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The Influence of Corporate Characteristics on Integrated Reporting Disclosure among Public Listed Companies in Malaysia

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Abstract

Many companies have become more conscious of the need of company report disclosures as a result of the global financial crisis, so that stakeholders may get a more complete picture of how companies create value. It is anticipated that integrated reporting would be able to provide stakeholders with appropriate information. Integrated reporting combines both financial and non-financial information into a single report, which is a significant improvement over traditional company reporting. The Malaysian Code of Corporate Governance (MCCG) of both 2017 and 2021 encourage large Public listed Companies (PLCs) to adopt integrated reporting in adhering to the International Integrated Reporting Framework (IIRF). This article employs the legitimacy theory to propose a conceptual framework for assessing the extent of integrated reporting disclosure and its relationship with corporate characteristics among Public Listed Companies (PLCs) in Malaysia. To collect relevant data for the variables under investigation, the study recommends employing a content analysis methodology on the integrated reports of the top 100 Malaysian PLCs, selected based on their market capitalization. The proposed conceptual framework holds significant potential as it can aid PLCs in their growing adoption of integrated reporting, to enhance transparency and communicate their commitment to sustainability and responsible corporate practices. This research contributes to the existing literature by examining integrated reporting practices and their determinants among PLCs in Malaysia following the introduction of both MCCG 2017 and 2021. Furthermore, this research is in line with the agenda of the Malaysian Government 2030, which aims to achieve the United Nations (UN) Sustainable Development Goals (SDGs), as integrated reporting is aligned with the advancement towards these goals.

Keywords: Integrated Reporting, Corporate Characteristics, Malaysian Code of Corporate Governance, Disclosure, Public listed companies.

1.0 INTRODUCTION

Integrated reporting is the latest concept in the corporate reporting area. It is a technique used by corporations for expressing a company's ability to produce value over time and convey information to stakeholders for decision-making. In recent years, interest in this new reporting technique has developed in both professional and academic circles. In reality, as a new approach to corporate communication, integrated reporting has attracted a lot of attention in recent years (Maelah et al., 2023).

The International Integrated Reporting Council (IIRC) was formed in August 2010 with an aim to create a globally accepted framework for integrated reporting. In December 2013, the first edition of International Integrated Reporting Framework (IIRF) was developed by the IIRC and subsequently revised in January 2021. The purpose of the framework is to define guiding principles and content elements that will regulate the overall content of an integrated report, as well as to explain the essential concepts that will underpin it.

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1.1 Adoption of Integrated Reporting in Malaysia

The adoption of integrated reporting in Malaysia is on a voluntary basis, Public Listed Companies (PLCs) can choose to adopt or not to adopt the integrated reporting. The Malaysian Institute of Accountants (MIA) serves as the leading advocate in Malaysia for promoting the use of integrated reporting to both investors and corporations. In December 2014, the MIA established the Integrated Reporting Steering Committee (IRSC). The main objective of the committee is to increase integrated reporting acceptance and awareness in Malaysia and involve a variety of stakeholders in its future development (Hamad et al., 2020).

The Securities Commission of Malaysia (SCM) also play an important role in encouraging large corporations to adopt integrated reporting when creating their annual reports. The SCM published the Malaysia Code of Corporate Governance (MCCG) in April 2017. The integrated reporting is incorporated in the MCCG 2017, Practice 11.2 based on the IIRF as the best practice and is an emerging phenomenon in Malaysia (Mohammed et al., 2020). In it, major Malaysian PLCs were encouraged to undertake integrated reporting based on the IIRF (Hamad et al., 2020; SCM, 2017).

