INTEGRATED REPORTING – A COMPARISON BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

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ABSTRACT

This paper aims to explain the significance of Integrated Reporting in maintaining sustainability of organisations in general. A review of the level of importance of integrated reporting between developed and developing countries is discussed. This paper also discusses the roles and impact of standard setters and regulatory bodies on the acceptance of integrated reporting and its relevance towards International Financial Reporting Standards (IFRS) convergence. The literature on integrated reporting is very scarce, hence this paper attempts to give a more detailed insight into the domain of integrated reporting and the underlying assumption of going concern in accounting as this conceptual paper provides insights into the literature and current development of integrated reporting in general. The empirical evidence discovered in this paper shows that regardless of develop or developing country, or even if countries have converged or yet to converge to IFRS, they have the same desire towards integrated reporting.

Keywords: Integrated Reporting, Going Concern, IFRS Convergence

INTRODUCTION

Financial information of organisations has been the main information that an organisation emphasized and provided to its stakeholders for decision making. Non-financial information such as environmental and social related information has not been given much attention because most organisations recognise it as less useful and less meaningful to stakeholders (Tonello, 2011). However, issues like globalization, growing concern of environment, the rise of the importance of other stakeholders and the higher expectation of shareholders on the organisation caused non-financial information to become more important (IIRC, 2011). The growing concern of environment makes shareholders may want to know whether the organisation is running its business with keeping sustainability and environment in check and if not, then they may refuse to invest in that organisation. All these issues have indicated that non-financial information is becoming important for the investors in making their decisions for investment. Therefore a report that just provide financial information is not meeting their investment decision making needs anymore, hence the concept of Integrated Reporting has been introduced.

WHAT IS INTEGRATED REPORTING?

An organisation that adheres to Integrated Reporting produces a report that integrates the financial, environmental, social and governance information together into an integrated format (Foster, 2010). The aim of an integrated report is to tell the organization's stakeholders about the organisation and its strategies and risks, linking its financial and sustainability performance, in a clear and concise way that provides stakeholders a holistic and comprehensive view of the organization and its future prospects (SAICA, 2010). The fundamental premise behind integrated reporting is sustainable society, which can be explained as the one that can meet the necessity of the present and future generations. Organisations are required to have sustainable strategies, which can provide and create both long term and short term value to all the stakeholders (IIRC, 2011). Unlike traditional financial reporting which just focuses on providing the figures that indicate the financial performance of the company, integrated reporting tend to provide a holistic view of the company by putting its performance and strategy in the context of its relevant social and environmental issues (SAICA, 2010). Integrated reporting includes forward-looking information which can let the investors to have more informed assessment of the future of an organisation, which is different from the traditional financial reporting which tends to provide past information to stakeholders.

For integrated reporting to be useful, it must address the impact that an organisation has to the financial, social, governance and environmental domains which it depends on. Organisations should also illustrate how the governing structure has utilized its collective minds in identifying and addressing social, environmental and economic impacts and how these are incorporated into the company's strategy (Blanche, 2011). Based on Deloitte's report (2011), five guiding principles have been identified to determine the content of an integrated report, namely, strategic focus, connectivity of information, future orientation, responsiveness and stakeholders inclusiveness, and conciseness, reliability and materiality. These five principles should determine the content of an integrated reporting based on several key elements, such as company overview and business model, performance and future outlook (Deloitte, 2011).

THE PRACTICES OF INTEGRATED REPORTING BY COMPANIES IN DIFFERENT REGIONS

Organisations such as United Technologies, American Electric Power and Southwest Airlines from United States of America (USA), BASF from Germany, Denmark's Novo Nordisk, Netherland's Philips and Brazil's Natura are some of the organisations that practice integrated reporting (Eccles, 2012).

Southwest Airlines prepared integrated report for year 2011 which included three elements, namely performance, people and planet. For performance, it stated that the organisation achieved record revenues of $15.7 billion in 2011, which shows that the organisation is performing impressively as the company took 24 years from 1971 to 1994 to generate a cumulative $15.7 billion in total operating revenue (PRNewswire, 2012). For people, the integrated report showed that the employees has volunteered for more than 114,000 hours, which is the time sufficient to fly from Washington to Los Angeles for 24,516 times (PRNewswire, 2012). For planet, the report stated that Southwest Airlines has diverted more than 2,600 tonnes of material landfills and into recycling facilities through the organisation's co-mingled recycling program (PRNewswire, 2012). Southwest Airlines Integrated Report is an award winning one report which integrated company financial, company citizenship and environmental reporting into one single report which comply with the internationally accepted standard for sustainability reporting-the Global Reporting Initiative (GRI).

