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ACCOUNTABILITY THROUGH INTEGRATED REPORTING: THE AWARENESS AND CHALLENGES IN MALAYSIA

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ABSTRACT

Integrated reporting is a form of innovative reporting that has marked another milestone in the financial reporting environment. Integrated reporting promotes integrated thinking and decision making by focusing on the true value drivers of business. As Malaysia is striving to be a global capital market, it is vital for the country to keep in pace with the international development in enhancing transparency and accountability, by moving towards integrated reporting. While the status of integrated reporting is voluntary, integrated reporting in Malaysia is fairly new. Therefore, there is a need to raise the awareness on integrated reporting in the country. The objectives of this paper are twofold: the first objective is to critically analyze the literature of integrated reporting in clarifying the role and form of integrated reporting; and the second objective is to survey on the awareness of Malaysian accountants about integrated reporting. The review of literature clarifies and provides a better platform to understand the concept of integrated reporting. The concept of integrated reporting is not merely a combination of financial reporting and sustainability reporting, instead it is a concise reporting that tells a story of how an organization creates value. The results of the survey revealed that generally, Malaysian accountants are not clear about the concept of integrated reporting. This study contributes by giving insights to the regulators on the state of readiness and awareness of Malaysian accountants regarding the implementation of integrated reporting.

Contribution/Originality: The objectives of this paper are twofold: the first objective is to critically analyze the literature of integrated reporting in clarifying the role and form of integrated reporting; and the second objective is to survey on the awareness of Malaysian accountants about integrated reporting.

1. INTRODUCTION

Earlier interest in social and environment reporting through external reporting started with the Triple Bottom Line reporting in the late 1990s (Elkington, 2004). In the later period, the term used for social and environmental reporting is sustainability reporting. Both of these terms were highly criticized as the disclosures have less to do with the sustainability process (Brown, de Jong, & Levy, 2009; Buhr, Gray, & Milne, 2014). However, recent development shows that readers are overloaded with the increased complexity and lengthy information, thereby giving difficulties for the stakeholders to connect between social, environmental and economic impact. Additionally, when the social and environmental disclosures are within the annual report, the information is not integrated with the financial information. Therefore, there have been increasing moves towards integrating social, environmental, financial and governance information which led to the innovation of integrated reporting (Hopwood, Unerman, & Fries, 2010). Integrated reporting aims at providing useful broad risk evaluation and information on potential firm value creation to capital providers and potential investors with a concise style of reporting (Villiers et al., 2014).

The creation of integrated reporting is motivated by the increasing demand of shareholders and stakeholders on enhancement of transparency and accountability to be met by a single report (Demirel & Erol, 2016). Integrating financial and non-financial information in a single integrated report has the potential to significantly change how companies operate and investors think (Eccles & Krzus, 2010). Integrated Reporting has been marked as a recent, innovative and ambitious piece of reporting, despite some critical matters that need to be dealt with. Integrated reporting represents a new trend of reporting in which financial and non-financial information are strictly interwoven and will portray the organization as a whole. Indeed, integrated reporting of financial, performance, environmental, social and governance is essential for creating sustainable strategies for a sustainable society (Eccles & Krzus, 2010).

The status of integrated reporting in Malaysia is currently voluntary. Integrated reporting is incorporated in the Malaysian Code on Corporate Governance (MCCG) in 2017 as the best practice and is an emerging phenomena in Malaysia. PwC in 2014 reported that although businesses in Malaysia have the basics of reporting covered, their reporting is not yet integrated. Therefore, there is a significant need for improving stakeholders' communications with the move towards integrated reporting. Malaysian firms still do not fully appreciate the value that integrated reporting has brought to their businesses (PwC, 2014). The Malaysian Institute of Accountants (MIA) is a key advocate for integrated reporting to be used as a tool to stimulate the Malaysian capital market (MIA-ACCA, 2016). However, barriers are undeniable in the implementation of integrated reporting. One of the barriers in implementing integrated reporting is the lack of knowledge and awareness. Since integrated reporting is fairly new in Malaysia and Malaysia is striving to become a global capital market, it is important for the Malaysian market not to be left behind from the global development. Therefore, this study aims; 1. To survey the literature and give the clarification on the role of integrated reporting in Malaysia; 2. To examine the level of awareness on integrated reporting in Malaysia. This study is significant as there is a dearth of research in integrated reporting in Malaysia and integrated reporting is currently an innovative piece of reporting that leverages technology globally.

