

The Challenges in Adopting and Implementing Integrated Reporting in Public Listed Companies in Malaysia

Suresh Balasingam, Dhamayanthi Arumugam, Kong Ai Hui

Abstract: *Integrated Reporting has been launched in year 2013 by International Integrated Reporting Council (IIRC). IIRC has mentioned that ‘the primary purpose of an integrated report is to explain to providers of financial capital on how an organization creates value over time’. Hence, this framework has been released in order to provide principle-based guidance for the companies in creating an integrated reporting to meet the expectation of the stakeholders such as shareholders, suppliers and creditors. Therefore, it is important to study the potential challenges which might be happened in accessing the in PLCs in Malaysia. Therefore, the study aims to determine the current state of in Malaysia and subsequently identify the potential challenges when the organization is changing to adopt. The data used in this research will be primary data. Therefore, a set of questionnaires will be distributed to the public listed companies in order to collect the primary data. The questionnaire will be set in order to test the variables and the information of the respondents including their personal profile and company information will be recorded as anonymous. Likert Scale will be used for measuring the attitudes by asking the respondent to respond to a statement about the research.*

Keywords: *Integrated Reporting, Challenges, Malaysia*

I. INTRODUCTION

Referring to the research from Association of Chartered Certified Accountant (ACCA), more than 90 percent of investors believe that it would be valuable for the companies to combine financial and non-financial information into an integrated reporting (ACCA, 2013). It implies that the investors will expect not only financial data but more on how governance, risk and compliance will impact on the organization. This statement is also further proved by Slack & Campbell (2016) in the research of ascertaining the views of equity investors, providers of financial capital and financial users regarding <IR> and its potential for providing decision-useful information. The interviewee has mentioned the hope of <IR> can potentially achieve in terms of its current and future use in order to be used as part of decision-making (Slack & Campbell, 2016). Therefore, <IR> will be the best reporting standard for meeting the requirements by the stakeholders.

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<IR> defines as ‘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). The researchers believe that the integrated thinking and decision making are important for the companies to implement it in gathering and presenting information and able to coherent the relevance of sustainability issues in the long term business (Churet, et al., 2014). Basically, it will build on the traditional financial reporting in order to present additional information about a company’s strategy, governance and performance. It enables stakeholders to access information around social and environmental externalities (Villiers, et al., 2014). Besides, this report ensures that the company is presenting a clear picture on creating the value over the time (IIRC, 2013). With full of information, it does not mean that the integrated report should be prepared by increasing the number of pages but it is the report which is focusing on the concise and material information to the organization and its stakeholders. It should be related to the six (6) capitals which are mentioned in IIRC (2013). The capitals consist of financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. In preparing integrated report, it should be more emphasized on other capitals rather than only financial capital.

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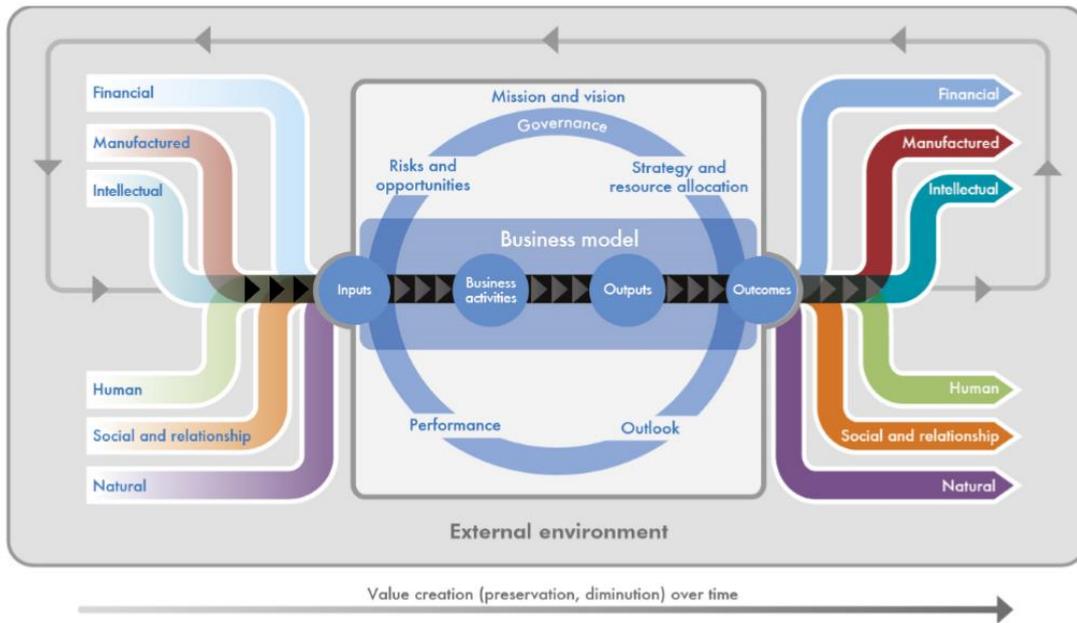
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Exhibit 1
Value Creation