However, since integrated reporting is a voluntary practice, its practice is not consistent in all regions around the world. According to Tonello (2011), organisations in Europe are most serious in preparing integrated reporting as 45% of organisations that practice integrated reporting are in Europe, as stated in the GRI list. Asian, American and Canadian organisations are having the lowest participation in practicing integrated reporting probably because organisations in those regions did not realise the importance of sustainability in their strategies or they did not see or doubt about the importance of environment and social issues to their investors (Tonello, 2011). Kaye (2010), many corporate social responsibility reports in the USA have been criticised for being viewed as marketing tools instead of a genuine discussion of what a company is doing to reduce its impact to the environment and public. This evidence indicates that most of the USA organisations did not see the importance of the impact that their businesses might bring to the environment and people, to the organisations stakeholders.

Table 1: Acceptance of Integrated Reporting by Local Standard Setters and Regulators

Developed Countries	**Developing Countries**	**Local Standard Setters**
Australia		Australia Accounting Standards Board (AASB)
United States		Financial Accounting Standards Board (FASB)
	Malaysia	Malaysian Accounting Standards Setter Board (MASB)
	South Africa	Financial Reporting Standards Council (FRSC)

The table above shows some examples of the local standard setters in certain developed and developing countries. Put the inconsistency of the practice of integrated reporting by organisations in different regions aside, integrated reporting is receiving more attention from countries around the world. More local standard setters and regulators are accepting and show their intention to move towards integrated financial reporting. South Africa is categorised as a less develop country but is the first country that required all companies that are listed on the Johannesburg Stock Exchange (JSE), Africa's largest stock exchange to produce an integrated report in place of their annual report and sustainability report (SAICA, 2010). Even the International Integrated Reporting Committee (IIRC) which aims to develop the guidelines on good practice in integrated reporting and promote integrated reporting globally was formed in South Africa (Eccles, 2010). Australia, Canada, Norway and Denmark have started to move away from traditional corporate social responsibilities reporting and towards integrated reporting (Gomes, 2012). In February 2010, the Japan Stock Exchange required all listed companies to produced integrated report for the financial year beginning 1 March 2010 or explains why they did not do so (Gomes, 2012).

In Malaysia, the Capital Market Masterplan 2 (CMP2), which is regarded as the blueprint for the development of Malaysian capital market launched in April 2011, emphasised the importance of investor protection and governance, which are also the major aims of integrated reporting. The Corporate Governance blueprint by Securities Commission of Malaysia that was launched in June 2011, has one of its main themes, 'Disclosures and Transparency' similar to the contents of integrated reporting which is promoting the effective disclosure of nonfinancial information, also proves that Malaysia is moving in the direction of integrated reporting (Gomes, 2012). Even USA has taken its first step by having its Security and Exchange Commission (SEC) to provide guidance on climate change disclosures in the year 2010, paving the pathway of integrated reporting in the USA (Kaye, 2010).

BENEFITS AND CHALLENGES OF INTEGRATED REPORTING

As the notion of integrated reporting is still new, although it is accepted by the local standard setters and regulators of some countries but it is hard to determine whether its acceptance will become broader. The determination of whether integrated reporting will be accepted or rejected by local standard setters and regulators may be determined by the benefits that integrated reporting has to offer. The first benefit is more effective capital allocation. The provision of the combination of financial and non-financial information in the integrated report implied that integrated reporting can bring more meaningful communication that supports capital allocation across the economy more effectively and this means that organisations that respond most effectively to the future challenges can obtain great capital flow (IIRC, 2011). This in turn will encourage investment that is needed to respond to the issues like energy security, food scarcity and climate change.

The second benefit is harmonization of approaches and it reduces ‘red tape’ or excessive adherences to rules and formalities. Reporting is guided and shaped by a patchwork of laws, standards, regulations, stock exchange listing requirements, codes and guidance, which is described as ‘jigsaw in pieces’ (IIRC, 2011). Integrated Reporting provides a platform for the policy-makers, regulators and standard setters to cooperate with each other to set up the integrated reporting requirements within a jurisdiction and harmonise advances in reporting that have been achieved in different jurisdictions and approach new reporting issues on a consistent basis across jurisdictions (IIRC, 2011). Through such cooperation, the approaches for reporting can be harmonized. The third benefit is access to information. Integrated reporting does not just provide financial information but also non-financial information to its user and can provide better and relevant information to its users than the traditional financial information (IIRC, 2011). By providing better ‘decision relevant information’, integrated reporting can support effective actions to be made by regulators and local standard setters.

