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**INSIGHTS OF INTEGRATED REPORTING IN ORGANIZATIONAL REPORTING PRACTICE: A
STUDY OF LISTED MANUFACTURING COMPANIES ON COLOMBO STOCK EXCHANGE IN
SRI LANKA**

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Abstract

This paper sets out to explore and review the application and nature of disclosures in Integrated Reporting (IR) among selected manufacturing organizations listed on Colombo Stock Exchange (CSE) in Sri Lanka. This study used (Abeysekera, 2013)“A template for integrated reporting” as the theoretical base of this study. The content analysis with qualitative coding technique used for this study and this study evaluates the extent and nature of IR disclosures by conducting a five-year analysis. Sample consists with twenty five Sri Lankan manufacturing companies listed on Colombo Stock Exchange (CSE) and out of that sample six companies were awarded as the best Integrated Report prepares by the Institute of Certified Management Accountants of Sri Lanka in 2015 (ICMASL, 2015). This study shows that the rapid development of integrated reporting policy and present theoretical and empirical challenges because of the different ways in which integrated reporting is understood and enacted within organizations. Further IR has increased in the extent of disclosure of human, social and relational, natural and intellectual capital information of the listed companies.It highlights many areas where further robust academic research is needed to guide developments in policy and practice of IR.

Keywords: Integrated reporting (IR), IIRC, Listed companies, content analysis, Sri Lanka.

Introduction

In the twenty first century, the world has become closer mainly with the adoption of globalization than ever. In the context of business, the need of information has changed largely because of the diverse stakeholder groups. The change in investor landscape from a typical investor whose only focus was financial return to investors with a broad focus on sustainable responsible performance, has not only demanded that organizations re-think their use of resources but also how the information should be reported to those concerned (Abeysekera, 2013, pp. 41-45). Transparency about the sustainability of organizational activities is of interest to a diverse range of stakeholders, including business, labor, non-governmental organizations, investors, accountancy and others. The multi-stakeholder approach to learning has given the Reporting Framework the widespread credibility it enjoys with a range of stakeholder groups ((GRI), 2000-2011). The IR framework tries to bridge the gap in annual reporting where previously only financial information was disclosed since global adoption on IR has intensely

3rd Interdisciplinary Conference of Management Researchers
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influenced to the Sri Lankan companies Listed on Colombo Stock Exchange (ICASL, 2018) and researchers had minimum attention for this area in Sri Lanka.

The main objective of this paper is to investigate the insights of rapidly emerging field of IR, with the wide scope of IR application in Sri Lanka. Further this paper examines the adaption of IR to their reporting mechanism and its importance on reporting practice. At present there is a hesitant situation on IR in Sri Lanka, since it is not a mandatory requirement on reporting procedure, whereas few companies listed on CSE have started on applying IR voluntary (Richard Howitt, 2017).

The paper reviews the relevant literatures on IR to investigate the diverse opinions and applications. This paper synthesizes and insights in the emergent IR academic literature in combination with policy declarations in Sri Lanka. The paper illustrates that the rapid development of IR concept, and early developments of practice, present theoretical and empirical challenges as of the different ways in which IR is understood and ratified within organizations. It mentioned many areas where additional fruitful academic research is needed to direct developments in IR concept and practice.

Literature Review

Corporate reporting has undergone a dramatic transformation over time with a substantial increase in the disclosure of non-financial information such as governance; risk management and sustainability in addition to financial performance to meet the expectations of a diverse group of stakeholders (Robert G. Eccles, 2009). The concept of Integrated Reporting (IR) is at an unindustrialized era (Abeysekera, 2013, pp. 41-45). The hub of IR has undergone to nearly few decades ago (Abeysekera, 2013, pp. 41-45). According to the (H.Meckling, 1976), the Principal - Agent problem rose due of the separation of ownership and control. That Principal - Agent problem is the platform to the concept of IR (Abeysekera, 2013, pp. 41-45).

The primary aim of an IR is to “explain providers of financial capital how an organization creates value over time” ((IIRC), 2013, p. 4). To address the diverse stakeholders, it is needed to amalgamate every aspect of the business. Therefore, IR combines two traditions of corporate reporting, financial reporting and sustainable reporting, where the former views a firm as a “nexus of contracts” among boards, managers, employees, suppliers and other actors, whose core purpose is to maximize returns to investors (H.Meckling, 1976). In addition to the (H.Meckling, 1976), (Sison, 2009) argued that, the latter conversely provides a broader concept of a firm as a community of interdependent stakeholders who come together to create value as a collectivity.

Some of the foremost criticisms were drawn regarding the concept of IR since it is an emerging area and most of the backers of IR point out that the criticisms are too much too early (Adams, 2015). While the organizations that are producing some form of integrated report are changing their processes and structures, or at least talking about it, their adoption of integrated reporting has not necessarily stimulated new innovations in disclosure mechanisms (Wendy Stubbs, 2014). Yet proponents admit that there is always room for improvement, and that the IR frameworks will build on feedback from various stakeholder groups including the business community, users of information, academics and other relevant publics (Abeysekera, 2013, pp. 41-45).

Apart from the global application of IR, Sri Lanka is now adopting this new concept and tends to have dramatic changes in the reporting structure (Richard Howitt, 2017). Further (Richard Howitt, 2017) stated that, worldwide shift for businesses to integrate its external relationships and resources in to their financial reporting, is now on the path to maturity in Sri Lanka.

