

**ASIAN FIRMS' INTEGRATED REPORTING: A
CONTENT ANALYSIS**

BY

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A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)

**Kulliyyah of Economics and Management Sciences
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ABSTRACT

Demand for holistic disclosure encompassing both financial and non-financial information has been overwhelming over the past few years. Accordingly, Integrated Reporting (IR) is a new way of corporate reporting to assist stakeholders in their decision making by providing useful and quality information as required by the International Integrated Reporting Framework (IIRF.) However, IR is a recent phenomenon and the quality of disclosures in integrated reports remains largely undiscovered. Herein, the first objective of the study is to assess the quality of 28 large Asian firms' integrated reports from 2014 to 2017. The second objective of the study is to examine trends of changes and improvements in the disclosure quality of large Asian firms' integrated reports over four years namely 2014, 2015, 2016 and 2017 in which the changes and improvements in the quality of reporting from one year to another year is explored and compared. Finally, the present study examines the gap between the current practices of IR and the requirements of IR. Content analysis using a checklist instrument was used to code and measure the quality of integrated reports and observe the quality trend over the years. In addition, the quality of integrated reports was analysed using the qualitative characteristics of accounting information prescribed by the Conceptual Framework to determine the quality and usefulness of disclosures in integrated reports. To examine the trend and changes over periods, a Mann Whitney U test was conducted to investigate the changes over period windows. The results generally indicate a low level of disclosure quality immediately following issuance of the IIRF. However, the quality gradually improved over later years, but the reports were still not in full compliance with the framework. The changes in the quality of reports between 2014 and 2015, and 2015 and 2016 were more significant, compared to the changes in quality between 2016 and 2017. Generally, amongst content elements of integrated reports, the quality of common disclosures in integrated reports is higher than innovative and distinctive disclosures required by the IIRF. Among the content elements, the items under "Organisational Overview and External Environment", "Governance" and "Basis of Presentation" had the highest average of scores compared to the items "Future Outlook", "Business Model" and "Risks and Opportunities." Higher quality of information in integrated reports is associated with relevant, faithful and useful information presented. The findings of the study suggest that IR is increasing among Asian firms, however integrated reporting among Asian firms is less compared to western developed countries.