The MCCG 2017, Practice 11.2 was later updated by the MCCG 2021 to become Practice 12.2, which requires large Malaysian PLCs to indicate in their corporate annual reports whether they have implemented integrated reporting or not. For Malaysian PLCs that have not adopted the integrated reporting, they need to provide reason and justification for non-adoption of integrated reporting. This is due to the fact that corporate annual reports have historically been a crucial channel for informing stakeholders about the company's financial and strategic performance throughout the previous financial year. It was found by IRSC that there is a gradual increase in the number of PLCs adopting the integrated reporting. There were 105 Malaysian PLCs implemented integrated reporting in 2019 as compared to 97 Malaysian PLCs 2018 (SCM, 2020)

Stakeholders increasingly place more importance on a company's future success and non-financial information because of changes in the nature and pace of business evolution over time. Stakeholders are also becoming more conscious of the significance of non-financial information in predicting long-term financial stability. Integrated reporting is one of the most recent developments that has evolved to fulfil stakeholders' information needs and expectations, along with the growing demand for improvements in corporate reporting (SCM, 2017). The extent of integrated reporting disclosure in the voluntary regime has become one of the most important study topics in recent years due to the increased relevance of integrated reporting for PLCs, professional bodies or associations, regulatory or statutory bodies, and academics.

Despite the literature on integrated reporting has increased in the past few years, it is still fragmented (Dumay et al. 2016; Songini et al., 2021). This suggests a potential for more empirical literature to be added to the existing body of knowledge in this area. The factors that can influence the adoption of integrated reporting have received the most attention (Frias-Aceituno et al. 2012, 2013; Perego et al. 2016; Dumay et al. 2017; Velte & Stawinoga, 2017; Rinaldi et al. 2018), even though a growing body of literature has more recently concentrated on the factors that determine the quality of integrated reporting. The most important factors that influence integrated reporting quality, according to studies, are corporate size, industry, national context, corporate performance (profitability and leverage), assurance, corporate ownership structure, and mechanisms of corporate governance. (Healy, 2002, as cited in Songini et al., 2021; Perrini, 2006).

In recent years, Malaysian PLCs have increasingly adopted integrated reporting to enhance transparency and communicate their commitment to sustainability and responsible corporate practices. However, there is a significant gap between the corporate characteristics and the extent of integrated reporting disclosure in line with the content elements of the integrated report provided in the IIRF. As a result, this study aims to bridge the research gap by measuring the extent of integrated reporting disclosure among the PLCs based on the content elements of the integrated report provided in the IIRF. Additionally, the study will examine the relationships between various corporate characteristics (corporate size, financial performance, and leverage) on the extent of integrated reporting disclosure among PLCs in Malaysia. To establish the theoretical framework for hypothesis formulation and guide the research discussion, legitimacy theory will be employed. Legitimacy theory explains fundamental principles of integrated reporting and suggests that organizations engage in certain practices, such as integrated reporting, to gain and maintain societal legitimacy.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The literature review is conducted to further understand the term, definition, variables of interest, integrated reporting disclosure, and the corporate characteristics of the research topics.

2.1 Overview of Integrated Reporting

The IIRF is used to accelerate the adoption of integrated reporting across the world with an aim to:
a. Improve the quality of information provided to financial capital providers to allow for more efficient and productive allocation of capital.
b. Encourage a more cohesive and efficient approach to company reporting that incorporates various reporting strands and communicates the complete range of factors that substantially impact a company's potential to create value over time.
c. Enhance accountability and stewardship for financial, manufactured, intellectual, human, social and relational, and natural capital, as well as encourage understanding of their interdependencies.
d. Support integrated thinking, decision-making, and activities that prioritise value creation in the short, medium, and long term. (IIRC, 2021).

According to IIRC (2021), integrated reporting is a process based on integrated thinking which leads to a report about value creation, preservation, or erosion over a period of time. This leads to the question of what integrated thinking is. The IIRC (2021) in its IIRF stated that integrated thinking can be summarized by the following four points:
a. it involves active consideration so it is not a passive or reactive process but rather a proactive process;
b. the consideration relates to linkages or relationships between operating units, functional units and capitals of a corporation;
c. integrated thinking results in actions and decisions that would create, preserve or erode value; and
d. the time period for which this value creation considered is related to the short term, medium term and long term.