Source: (IIRC, 2013)

The value of the business will be created through inputting various capitals or inputs, through their business activities and producing the output which are influenced by the effects of capitals as shown in Figure 1. Multi-capital value creation is not only created within the organization, it also can be influenced by external environment or various resources and through the relationship with the stakeholders. With the interaction of the internal and external environment, the stakeholders will have a better understanding regarding the structure and strategy of the organization. There will be having some challenges in adopting <IR> especially in producing a perfect integrated report. The companies may face difficulties especially fulfilling the criteria required by the integrated reporting. The researcher believes that the Malaysian companies have the basics of reporting covered in the businesses but they still have a long way to go to truly embrace <IR> (The Accountants Today Editorial Team, 2014). Although the companies in Malaysia have include Corporate Social Responsibility (CSR), sustainability and risk reports for the investors. However, they are not coherent in the sense that there is no linkage between all the information. In order to link the information and create value over the time, the

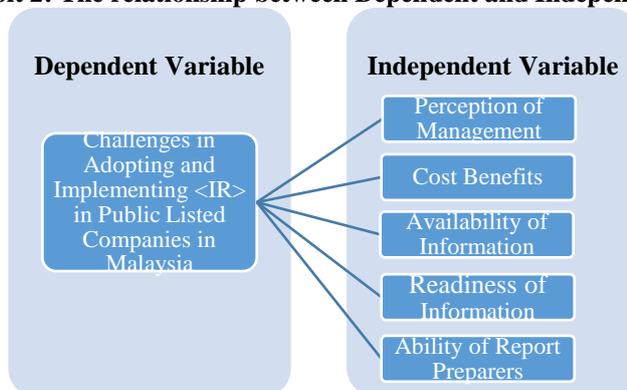
companies need to face challenges in adopting this reporting (Solanki, 2013). In order to provide a forward-looking statements in their annual reports, the organizations will be facing challenges, for example, time consuming in implementing <IR> internally and getting alignment across stakeholders groups. They have to think of some considerations in adopting <IR> at the starting stage and implementing it in the long run. These considerations will be the challenges to the organizations. Therefore, the study aims to identify the potential challenges which the PLCs will face in adopting and implementing the <IR> in the organization.

A. Research Objectives

- To determine the current state of <IR>
- To determine the management perception in adopting and implementing <IR>
- To determine the cost benefits, availability of information, readiness of information, ability of report preparers in adopting and implementing <IR>

B. Research Framework

Exhibit 2: The relationship between Dependent and Independent Variables (Self-Made)



II. METHODS AND MATERIALS

This research based on the Quantitative primary data. For the sample size in this research, the result suggested from Raosoft Sample Size Calculator is 63 companies as the minimum sample size for this research, with the margin of error at 10%, confidence interval at 90% and response distribution at 50% (Raosoft, 2017). (Refer to Appendix 2) Orme, B (2010) mentioned that in conjoint studies, the sample size generally will be ranged from about 150 to 1200 respondents depends upon the purpose of the research. Therefore, there are 3 employees from 63 public listed companies will be chosen as respondents in this study. As result, the minimum sample size of 189 respondents (63x3)

for this study. The simple random sampling were applied in order to select the minimum samples of 189 respondents from minimum 63 public listed companies. The data collected from respondents will be analysed by using the Microsoft Excel and IBM SPSS Statistic to generate the results from the data in order to test the variable. IBM SPSS Statistic will be conducted in a comprehensive way to run the descriptive data (IBM, 2017). The analysis of data collected from distributed questionnaire will be presented in graphical view with the interpretation. The reliability test, Pearson correlation as well as ANOVA testing will be used to test the data collected.