Methodology

This study used an informative method of review based on qualitative data. Secondary data from annual reports issued by the organizations were taken to the analysis. Organizations revealing their tendency to IR were recognized from company websites via the web site of the CSE (Colombo Stock Exchange). The method used in this study was a content analysis via referring the annual/ integrated reports and record information related to each disclosure item on a coding sheet. If the attribute is disclosed in the annual/ integrated report, then it was given a score of “1” and “0” if not disclosed.

3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka

According to the (IIRC, 2013), this study used six attributes (capitals): financial, manufactured, human, intellectual, natural and social/ relationship capital to design and analyze the IR application in selected organizations. Out of these six capital components, this study used human, intellectual, natural and social/ relationship capital; as previous study done by (Neelam Setia, 2015).

In this study; it identified twenty five manufacturing organizations listed on CSE. Out of which six organizations were awarded as the best Integrated Report prepares by the Certified Management Accountants in Sri Lanka in 2015 (ICMASL, 2015). Data was considered from the period of five years from 2010 to 2015.

The content analysis explored the history of sustainability and IR in the organization, the real meaning of IR, the challenges and drivers, how they were implementing it and if (and how) their approach had changed from sustainability reporting (processes, systems and structures). This paper focuses on exploring the methods used by the organizations in designing their reports (IR).

Though, every organization were examining IR and following the guidelines provided by; The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) together with the Integrated Reporting Council of Sri Lanka (IRCSL) and IIRC (International Integrated Reporting Council). Four participating organisations were in the early stages of IR and declared that, they were issuing a comprehensive report of IR, and two were issuing a general report of IR.

Results/ Analysis and Discussion

Results show percentage of companies disclosing each of the disclosure items from year 2010 to 2015. In every year, all the companies have reported on training and development and employee benefits. Except for one company, all others have disclosed competencies, and capabilities and experiences of employees in their annual reports. Most companies were reluctant to disclose information on employee morale, employee loyalty and motivation in 2010. However, the number of companies disclosing these two items has increased significantly after 2011. Further evidence of the popularity of human capital disclosure comes from (Abeysekera, 2013).

Further it shows that there is an increase in the number of companies disclosing natural capital items in between 2010 to 2015. Examples of disclosures of natural capital included “area of deforestation in square meters”, “total land area used for business purpose”, “the extent of wasteful air passing through chimneys” and “depletion of non-renewable natural resources. More companies have provided information on the “use of and impact on land and atmospheric resources” in their integrated reports than in their annual reports. The number of companies disclosing the “use of and impact on water resources” has reduced slightly from 21 to 19 companies during the analysis period. The “use of and impact on atmospheric resources” tend to be the least disclosed item among the natural capitals in reported a significant increase in environmental information since year 2012 integrated reports compared to 2010 and 2011 annual reports. On social and relational capital disclosures, it shows that more companies from 2011 to 2012 compared to 2010 disclosed each social and relation capital item except for “human rights”, “claims and lawsuits” and “involvement in social action”.

The decrease in the disclosure of “claims and lawsuits” could be somewhat associated with the increase in the level of compliance with laws and regulations by the companies. A close examination of the information disclosed under these items shows that the companies are becoming more conscious of their corporate image and reputation and handling of issues that might have an adverse impact on them. The social and relational items disclosed by the most number of companies are “shareholder relations”, “relations with business partners”, “claims and lawsuits”, “involvement in social action”, “donations and charitable work” and “relations with suppliers”. The number of companies disclosing these items either increased or remained the same during year 2010 and 2011, except for the item “claims and lawsuits”. Findings are in line with Ernst & Young (2012) who found a significant increase in the disclosure of stakeholder related information in the annual reports of Sri Lankan-listed companies and state-owned entities.

3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka

Latter part of the result shows that the intellectual capital items disclosed by every company in 2010 are “corporate governance” and “processes, policies and procedures”. However, in 2011, one of the samples companies did not report “processes, policies and procedures” information. The least reported intellectual capital item in both years is “intellectual property”. More companies disclosed this information in 2012 compared to 2010 and 2011.

At least 20 companies are disclosing all other items of intellectual capital in their integrated reports in 2012. Slight decreases in the number of companies disclosing are found for “research and development”, “processes, policies and procedures” and “brands”. The upward trend in the number of companies disclosing most items of relations with stakeholders and social capital is in line with the extent of social and relational capital disclosures will have the highest increment in integrated reports.

Conclusions

The purpose of this paper is to provide academics researching in IR with a compact basis upon which to build their research and to provide regulators and reporting organizations with insights to help inform additional development of existing IR concept and practice. It has reached that this aim by outlining the experiences to early developments of and present condition of IR.

It is important that the accounting academic community, laterally with other academic disciplines, has the capacity to synchronize further developments on IR. Some of the previously research around IR appeared ignorant of research produced over several decades into a series environmental and social reporting practices that could have been basics for fruitful IR including stakeholders.

As IR policy and practice matures, the academic community has a significant part to conduct in providing a strong and fair evidence base upon which more policies and practices can be constructed. This paper provides substantial opportunities for the academic community. On the other hand, it provides challenges and opportunities for policy-makers and practitioners as well. Combining all these clustered facts into one, in developing IR concept, constructing IR policy and enhance the IR application must result in transparent and more effective IR.

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3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka

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