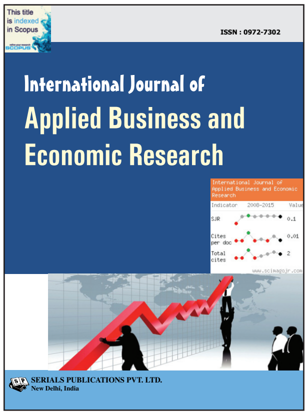

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An Exploratory Study of Integrated Reporting: A Case of Public Listed Companies in Southeast Asia

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ABSTRACT

This exploratory study content analyses the existence of Integrated Reporting (IR) related elements in the corporate reports among top Malaysian and Singaporean public listed companies. As the world begins a long shift toward a higher share of market-based financing, effective disclosure will become even more important. In the future, IR may well play a bigger role. There are significant information gaps in reports, particularly the one conducted within the Southeast Asia setting. Therefore, this study aims to provide exploratory evidence of top Malaysian and Singaporean public limited companies' initiative to transform their corporate reports into IR. The evidence suggests that publicly listed companies in both countries have fully converted their corporate report into IR, indicating the support to their respective government initiatives on IR.

Keyword: Integrated Reporting, Sustainability, Corporate reports, Initiative

1. INTRODUCTION

Public listed companies have long been required to publish the annual financial statements in reporting the economic and financial situation of their assets and the business results. There have been some concerns, however, that traditional corporate reporting is insufficient to meet the information needs of a variety of stakeholders (Adams et. al., 2011; Cohen et. al., 2012). As a result, new reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidelines and stock exchange listing requirements (Daub, 2007).

One of the significant outcomes of these ongoing changes in the reporting requirement is the birth of nonfinancial reporting. Nonfinancial reporting by large companies in the world took off and today the amount of disclosure increase rapidly over the last decade and continue to increase (Aras and Crowther, 2009). Many companies have attempted to improve the information available for stakeholder decisions through supplementing their traditional financial reporting with the reporting of non-financial information (Cohen et. al., 2012) largely known as sustainability reporting. Unfortunately, many of these reports have disclosed disconnected, fragmented information, producing disclosure gaps, generating confusion and hampering stakeholders' decision-making (IIRC, 2011).

To overcome these weaknesses, some leading companies have begun to combine all of their reports, into a single document which is integrated reporting (IR), as part of the sustainability strategy aimed at meeting the needs of stakeholders (Eccles and Kruz, 2010). According to the International Integrated Reporting Council (IIRC), IR provides a broader explanation of performance, highlighting a company access to resources, its dependence on how they are used, the impact and their relationship with other forms of capital (IIRC, 2011, p. 8).

IIRC (2013, p. 7) defines IR 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"

It aims, among others, at promoting understanding of interdependencies between various capitals that a company has and support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term (IIRC, 2013).

IR is claimed as the latest innovation of sustainability reporting (Stubbs and Higgins, 2014) and it is a new innovation that is gaining popularity among financial reporting regulators. The IIRC, a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGO responsible in establishing IR and thinking within mainstream business practice is creating networks around the world to help participating countries transform not only the way they report, but the way they think and act. At countries' level, South Africa, is leading the way for being the first country in the world to take on the implementation of IR. In March 2010, the Johannesburg Securities Exchange (JSE) adopted the King III Report on Corporate Governance principles as part of its listing requirements, and consequently requires all listed companies to issue an IR in the future (IIRC, 2013).

IR in Southeast Asian region is still very much in its infancy stage. In Malaysia, for example, several top public listed companies have recently expressed their intention of adopting IR. Even though the current stand of Malaysian stock exchange, Bursa Malaysia, is that IR will be market led, an Integrated Reporting Steering Committee (IRSC) was established within the Malaysian Institute of Accountants (MIA) on 18 December 2014 upon the recommendation of the Securities Commission of Malaysia. The Committee focuses on creating the awareness and promoting the IR in Malaysia. Despite IR will not be made mandatory, the regulatory body of Malaysia has shown a positive attitude towards IR and will be more likely to continue its efforts in encouraging all Malaysian public listed companies to adopt it. Currently, several top public listed companies in Malaysia have expressed their intention of adopting IR and more companies are expected to take serious efforts on the this matter.

Singapore is another example of a country in Southeast Asia region that has pioneered the move towards IR. The country has established the Institute of Singapore Chartered Accountants (ISCA) Integrated Reporting Steering Committee, or IRSC in short, in 2013 to raise awareness and understanding of IR as well as to play a leading role in influencing and shaping the development of the IR Framework in Singapore. At that time, the establishment of IRSC is the first of its kind in the region, making Singapore as the leader in IR implementation in Southeast Asia region.