خلاصة البحث

صارت الحاجة إلى الشفافية الكاملة في المعلومات المالية وغير المالية؛ عظيمة في السنين القليلة الأخيرة، ولكن؛ لا تزال جودة الشفافية في التقارير المدمجة غير مكتشفة إلى حدٍ ما، فالتقارير المدمجة طريقة حديثة لتقديم تقارير الشركات؛ لتُساعد صنَّاع القرار في اتخاذ قراراتهم عن طريق تقديم معلومات مفيدة قيِّمة كما يُطلب من الهيئة الدولية للتقارير المدمجة، وعليه؛ يهدف هذا البحث أولاً إلى تقييم جودة التقارير المدمجة في 28 شركة آسيوية كبرى ما بين عامي 2014-2017م، وثانياً إلى دراسة اتجاهات المتغيرات والتحسين في جودة الشفافية في التقارير المدمجة في الشركات الآسيوية الكبرى على مدى تلك السنوات المحددة؛ للإبانة عن التغيرات والتحسينات في جودة التقارير ومقارنتها من سنة إلى الأخرى، وثالثاً؛ يدرس هذا البحث الفجوة بين التطبيق الحالي للتقارير المدمجة وبين متطلباتها، وقد توسَّل الباحث منهج تحليل المحتوى باستخدام أداة تدقيق تُستخدم لصياغة جودة التقارير المدمجة وقياسها، ورصد مستويات الجودة عبر السنين، كما جرى تحليل جودة التقارير المدمجة باستخدام الخصائص النوعية للإطار المنهجي لتحديد جودة الشفافية ومنفعتيها في التقارير المدمجة لقياس الاتجاهات والتغيرات خلال عدة أوقات، وأجري اختبار "مان ويتني يو" لرصد التغيرات عبر تلك الأوقات، وقد بيَّنت النتائج بعمامة مستوى منخفضاً من جودة الشفافية بعد إصدار الهيئة الدولية للتقارير المدمجة مباشرة، ومع ذلك؛ تحسَّنت الجودة تدريجياً على مدى السنوات اللاحقة، ولكن لم تكن التقارير بعد ممتثلة امتثالاً كاملاً للإطار المطلوب، فالتغيرات في جودة التقارير ما بين عامي 2014-2015م، وبين عامي 2015-2016م؛ كانت أعظم مقارنة بنظيرتها ما بين عامي 2016-2017م، وبعمامة؛ بيَّنت عناصر محتوى التقارير المدمجة أن جودة الشفافية العامة في التقارير المدمجة أعلى من الشفافية المبتكرة والشفافية المميزة المطلوبة من الهيئة الدولية للتقارير المدمجة، ومن بين تلك العناصر المحتوى؛ حصلت العناصر: "النظرة التنظيمية العامة والبيئة الخارجية"، و"الحكم"، و"قاعدة العرض"؛ حصلت على أعلى متوسط نقاط مقارنة بالعناصر: "النظرة المستقبلية"، و"أنموذج العمل"، و"المخاطر والفرص"، وأظهرت النتائج أيضاً أن ارتفاع جودة المعلومات في التقارير المدمجة مرتبط بالمعلومات الوثيقة المفيدة المقدمة، مما يشير إلى أن التقارير المدمجة تزداد بين الشركات الآسيوية، ولكنها تبقى أقل مقارنة مع شركات الدول الغربية المتقدمة.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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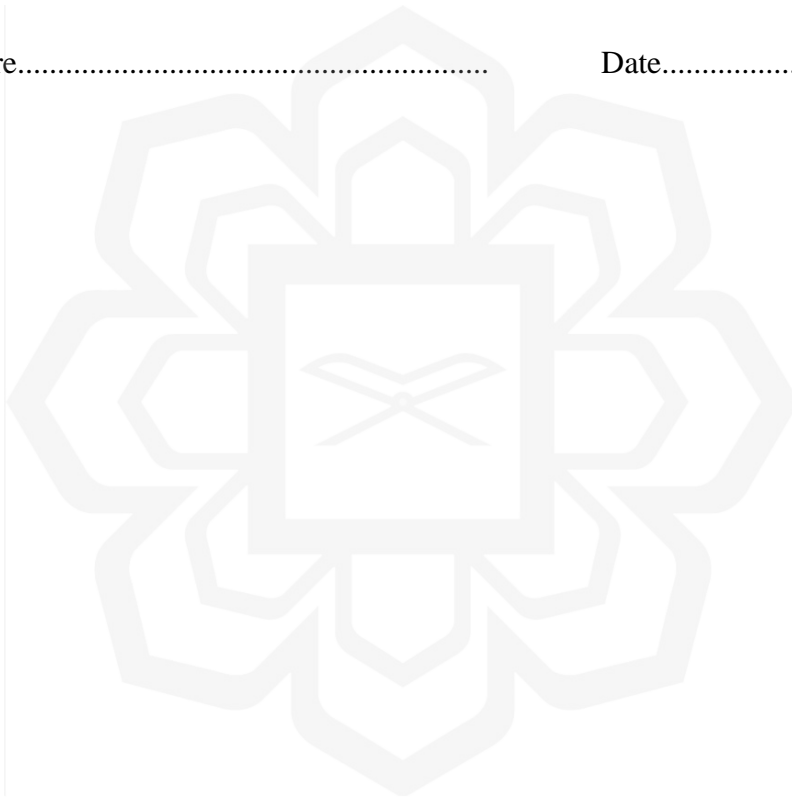
DECLARATION

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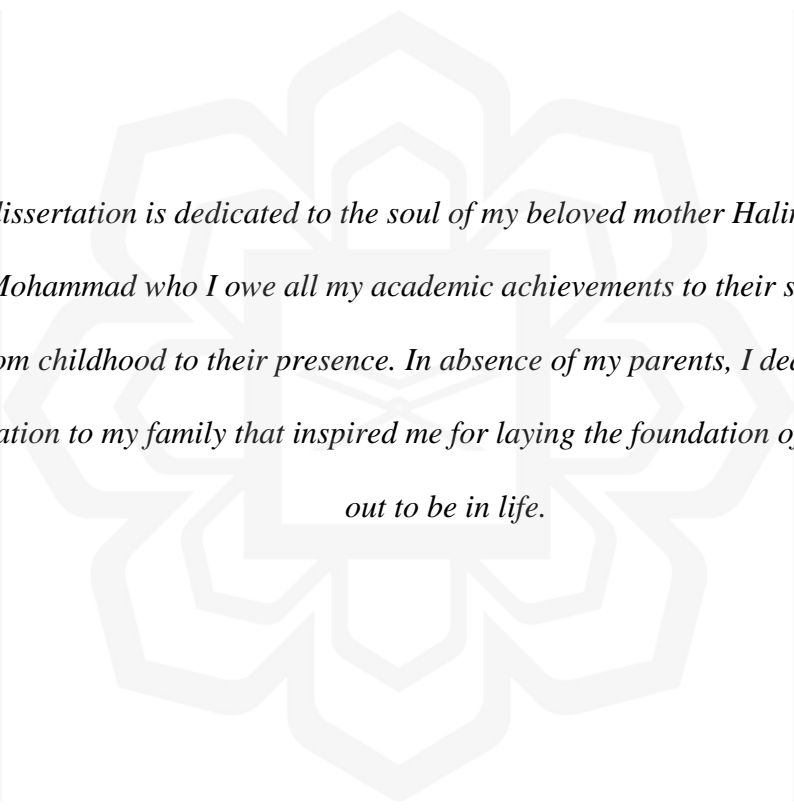
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This dissertation is dedicated to the soul of my beloved mother Halima and father Nazar Mohammad who I owe all my academic achievements to their sincere supports from childhood to their presence. In absence of my parents, I dedicate this dissertation to my family that inspired me for laying the foundation of what I turned out to be in life.