III. RESULTS

Table 1 Challenges will be faced in adopting and implementing Integrated Reporting in organisation

	Frequency	Percent	Valid Percent	Cumulative Percent
Cost of adopting and implementing Integrated Reporting	58	37.9	37.9	37.9
Availability of information in organisation	34	22.2	22.2	60.1
Lack of knowledge on Integrated Reporting	47	30.7	30.7	90.8
Cost of hiring experts	11	7.2	7.2	98.0
Supports by information system in organisation	3	2.0	2.0	100.0
Total	153	100.0	100.0	

A. To identify the challenges in adopting and implementing <IR> in public listed companies in Malaysia

In order to identify the challenges in adopting and implementing <IR> in public listed companies in Malaysia, the research question for this will be “What are the considerations and challenges in adoption and implementation of <IR>?”

Based on the data collected, it is found that there are few challenges in adopting and implementing <IR> in the organisation. First, the most considerations of the level of accountability in preparing the corporate report. The management will be more consider the corporate report prepared for the stakeholders must be accountable. The traditional reporting is accountable and with this, the management is more consider if they adopt and implement the <IR> in their report, will the report is more accountable or less accountable for them. Therefore, the management will have this consideration when making decision on adopting and implementing <IR>. The findings is aligned with the research of Abeysekera (2013) and Perego, et al. (2016).

Besides, the findings is also found that the consideration is followed by the materiality of information and conciseness of information. The management will also consider the materiality and conciseness of information when adopting and implementing of information. They need to consider what kind of information should be disclosed that will create value for the company and also meet the requirement by the stakeholders. This will be challenged the management as they need to ensure that the information disclosed should be material for the stakeholders to make decision. On the other hand, the management is also considering the conciseness of

information in adopting and implementing the <IR>. The management need to ensure that the information disclosed in the corporate report is easy to understand for the stakeholders. This will avoid the misunderstanding of the stakeholders on the disclosed information. This is the challenge for the management on how to integrate information to be understandable and simple in one single report. The findings are in line with the research of Higgins, et al. (2014) and Frias-Aceituno, et al. (2013).

The findings has found that there are some challenges that the respondents will be faced if they adopt and implement <IR>. Based on the findings, most of the respondents think that they will be faced the challenge of cost of adoption and implementation of <IR>, followed by lack of knowledge on <IR> and the availability information. In considering the accountability, materiality and the conciseness of information, the management will need to input a huge investment in order to assure their considerations. Therefore, the cost will be increased if they are starting to adopt and implement the <IR>. Second, lacking of knowledge on <IR> and also the availability of information will also be the challenges in adoption and implementation of <IR>. Lacking on <IR> knowledge will impact on the management do not know how to implement <IR> successfully. Besides, the management will be faced whether all the information are available for the integrated report and the materiality of the information which is aligned with the research of Ruiz-Lozano & Tirado-Valencia (2016). The findings on the challenges are aligned with the research of Hoque (2017) and Villiers, et al. (2014).

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B. To determine the current state of <IR>

In order to determine the current state of <IR>, the research question for this will be “What is the current level of reporting in public listed companies in Malaysia?” and “Why still have lots of companies not start to adopt <IR>?”

Based on the data collected, currently most of the public listed companies in Malaysia are at the level of reporting which includes its financial reporting, financial reporting associated with the sustainability reporting, and a few of companies are currently implementing the integrated reporting in their financial report. This finding implies that the practice of <IR> in public listed companies is currently growing in Malaysia. However, there is still not all companies aware of <IR> in Malaysia.

Based on the data collected also, it is found that currently the management are aware of the benefits of <IR> but lack of knowledge about it. It is not only the management, most of the employees are not sure about the concept and practice of <IR> but they aware that <IR> is

actually can benefit the organisation. Since the management is aware of the benefit of <IR>, they still think that currently their reporting is meeting the stakeholders’ requirement as well as giving true and fair value towards the organisation. Moreover, the management know that if they want to start to adopt <IR>, there is an investment which takes time and increases the cost of the organisation. Therefore, these might be the reasons why the management is not yet to start <IR> in their current reporting. The findings for this section are in line with the researches by Ruiz-Lozano & Tirado-Valencia (2016), Perego, et al. (2016), ICPAS & IIRC (ICPAS & IIRC, 2013) and AFM (2016).

