

CHALLENGES IN IMPLEMENTATION OF INTEGRATED REPORTING

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Abstract: Integrated Reporting has been launched in year 2013 by International Integrated Reporting Council (IIRC). IIRC has mentioned that ‘the primary purpose of an integrated report is to explain to providers of financial capital on how an organization creates value over time’. Hence, this framework has been released in order to provide principle-based guidance for the companies in creating an integrated reporting to meet the expectation of the stakeholders such as shareholders, suppliers and creditors. Therefore, it is important to study the potential challenges which might be happened in implementing Integrated Reporting by the preparers. Therefore, the study aims to determine the current state of issues and identify the potential challenges when the organization is changing to adopt integrated report. The data used in this research will be primary data. Therefore, a set of questionnaires are distributed to the accounting professionals in order to collect the primary data. The questionnaire will be set in order to test the variables and the information of the respondents including their personal profile and company information will be recorded as anonymous. Likert Scale will be used for measuring the attitudes by asking the respondent to respond to a statement about the research.

Keywords: *Integrated Reporting, Challenges/*

INTRODUCTION:

Integrated reporting integrates sections of sustainability initiatives, addresses the needs of multiple stakeholders, includes an overview of corporate programs and how they impact performance, and requires a more flexible and nimble accounting function. By integrating these multiple aspects of theories into a consolidated format that delivers a holistic view of financial performance, this format appears to address these issues thoroughly. By delivering a more inclusive and holistic presentation of financial and non-financial performance to the marketplace, and by default, generating higher levels of engagement with stakeholder groups, this reporting template appears to create an environment for increased transparency and communication with external stakeholders.

Integrated reporting, spearheaded by the International Integrated Reporting Council (IIRC), is a template for a new type of financial reporting. Analyzing and understanding the motivations behind the development of the integrated reporting framework is essential for explaining the value proposition to potential users (Abeysekera, 2013).

Several specific benefits identified include explaining the story of the organization, with the underpinning values of the firm enacted by management, monitored by corporate governance, and using financially oriented metrics in order to evaluate these initiatives in a quantitative manner. The development of such nontraditional methodologies allows both individuals and organizations to leverage the quantitative strengths of finance and accounting personnel to integrate nontraditional information into financial statements (Smith, 2014). An integrated financial report should be able to explain the mission and purpose of an organization, outline the governance and monitoring methods used to ensure compliance with this mission, and demonstrate the ability of an organization to quantify the impact of the measures on the financial performance of the organization.

India is a country where global investors are highly interested in investing. As it's considered to be the most attractive investment destination, the potential investors will emphasize on material information being disclosed in the reports. As Indian organizations are listed in the top – tier global capital and high quality investors, there is a huge demand of financial and non-financial reporting for transparency and comparability. Integrated reporting is a multi-capital reporting that leads to value creation hence encouraged by SEBI – India's market regulator. SEBI strongly recommends Integrated Reporting, also few companies have adopted Integrated Reporting.

CHALLENGES IN IMPLEMENTATION OF INTEGRATED REPORTING:

Integrated reporting being voluntary is not adopted by many companies. Considering organization as a part of the society and not apart from the society Integrated reporting should be made mandatory.

Investors are seeking for Integrated Reporting but there are many challenges and draw backs due to which an organization is not encouraged to adopt Integrated Report.

- Lack of standardization,
- Reluctant in disclosing sensitive information,
- Lack of importance of non-financial information, associated cost of reporting, difficulties with measuring and linking sustainability performance.

Resources, time, technology, systems, process these things are required for IR, the amount spent for these things are not justified by the benefits - myth (ideology) of the Organizations.

Over and above difficulties are faced in aligning stakeholders' demands and senior management's readiness in disclosing information thereby implementing integrated reporting. It is not easy to seek resources in sufficient amount, disclosing legit dues owed by the directors with reference to further discussion, fulfilling regulatory requirements.

Long term value creation is considered as the biggest advantage of Integrated Reporting. Majority preparers of Integrated Report communicate content element. But maximum times the report has no evidence that the value creation is a result of content elements. Even the organization fails to recognize what stakeholders consider

“value” as? Expert preparers of such reports are still searching the best method of evaluating value creation with the help of qualitative non- monetary activities of an organization.

One of the significant challenges a preparer and a reviewer has faced with the implantation of Integrated Report is the connectivity of the information. Stakeholders' being interested in seeing an Integrated Report with some perspective and the way an Integrated Report has been prepared has a gap. May be existing data collection part shall be changed to fill this expectation versus reality gap.

