Integrated Reporting Disclosure: Voluntary Perspectives

Rizdina Azmiyanti*, Helmy Sukiswo

Universitas Pembangunan Nasional “Veteran” Jawa Timur, Surabaya 60294, Indonesia

*Corresponding author:
E-mail: rizdina.a.ak@upnjatim.ac.id

ABSTRACT

The study aims to analyze the integrated reporting disclosure in the IR framework from a voluntary perspective. The method uses several keywords to find 5 related articles to be reviewed. Journal database uses science direct and emerald/ this study found that South Africa has the rule to publish integrated reporting is mandatory, while other countries did not. It is found that an overview of organizations and risk and opportunity became the highest element to be disclosed while the basis of presentation and preparation was not completely disclosed. However, several researchers explained that they got an advantage using integrated reporting even though there are no rules to publishing integrated reporting. The report has the advantage to provide new insight into the combination of financial and non-financial reporting. This research will have to contribute to providing a regulation to publish the integrated reporting and organizations can consider publishing integrated reporting to make a good relationship with stakeholders for creating value.

Keywords: Creating value, integrated reporting, IR framework, voluntary

Introduction

The integrated reporting (IR) approach with its emphasis on going beyond financial performance, has been increasingly debated (Doni et al., 2019). Integrated reporting <IR> provides information for assessing an organization's value creation (International Integrated Reporting Council, 2021). Integrated reporting can be explained as the convergence of sustainability reporting and financial reporting into one narrative (Churet & Eccles, 2014). One factor that explains why integrated reporting is being discussed recently is the increase of awareness of companies on their sustainability and environment (Du Toit et al., 2017).

Financial reporting is published by a public company to provide information about performance and the company’s achievement in a related period. Financial reporting has a criticism that does not adequately satisfy the informational needs of all stakeholders who assess a company's past and future performance (Bernardi & Stark, 2018). In addition, Sustainability reporting was incorporated in annual reports related to economic social, and economic policy. However, sustainability reporting arranged with Global Reporting Initiative (GRI) standards can be full of information on economic social, and economic policies and practices, and the connections between these aspects can be difficult for the reader (Simona et al., 2018).

International Integrated Reporting Council (IIRC) explains that a concise communication about how an organization’s strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation, preservation, or erosion of value over the short, medium and long terms integrated reporting (International Integrated Reporting Council, 2021). Integrated reporting should be prepared based on the IIRC framework. Integrated reporting illustrates the extent to which the financial, social and environmental management systems of the organization are creating and sustaining value over the short, medium, and long term (ACCA & Net balance foundation, 2011). Integrated reporting aims to give insight into resources and the
relationship used and affected by an organization. Integrated reporting seeks to explain how organizations interact with the external environment to create value-added. The value created by the organization will explain the relationship between stakeholders and communities through the company's activities (IIRC, 2013).

Based on the integrated reporting framework that is developed by IIRC, 8 elements should be fulfilled by companies to publish integrated reporting such as an overview of organizations and external environment, corporate governance, business model, risks and opportunities, strategies and resources allocation, performance, outlook and basis of preparation and presentation. Survey has been conducted by Pricewaterhouse Coopers (PwC) found that in integrated reporting, companies describe business models, strategies, and resources effectively (PwC, 2014). The study consisted of 50 ASC companies that described that mission and strategy, management approach, performance tracking, risk management, stakeholder engagement, and the format of public reporting will be affected if the companies adopt integrated agenda (ACCA & Net balance foundation, 2011).

Integrated reporting is still voluntary disclosure in many countries. However, South Africa is considered a pioneering country to publish integrated reporting (Du Toit et al., 2017). The latest research provided a result that the South African regulatory environment has a significant impact on integrated reporting adoption and practice (Erin & Adegboye, 2021). However, Thailand is in the early stage of adopting integrated reporting (Petcharat & Zaman, 2019).

The integrated reporting research has been conducted in Indonesia and other countries. The level of disclosure elements of integrated reporting that has been done by the winner of the Indonesia Sustainability Reporting Awards could be categorized as quite ready to publish the integrated reporting (Setiawan, 2016). Public companies in France did not disclose quite complete integrated reporting elements, thus it lead to information asymmetry. It was caused by the minimum disclosure about natural capital in the creating value process.

Theoretical basis

Stakeholders theory

Stakeholder theory arises because of the awareness that the company has an interest in other parties in the operation of the company. The idea of stakeholder theory towards strategic management shows that managers must formulate and implement a process that satisfies all stakeholders, not just groups that have a major interest in the business (Freeman & David, 1983). The opinion of investors and stakeholders on integrated reports is the representation of the social, environmental, and ethical activities accuracy of an organization (Du Toit et al., 2017). Business sustainability needs to be transparent and disclose clear information. Those are important components to make decisions.

Integrated reporting

The IIRC has developed an integrated reporting framework over the last 10 years. In 2009, integrated reporting began to be published in South Africa, and was declared the first country to have reporting requirements around integrated reports (GRI, 2012). An integrated reporting framework has been developed to meet current needs and provide the basis for future reporting (IIRC, 2013). IIRC's long-term objectives are integrated thinking embedded in its main business practices in the public and private sectors, as well as integrated reporting into a corporate reporting base.