C. Regression Analysis (ANOVA test)

Regression analysis is perhaps the most widely applied data analysis techniques for measuring linear relationships exists between two variables (Joe F. Hair, et al., 2016). The result for ANOVA test is shown as follows (Table 45).

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	13.814	5	2.763	3.274	.008 ^b
Residual	124.033	147	.844		
Total	137.846	152			

a. Dependent Variable: DV

b. Predictors: (Constant), IV5, IV3, IV1, IV4, IV2

Based on the result shown in Table 45, the significant probability of all of the five hypotheses (H₁) are accepted as there are relationship between the dependent variables and independent variables. The summary of findings as shown below.

Hypothesis 1: Perception of management	
H ₀ : There is no relationship between the perception of management in adopting and implementing the <IR>.	Rejected
H ₁ : There is a relationship between the perception of management in adopting and implementing the <IR>.	Accepted
Hypothesis 2: Cost benefits	
H ₀ : There is no relationship between the cost benefits in adopting and implementing the <IR>.	Rejected
H ₁ : There is a relationship between the cost benefits in adopting and implementing the <IR>.	Accepted
Hypothesis 3: Availability of information	
H ₀ : There is no relationship between the availability of information in adopting and implementing the <IR>.	Rejected
H ₁ : There is a relationship between the availability of information in adopting and implementing the <IR>.	Accepted
Hypothesis 4: Readiness of information	
H ₀ : There is no relationship between the readiness of information in adopting and implementing the <IR>.	Rejected
H ₁ : There is a relationship between the readiness of information in adopting and implementing the <IR>.	Accepted
Hypothesis 5: Ability of report preparers	
H ₀ : There is no relationship between the ability of report preparers in adopting and implementing the <IR>.	Rejected
H ₁ : There is a relationship between the ability of report preparers in adopting and implementing the <IR>.	Accepted

Table 1: Summary of findings (Self-Made)

D. To determine the management perception in adopting and implementing <IR>

For this research objective, the research question will be “What is the current perception of management on the awareness of <IR> concepts and benefits?”, “What is the plan for the adoption and implementation of <IR>?” and “What is the reason behind the management is not yet to start to adopt <IR>?”. For this objective, the hypothesis has been accepted as follows.

H₁: There is a relationship between the perception of management in adopting and implementing the <IR>.

Based on the data analysed, most of the companies are still providing the financial report or financial report with sustainability report to the public. There is only few companies are started to provide financial report with integrated report to the public among the public listed companies in Malaysia. Besides, most of the companies agree that their current reporting is meeting the stakeholders’ requirement and creating true and fair value towards the organisation. Since the reporting is satisfied by the stakeholders as well as creating value to the organisation, the management would think that there is no need to change their current reporting to be more integrated. Moreover, most of the respondents think that it will increase the workloads if they start to adopt <IR>. Therefore, these could be the reasons behind why the management still not yet make decision on adopting and implementing <IR> in their organisation.

However, the findings are showed positive sight as some of the respondents are aware that the current reporting system are not meeting the requirements of stakeholders and also creating values to the organisation. In addition, the adding values for better decision making and enhancing the corporate governance are the benefits that the management aware of if they include <IR> practice in reporting system. Therefore, they agree that the <IR> adoption should be started among themselves so that they can meet the current stakeholders as well as potential stakeholders and also create values towards the organisation. Nevertheless, they are still not sure about when they are going to start <IR> adoption. The reason behind might because the low perception of <IR> concepts although they aware of the benefits of <IR>, their consideration of accountability and materiality as well as the conciseness of information and the cost. However, some of the respondents might start to adopt <IR> within few years which show a positive sight towards the adoption and implementation of <IR> among the public listed companies in Malaysia. The findings in this section are aligned with the researches by Haji & Hossain (2016), Solanki (2013), Adams & Simnett (2011), Wee, et al. (2016) and Serafeim (2016).

E. To determine the cost benefits, availability of information, readiness of information, ability of report preparers in adopting and implementing <IR>

Cost benefits

For this research objective, the research question will be “What is the costs that the management and report preparers consider in adoption and implementation of <IR>?” and “Does they aware of the benefits of <IR> will outweigh the

costs that invested?”. For this objective, the hypothesis has been accepted as follows.