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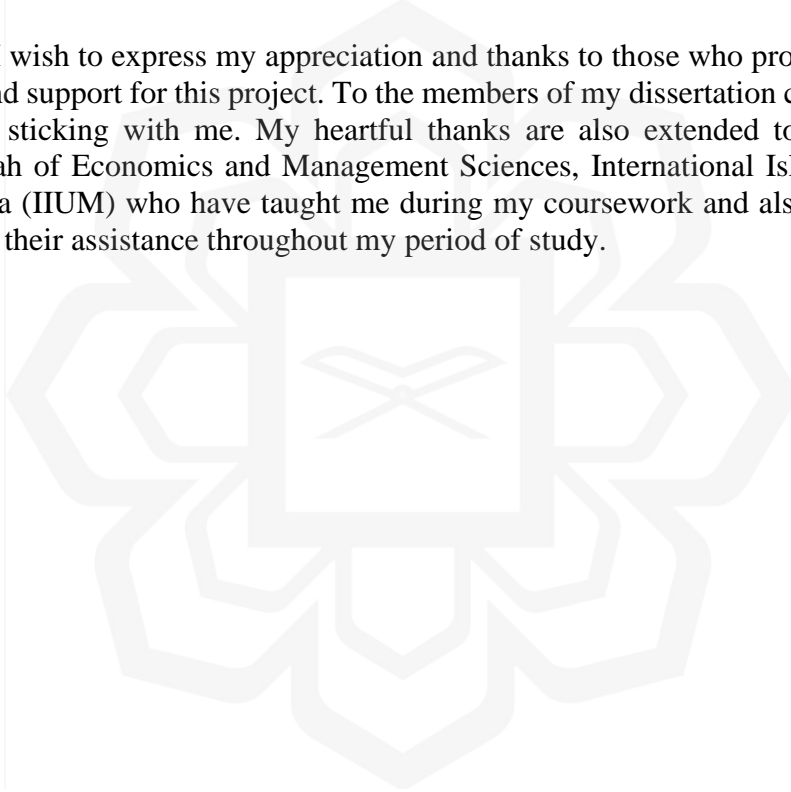


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LIST OF ABBREVIATIONS

A4S	Prince's Accounting for Sustainability
ACCA	Association of Chartered Certified Accountants
AICPA	Association of International Certified Professional Accountants
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
Bhd	Berhad
CDP	Continuing Professional Development
CEO	Chief Executive Officer
CF	Conceptual Framework
CF ED	Conceptual Framework Exposure Draft
CG	Corporate Governance
CIMA	Chartered Institute of Management Accountants
CMP 2	Capital Market Masterplan 2
Co.	Company
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EY	Ernst & Young
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
GRI	Global Reporting Initiative
HKICS	Hong Kong Institute of Chartered Secretaries
I.e.	(id est): in other words: that is
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IIRF	International Integrated Reporting Framework
Inc.	Incorporated Company
IR	Integrated Reporting
IRC	Integrated Reporting Committee
ISCA	Institute of Singapore Chartered Accountants
JSE	Johannesburg Stock Exchange
King II	South African King Code of Corporate Governance (2002)
King III	South African King Code of Corporate Governance (2009)
KPI	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler
KRI	Key Risk Indicators
MAX	Maximum
METI	Ministry of Economy, Trade, and Industry
MIA	Malaysia Institute of Accountants
MIN	Minimum
NACRA	National Annual Corporate Report Award
NUS	National University of Singapore