Integrated reporting elements

IIRC describes the eight elements in the integrated report framework as follows.
Table 1. Integrated reporting framework

<table>
<thead>
<tr>
<th>No</th>
<th>Elements</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Overview of the organization and external environment.</td>
<td>This element describes how the company operates and the external environment in which the company conducts its business activities.</td>
</tr>
<tr>
<td>2.</td>
<td>Governance</td>
<td>This element describes the organizational governance structure that supports the company's ability to create value in the short, medium and long term.</td>
</tr>
<tr>
<td>3.</td>
<td>Business Model</td>
<td>This element describes the business model of company.</td>
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<tr>
<td>4.</td>
<td>Risk and Opportunity</td>
<td>This element describes the risks and opportunities faced in influencing the company's ability to create value in the short, medium and long term.</td>
</tr>
<tr>
<td>5.</td>
<td>Strategy and resource allocation</td>
<td>This element describes how the company's strategy and its implementation in achieving strategic objectives.</td>
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<tr>
<td>6.</td>
<td>Performance</td>
<td>This element explains to what extent the company has achieved its strategic objectives for a period of time.</td>
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<tr>
<td>7.</td>
<td>Outlook</td>
<td>This element describes the challenges and uncertainties that the company may face in fulfilling its strategy.</td>
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<tr>
<td>8.</td>
<td>Basis Preparation and Presentation</td>
<td>This element describes how companies determine which elements are important to include in integrated reports and how they are quantified or evaluated.</td>
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Source: IRRC (2013)

Material and Methods

This research uses the keywords “integrated reporting” and “elements of integrated reporting”. By using those keywords, there are 5 articles related and will give a review to get a research gap. Related articles explained the integrated reporting disclosure in the voluntary country. That article will explain which elements are explained more with companies and it will see how ready the company is to face the reporting challenges.

This research uses a literature review method. The related research is coming from 2019 and 2021. Finding article journal is used database journal with the forms of the journal, literature review, and proceeding. For next step, it will identify the article's findings and then make a conclusion based on the data.
Tabel 2.5 Articles that became the material for a literature review

<table>
<thead>
<tr>
<th>No.</th>
<th>Writer</th>
<th>Title</th>
<th>Year</th>
<th>Journal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Neungruthai Petcharat and Mahbub Zaman</td>
<td>Sustainability reporting and integrated reporting perspectives of Thai-listed companies</td>
<td>2019</td>
<td>Journal of Economic Studies</td>
</tr>
<tr>
<td>5.</td>
<td>Mahalaximi Adhikariparajuli, Abeer Hassan, Mary Fletcher, and Ahmed A. Elamer</td>
<td>Integrated reporting in higher education: insights from Scotland, Northern Ireland and Wales</td>
<td>2020</td>
<td>Social Responsibility Journal</td>
</tr>
</tbody>
</table>

Results and Discussion

The discussion of integrated reporting has affected many important elements. Many articles mentioned that the new forms of reporting have impacts on a company’s disclosure of information and stakeholder awareness.

Research by Altarawneh and Al-Halalmeh (2020) mentioned that there are no regulations to adopt integrated reporting. However, the financial sector in Jordan showed a 65% conformity level on the integrated reporting framework. It showed that the adoption of integrated reporting is good enough even though there is no regulation in Jordan’s business practice. The highest disclosure is on the risk element. The result of Al Amosh and Mansor (2021) mentioned that it can provide new insights for regulators for assisting and guiding companies to improve their disclosure practices. The same result is mentioned that risk and opportunities have the highest level of conformity disclosure.

Petcharat and Zaman (2019) showed that Thailand’s company is in the early stage of adopting integrated reporting. Business information is integrated into the annual report together with strategy, governance, economic, social development, and environmental conservations. Thailand’s company tries to adopt integrated reporting based on corporate social responsibility guidelines in the annual report. Future study is needed to consider survey and interview methods to gain more insight into integrated reporting disclosure.

Kılıç et al., (2021) stated that 22% of Fortune 500 companies issued integrated reporting. The companies published integrated reporting due to the need for government intervention to adopt integrated reporting. It also stated that the adoption of integrated may generate a spillover effect on other organizations. It also suggested to policymakers around the world to make a new regulation.

The voluntary disclosure is explained by Adhikariparajuli et al. (2020). The implementation of integrated reporting is in higher education institutions. Even though it is not a company, integrated reporting has a chance to be adopted in other institutions. The results showed that there is an increasing disclosure of information on integrated reporting elements.
organization has the highest score disclosure than other elements. The study suggested that policymakers and regulators have to assess the advantage of adopting integrated reporting and the possibility to publish the reporting mandatory.

According to the explanation above, all of the studies mentioned the need for new regulations for adopting integrated reporting. It can be seen from Jordan. There is no regulation for adopting integrated reporting, however, companies start to adopt it in the early stage. That initiative can stimulate other companies to adopt the same reporting. Based on the integrated reporting benefit, there are so many things that a company can get from the adoption. In addition, higher education institutions can be an example of adopting integrated reporting without considering the type of industry. The increasing information year by year can be good evidence for adopting integrated reporting. With the increasing information on reporting, stakeholders are assumed to gain a more comprehensive understanding including organizational strategies, performance, intellectual capital, and matters related to sustainability challenges (ACCA and Net balance foundation; Doni et al., 2019).

Conclusion
The level of conformity in this study describes the disclosure of integrated report elements based on the IIRC framework. The element of strategy and resource allocation is an element that has the highest percentage and is categorized appropriately with the IIRC framework and the business model is the element with the lowest percentage in conformity level based on reporting published.

References