Materialistic and Concise information are the main characteristics of a report. Majority prepares of an Integrated Report struggles in reconciling the stakeholders requirement of such concise and material information.

Preparers of an Integrated Report are governed by the internal team of an organization. Hence there are chances of some biased or incomplete information being disclosed in an Integrated Report. Just for value creation the experts might have to do window dressing.

It is very difficult to maintain consistency in an Integrated Report. Even the comparability feature will also be missing. As there are no rules or standardized format or a compulsive framework the preparers will try to make the report internally consistent, thereby the consistency and comparability with the other organizations will be difficult to be maintained.

LITERATURE REVIEW:

Patel M. (2014) attempted to study the correlation between the sustainability performance and sustainability macroeconomic indicators with the help of balanced scorecard. At the same time, integrated reporting challenges the reality that companies must have a real sustainable business rather than just say it has. For responding to this challenge, a collaborative and multifunctional process is required for producing integrated reports. Comparability need to be the essence of collaboration, as the internal control and measurement systems for non-financial information are not as sophisticated as those for financial information.

Dumay J., et al. (2017) in the article explored the challenge and potential barriers for Integrated Report are that it is now at a stage in its breakthrough period that requires it to find new and compelling evidence that it can live up the rhetoric and benefits it supports. Authors found that it may suffer becoming the next corporate reporting fad or fashion that was lauded as a good idea and yet failed to live up to its promises.

Balasingam S., Arumugam D., Ai Hui K. (2019) in their article explored the challenges faced by the public listed companies of Malaysia in adopting Integrated Reporting. The study determined how principle based guidance in implementing Integrated Report has been followed and how far the expectations of stakeholders have been met. Research has been conducted with the help of primary data.

RESEARCH METHODOLOGY

Research Objective:

To know the perception of accounting professionals regarding the challenges faced while implementing Integrated Reporting.

Research Design:

Integrated reporting system has not been made compulsory in India. Several Indian companies have adopted some aspects of Integrated reporting. In the current research work we are exploring the difficulties organization and report preparers face while implementation of Integrated Reporting. We made an attempt to know the perception of accounting professionals towards the struggles in adopting Integrated Reporting System. Hence, we have adopted explorative research design.

Type of Data:

We have collected primary data from accounting professions in the form of Structured Questionnaire.

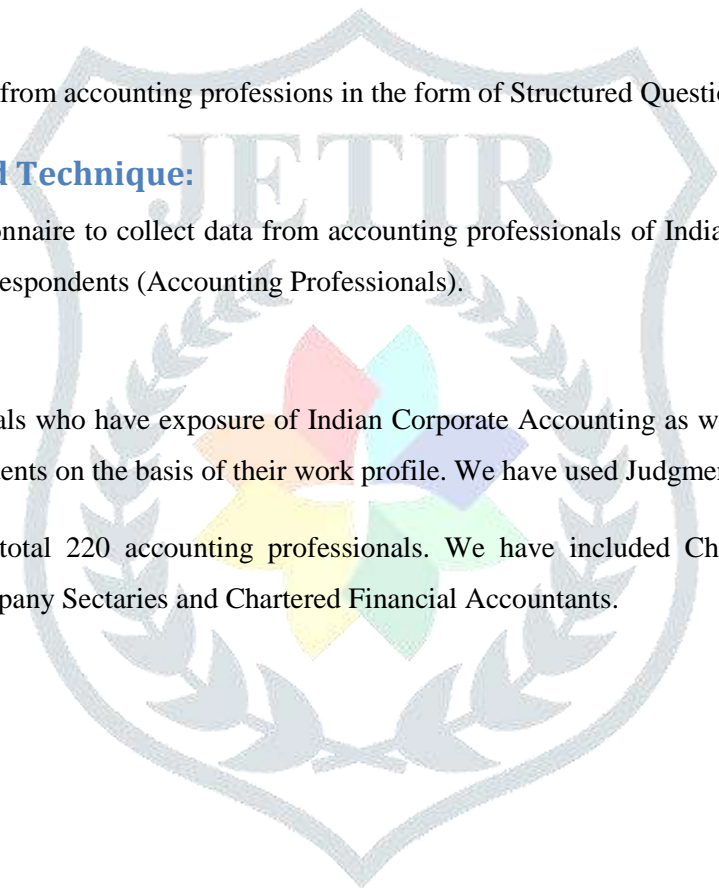
Data Collection Tool and Technique:

We had used structured Questionnaire to collect data from accounting professionals of India. We had conducted survey for data collection from respective respondents (Accounting Professionals).

