THE READINESS OF INTEGRATED REPORTING (IR) IMPLEMENTATION ON COMPANIES PUBLISHING SUSTAINABILITY REPORT IN 2015

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Abstract

This study aimed to analyze the company's readiness to implement the Integrated Reporting (IR). The objective of the implementation is to enable companies to re-evaluate their business activities in order to create value in a sustainable manner so that the company can present high quality information to stakeholders.

The population of this research are companies that had published Sustainability Report (SR) and listed on the Indonesian Stock Exchange (IDX) in 2015 which amounted to 39 companies. The data analyzed in this study are secondary data from the annual report (AR) and sustainability report (SR) of each company that was published in 2015. The analysis uses 61 indicators that reflect IR eight elements in the <IR> Framework. Research data analysis using descriptive statistical analysis in tabular form the company's readiness categorization.

The result showed that: 31% companies categorized as well prepared to implement the Integrated Reporting. Furthermore 23% companies categorized as prepared to implement the Integrated Reporting, however 26% companies categorized as less prepared to implement the Integrated Reporting, whereas 21% companies categorized as unprepared to implement the Integrated Reporting.

Keywords: *Sustainability Reporting, Integrated Reporting*
JEL Classification: *Q56*

INTRODUCTION

The issues of sustainability and transparency have been increasingly created rigidly for both stakeholders and management. This conditions made the stakeholders are very keen to know how business is managed, what the potential risk for the future business are, and what the impacts on society. Stakeholders also want to know the effects of companies' activities on the environment and most importantly about the financial position. Thus, to be sustainable and attractable in this competitive business world, companies require to meet stakeholders' demand by disclosing both financial and non-financial information with demonstrating the sustainable strategies at the first place (Hoque, 2017, p.241). Investor drive not just traditional financial disclosure, but also environmental, social, and governance (ESG) reports (Davis and Lukomnik, 2012, p.44). Thus, the company needs financial and non-financial information disclosure for stakeholders to show sustainability companies strategy. Therefore, company discloses both financial and non-financial information thought different report. Questions arise that how the stakeholders understand disclosed information? Are they able to linkage between financial and non-financial information? What would be their reaction towards company if do not understand? Misunderstanding could lead to worst relationship between the stakeholders and the company. Ultimately, that is a signal for reporting and corporate failure.

The ideal model of report is scalable for future needs, flexible so that users can get customizable reports, and practical, so it provides a useful management tool within the company as well as a disclosure tool for outside stakeholders (Davis and Lukomnik, 2012, p.44). Integrated reporting is one report that comprise both financial and non-financial information, and which additionally present a more holistic picture of the business, including future targets and links between financial performance and CSER (Jensen and Berg, 2011, p.2) One Report means producing a single report that combines the financial and narrative information found in a company's annual report with the nonfinancial (such as on environmental, social, and governance issues) and narrative information found in a company's "Corporate Social Responsibility" or "Sustainability" report (Eccles and Krzus, 2010, p.10). Integrated reporting is a process that results in communicating—through the annual integrated report—value creation over time. An integrated report is 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 (Busco, et.al., 2013, p.7-8).

Research by Adriana (2015) indicate that about 62.22 % of companies that had registered at LQ-45 index are prepared to apply integrated reporting and the others is not ready. These companies have the average level of integrated reporting according to <IR> Framework. This research provides an analysis related to the appropriateness of annual reports of companies compared to <IR> Framework.

This research use sustainability report to analyze the companies readiness to enforce the integrated reporting. Furthermore, Houqe (2017, p.242) explained that sustainability reporting is one of the fundamentals in the process of integrated report. It can be viewed as a sub-set of integrated reporting. Therefore, this paper aimed to analyze the company's readiness to implement the integrated reporting (IR). The objective of the implementation is to enable companies to re-evaluate their business activities in order to create value in a sustainable manner so that the company can present high quality information to stakeholders.