With this growing interest of IR in the Southeast Asia region, this present study aims to provide an exploratory findings on the existence (or not) of IR related elements in the current corporate report of selected Malaysian and Singaporean public listed companies. A checklist of IR items has been constructed based on the IIRC's framework and is used to identify the existence of IR related element in the annual reports of Malaysian and Singaporean public listed companies.

2. PREVIOUS STUDIES ON IR AND POSITIONING OF THIS STUDY

Despite its infancy stage, the establishment of IRSC within both Malaysian and Singaporean settings indicates a substantial support from their regulators and professional bodies. This is no surprise given that the regulators should act on behalf of the public. The legitimacy of IR is that it can be seen as focusing on the importance of seeking symbolic fit or "doing the right thing" in the eyes of society or stakeholders (van Bommel, 2014). It is acknowledged that growing public sensitivity towards certain social and environmental problems is forcing many companies to try to behave properly and to carefully document their activities in these fields in their annual reports, which have traditionally revealed only economic and financial information (Horrach and Socía-Salva, 2011). However, current presentation of these sustainable information has been seen as separated from the financial aspect of the companies implying a certain independence between these information within a company (Jensen and Berg, 2011; (Alfian & Tresna, 2017; Kurniawati & MeilianaIntani, 2016). Therefore, the publication of a single report combining global financial statements, social and governance reports and other key elements, in order to present a more holistic picture of the business, as offered by IR, is seen to be doing the right thing. This information is believed to be more closely related to that required and is used by managers in decision-making (Vancity, 2005). Most importantly, it is claimed as to be able to provide solution to investors and other stakeholders in achieving accurate valuation of a company's value amidts the ever increasing amount of information disclosed by the companies (Hutton, 2004).

With IR has been seen as a legitimacy symbol, companies should take a step to educate the public or to communicate the changes that have been made, in response to the pressure made by the government/public, to transform their corporate reporting into IR. As IR becomes a mean for companies to legitimize their actions, it leads to an apparent link between accounting research and legitimacy theory that revolves around companies transformation into IR.

It is notable, however, research on IR is still at its infancy stage as compared to research on sustainability reporting. Much of the research is also focusing more on stakeholders perspective instead of looking at IR implementation at companies' level (see for example van Bommel, 2014; Rensburg and Botha, 2013). Frías-Aceituno, Rodríguez-Ariza and García-Sánchez (2013), is among the few studies conducted from the perspective of the companies. The study examined the influence of the legal system, on the development of IR in 750 international companies for the years 2008 until 2010. The results show that companies located in civil law countries, and where indices of law and order are high, are more likely to create and publish a broad range of IR, thus favoring decision-making by the different stakeholders.

To the knowledge of this present study, there has been a very limited study conducted within the context of Southeast Asia. Sigh, Sze Wei and Kaur (2012) is an example of IR study that has considered

Malaysia as one of their research setting. The study, however, only provide a regulatory review on IR between developed and developing countries, which includes Malaysia. To the knowledge of this study, there is only one study conducted by KPMG and National University of Singapore (NUS) that has provided a much focus analysis on companies in Asian Pacific setting that includes Malaysia and Singapore. The study provided meaningful evidence to suggest that companies which adopt IR as a mean to address the gap in traditional reporting are associated with better capital market performance (KPMG and NUS, 2015).

The KPMG and NUS study has provided a good basis for future research on IR in Southeast Asia setting. However, more research is needed to analyze the extent of which IR has been implemented, particularly among the early adopters of IR. Therefore, taking into consideration the growing importance of IR in Malaysia and Singapore, and the lack of study on IR in Southeast Asia setting per se, it is the objective of this study to provide a close examination on the existence of IR related element in the annual report of one Malaysian and Singaporean public listed company, respectively. In particular this study will analyze, whether or not, there are differences between what has been reported by companies that have both claimed they have implemented IR.

3. RESEARCH METHODOLOGY

The study focused on the integrated reporting practices of two largest companies ranked by market capitalization listed on Malaysia and Singapore stock exchange, respectively. The selection of the companies is based on the claim that these two companies have voluntarily adopted IR. Sime Darby Berhad has voluntarily adopted IR since 2014. Sime Darby is one of the largest companies listed on Bursa Malaysia and has a market capitalization of RM52.9 billion (USD14.0 billion) as at 30 June 2015. City Developments Limited (CDL) has become the first property developer in Singapore to adopt an IR approach for its latest sustainability report titled "Creating Value for the Future" in 2015. CDL is also one of Singapore's largest companies by market capitalization with a global presence spanning 94 locations in 26 countries.

The year 2015 was chosen to be the latest corporate reports, particularly annual reports, available at the time this study was conducted. The reports are considered as appropriate tools to measure the comparative position and trends of information between these two companies and countries. Annual reports were obtained from the Bursa Malaysia and Singapore Exchange website. This is largely contributed by the fact that all annual reports are mandatory produced annually. IR related elements are examined in the annual reports of the two top Malaysian and Singaporean public listed companies through content analysis. The use of content analysis to access the integrated reporting practices of the companies is justified. Mouton (2005) asserts that content analysis can be used to analyze documents and reports according to the content categories based on the rules of coding. The following content analysis guidelines were used for the purpose of coding the integrated reporting and traditional sustainability report practices (refer Table 1).