Sampling Plan:

We need accounting professionals who have exposure of Indian Corporate Accounting as well as International Accounting. Hence we have selected respondents on the basis of their work profile. We have used Judgmental Sampling.

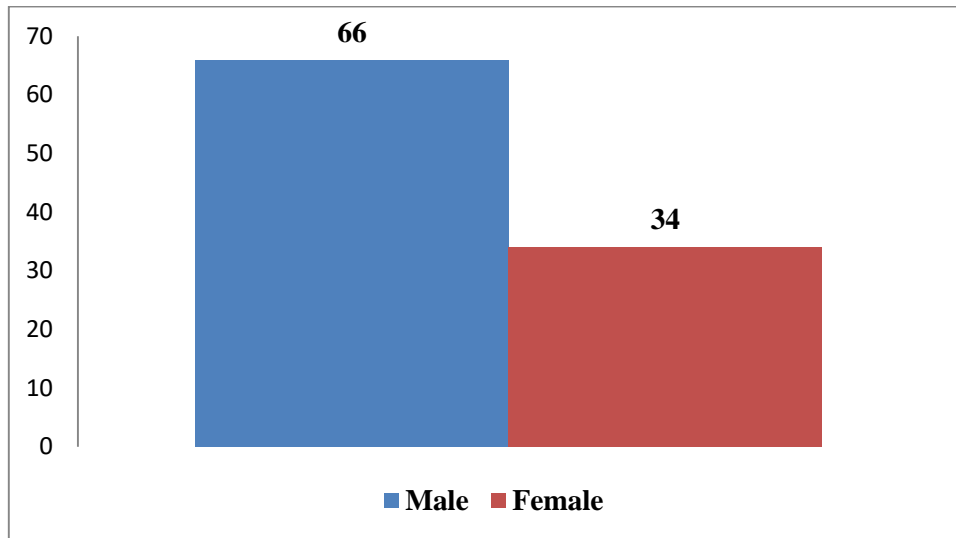
We have collected data from total 220 accounting professionals. We have included Chartered Accountants, Cost and Management Accountants, Company Secretaries and Chartered Financial Accountants.



DATA ANALYSIS:

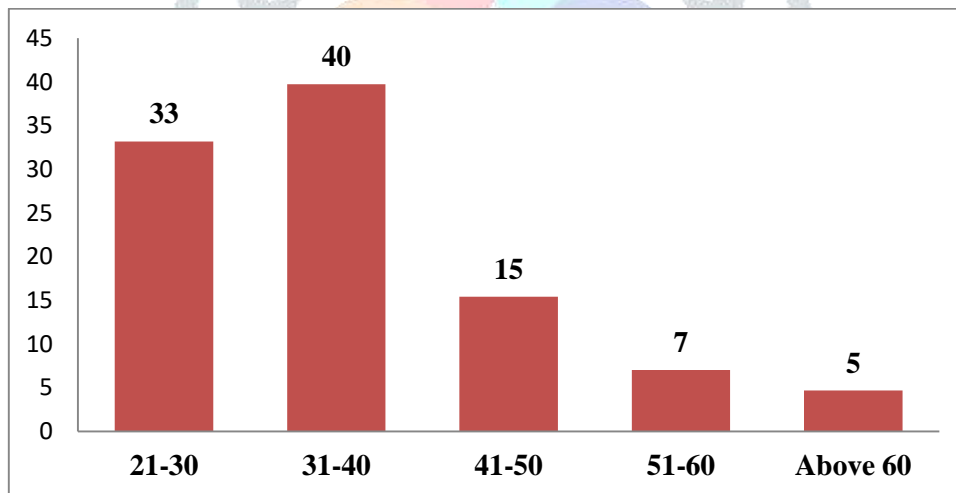
Percentage Analysis:

