they integrate environmental aspects in their corporate operations to support their effort to achieve their 2050 goal of becoming zero-emission airport.

The significance of understanding and utilizing your value creation process is illustrated by Schiphol. People are able to see, in a very visual manner, how things operate



at Schiphol Airport. They see very clearly for whom they are doing it. Who are their constituents? What is the company's business model? What risks are associated with it? In addition, they add, "What are your subject matters?" Which KPIs do they contribute to? What influence do you have? In the case of their 2050 goal, it is also a record that demonstrates in some way what Schiphol does, what it stands for, and what output it generates.

Creating an integrated report does not necessarily make a company more sustainable, but integrated thinking and the process as a whole can contribute to that end. How do readers of the integrated report interpret this, however? Do businesses believe they are perceived as more sustainable if they have an integrated report? Royal Schiphol Group confirms this, but adds that the report is not the only factor: "We believe that it contributes, but the ratings, if you consider the GCSI or the transparency benchmark in the Netherlands, for example, include not only the type of information or the manner in which it is presented, but also the information itself".

Royal Schiphol Group indicates that integrated reporting also results in more efficient reporting, as it eliminates the need to report on certain matters twice: "In the end, an integrated report requires less work because you don't have to report the same information twice, correct? You only perform an action correctly once. It also carries an added value, with only doing things once we are doing a more environmentally sustainable approach which will adding up to our efforts to reduce emission in every aspect in the business. In the end, you produce more valuable results with less effort, which is amazing from an environmental point of view"

Integrated reporting can make employees feel more engaged, according to the theory. According to Royal Schiphol Group, integrated reporting makes employees' work more meaningful. They feel empowered to engage in meaningful work. This implies that environmental work is significant, which is why it has such a profound effect on the company's behavior. By motivating employee to do meaningful work, this will assist in accelerating the progress of achieving Royal Schiphol's 2050 zero-emission goal

### **Challenges: comparing theory with practice**

Integrated thinking is a factor that is both mentioned in the benefits and the weaknesses. It is in fact one of the biggest challenges indicated by the companies but is also valued as one of the most important benefits. According to the theory on integrated reporting, the process to integrated reporting starts with integrated thinking within the organization. This process from thinking to reporting was already pictured in figure 2. However, in reality, companies indicate that it is often the other way around or that it is difficult to say what comes first. This can be supported by a number of quotations. In the benefits, it was already mentioned that in the real-world situation, integrated reporting often starts with integrated thinking. Royal Schiphol Group shares this belief, but also indicates that the integrated thinking and integrated reporting are interdependent: "you can't start with integrated reporting if there's no degree of integrated thinking. And if there is no degree of integrated thinking at all, it takes a very long time before you can go to integrated reporting."

Several companies have mentioned issues with the implementation of integrated reporting. The first one was creating integrated thinking, which remains a challenge for companies. The second one relates to the understanding of value creation, which is not always understood equally within a company. One example is mentioned by Royal Schiphol Group. They mention that integrated reporting involves a higher risk, because if you include things that you would otherwise not include (and if there's trouble with that data), then your annual report could be risk to be not published on time. For this reason, the people that are responsible for the annual report were very reluctant to add additional



content. Additionally, they had a lot of discussion on the content of the integrated report. They had to explain to a lot of employees why they had to report some things and why it is important to do so.

One challenge, relating to connectivity, that is mentioned in the data is the coordination between departments. Royal Schiphol Group gives the best example of this challenge: "You fall on cultural problems where the health, safety and environment team say: We're used to seeing a health, safety environment section in the report and now you're telling me safety should be with all other social matters so with Human Resources, and environment should be dissociated from safety, that's not how we work. And we say: Yes, but we write the report for external people and external people expect to find safety with diversity, with all social metrics and not in environmental.

## CONCLUSION

Firstly, the process of implementing an integrated thinking mindset is a mindset that should be possessed by all levels of management, and that the purpose of this mindset is not merely formality of reporting, but rather the opportunity to create a company that can integrate environmental aspects into their corporate operations to support their effort to reach their 2050 goal of becoming a zero-emission airport. Secondly, the data reveal that the Royal Schiphol Group has benefited from the introduction of integrated reporting. In reality, good replies were received as a result of the improved quality of external reporting and enhanced readability of documents. Understanding how a company creates or destroys value in the short-, medium-, and long-term can be beneficial to society. This could be illustrated, for example, by the Royal Schiphol Group's investments in human resources, such as by boosting talent development. Thirdly, the introduction of integrated reporting also enhanced the activity of stakeholder engagement. Royal Schiphol Group has produced a beneficial impact on all stakeholders engaged with its operations by disclosing in its integrated report the measures it is doing to reach its zero-emissions objective by taking environmental factors into account. Lastly, the implementation of integrated reporting has had positive effects even within the same company with greater involvement of employees. The results confirm the literature's findings regarding the positive effects of integrated reporting. The most surprising feature relates to the considerable positive impacts within the organization, as reporting is typically viewed as a tool primarily intended for external stakeholders.

Royal Schiphol Group is getting pushed by society to change their current unsustainable practice. This is where an 29 integrated report comes in place. It enhances the transparency of an organization, communicates how an organization puts in efforts to become more sustainable and presents how it creates value now and towards the future. Royal Schiphol Group's focus has been shifted to address more environmental issues since the implementation of Integrated Reporting. The latest milestone in its integrated thinking journey is its 2050 Vision. Finalized in 2019, the 2050 Vision drives the business towards its ambition to operate the world's most sustainable, high-quality airports that will enable international trade, tourism and knowledge exchange to flourish and provide top quality aviation infrastructure and facilities for passengers and cargo.

This paper presents the intrinsic limit of the case study methodology related to the difficulties in generalizing the results. Therefore, future research can use a multiple case study or alternatively test, through econometric models, specific benefits, such as the positive impact on the firm value or on the cost of capital. The second limitation of the research is that it only provides the perspective of one employee of the company. Even though this employee has been carefully selected (senior public affairs), it only provides insights from this particular person. Having interviews with multiple people from the same company could have provided more information from different angles. The reason why



this was not possible, was partly due to the Covid-19 crisis, which made it harder for author to conduct an interview

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