Apart than the three benefits discussed above, integrated reporting also faces some challenges. The adoption of integrated reporting requires the local standard setters and regulators to revise legislation, regulation and standards. However, revising these three elements requires strong leadership, political will, coordination, time, resources, consultation and due process (IIRC, 2011). This is especially significant when the proposed change involves more than one subject area such as environmental, law and governance issues and it is more than just one jurisdiction. If the regulators and local standard setters feel that the revision of those three elements takes time and are costly, they might refuse to execute such revision.

The second challenge is liability and business confidentiality. The scope of integrated reporting will cover a range of new and evolving subjects with more strategic focus. The management of organisations will be concerned about governance and assurance, where liability, fiduciary duties and business confidentially will need to be addressed (IIRC, 2011). If these issues can’t be addressed, then the regulators and local standard setter will not adopt integrated reporting as such issues can bring effect the sustainability and going-concern of organisations. The third challenge is the demand for generally accepted standard for non-financial information. As current, there is no country that has a dedicated agency that is responsible for specifying the standards of non-financial information (Tonello, 2011). Standards of non-financial information are contributed by various organisations, typically non-profit organizations or professional associates, which cooperate and compete with each other (Tonello, 2011). Competition can encourage innovations and cause several alternatives to exist so that the best selection becomes clear, but it also can result in having multiple types of standards. If such multiple standards is produced, then the local standard setters and regulators might refuse to adopt the integrated reporting as multiple standards has cause complexity in deciding which standard is to be adopted. The benefits and challenges should be taken seriously if integrated reporting is to be promoted to the local standard setters and regulators. If the benefits of integrated reporting do not outweigh the challenges brought by it, then there is no reason for local standard setters and regulators to adopt integrated reporting.

CONVERGENCE TO IFRS

IFRS focuses on the traditional financial reporting, providing mainly the financial information to the shareholders rather than non-financial information to the stakeholders (Deloitte, 2011). This implies that IFRS may have to consider adopting or converging to integrated reporting to provide a comprehensive view of organisations in terms of financial and non-financial perspectives. Integrated reporting meets the needs of a wider group of stakeholders that impacts investment decision making more significantly. Issues such as globalization, growing concern on environment and depletion of scarce resources also forces traditional financial reporting to move towards integrated reporting. Although IFRS is yet to make any decision on how it will deal with integrated reporting, but due to the paradigm shift and mindset change of general public with response to the issues happening around the world, IFRS will have to consider integrated reporting seriously. According to IIRC (2011), integrated reporting reflects and builds on the existing development in reporting which include convergence works and efforts made on IFRS and US GAAP by IASB and FASB respectively, hence integrated reporting should not be sidelined by IFRS.

LIMITATION AND FUTURE RESEARCH

Many challenges lie ahead of the journey of integrated reporting and being a subject of the existing local regulations that is diverse due to different jurisdictions makes it difficult to be standardised. Apart than the unavailability of a regulatory body at international, regional and national level that enforces the implementation and adoption of integrated reporting in many countries, the divide on acceptance between develop and developing countries is also a great challenge. Integrated reporting produces a lengthy report which at times is not really read and required by some users, hence creates an information overload and redundancy of data and information. Having said the limitation in view of the challenges faced by integrated reporting, the future research should address these challenges to promote integrated reporting as a legislatively required report so that all its constructs especially non-financial are recognised, measured and disclosed.

CONCLUSION

Integrated reporting is vital to be implemented and it has been accepted gradually by organisations and by local standard setters and regulators. Integrated reporting is the future form of reporting and IASB should embrace it seriously to maintain its relevance by meeting the corporate reporting demand of the future. Is integrated reporting a threat to the process of convergence with IASB's IFRS? Will integrated reporting replace the current need to converge to IFRS? Will the benefits and challenges of integrated reporting promote or demote IFRS? The lack of commitment by organisations and governments coupled with the scarcity of available information on the adoption of integrated reporting is an evident limitation especially in developing countries. Nevertheless, the desired way forward is to have integration between IASB and IIRC so that corporate reporting will be more meaningful for the users to make informed decisions on their investments and the organisations to forge ahead in the spirit of sustainability and at the same time living up to the underlying assumption of going concern in accounting.

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