Gender of respondents



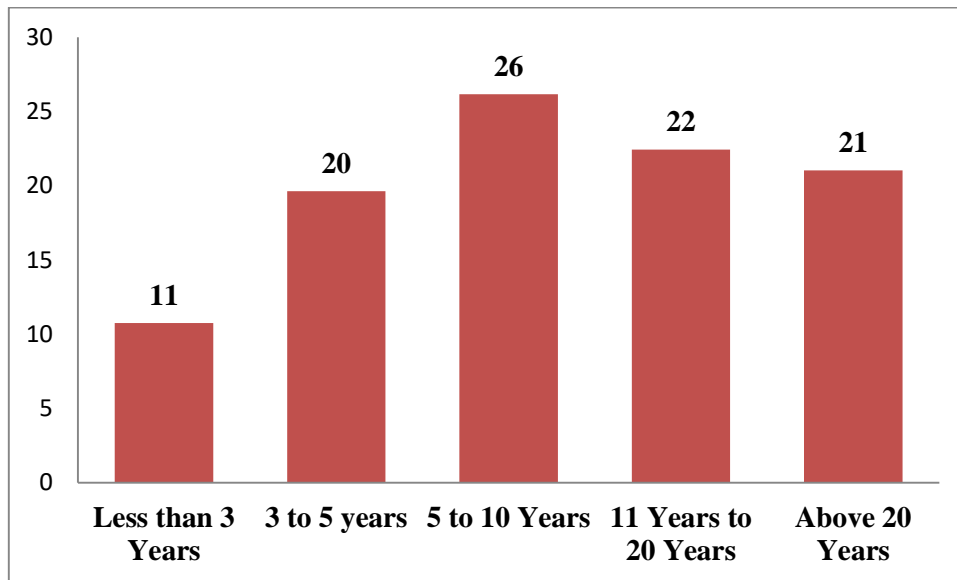
Out of total respondents of survey one third respondents are Female and Two third are Male.

Age group of respondents

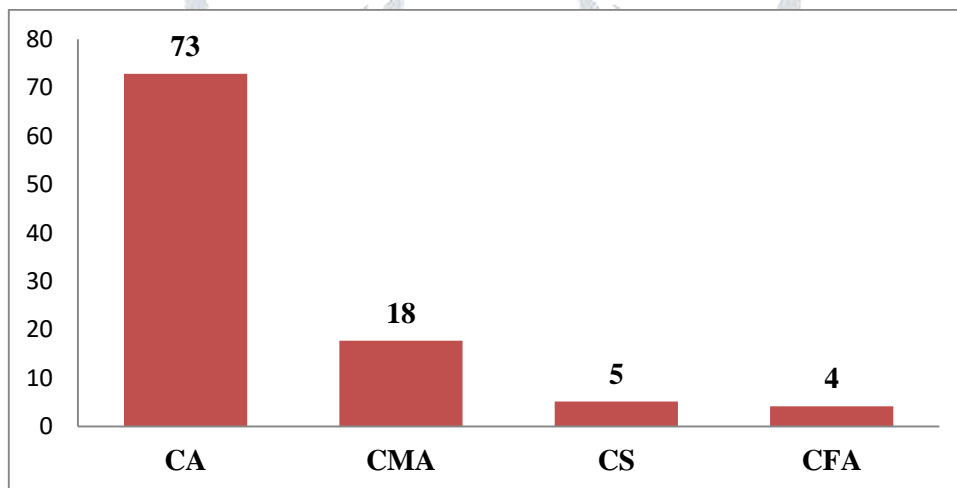


In survey we had collected data from almost every age group. However, 40% respondents are in the age group of 31 to 40 Years. One third of respondents is in the age group of 21-30 years. 15% are in the age group of 41-50 years and 7% are from age group of 51-60 years and just 5% respondents are above the age of 60%.