PLC	Public Listed Company
PWC	PricewaterhouseCoopers
SASB	Sustainability Accounting Standards Board
SC	Security Commission Malaysia
SDGs	Sustainable Development Goals
SPSS	Statistical Package for Social Sciences
SR	Sustainability Reporting
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
WBCSD	World Business Council for Sustainable Development



CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter presents the contribution and background of the study. A general background of the study is presented in Section 1.1. Then, Section 1.2 discusses the motivation for the study and followed by Section 1.3 that elaborates the problem statement. Subsequently, Section 1.4 describes the objectives of the study, while Section 1.5 presents the contribution of the study and the chapter ends with Section 1.6 that explains the organisation of the dissertation.

1.2 BACKGROUND OF THE STUDY

Integrated Reporting (IR) is a recent initiative that emerged due to the growing interest in financial and non-financial information among companies. The traditional corporate reporting is criticised for absence of non-financial disclosures after the financial crises of 2008 and 2009 (Eccles & Serafeim, 2011a; Kolk & Van Tulder, 2010; Manes-Rossi, Tiron-Tudor, Nicolò & Zanellato (2018); Goicoechea, Gómez-Bezares & Ugarte, 2019.) Non-financial information such as corporate social responsibility (CSR) reports and sustainability reporting (SR) among other reports are used to complement traditional financial accounting.

In addition, factors such as regional and global financial crises, climate change concerns, social and environmental disaster, corporate and bank failures have initiated a recent move to report on financial and non-financial information through different means of reporting (De Villiers, Rinaldi & Unerman, 2014) such as SR and CSR.

Increasing public awareness on Environmental, Social and Governance (ESG) issues (Kolk & Van Tulder, 2010; Seuring & Mueller, 2008) put the organisations under pressure to adapt with their business practices, to consider their interests by providing transparent reports. However, Milne and Gray (2013) and Brown and Dillard (2014) argued that the increasing corporate disclosures through stand-alone sustainability reports (Robertson & Samy, 2015, p. 205) is “necessary but insufficient” for substantive accountability of organisations. Also, other criticisms have been raised on non-financial information and traditional reporting such as the risk of green washing, separate non-financial reports which creates information dissemination and many pages left unread (Goicoechea et al., 2019; Eccles & Armbrester, 2011; Cheng, Green, Conradie, Konishi & Romi, 2014; Lodhia, 2015.) Apart from that, the traditional approach by ignoring non-financial information reporting is not an adequate and appropriate tool for users of corporate reports, and it is less relevant in new era where social and environmental matters are important for decision usefulness (Atkins, Solomon, Norton & Joseph, 2015.)

To overcome duality in reporting, IR was introduced to provide information in a holistic view that would address all dimensions of business performance in addition of mere financial information (Eccles & Armbrester, 2011; Cheng et al., 2014; Lodhia, 2015). IR is also intended to bring separate reports such as sustainability report, annual report and other reports together in a more cohesive and efficient reporting system. Hence, to mitigate the problems and for firms to attract the stakeholders, the International Integrated Reporting Framework (IIRF) on 9, December 2013 was launched by the International Integrated Reporting Council (IIRC) with the purpose to integrate the financial and non-financial information (Cheng et al., 2014.) As the IR is the latest development for the SR, it is expected to explain the way an entity generating

value over time using economic, environmental and social factors, while linking risks, strategy and the business model of the entity (Stubbs & Higgins, 2014; IIRC, 2013.)

The purpose of IR is not only to integrate financial and non-financial information, but it should also be linked to 17 Sustainable Development Goals (SDGs) (Adams, 2015.) In fact, the firm needs to disclose the information of how they address the 17 SDGs. Year 2030 will be the year of agenda for SDGs which was adopted in 2015 to stimulate economic growth, end poverty, and protect the planet through international trade (UNCTAD) (UNCTAD, 2017.) Adams (2015) mentions that the IIRF through external environment risks and opportunities include sustainable development issues in organisation's decision making, business model, and strategies. It is argued by Adams (2017) that IR is useful to understand the importance of sustainable development issues in the value creation process as IR has a multi-capital approach, providing guiding principles for financial and non-financial information connectivity and a long-term oriented focus. Adams (2017) provides several examples of firms which provide disclosure on issues related to the SDGs in an integrated report to demonstrate how firms link their contributions to SDGs through value creation strategies, utilising the six capitals. Examples of such companies include Grupo Nutresa. In their year integrated report, the company illustrated how it links "the SDGs to their strategic priorities, identifying six which are aligned to a strategic priority and a further three (SDGs 1, 12 and 17) which are cross cutting" or Cbus Superannuation Fund in its 2016 integrated report which identifies which of the SDGs and Six Capital contribute to value creation and key activities (Adams, 2017, p. 41). To create value, organisations have to recognise the risks and opportunities associated with social and environmental stewardship. In order to improve value creation, firms need to identify the risks they would accept to pursue the business strategy for value creation. Therefore,