The IIRC does not have an international set of standards for integrated reporting. Corporates have been reporting environmental, social, and governance information in their annual reports in a disconnected manner (Islam & Islam, 2018). However, to achieve the objectives of integrated reporting and the integrated report, the IIRF provides eight elements that must be considered by the reporting corporation to be included in the integrated report. These elements include:
a. the organizational overview and the external environment
b. governance
c. business model
d. risks and opportunities
e. strategy and resource allocation
f. performance
g. outlook and
h. the basis of preparation and presentation (IIRC, 2021)

For each of these elements, there are questions that need to be answered and considered and this would form the basis and the content that would be included in the integrated report. The IIRC has established seven guiding principles in its IIRF for the purpose of preparing and presenting an integrated report, these include:
a. strategic focus and future orientation
b. connectivity of information
c. stakeholder relationships
d. materiality
e. conciseness
f. reliability and completeness and
g. consistency and comparability (IIRC, 2021)

In summary, integrated reporting is a process based on integrated thinking and the outcome is a report about value creation over short, medium and long term by the reporting corporation.

2.2 Legitimacy Theory

Legitimacy theory provides a motivation for corporates to disclose financial and non-financial information in corporate reporting practices such as integrated reporting by asserting that in attempting to be legitimate in its operating environment, a corporate must establish congruence between the social values of its activities and the standards of acceptable conduct in the larger social system (Deegan, 2002, as cited in Adhariani & Sciulli, 2020). Dowling and Pfeffer (1975, as cited in Abeywardana et al., 2021) further added that any disparity that exists between the social values of its activities and the standards of acceptable conduct in the larger social system will cause a threat to corporate legitimacy.

The legitimacy theory describes management's reaction to changes in community expectations. Management is considered to act in a way that avoids further explicit constraints, for example, government regulations or implicit for example reputation impacts constraints on its operations. Corporate legitimacy is about more than just matching performance to expectations; it is also about how management can tell external parties about their social and environmental performance. Corporations utilise these legitimate strategies to close the legitimacy gap (Abeywardana et al., 2021). In this study, legitimacy theory will be adopted to govern the development of the study framework to look into the effect of corporate size, corporate financial performance, and corporate leverage on the extend of integrated reporting disclosure.

2.3 The Relationship between Corporate Size and the Extent of Integrated Reporting Disclosure

Corporate size refers to the natural logarithm of the total assets of the corporation (Chouaibi et al., 2022a; Ciavarella, 2017; Kılıç & Kuzey, 2018b). According to Hossain et al. (1995, as cited in Gul & Leung, 2004) the higher need for outside capital, lower average costs of information gathering and dissemination, as well as higher demand for information by financial analysts, large corporations are expected to make more voluntary disclosures. This is because larger companies may find it affordable to generate forward-looking information (Aljifri & Hussainey, 2007; Kılıç & Kuzey, 2018b). Furthermore, larger corporations provide more forward-looking information than smaller companies because their earnings are more stable (Kent and Ung, 2003; Kılıç & Kuzey, 2018b). As a result, stable performance may make it easier for larger corporations to make future estimates, leading them to publish information about such projections via communication channels. Also, larger corporations may provide more information due to higher agency expenses and information asymmetry issues (Frias-Aceituno et al., 2014).

Large corporations have more stakeholders to satisfy, all of whom are interested in different types of information and how these information types can create value. Numerous studies provide evidence supporting the notion that there exists a positive correlation between a corporation's size and the quality of integrated reports it produces. For instance, Frías-Aceituno et al. (2014), García Sanchez et al. (2011), and Iredele (2019) have all found evidence to support this claim. These studies suggest that as corporations become larger, they tend to produce higher quality integrated reports that provide more information about the organization and its operations to stakeholders. On the other hand, Alfiero et al. (2018a) and Kılıç and Kuzey (2018a) conducted research that discovered no significant influence of corporate size on the extent of integrated reporting disclosure.

Given the above positive relationship between the corporate size and the extent of integrated reporting disclosure adhering to the IIRF, the first hypothesis to test the relationship between the corporate size and the extent of integrated reporting disclosure adhering to the IIRF is developed as follows:

H_1 The corporate size is positively associated with the extent of integrated reporting disclosure.