Experience in the field of accounting

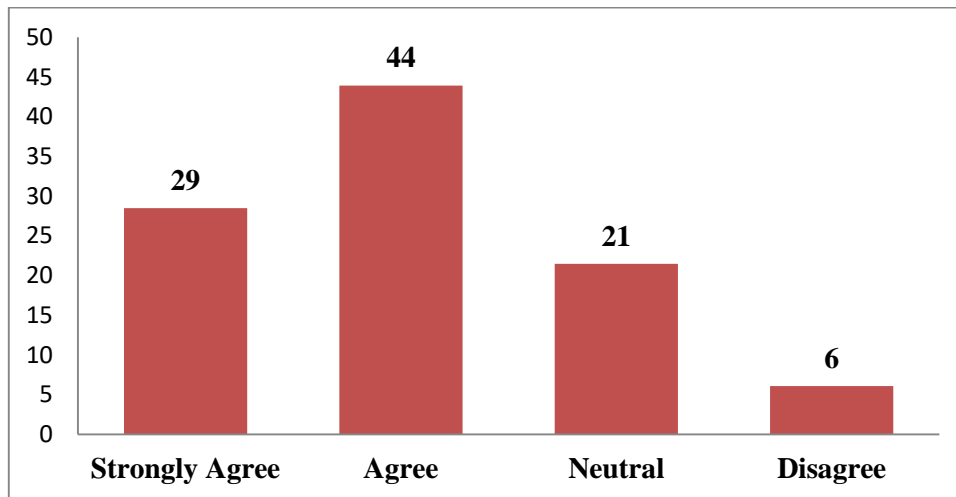


Educational qualification



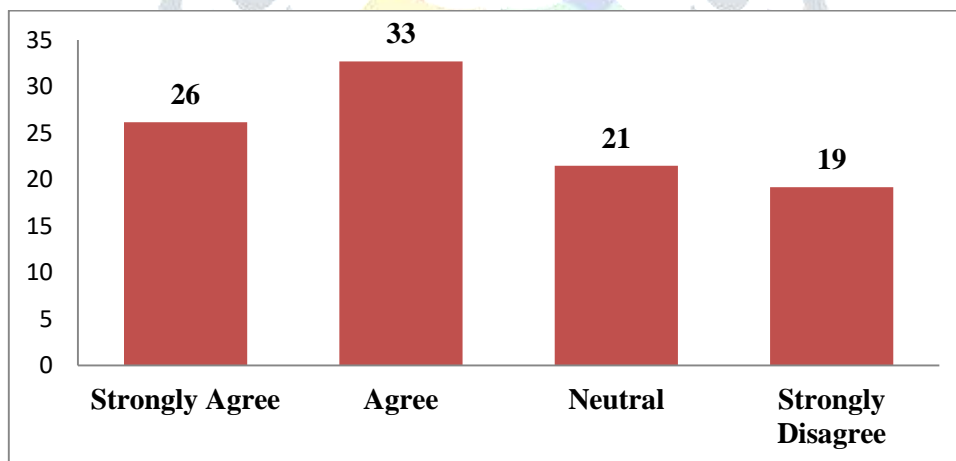
Out of total professionals in survey 73% are chartered accountants. 18% respondents are Cost and Management Accountants and 5% are Chartered Secretaries. Just 4% respondents are Chartered Financial Accountants.

Lack of inclusion in accounting standards



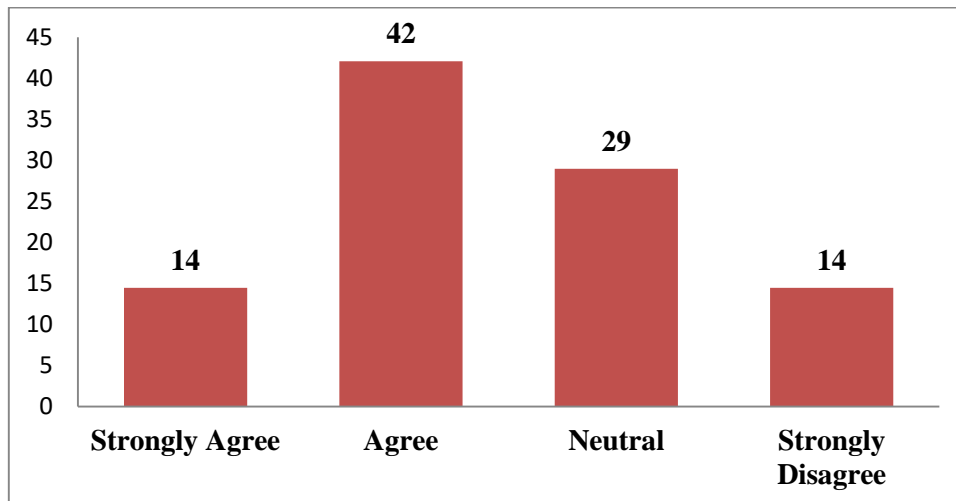
Due to non-availability of accounting standard relating to Integrated Reporting System in India accountants and professions and organisations are facing difficulty in implementation. 29% respondents strongly agreed to this statement. 44% believed that lack of accounting standard is the reason for its non-implementation. 21% were of neutral opinion. 6% respondents are of the opinion that non-availability of accounting standard does not affect at all. disagreed to it