it is expected of integrated reporters to apply the IR framework to present how their process of value creation encompasses sustainable development goals.

Since the introduction of IR, it has gained the interest of organisations worldwide (Ioana & Adriana, 2013). Among all firms worldwide, European companies are leading on voluntary adoption of IR (Sofian & Dumitru, 2017). However, according to Ahmed Haji and Anifowose (2016) South Africa is the only country in which IR is mandated. Recently, many firms across Asia are implementing IR as they understand corporate reporting which focuses only on financial numbers unable to paint the full picture of their respective firm' value to both investors and stakeholders. In Asian region, countries leading on IR adoption are Japan, China (IIRC, 2017), Sri Lanka (Herath & Gunarathne, 2016), Malaysia (PWC, 2014) and India (IIRC, 2019). In Japan particularly, IR has received wide adoption as a form of multi-capital reporting. Japanese government has endorsed IR in addition to initiative from the companies.

In addition, in a report published in 2015 by the Japan's Ministry of Economy, Trade and Industry (METI), IR usage is recommended as a way to better communicate Japanese companies' value. As stated by Klynveld Peat Marwick Goerdeler (KPMG), 341 listed companies in Japan published IR as in 2017 (Alexis, 2019). Whereas, in China the number of organisations adopted IR is still small despite the fact that IR has received the backing of the Ministry of Finance. According to the Labrey (2019), the chief strategy officer of the IIRC at a conference in Malaysia in April, IR adoption is picking up in the South-East Asia particularly Malaysia, where over 60 organisations have now started publishing IR. That is almost double the number in two years back and Labrey further estimates the number to rise to more than 100 organisations in the coming year (Alexis, 2019). Meanwhile, the present study focuses only on some particular firms' headquarters in Asian-Pacific countries. The reason for that is solely

based on the fact that the IR evolution could be monitored better if dissipated between regions (Ioana & Adriana, 2013). Malaysian capital market development blueprint which is also known as Capital Market Masterplan 2 (CMP 2) in the year 2011 raised a concern about the protection of governance and shareholders. Of which, these two issues are the IR primary purpose. The blueprint of Security Commission Malaysia (SC) on Corporate Governance (CG) under the “Disclosures and Transparency” section revealed that Malaysia is pushing toward IR because the underlying principle of IR is the same with the content of the blueprint that encourages non-financial information disclosure (Wen & Yap Kiew Heong, 2017).

However, as noted by the Malaysia Institute of Accountants (MIA) and the Association of Chartered Certified Accountants (ACCA) (2016), there is significant progress in the IR concept, as the concept is essentially acknowledged among Malaysia listed firms. Whereas Sridharan, the managing partner of Price Waterhouse Coopers (PwC) Malaysia claimed that in spite of the fact that there is continuous increase in the IR awareness among Malaysian firms, the disclosures were made simply to conform with the statutory requirements instead of truly an implementation of the IR concept in their respective reporting system (The Star, 2014). In addition, Jamal and Ghani (2016) likewise discovered that there is non-compliance, moderate compliance, or low level of compliance among the real property firms in Asia particularly Malaysia.

This means, in the Asian countries, IR practices among the firms still have a very long way to go. As a result, there is still a very long way in attaining a satisfactory level of IR in Asian countries. Thus, the present study tends to focus on assessment of integrated reports among the Asian firms so as to provide insights on the practice of IR in selected Asian countries.