2. LITERATURE REVIEW

2.1. Integrated Reporting

Integrated reporting is always misunderstood as merely the combination of financial reporting and sustainability reporting (Eccles & Krzus, 2010). However, such integrated reports that combine financial reporting and sustainability or social responsibility reporting, to a certain degree, have been produced since 2002 (Eccles & Krzus, 2010). Nowadays, Integrated Reporting represents a more holistic view of the organization that moves away from the disclosure of social or sustainability reporting. It aims to provide a clear and concise representation of how an organization creates value linking their various capitals, opportunities, business model, business strategy and risks to future economic value over the short, medium, and long term (IIRC, 2013a).

The Integrated Reporting concept was introduced in a national setting in South Africa by the King III principles in 2009, which later generated excitement on a more diverse and international attention (IoDSA, 2016). In 2010, South Africa (IODSA)'s King Code of Governance Principles (King III) required companies listed on the JSE to implement integrated sustainability and integrated reporting for financial years ending 28 February 2011 and beyond. For that requirement, the approach of comply and explain was adopted, which is not something new.

The novelty of South African integrated reporting requirements that gained international attention was the integration of social, environmental and economic issues. In that case, the integration considers the interdepedency of various factors in enhancing companies' growth (Villiers et al., 2014). This requirement has led to the birth of the Integrated Reporting Committee (IRC) of South Africa, a multi-organizational, voluntary and national body that has brought different parties including accountants, company secretaries, internal auditors, directors, institutional investors, the JSE, companies, and others to enhance transparency of corporate reporting. The King III recommends that the purpose of entities in adopting Integrated Reporting is to enable stakeholders to make more informed decisions, better assessment of a company, and to use a combination of its financial and social value, rather than its book value alone as a base (IoDSA., 2009). In King IV report, it is stated that the move from siloed reporting to integrated reporting has led organizations to operate by emphasizing on stakeholders management, technology and strategy (IoDSA, 2016).

Integrated reporting in Malaysia has also gained momentum in catching up with the global development. The Malaysian Corporate Governance Code launched by the Securities Commission Malaysia in 2017 has incorporated the adoption of Integrated Reporting in the annual reports. The International Integrated Reporting Council (IIRC) has welcomed the move by Malaysia to embrace integrated reporting as part of corporate reporting and governance reform in order to accelerate its ambition in achieving a developed economy status by 2020. Further, Malaysia is an important member of the ASEAN economic block of ten economies in South East Asia and is increasingly viewed as a gateway to China and other leading Asian economies. Therefore, the move towards Integrated Reporting is a mean of attracting capital and enhancing their communication with key stakeholders. The endorsement of Integrated Reporting by the Securities Commission Malaysia is a further evidence of this new trend in encouraging a meaningful dialogue between businesses and investors, focusing on strategic drivers of long term value creation. As the regulator of the accounting profession in Malaysia, the Malaysian Institute of Accountants (MIA) is committed to promote high-quality reporting that enhances the international competitiveness of Malaysian businesses and markets. Integrated Reporting is the next wave in corporate reporting, and MIA is actively developing the movement in Malaysia. The Integrated Reporting Steering Committee (IRSC) was established within the MIA on 18 December 2014 upon the recommendation of the Securities Commission Malaysia. With IRSC, the MIA has developed a plan for 100 Malaysian companies to move towards Integrated Reporting by 2019. The MIA-ACCA Integrated Reporting Survey in 2016 found that 51% of respondents reported none or little knowledge of IR while just 13% have good or in-depth knowledge (MIA-ACCA, 2016). Additionally, in Malaysia, the National Annual Corporate Report Awards (NACRA) was established in 1990 in order to promote greater transparency and accountability in corporate reporting that suit with the theme "Towards Accountability and Excellence". In 2017, NACRA, a collaborative effort of Bursa Malaysia Berhad, MIA and Malaysian Association of Certified Public Accountants (MACPA) introduced a new award called the Integrated Reporting Award, which would promote the importance of Integrated Reporting and will automatically encourage its application in the Annual Reports in Malaysia. This event provides good information and experience to all parties involved.