Adoption of integrated reporting is expensive in nature



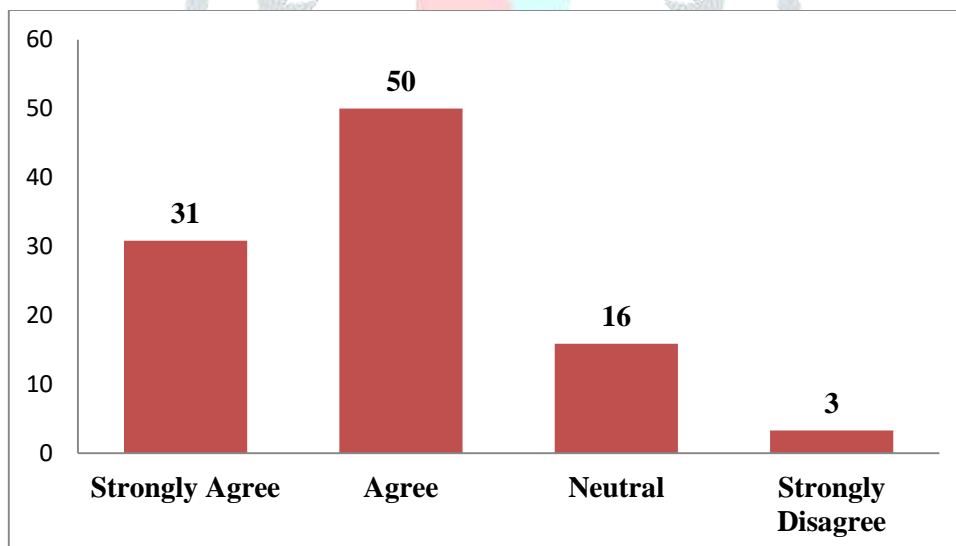
26% respondents strongly believed that Integrated reporting is expensive in nature. While 33% agreed that integrated reporting is quite expensive. 21% respondents are neutral to this. 19% respondents believed that Integrated reporting is not expensive.

As it is voluntary and not compulsory



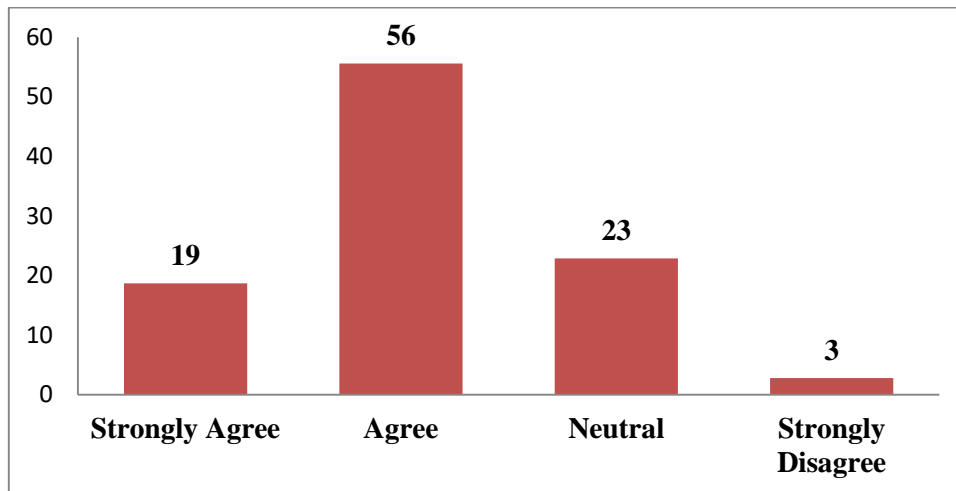
Voluntary adoption of integrated reporting is key for non-implementation. 14% respondents are strongly agreed to this statement. 42% respondents agreed that as it is voluntary, it is not implemented by all. 29% respondents are neutral to this. 14% respondents disagree to this.