1.3 MOTIVATION FOR THE STUDY

The evidence on growing interest (Stent & Dowler, 2015) and the importance attached to IR around the globe suggest the need for more empirical evidences on the current IR practices in an often-neglected region Asia. The increased demand in IR is due to the need for non-financial information and IR is utilised as a tool to disclose the connectivity and impact of non-financial information on financial information (De Villiers et al., 2014). It shows the need to provide insights on IR practices of Asian firms in response to the increasing interest in voluntary IR disclosures. The IIRC is collaborating with The Prince's Accounting for Sustainability Project (A4S), the Association of International Certified Professional Accountants (AICPA) and the World Bank among others to inculcate integrated thinking in corporate reporting (IIRC, 2018a) using the IIRF to respond to the needs of stakeholders. With the assumption that IR practices is increasing and firms are gaining more insights in it (Stent & Dowler, 2015; Akhter & Ishihara, 2018), this will lead to higher quality of IR. Thus, the study is motivated to embark on this research to examine the quality of integrated reports of Asian firms from early issuance of the IIRF (December 2013) to the latest reports available.

Other than Japan and Singapore, many countries in Asia are considered as emerging economies. While, developed economies have shown great increased interest on IR and many firms have adopted IR. Most of the studies are focused on developed countries such as Stent and Dowler (2015) on firms in New Zealand, Sofian and Dumitru (2017) on European companies, Akhter and Ishihara (2018) on UK companies, Albertini (2019) IR among French firms. Whereas, Asian firms are less studied (Adhariani & De Villiers, 2019). Furthermore, IR is at a very early stage (Stent & Dowler, 2015) particularly in Asia (HKICS, 2016) and there is a strong need for

understanding the quality of IR and the gap between the current IR practices and the IIRF proposed by the IIRC. Furthermore, stakeholders (external parties) use annual/integrated reports and other online publications for decision making purposes, whereas IR allows the investors to make better decisions on long-term prospects (Serafeim, 21015). For better decision making, the information in annual/integrated reports should be reported according to the needs of stakeholders and with a greater quality of reported information to enhance decision usefulness as stakeholders need decision-useful information (Eccles & Serafeim, 2014). Higher quality of information published in annual/integrated reports will increase the decision usefulness (IASB, 2018; Van Beest, Braam & Boelens, 2009). Hence, the study is motivated to examine the quality of information provided in annual/integrated reports in terms of being able to improve the decision-making of stakeholders as the previous studies (Van Beest et al., 2009; IIRC, 2013; Stent & Dowler, 2015) suggest a greater demand for quality information.

Lastly, Sun (2014. P1) states “IR is a journey and it will take more than one reporting cycle to get there. As businesses start to use IR as a tool to better understand the connections between key resources and relationships that contribute to their success, and as a result make more informed decisions, the real value of integrated thinking and the integrated report will be realized.” IR triggers a better assessment of performance and changes in information. According to Sun (2014, p. 1) IR has improved the business decision making. Thus, stakeholders demand higher quality of information in response to their dissatisfaction of communicated information in prior corporate reporting tools and practices (i.e. annual reports, CSR, SR) (Strong, 2014), it is clear that adoption of IR leads organizations to understand and articulate the importance of IR for better communication for the users of IR and improved information quality.

1.4 PROBLEM STATEMENT

In 2016, MIA and the ACCA conducted a survey and found that the adoption of IR in Malaysia still at its infancy stage. Despite low level of the IR knowledge among the preparers of corporate report and users of the reports in Malaysia, the IR knowledge is increasing (MIA-ACCA, 2016). Similarly, countries in Southeast Asia such as Singapore and Indonesia the level of IR knowledge is growing (ISCA-NUS, 2014). This provides evidence that IR practice interest is growing among companies. Consequently, there is a critical need for empirical evidence on IR practice as increasing number of firms adopting IR on voluntary basis. Hence, the fact that IR is still voluntary raise an important question on the quality of the information for companies embarking on IR.

According to De Villiers et al. (2014), IR is regularly seen as the next step in social and environmental disclosures understanding the compliance to the IIRC is an indication of the readiness of the companies around the globe. In 2016, the Centre for Governance, Institution, and Organisations released a report, stated that the general level of SR among the best 100 organisations in four ASEAN nations namely Malaysia, Singapore Indonesia and Thailand were increasing since they perceived the significance of non-financial disclosures. The report further stated despite the high quality of disclosures, information on materiality are still missing (Lai, Melloni & Stacchezzini, 2017). In addition to that, despite the increasing number of companies adopting IR, there are critical information missing from integrated reports such as materiality determinants and process, risks associated with the strategies, information connectivity among others (Stent & Dowler, 2015; Akhter & Ishihara, 2018). Accordingly, this urges for empirical evidence on latest form of reporting whether the least disclosed information in early stage of IR is still persistent or not.