Integrated Reporting (IR) is enhancing the way organizations think, plan and report the unique story of their business. The success of IR is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting. Integrated reporting is an innovative piece of reporting beyond the annual report that provides a comprehensive picture of financial data and non-financial data, and the links between them (Demirel & Erol, 2016). The trend of reporting reflects the shift from tangible assets to greater emphasis on intangible assets that explains value creation depending on different kinds of resources, whether natural, social human or financial. The interest of stakeholders, including customers, suppliers, employees, government and local communities is fulfilled by providing information combining financial and non-financial performance (Jhunjhunwala, 2014). Table 1 below summarizes the components of Integrated Reporting that comprises of fundamental concepts, guiding principles and contents elements.

Table-1. IR framework.

Fundamental Concepts	Guiding Principles	Contents elements
1. Capitals • Financial • Manufactured • Intellectual • Human • Social and relationship • Natural 2. The Business Model 3. The Creation of Value over time	1.Strategic focus and future orientation 2.Connectivity of information 3.Stakeholder relationships 4.Materiality 5. Conciseness 6.Reliability and completeness 7.Consistency and comparability	1.Organizational overview and external environment 2. Governance 3. Business model 4. Risks and opportunities 5.Strategy and resource allocation 6. Performance 7. Outlook 8. Basis of presentation

Source: Amirrudin, Abdullah, and Salleh (2017).

2.2. Theory

According to Eccles and Krzus (2010) and Gelmini (2018) the most relevant theory for integrated reporting is the stakeholder theory. From the perspective of the stakeholder theory, the role of Integrated Reporting would be to approach environmental, social and governance issues that are considered the influencers to the value of the company. Stakeholder theory is used to explain the effectiveness of companies in fulfilling not only shareholders, but also other stakeholders' interest. Stakeholder can be defined as group of people who can affect or can be affected by the achievement of the organization's objectives and groups who are vital to the survival of the organization (Edward., 1984). Stakeholders of the company include shareholders, managers, employees, bankers, creditors, suppliers, government, customers and so on. This theory argues that firms have a relationship with a set of stakeholders (Edward., 1984) and therefore, the board is responsible to provide transparency and accountability report to the stakeholders (Nadeem, Zaman, & Saleem, 2017). The board of directors also monitors and supervises strategies to achieve comprehensive accountability, in which one way is through the use of integrated reporting Another related theory is the stewardship theory. This theory is applicable where management as steward is responsible and should be held accountable for safeguarding both tangible and intangible corporate assets, as well as effectively and efficiently use all corporate financial, human, intellectual, societal, and environmental capitals in creating shared value for all stakeholders (Hernandez, 2012). This implies that the board has to ensure that they have to do the right thing in terms of monitoring performance, knowing that they have to report and the information is accessible. Therefore, the managers have to implement policies to maximize the utility function in optimizing the balance between the needs of different parties accountable (Magnaghi & Aprile, 2014).

2.3. Prior research on Integrated Reporting

There are several past studies on Integrated Reporting (IR) that have applied stakeholder theory in their studies related to IR (Adhariani & De Villiers, 2019; Aluchna, Hussain, & Roszkowska-Menkes, 2019; Amirrudin., Abdullah, Aris, & Mohammed, 2019; Del Baldo, 2017; Farneti, Casonato, Montecalvo, & De Villiers, 2019; Vidal, Berman, & Buren, 2015; Vitolla, Raimo, Rubino, & Garzoni, 2019).

Similar to MIA-ACCA (2016) survey, Adhariani and De Villiers (2019) conducted a survey with 182 valid respondents to explore the perspectives of corporate report preparers and other stakeholders on IR in a major Southeast Asian economy. Consistent with MIA-ACCA (2016) survey, their findings suggest that, although the corporate report preparers have limited knowledge on IR, they are highly interested in IR and acknowledged the benefits of it. Nevertheless, they are reluctant to implement it. Limited of IR implementation may have been caused by the inadequacy of institutionalization in the organizational context and the insufficiency of recognized standards as discovered by Aluchna et al. (2019) who investigated the second-largest Polish petroleum company, LOTOS Group for the period of 2006 to 2015. The past authors suggested directions for further research on political connection and the positive spillover by the leader in IR development. They also recommend to integrate social, environmental and financial performance in the balance scorecard to prospect the operationalization of IR. In assessing the quality of IR, Vitolla et al. (2019) conferred that IR quality is related to national culture in accordance to the five dimensions of Hofstede-power distance, individualism, masculinity, and indulgence negatively and uncertainty avoidance positively. Therefore the national culture may serve as a moderating factor in the relationship between the characteristics of companies (financial and governance characteristics) and the quality of IR. From the review, it is worthwhile to further examine the challenges and the possibility of the IR implementation. Since the national culture is related to IR quality, examining in the emerging country like Malaysia may offer another useful perspective.

