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Integrated Reporting Epiphenomenon: Benefits and Challenges

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Integrated reporting has been widely discussed in recent years by looking from the views of industrial practices and academicians. We can define integrated reporting as one of corporate reporting that integrates financial and non-financial aspects to enhance the company's value. It covers six domains of social aspects: financial, manufacturing, intellectual, human, social and relationship, and natural capital (IIRF, 2021). The evolution of integrated reporting started in 2013 until the International Integrated Reporting Council (IIRC) had established the International Integrated Reporting Framework (IIRF) (updated in 2021). This framework is a guidance where the Council has already established the guiding principles, content elements, and fundamental concepts inside the integrated report. As a result, the report's information will give value-added to the stakeholders, and of course to the company itself.

The majority of the accounting scholars agreed that integrated reporting provides numerous benefits to the adopting companies. One of the benefits is that it creates opportunities for companies to give clear communication and direction about their businesses to the stakeholders, who, in turn, are willing to contribute their investment and business decisions (IFAC, 2017). It improves the company's reputation and its relationship with the stakeholders (ACCA, 2017). Moreover, integrated reporting will augment the disclosure of information and reduce information asymmetry (Hoque, 2017). This action will enhance investors' confidence and trust in the company.

In addition, the integrated reporting provides a clearer view of the businesses regarding their sustainability issues and performance (ACCA, 2017). Some believe that integrated reporting might overcome the weaknesses of sustainability reporting. For instance, sustainability reporting required the reporter, i.e., the company, to provide only a three-bottom line of disclosure if that information does not link to the financial statement. Thus, it will distort the decision-making process where the management cannot make informed decisions (Hughen et al., 2014). Besides, integrated reporting is expected to provide better linkages between sustainability issues and the organizational strategy to ensure it creates value for the stakeholders.

By looking at the other side of the coin, there are some challenges in adopting the companies' integrated reporting. One of the main challenges is the integrated reporting framework provides little guidance on understanding the concepts. The concept of integrated thinking strained the approach of integrated reporting itself (M. La Torre et al., 2019). The earlier statement is supported by Dumay and Dai (2017), and Feng et al. (2017), where they agreed that there is a lack of understanding on integrated thinking as the concept is somewhat vague. It is further supported by the feedback on IIRC's call in 2017. It disclosed that the preparers of integrated reporting are still unclear on the concept of integrated thinking and on how to apply it (IIRC, 2017). To mitigate this issue, the whole party in the organization, either in top or bottom position, should embrace and appreciate implementing the integrated reporting in the company. This process will have a massive impact on the effectiveness of integrated reporting (Singh et al., 2019).

Another challenge is that the costs of implementation of integrated reporting may outweigh the benefits as it requires more time and resources. It is because the company needs to engage the experts in preparing it. This problem can be seen in many Asian countries, including Malaysia, making this integrated reporting a voluntary reporting, and the adoption process is still low. It is further supported by the study conducted by Balasingam et al. (2019). They reported that the challenges faced by the public listed companies in Malaysia are related to the consideration of cost, availability and readiness of information, and the ability of the preparers of integrated reporting. Other researchers, Jamal and Ghani (2016), researched actual property companies in Malaysia and found that compliance with integrated reporting is unsatisfactory. It is because the compliance levels of integrated reporting range from non-compliance to moderate compliance only.

In conclusion, integrated reporting is one of the comprehensive reporting mechanisms that combine financial and non-financial information. Integrated reporting communicates the strategy, performance and value-driven information that will enhance the confidence and trust of the stakeholders towards the organization. Integrated reporting is intended to provide the firm with more significant opportunities to create value, particularly its relationships with the stakeholders. However, integrated reporting can only be impactful if the underpinning concept is implemented efficiently and the challenges are handled effectively.

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