2.4 The Relationship between Corporate Financial Performance and the Extent of Integrated Reporting Disclosure

Corporate financial performance refers to the Return on Assets (ROA) of the corporation. It is measured as the net income divided by the total assets (Girella et al., 2019; Kılıç & Kuzey, 2018b; Oshika & Saka, 2017). Previous studies have employed a range of different financial performance indicators. Financial performance indicators can be market-based such as Tobin's Q or accounting-based such as Return on Assets (ROA). Some studies show a positive relationship between financial performance and IR implementation based on gross margin, Earnings before Interest and Taxes (EBIT), net income, Return on Equity (ROE) (Oshika & Saka, 2017), market-to-book ratio (Girella et al., 2019), and ROA (Girella et al., 2019; Frias-Aceituno, 2014; Oshika & Saka, 2017).

Research studies investigating the relationship between the quality of integrated reports and profitability have produced varying results. Previous studies, such as Alfiero et al. (2018a), and Sunarti et al. (2021), found no statistically significant relationship between the two variables. Prencipe (2004) found a negative relationship. However, other studies, such as Frías-Aceituno et al. (2014) and Iredele (2019), discovered a positive relationship between the quality of integrated reports and profitability. These studies suggest that more profitable corporations may invest more in producing high-quality integrated reports, although the exact nature of the relationship is still a subject of debate and requires further investigation.

Nevertheless, given the above conflicting views of the relationship between the corporate financial performance and the extent of integrated reporting disclosure adhering to the IIRF, the second hypothesis to test the relationship between the corporate financial performance and the extent of integrated reporting disclosure adhering to the IIRF is developed as follows:

H_2 The corporate financial performance is negatively associated with the extent of integrated reporting disclosure.

2.5 The Relationship between Corporate Leverage and the Extent of Integrated Reporting Disclosure

Corporate leverage is an indicator of a corporation's financial risk (Kılıç & Kuzey, 2018b; Patton & Zelenka, 1997). The leverage ratio is measured as total debt divided by the total assets of the corporation (Chouaibi et al., 2022a; Kılıç & Kuzey, 2018b; Lang & Lundholm, 1996; Sriani & Agustia, 2020). The corporations with higher levels of debt are more likely to provide information voluntarily in an effort to lower their agency costs and cost of capital (Jensen & Meckling, 1976). According to Ahmed and Courtis (1999, as cited in Gul & Leung, 2004), costs associated with monitoring should be higher for corporations with high debt levels. As a result, managers of high-debt corporations try to lower these costs by providing more details in their annual reports. The leverage ratio is measured as the total debt divided by the total assets of the corporation (Chouaibi et al., 2022a; Lang & Lundholm, 1996; Sriani & Agustia, 2020).

Empirical studies investigating the association between leverage and the quality of integrated reports have yielded conflicting results. Previous studies, including Iredele (2019), and Lai et al. (2017), did not find a significant relationship between the two variables, others such as Ahmed and Courtis (1999), and Broberg et al. (2010) reported a positive relationship. In contrast, Chouaibi et al. (2022a), and Sunarti et al. (2021) observed a significant negative relationship between leverage and integrated reporting disclosure in European corporations from 2010 and 2019 and commercial banks in Malaysia from 2013 to 2017 respectively. Thus, the nature of the link between leverage and the quality of integrated reports remains uncertain, and further research is necessary to gain more understanding of the relationship.

Nevertheless, given the above conflicting views of the relationship between the corporate leverage and the extent of integrated reporting disclosure adhering to the IIRF, the third hypothesis to test the relationship between the corporate leverage and the extent of integrated reporting disclosure adhering to the IIRF is developed as follows:

H_3 The corporate leverage is negatively associated with the extent of integrated reporting disclosure.

2.6 Proposed Conceptual Framework

Based on the legitimacy theory as stated in the theoretical framework, research objectives, and questions, three independent variables and one dependent variable have been established for the proposed conceptual framework in this study. It is illustrated in Figure 1.