LITERATURE REVIEW

Sustainability Reporting

Sustainability reporting as a disclosure that provides information to stakeholders about an organization's attempts to balance its economic, social and environmental goals. In doing so, we make no claims that these reports are in fact reporting on sustainability, as it has been increasingly highlighted in the literature that most business reporting on sustainability has little to do with sustainability (Gray in Robertson and Samy, 2015, p.4).

Sustainability is one of the fundamentals in the process of integrated thinking. In other, word it can be viewed as a subset of integrated reporting (Hoqque, 2017, p.242). Global Reporting Initiative (2011) defines sustainability reporting as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development.

Integrated Reporting

Integrated reporting is not just create an integrated report, but the essence is companies can review and reevaluate their business activities to create sustainability value. Integrated reporting contribute to increase quality of companies' information reporting (Adriana, 2015, p.1). Integrated reporting is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. An integrated report is 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 in Busco et.al, 2013, p.48). The aim of IR is to provide insight the external environment that affects an organization, the resources and relationships used and affected by the organization (capitals) and the way in which the organization interacts with the external environment and capitals to create value.

According Hoesada (2015) integrated reporting is a report about how the organizations' strategies, governance, prospect, performance, and the external environment that are related to creating value for short, medium, and long term. Integrated reporting be prepared in accordance with the <IR> Framework created by IIRC (The International Integrated Reporting Council). Integrated reported should include eight element consist of: (1) organizational overview and external environment, (2) governance, (3) business model, (4) risk and opportunities, (5) strategy and resources allocation, (6) performance, (7) outlook, and (8) basis of preparations of presentations. These element related to each other and not mutually exclusive.

Integrated reporting requires the strong commitment of the CEO. He or she has the ultimate responsibility for the message the company is delivering to all of its stakeholders and for ensuring that it is a coordinated and consistent one. The decision to publish One Report can be made by the CEO, or it can be suggested by someone else in the company and then endorsed by the CEO (Ecless and Krzus, 2010, p.207).

Comparison Sustainability Report and Annual Report between Integrated Reports

Until now the company still presenting annual report and sustainability report separately. Annual report that emphasize financial report and be addressed to shareholders.

Financial report governed by certain bodies such as International Accounting Standard Board (IASB) in International Financial Reporting Standard (IFRS) as mandatory reporting. Sustainability report addressed to stakeholders and presenting in accordance with the guideline by Global Reporting Initiative (GRI) and usually as voluntary reporting. This separate report have no relation between one report and another report (Berndt et.al. in Adriana, 2015, p.3). Sustainability report are rarely used by investors as a basis for decision making.

Another relevant difference between IR and SR is that the approach proposed by the IIRC is based on the concept of “capital”, while the GRI is based on the concept of stakeholders. On the one hand, according to the IIRC framework, “capitals are stores of value that, in one form or another, become inputs to an organization’s business model. They are increased, decreased or transformed through the activities and outputs of the organization in that they are enhanced, consumed, modified, destroyed or otherwise affected by those activities and outputs” (IIRC in Busco et.al, 2013, p. 54). On the other hand, the GRI framework is mostly focused on stakeholders. The elements proposed by the GRI are in fact divided by aspect, thus divided into categories that are clearly inspired by the different stakeholders’ groups (economic, environmental, social, human rights, product responsibility, etc.).

IR is to be considered an evolution of AR rather than of SR, because the intended users of IR are clearly stated as the “providers of financial capital” (IIRC, 2013). In addition, the way in which IR frames the capitals (much more “objective” and centered on the firm, compared to the “subjective” stakeholder approach of SR) leads to the conclusion that IR is really an evolution of AR rather than of SR (Busco et.al, 2013, p.55).

RESEARCH METHOD

Population and Sample

The population in this research companies that had published Sustainability Report (SR) and listed on the Indonesian Stock Exchange (IDX) in 2015. Samples are determined by using purposive sampling method. Based on the technique, this research obtained 39 companies.