Other than large companies, research on IR has also been performed small and medium-sized enterprises (SMEs). Pursuant to Del Baldo (2017) the author discussed the most critical aspects relative to the "usability" of the International Integrated Reporting Council (IIRC) Framework faced by small and medium-sized enterprises (SMEs) whereby, the research used both deductive and inductive approach including literature and technical review and the analysis of Costa Edutainment Spa case-study in 2014. Del Baldo (2017) deduces that SME's criticalities are in explicitly determining the relationship of sustainability with IR; conforming the main IR concepts and in apprehending the benefits of implementing IR. Meanwhile, Amirrudin. et al. (2019) studied the contents of 24 annual reports of SME Corporation Malaysian from the year 2014 to 2016, evidenced growing integrated communications to SMEs in the areas of access to markets, better business understanding and enhancing reputation. They recommend SMEs to adopt IR in order to drive the shift from merely focusing on financial performance measures to a more holistic approach of accountability. In that case, the Malaysia market is a potential market for future IR research to be conducted.

The evidence of IR framework promotes integrated thinking is discovered by Farneti et al. (2019) who examined the three social capitals in the International IR framework, namely intellectual, human, and social and relationship capital in influencing the social disclosures of a single case study from 2009 to 2017. The research analyzed the content analysis of prior and post adoption of IR, which involved semi-structured interviews with key preparers of the integrated report at New Zealand Post. They claim that IR influences the disclosure of social information, and improved stakeholder relations in a public sector context. In a past research by Dumitru, Guşe, Feleagă, Mangiuc, and Feldioreanu (2015) on 95 organizations' communication practices based the IIRC's Pilot Programme in relation to the value creation and distribution for 2014, whereby both qualitative and quantitative data were extracted from annual report. The result specifies that there is a partial observation made by the organizations on the provisions of the International IR Framework and there is a proof for the presence of correlations between the size of integrated reports and the disclosure of the value added distribution for the traditional stakeholders. Indeed, the development of integrated reporting encourages integrated thinking in the form of breaking down the silos, better collaboration, enhancing understanding on the impact of non-financial and all these influence managers' cognitive framework leading to the better decision making and corporate actions, thereby creating value beyond financial profit (Adams, 2017). The communication of value creation is investigated by Vidal et al. (2015) who conducted a qualitative content analysis study on 25 Brazilian firms in how they deal as well as convey the information of value creation to their stakeholders by way of classifying the firms into narrow, broad, or transitioning from narrow to broad type of stakeholders' value creation model. Vidal et al. (2015) claim that there are seven areas of concentration discussed in creating value for stakeholders: better stakeholder relationships, better work environment, environmental preservation, increased customer base, local development, reputation, and stakeholder dialogue. Therefore, it is suggested to further explain the impact of industry or sectors towards firm's value creation to determine the determinants, benefits and how value created in a broad and a narrow value creation orientation.

From the above review, it is found that the usefulness of IR is undeniable and the production of IR will drive integrated thinking, which leads to the value creation. However, due to the different environment and culture in

Malaysia, it is worth exploring the challenges and the willingness and implementation process of IR in the perspective of Malaysia.

2.4. Challenges

The objectives of Integrated Reporting (IR) are to improve the quality of information available to providers of financial capital, promoting a more cohesive and efficient approach to corporate reporting, enhancing accountability and stewardship for the broad base of capitals and support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term (IIRC, 2013a). Integrated reporting is about 'better reporting' and not 'more reporting'. It is meant to be a concise report although it is not a summary information of all factors in another medium. More importantly, integrated reporting connects information explicitly on how value is created over time (IIRC, 2013a). The concise report that integrates many factors is already a challenge to preparers where most studies are normative in nature, outlining its usefulness where it is hard to translate them in practical ways (Dumay, Bernardi, Guthrie, & Demartini, 2016).