Table 1
Decision rule

Fully Disclosed	*Not Disclosed*
If the item fully disclosed the item is marked as 1	If the item not disclosed the item is marked as 0

4. RESULTS AND ANALYSIS

A total of 6 IR related elements and 14 indicators have been identified and analyzed. Table 2 describes a number of IR related elements found in the annual report of Sime Darby Berhad and CDL. As expected, as early adopters of IR, both companies have shown evidence that they are fulfilling all of the basic elements outlined in IR framework. Both companies score 1 for all of the IR related items validating the claim that the companies have adopted IR. Both companies have fulfilled the basic guideline of an IR report ranging from their description on the company's business model to the description of their future outlook. From page 20 of the Sime Darby's annual report, for example, the company has provided a detailed description on global trends and market outlook that are affecting their business operation. The following statement can be found at the start of page 20 of Sime Darby's annual report:

> 'Megatrends are large, transformative global forces that have a profound impact on business, the economy, society, culture and the future. We proactively adapt our strategies to harness the opportunities and mitigate the threats that arise from these drivers of future change.'

Table 2
Existence of IR related element

IR related elements	*Description*	*Sime Darby*	*Pg. No.*	*CDL*	*Pg. No.*
Organizational Overview and Business model	Organization mission and vision, principal activities, markets, product & services	`1	5, 10	1	2, 3, 12, 128, 199
	The business model, identification of key factors and stakeholders	1	24	1	20, 68, 85
Context, risks and opportunities	Description of the commercial, social and environmental and regulatory context (circumstances which company operates)	1	22	1	43
	Description of key relations with internal and external stakeholders (company faces)	1	157	1	70,72
	Description of key risks and opportunities	1	174-180	1	68
Strategic goals and strategies	Explanation of the company's short, medium and long term	1	26	1	63
	Definition/identification of strategic goals to achieve	1	49	1	8, 46
	Relating strategies to other elements	1	180	1	68, 76
Corporate governance and remuneration policy	Description of corporate governance	1	123	1	38
	Influence of corporate governance on strategic decisions and executive remuneration	1	149	1	40, 50
Performance	Identification of key quantitative indicators of performance and risk	1	3, 5, 8, 9, 17	1	49
	The organisation's impacts (both positive and negative) on the resources and relationships	1	190	1	22
Future Outlook	How the organisation is currently equipped to respond to the operating context that it is likely to face in the future	1	20	1	24, 51, 85, 86, 227
	How the organisation balances short- and long-term interests; and reference to the future results/expectations	1	81, 91	1	5, 64, 86, 111

It is assured, however, that despite Singapore is the pioneer of IR in Southeast Asia region, Malaysia company is not very far behind from what is expected under IR. However, it is important to highlight that while both companies have fulfilled all basic elements of IR, there are some differences between the two companies:

(i) CDL seems to record more occurrences of IR related elements (31 occurrences) as compared to Sime Darby (26 occurrences).

(ii) Both companies have also showing evidence that they are concentrating on different elements of IR with Sime Darby seems to focus more on describing the key risks and opportunities associated with the company (7 occurance i.e. pg 174 until pg 180). CDL on the other hand, seems to focus on two elements i.e. description of the organization mission and vision, principal activities, markets, product and services (5 occurance) as well as the future oulook of the company looking at how the company is currently equipped to respond to the operating context that it is likely to face in the future.

While the differences do not provide indication that one is better than another, it is possible that this is due to to differences in the culture or direction adopted by respective companies. Factors leading to these differences can be a potential research area that is worth looking at to provide further understanding on the IR practices in these two countries.

5. CONCLUSION

The aim of this paper has been to provide an exploratory findings on the existence of IR related elements in the two public listed companies of Malaysia and Singapore i.e. Sime Darby Berhad and CDL. The findings of both companies validate the claim that the companies have adopted IR. On the other hand, the findings also indicate there are differences in the way each of the companies reports each of the IR elements with each company focusing on a different type of elements. The difference could suggest future research looking at factors leading to these differences. Nonetheless, it is important to highlight that while the findings cannot be generalized, due to the small sample size, this study has provided a practical indication to Malaysian and Singaporean regulators that converting into IR is not something that is impossible to achieve. It is the role of the regulators to facilitate further provision of such transformation without comprising the need of various parties including the companies. The implementation of IR by these two companies has also indicated companies willingness to provide a more holistic picture of the companies' operation to investors and other stakeholders. This will help the stakeholders, particularly investors, to achieve an accurate valuation of the company's value amidts the ever increasing amount of information disclosed by the companies.

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