Data Collection Technique

The data used are the data that can be directly measured or can be calculated more precisely, so that the data used are secondary data. The research method applied is quantitative research, while the data assessments are presented by using descriptive statistical analysis in tabular form the company's readiness categorization. The data analyzed in this study are secondary data from the annual report (AR) and sustainability report (SR) of each company that was published in 2015 calculated Mean Ideal (Mi) and ideal standard deviation (SDi). The tendency of data categorized into groups. The analysis uses 61 questions that reflect IR eight elements in the <IR> Framework.

According to Hadi (2016), the formula to determine Mi and SDi as follows:

Mi = [ST + SR]: 2

SDi = [ST – SR]: 6

Note:

Mi : The Ideal Mean

SDi : The Ideal Deviation Standard

ST : The Highest Ideal Score

SR : The Lowest ideal score

The number or value obtained from the formula calculation is categorized into groups as follows:

Well prepared : $X > Mi + 1.5\ SDi$

Prepared : $Mi < X \leq Mi + 1.5\ SDi$

Less prepared : $Mi - 1.5\ SDi < X \leq Mi$

Unprepared : $< Mi - 1.5\ SDi$

Operational Definition and Variable Measurement

Variables investigated in this study are readiness to implement the Integrated Reporting.

Annual Report and Sustainability Report

Annual report presented financial and non-financial reporting, financial data, governance, and corporate social responsibility. Annual report is mandatory reporting. The other report separate with annual report is sustainability report. Sustainability report as a disclosure that provides information to stakeholders about an organization's attempts to balance its economic, social and environmental goals. Sustainability report is voluntary reporting.

Content Element of Integrated Reporting

An integrated report is 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. The aim of IR is to provide insight the external environment that affects an organization, the resources and relationships used and affected by the organization (capitals) and the way in which the organization interacts with the external environment and capitals to create value.

RESULT AND DISCUSSION

Result

The research developed a checklist based on <IR> Framework and use this to analysis of the annual report and the sustainability report of a sample, which is related with the content elements of integrated reporting. The Measurement of readiness implementation of integrated reporting of the companies was done by calculating the mean values for each content element of integrated reporting, and from the average classified in accordance with the assessment categories, categorized as well prepared, prepared, less prepared and unprepared. There are eight contents element of integrated reporting tested and used total 61 indicators based on the elements. The discussion on the findings are outlined as follows:

Organizational Overview and External Environment

Organizational overview and external environment identifies the organization's mission and vision, and provides essential context by identifying matters such as the organization's culture, ethics, value, ownership and operating structure, principal activities and markets positioning, position within the value chain, key qualitative information, and significant factors affecting the external environment and organization's response. The checklist based on this element used 18 indicators.

The readiness implementation of integrated reporting can be identified in table 1 as follows:

Table 1. The Categorization of Readiness Implementation of Integrated Reporting based on Organizational Overview and External Environment

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 13	13	33%
2	Prepared	10 – 13	12	31%
3	Less Prepared	7 – 10	11	28%
4	Unprepared	< 7	3	8%
	Total		39	100%

The table showed that 60% companies were ready to implement the element, which are 33% or 13 companies categorized as well prepared and 12 companies or 31% with range 10 – 13 categorized as prepared. It means that 25 companies have met almost all the indicators in element organizational overview and external environment. On the other hand, only 3 companies or 8% with range < 7 indicators categorized as unprepared.

Governance

Governance provides insight about how such matters as the following are linked to its ability to create value: the organization's leadership structure, specific processes used to make strategic decisions and to establish and monitor the culture of the organization, and the organization's governance structure support its ability to create value in the short, medium, and long term. The checklist based on this element used 9 indicators.

The readiness implementation of integrated reporting can be identified in table 2 as follows:

Table 2. The Categorization of Readiness Implementation of Integrated Reporting based on Governance

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 8	1	3%
2	Prepared	6 – 8	13	33%
3	Less Prepared	4 – 6	19	49%
4	Unprepared	< 4	6	15%
	Total		39	100%

The results showed that 19 companies or 49% with range 4 – 6 categorized as less prepared and 6 companies or 15% with range < 4 categorized as unprepared. It can be said that more than 60% companies had not fulfill the indicators yet. Only 1 (one) company categorized as well prepared.