Integrated Reporting is a demonstration of integrated thinking where it is a process in which companies report more about inputs beyond just the financials and outcomes rather than just outputs, articulating the true value their business delivers to stakeholders. It will help organizations to identify and focus on true value drivers of the business, improve risk awareness, and more importantly, articulate their own story rather than let others define the narration. The challenging part for the preparers is the lack of understanding on the requirements and expectations of the stakeholders and there is little guidance to preparers of integrated reports on how to employ the six types of capital into the explanations that meet the requirements of stakeholders. It is a challenging task to tie up factors, financial and non-financial data into business strategies and how an organization creates value in a concise report (Villiers et al., 2014). Indeed, it is uncertain to many parties on how to describe company's activities in its entirety to the understanding of investors and stakeholders which will help improve the company in the medium and long term. Further, IR is not yet mandatory in a country like Malaysia, thus corporations engage it on a voluntary basis. Besides, the choice for corporations on what information they want to disclose leads to the potential of misuse of platform and this contributes to the delay in the understanding of integrated reporting (Al-Htaybat & Alberti-Alhtaybat, 2018). Another challenge to the preparers is the need for a robust system and technology to support the integrated thinking approach in all layers of organizations to feed the information for integrated reporting. These forward-thinking and prospective financial and non-financial planning have to be supported and greatly enhanced through modern technologies and new media, such as the use of big data analytics and social media applications (Lodhia & Stone, 2017). Further, the concise report of integrated reporting has to be available in electronic form, which is easily accessible by the users (Villiers et al., 2014). Many parties believe that integrated reporting is a catalyst for the enhancement in corporate reporting, yet to know whether integrated reporting is indeed driving organizational change.

3. FINDINGS OF AWARENESS OF INTEGRATED REPORTING IN MALAYSIA

The research has been performed in the form of anonymous surveys conducted through online survey and personally distributed questionnaires. The population of this research focuses on Malaysians from various types of industries and positions in the organizations. Answers to the questions asked were collected using a five dimension Likert's scale, which was used to measure the opinions of respondents on specific allegations. In this study, the 5 Likert scale was used, where 1 = Strongly agree; 5 = Strongly disagree). The awareness level through respondents' willingness to change and adopt integrated reporting is also identified. The questionnaire is divided into two parts which are Part A and Part B. Part A contains questions that address the demographics of the respondents. The stakeholders' categories are reported here. Part B contains questions that relate to the awareness of integrated reporting. Question 1 to Question 3 in Part B is to answer research question 1, Question 4 in part B is to answer research question 2 and Question 5 to Question 8 is to answer research question 3.

Three research questions are stated in the survey, which are:

1. Are accountants aware of the development of integrated reporting?
2. Will mandatory enforcement drive Integrated Reporting in Malaysia?
3. Do you think Integrated Reporting provides value creation to the stakeholders?

Table-2. Categories of respondents.

Respondents	Frequency	Percent	Valid Percent	Cumulative Percent
Corporate Report Preparers 1 (Audit Committee, Independent Directors, Board Members)	2	4.1	4.1	4.1
Corporate Report Preparers II (CEO)	3	6.1	6.1	10.2
Corporate Report Preparers III (Finance CFO, Financial Controller, Accountant)	21	42.9	42.9	53.1
Auditors	15	30.6	30.6	83.7
Shareholders & Analysts	1	2.0	2.0	85.7
Regulators	5	10.2	10.2	95.9
Others	2	4.1	4.1	100.0
Total	49	100.0	100.0	

Table-3. Questionnaires.