H₁: There is a relationship between the cost benefits in adopting and implementing the <IR>.

According to the data analysed, the respondents think that the capitals that can contribute to the value creation will be the financial capital, human capital and intellectual capital. This implies that the organisation needs to consider these capitals in order to create value for the organisation. Therefore, there is an investment for the organisation to invest in the human and intellectual capital for the value creation. The party benefit the most towards value creation of the company. And also, the respondents are thinking that the investors are benefit the most from the value creation discussion which implies that the investors are benefited from making decision based on the integrated information about the organisation. Investors are the one of the stakeholders would like to view all the information about the organisation before choosing to invest in the particular organisation. In order to attract the investors, the organisation has to invest some costs to gather the information in various aspects for the organisation, analyse and link it to present a big picture to their investors.

Most of the respondents strongly agree that the financial resource is the limitation in adopting and implementing <IR>. The finding implies that if adopting and implementing <IR>, the organisations need to invest a lots of capital into it. Therefore, it will be costly for the organisations which want to start to adopt <IR>. Besides, most of the respondents are also agree that the human resource is the limitation of the adoption and implementation of <IR>. It implies that in order to adopt and implement <IR>, the organisation needs to train their employees on the awareness of <IR> practice and also hire some experts like technical assistants and analysts.

F. Availability of information

For this research objective, the research question will be “Is the company’s information available for the organisation to adopt and implement <IR>?”. For this objective, the hypothesis has been accepted as follows.

H₁: There is a relationship between the availability of information in adopting and implementing the <IR>.

Based on the data analysis, currently most of the organisations are including both financial and non-financial information into the corporate reporting. However, the information are separated into financial report as well as sustainability report. There is no link between the financial and non-financial information in their corporate report. This implies that although the information is available for the organisation to adopt and implement <IR> practice, however, they will still face the challenge on selecting material information, justifying and linking both financial and non-financial in a single report.

Besides, the respondents are thinking that the stakeholders will be confused with a full and completed information in a single report.

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This is because there is lot of information in a single report will be messy if the information is not properly analysed. Therefore, it could be a challenge for the organisation to analyse the information and make the information to be easy for stakeholders' understanding. Some of the respondents are also agree that the stakeholders will be more understand about the organisation if full and completed information is analysed and provided.

G. Readiness of information

For this research objective, the research question will be "Is the organisation has a proper management information system and internal control system to implement <IR>?" and "What are the needs for the organisation in adoption and implementation of <IR>?". For this objective, the hypothesis has been accepted as follows.

H₁: There is a relationship between the readiness of information in adopting and implementing the <IR>.

Based on the data analysed, most of the organisation are using information system to keep the records and information. However, there are still have some companies are only keeping their information with hardcopy and excel or database only. This could because of the size of the organisation and also the activities carried out in the organisation. For this, it would be a challenge for those companies to adopt and implement <IR> as they need to install a better information system to keep the information for analysing.

H. Ability of report preparers

For this research objective, the research question will be "What is the current perception of the report preparers towards <IR>?" and "Is the report preparers are ready to take responsibility for implementation of <IR>?". For this objective, the hypothesis has been accepted as follows.

H₁: There is a relationship between the ability of report preparers in adopting and implementing the <IR>.

Based on the data analysed, most of the respondents are aware of latest information about corporate reporting through conference, international accounting bodies and training provided by the organisation. It implies that the respondents are aware of <IR> and its benefits towards the organisation as most of the local and international bodies are advising the organisations to start to adopt the <IR> and it is beneficial for the organisation in value creation. For those aware of information through training, it is normally a mandatory requirements by the authority, thus the organisation will provide the training for their employees in order to meet the requirements.

IV. DISCUSSION AND CONCLUSION

In conclusion, all the research objectives have been determined and justifies based on the data analysed from the primary research. The current perception of management towards <IR> practice is low but have a positive sight in starting to adopt <IR> as they aware the long term benefit after implementing it. At the current state of reporting, the number of companies which is started to adopt and

implement <IR> is growing. However, there are still will be a challenge for the public listed companies in adopting and implementing <IR>. Cost is the most consideration for the organisation and also the availability and readiness of information as well as the ability of report preparers will affect the decision of management in considering to adopt and implement <IR> in their organisation.

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