Business model

An organization's business model is its system of transforming input, through its business activities, into output and outcomes that aims to fulfil the organization's strategic purposes and create value over short, medium, and long term. The checklist based on this element used 6 indicators.

The readiness implementation of integrated reporting can be identified in table 3 as follows:

Table 3. The Categorization of Readiness Implementation of Integrated Reporting based on Business Model

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 5	1	3%
2	Prepared	3 – 5	6	15%
3	Less Prepared	1 – 3	14	36%
4	Unprepared	< 1	18	46%
	Total		39	100%

It can be seen from the table above that 14 companies or 36% with range 1 – 3 indicators categorized as less prepared and 18 companies or 46% with range < 1 indicators categorized as unprepared. It means that more than 80% companies are not ready to implement governance element. Homwever, only 1 (one) company or 3% categorized as well prepared.

Risk and opportunities

An integrated report identifies the key risk and opportunities that are specific to the organization, including those that relate to the organization's effect on, and the continued availability, quality and affordability of, relevant capitals in short, medium, and long term. The checklist based on this element used 6 indicators.

The readiness implementation of integrated reporting can be identified in table 4 as follows:

Table 4. The Categorization of Readiness Implementation of Integrated Reporting based on Risk and Opportunities

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 4	6	15%
2	Prepared	3 – 4	8	24%
3	Less Prepared	1 – 3	23	59%
4	Unprepared	< 1	2	5%
	Total		39	100%

It can be seen from the results that 23 companies or 59% with range 1 – 3 indicators categorized as less prepared and 2 companies or 5% with range < 1 categorized as unprepared. It show more than 60% companies not ready to implementing this element. In the contradiction, 6 companies or 15% categorized as well prepared.

Strategy and Resource Allocation

An integrated report ordinary identifies: the organization's short, medium and long term strategic objectives, the resource allocation plans it has to implement its strategy, and how it will measure achievements and target outcomes for the short, medium, and long term. The checklist based on this element used 7 indicators.

The readiness implementation of integrated reporting can be identified in table 5 as follows:

Table 5. The Categorization of Readiness Implementation of Integrated Reporting based on Strategy and Resource Allocation

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 4	3	8%
2	Prepared	3 – 4	3	8%
3	Less Prepared	1 – 3	13	33%
4	Unprepared	< 1	20	51%
	Total		39	100%

The results showed that 13 companies or 33% with range 1 – 3 categorized as less prepared and 20 companies or 51% with range < 1 categorized as unprepared. It show more than 80% companies not ready to implementing this element.

Performance

An integrated report contains qualitative and quantitative information about performance that may include matter such as: qualitative indicators with respect to target and risk and opportunities, the organization's effects on the capital, the state of key stakeholder relationship, and the linkages between past and current performance, and between current performance and the organization's outlook. The checklist based on this element used 5 questions.

The readiness implementation of integrated reporting can be identified in table 6 as follows:

Table 6. The Categorization of Readiness Implementation of Integrated Reporting based on Performance

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 4	2	5%
2	Prepared	3 – 4	1	3%
3	Less Prepared	1 – 3	26	65%
4	Unprepared	< 1	11	28%
	Total		39	100%

Table 6 showed that 26 companies or 65% with range 1 – 3 categorized as less prepared and 11 companies or 28% with range < 1 categorized as unprepared. It means that more than 90% companies had not meet the indicators yet.

Outlook

An integrated report lights anticipated changes over time provides information, built on sound and transparent analysis, about: the organization's expectations, how that will affect the organization, and how the organization is currently to the critical challenges and uncertainties that are likely to arise. The checklist based on this element used 6 indicators.