Implementation is time taking



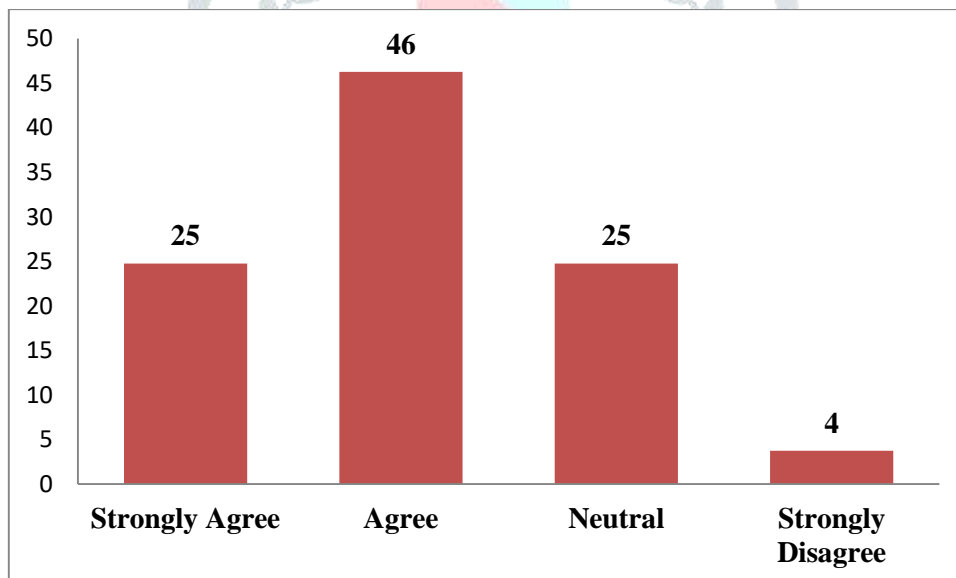
Implementation of Integrated Reporting System is very time consuming in nature. 31% respondents strongly believe that implementation is very time consuming. 50% respondents are just agreeing to this. 16% respondents are neutral. 3% respondents do not believe that its time taking.

Unaware about benefits of adoption of integrated reporting system



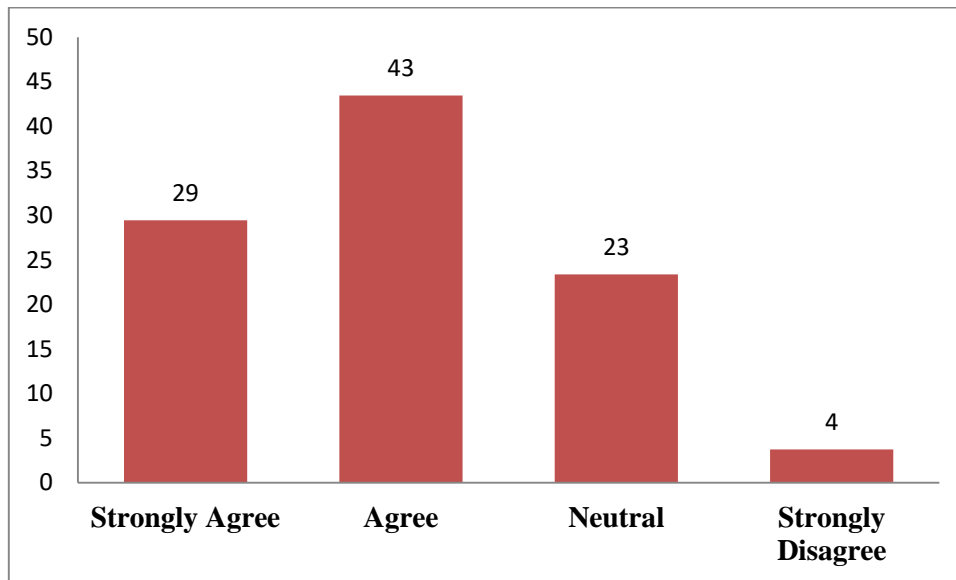
Nearly one fifth of the respondents believe that management of various organisations are absolutely unaware about benefits of in implementation of Integrated Reporting System. 56% agreed to this statement. 23% are neutral & 3% are disagreeing to this statement.

Difficulty in measuring cost of integrated reporting and benefit of the same



25% strongly agreed to this statement that it is difficult to measure cost is to benefits of Integrated Reporting. 46% agreed to this. 25% are of neutral opinion. 4% disagree to this.

Lack of knowledge



There is lack of knowledge about Integrated Reporting thus not implemented – this statement is strongly agreed by 29% respondents. 43% agree to this statement. 23% are of neutral opinion. 4% disagree to this.

Hypothesis Testing:

I. Influence of gender of respondents on Perception about various challenges in implementation of Integrated Reporting System.

H0: There is no significant influence of gender of the respondents and the perception about challenges like Lack of availability of accounting standards, Expensive Implementation, Voluntary Implementation, Time Consuming Process, Unaware about benefits of Integrated Reporting System, Difficulty in measuring Cost Benefit Analysis of Integrated Reporting System, Lack of Knowledge are challenge in implementing Integrated Reporting System.