No	Statements	N	Minimum	Maximum	Mean	Standard Deviation
1.	How much do you know about integrated reporting (IR)?	49	1	5	2.59	1.135
2.	I agree that the board conducts research on the benefits and costs of integrated reporting.	49	1	4	2.00	.816
3.	I agree that the board will send staff for training seminars and workshops on preparing integrated reporting.	49	1	4	1.92	.932
4.	Currently, the integrated reporting is on voluntary basis in Malaysia. Do you agree that the government must enforce IR on all companies?	49	1	4	1.92	.86 2
5.	Do you agree that changes in the new reporting of IR may help improve the quality of current reporting?	49	1	4	1.90	.714
6.	Do you agree that the business model in integrated reporting provides values to stakeholders?	49	1	3	1.57	.540
8.	The IR focuses on the factors that influence the creation of value over time significantly.	49	1	3	1.71	.540
9.	Do you agree that the transparency of integrated reporting creates values to stakeholders?	49	1	4	1.69	.652
	Valid N	49				

Both research questions and reported findings are intended to obtain preliminary information about respondents' understanding on the importance of integrated reporting. The questionnaires are directed to those who are involved in the preparation of financial statements. Based on Table 2 below, a majority of the respondents from this research are from the accounting scope of job, where 42.9% of them are the preparers in the form of finance CFO, financial controller and accountants, while auditors consist of 30.6% of the sample. Basically, the sample consists of 49 respondents who deal with accounting jobs and therefore, they are relevant to the study.

According to Table 3, the mean for the sample of the respondents in this research on the awareness towards integrated reporting is 2.59, where the measurement of their level of knowledge on integrated reporting is more than half. In this case, more respondents tend to answer on the side of disagreement regarding their awareness of integrated reporting. This implies the lack of understanding of integrated reporting in the sample. However, the respondents agree with the perceived benefits of integrated reporting with a mean of 2 and less than one standard deviation, as shown in Table 3. Following the perceived benefits of integrated reporting, the respondents agree that the board will send their staff to attend seminars or workshops on integrated reporting. This shows the willingness of the respondents to know more about integrated reporting. Less awareness of integrated reporting in Malaysia may be contributed by the voluntary status of integrated reporting in Malaysia. In this case, the respondents agree that the government must put the enforcement on companies to produce integrated reporting as evidenced by the mean of less than 2 in Question 4. The suggestion is in line with the mandatory listing requirement for producing integrated reporting in South Africa (Steyn, 2014). Being the emerging economy, many companies are only willing to produce if it is required mandatorily. However, Steyn (2014) found that there is still lack of evidence of short term benefits associated with mandatory integrated reporting. From this current study, the respondents also believe that integrated reporting provides value to the stakeholders and agree that integrated reporting will help to improve the transparency of companies, thus creating value for the company. This is evidenced by the mean of less than 2 and less than 1 standard deviation. This finding is consistent with Lee (2016) who found a positive association between integrated reporting and form valuation of listed firms in South Africa.

4. CONCLUSION

The literature review shows that integrated reporting is an innovative piece of reporting because it integrates elements of financial, social, environmental and governance in communicating clearly of how an organization creates value over time. The aim is to enhance business accountability and stewardship, and support integrated thinking and decision-making. Parallel to the development of integrated reporting globally, the MIA as a regulator in Malaysia is actively enhancing the quality of reporting and the movement towards integrated reporting as part of a strategy to boost the Malaysian capital market. The theories that are likely to explain the move towards integrated reporting are the stakeholder theory and the stewardship theory. However, the implementation of integrated reporting is not without its challenges. Among its challenges is the lack of understanding on how to prepare the integrated reporting in tying up many factors that can meet the expectation of usefulness of information to the stakeholders. This is also due to the lack of guidance to the preparers on practical ways to produce integrated reporting. Additionally, the system of technology is to be upgraded to supply the integrated thinking information. From the statistical findings, there is still a lack of understanding and awareness among the respondents, although they agree to the move of enforcement of integrated reporting and perceived benefits of integrated reporting to the stakeholders. Despite that, the question still remains as to whether indeed integrated reporting drives towards organizational change. This study contributes in the existing literature by clarifying the concept of integrated reporting and giving insights on the state of readiness and understanding of integrated reporting in an emergence country. In addition, the findings from this research open up avenues for the exploration of future research on integrated reporting, particularly in the environment like Malaysia. Future research can be done on the relationships between integrated thinking and value creation. Further, due to the lack of awareness, the way forward for Malaysia is to find effective ways about educating on integrated reporting. More research is to be done on discovering the practical framework to produce integrated reporting and how it impacts the curriculum for continuous personal development and tertiary education.

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