The readiness implementation of integrated reporting can be identified in table 7 as follows:

Table 7. The Categorization of Readiness Implementation of Integrated Reporting based on Outlook

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 4.5	4	10%
2	Prepared	3 – 4.5	13	33%
3	Less Prepared	2 – 3	9	23%
4	Unprepared	< 2	13	33%
	Total		39	100%

According to the table 7, 17 companies or 43% categorized as prepared or they can fulfill more than 5 indicator of this element. On the other hand, 22 companies categorized as less prepared and unprepared which means that they only fulfill less than 3 indicators.

Basis of Preparation of Presentation

An integrated report describes its basis of preparation and presentation, including: a summary of the organization's materiality determination process, a description of the reporting boundary and how it has been determined, and a summary of the significant frameworks and methods used to quantify or evaluate material matters. The checklist based on this element used 4 indicators.

The readiness implementation of integrated reporting can be identified in table 8 as follows:

Table 8. The Categorization of Readiness Implementation of Integrated Reporting based on Basis of Preparation of Presentation

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 1	0	0%
2	Prepared	0 – 1	15	38%
3	Less Prepared	≤ 0	24	62%
4	Unprepared	-	-	-
	Total		39	100%

Table 8 shows 24 companies or 62% with range ≤ 0 categorized as less prepared. It show more than 60% companies not ready to implement this element. No company or 0% categorized as well prepared.

Content Element

The readiness implementation of integrated reporting can be identified in table 9 as follows:

Table 9. The Categorization of Readiness Implementation of Integrated Reporting based on All of Content Element

No.	Category	Span	Amount	Percentage
1	Well Prepared	> 35	12	31%
2	Prepared	28 – 35	9	23%
3	Less Prepared	21 – 28	10	26%
4	Unprepared	≤ 21	8	21%
	Total		39	100%

Overall, based on 8 elements consists of 61 indicators on Integrated Reporting, the results can be seen from the table are :

1. 12 companies or 31% with a range of >35 (fulfilled more than 35 indicators) categorized as well prepared.
2. 9 companies or 23% with a range of 28 - 35 categorized as prepared
3. 10 companies or 26% with a range of 21 - 28 categorized as less prepared
4. 8 companies categorized as unprepared or 21% with a range of ≤ 21.

In conclusion, less than 50% or 12 companies out of 39 samples are ready to apply The Integrated Reporting, which are BFI Finance Indonesia Tbk, Bank Pembangunan Jawa Barat dan Banten Tbk, Bank Pembangunan Jawa Timur Tbk, Bank Permata Tbk, Vale Indonesia Tbk, Indika Energy Tbk, Indo Tambangraya Megah Tbk, Bank OCBC NISP Tbk, PP (Persero) Tbk, Telekomunikasi Indonesia (Persero) Tbk, Total Bangun Persada Tbk, and United Tractors Tbk.

Based on that 12 companies, all of companies categorized as well prepare in four elements, are organizational overview and external environment, governance, risk and opportunities, and performance. In business model element, 83.3% or 10 companies categorized as well prepared and 16.67% or 2 companies categorized as prepared. In strategy and resource allocation element, 67% or 8 companies categorized as well prepared, 8% or 1 company categorized as prepared, and 25% or 3 companies categorized as unprepared. In outlook element, 92% or 11 companies categorized as well prepared and 8% or 1 company categorized as prepared. Different with others elements, in basis of preparation and presentation , 50% or 6 companies categorized as prepared and 150% or 6 companies categorized as less prepared. No companies categorized as well prepared.

CONCLUSION

All in all, it was found that: 31% companies categorized as well prepared to implement the Integrated Reporting, Furthermore 23% companies categorized as prepared to implement the Integrated Reporting, however 26% companies categorized as less prepared to implement the Integrated Reporting, whereas 21% companies categorized as unprepared to implement the Integrated Reporting.

Some limitations are found in this research including: (1) the number of sample in this research was only 39 companies, so there is possibility that the result do not reflect the condition in Indonesian companies, (2) the subjectivity of providing checkmark in checklist to determine whether the companies disclose the indicators of integrated reporting. Therefore, it is necessary to work together with practitioners to minimize the subjectivities.

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