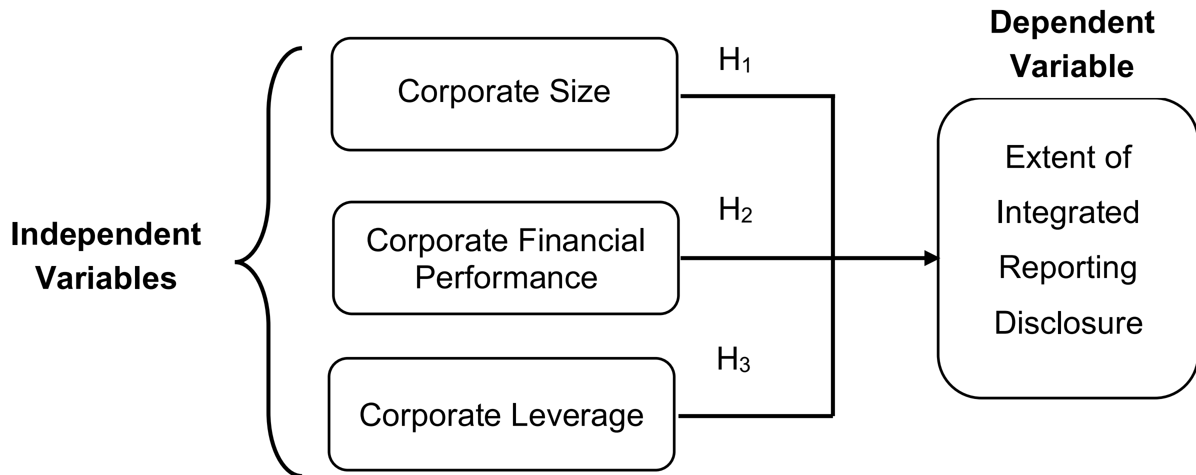

Figure 1. Corporate Characteristics and Extent of Integrated Reporting Disclosure
Source: Developed for the research.

From a practical perspective, the proposed conceptual framework outlined in this study are very useful for PLCs in Malaysia. Those PLCs already engaged in Sustainability Reporting (SR) practices can be motivated to adopt the IIRF, which enhances transparency and mitigating information asymmetries. Besides, PLCs in Malaysia can benefit from this framework as it can utilize the findings of this study to identify areas for enhancement in their integrated reporting. Furthermore, this research aligns with the agenda of the Malaysian Government 2030, aimed at achieving the United Nations (UN) Sustainable Development Goals (SDGs), as integrated reporting is aligned with the advancement towards these goals.

3.0 METHODOLOGY

To assess the extent of integrated reporting disclosures among PLCs in Malaysia, this study will utilize content analysis, a method commonly employed in the examination of voluntary disclosure studies. This is similar to many past previous studies, for examples, Frias-Aceituno et al. (2013), Garcia-Sánchez et al. (2013), Ahmed and Anifowose (2016, 2017), Kılıç and Kuzey (2018a), Oliveira et al. (2010), Setia et al. (2015), and Sunarti et al. (2021) that have used this method in their studies. The most common type of content analysis is examining the presence or absence of each item using a non-weighted disclosure method (Krippendorff, 2018). The research will develop a checklist encompassing seven content elements of integrated reporting: organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, and outlook. To create this checklist, the study will draw upon the guidelines for integrated reporting provided by the IIRC.

The required data for this analysis will be sourced from annual reports, which are accessible through the Bursa Malaysia website and various databases. Given that integrated reporting is a relatively recent voluntary reporting practice in Malaysia, this study will employ a purposive sampling method to maximize the sample size.

4.0 CONCLUSION

The increasing relevance of integrated reporting for PLCs, practitioners, professional associations, regulatory or statutory agencies, and academician has made it one of the most significant areas of study within the field of accounting in recent years. Integrated reporting represents a significant departure from traditional corporate reporting as it consolidates both financial and non-financial information into a single comprehensive report. The primary goal of integrated reporting is to enhance the provision of information to stakeholders while strengthening accountability and stewardship towards providers of financial capital. Both the MIA and the SCM have actively promoted the adoption of integrated reporting, resulting in a gradual increase in the number of PLCs adopting integrating reporting. In this context, this study seeks to explore the potential relationships between corporate characteristics, including corporate size, financial performance, and leverage, and the extent of integrated reporting disclosure among PLCs in Malaysia.

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