H1: There is significant influence of gender of the respondents and the perception about challenges like Lack of availability of accounting standards, Expensive Implementation, Voluntary Implementation, Time Consuming Process, Unaware about benefits of Integrated Reporting System, Difficulty in measuring Cost Benefit Analysis of Integrated Reporting System, Lack of Knowledge are challenge in implementing Integrated Reporting System.

Various challenges in implementation in relation with the gender of respondents	Chi-Square P-Value
Lack of inclusion in Accounting standards	0.984
Expensive in Nature	0.894

Voluntary and not mandatory	0.540
Time taking	0.836
Ignorance of benefits	0.020
Difficulty in measuring the cost of Integrated Reporting and benefits of the same	0.873
Lack of knowledge	0.646

As the P value of chi-square is higher as to 0.05 in case of Lack of Knowledge, Expensive in Nature, Voluntary Implementation, Time Consuming, Difficulty in measuring Cost Benefit Analysis and Lack of Knowledge about Integrated reporting we can conclude that there is no significant influence of Gender of respondents on perception for various difficulties on Implementing Integrated Reporting System

As P value of chi-square test is lower as to 0.05 in case of Ignorance of Benefits of Integrated Reporting system we can conclude that Gender of respondent had influenced perception about difficulty in implementing Integrated Reporting System due to Ignorance of Benefits.

II. Influence of Experience of respondents on Perception about various challenges in implementation of Integrated Reporting System.

H0: There is no significant influence of experience of the respondents and the perception about various challenges in implementing Integrated Reporting System like Lack of availability of accounting standards, Expensive Implementation, Voluntary Implementation, Time Consuming Process, Unaware about benefits of Integrated Reporting System, Difficulty in measuring Cost Benefit Analysis of Integrated Reporting System, Lack of Knowledge are challenge in implementing Integrated Reporting System.

H1: There is significant influence of experience of the respondents and the perception about various challenges in implementing Integrated Reporting System like Lack of availability of accounting standards, Expensive Implementation, Voluntary Implementation, Time Consuming Process, Unaware about benefits of Integrated Reporting System, Difficulty in measuring Cost Benefit Analysis of Integrated Reporting System, Lack of Knowledge are challenge in implementing Integrated Reporting System.

Various challenges in implementation in relation with the experience of respondents	Chi-Square P-Value
Lack of inclusion in Accounting standards	0.009
Expensive in Nature	0.587
Voluntary and not mandatory	0.740
Time taking	0.718
Ignorance of benefits	0.679

Difficulty in measuring the cost of Integrated Reporting and benefits of the same	0.922
Lack of knowledge	0.439

As the P value of chi-square is higher as to 0.05 in case of Expensive in Nature, Voluntary Implementation, Time Consuming, Ignorance of Benefits of Integrated Reporting system, Difficulty in measuring Cost Benefit Analysis and Lack of Knowledge about Integrated reporting we can conclude that there is no significant influence of Gender of respondents on perception for various difficulties on Implementing Integrated Reporting System

As P value of chi-square test is lower as to 0.05 in case of Lack of Knowledge we can conclude that Gender of respondent had influenced perception about difficulty in implementing Integrated Reporting System due to Ignorance of Benefits.

FINDINGS:

1. Financial reports are prepared as per the Accounting Standards. However, there's no such Accounting standards for Integrated reporting. Nearly 3/4th respondents believe that non availability of accounting standards creates ambiguity which leads to non-adoption of Integrated reporting system.
2. Integrated reporting needs sustainability data as well. Collection, preparation of sustainability reports and compilation – Integration requires skilled professional. Thus it is expensive in nature. Nearly half of respondents believe implementation of integrated reporting system in expensive and it need expert's services.
3. Accounting standard means a clarification about technical aspects of accounting treatment and accounting disclosures. Accounting standard can be treated as framework guide for accounting treatment and reporting too. However, in the case of Integrated Reporting System, there is no accounting standard. This situation leads to ambiguity for the accounting professionals to implement Integrated Reporting System.
4. In India voluntary disclosure is considered to be way out for non-disclosure of financial information. The attitude of Promotors and Professionals towards voluntary disclosure results into non adoption of Integrated Reporting System.
5. Integrated Reporting means not only disclosing financial information but minute detailing of non-financial information is also included here. Thus it needs a lot of time, money and skill. Hence, it need collection of specific financial and nonfinancial data from various departments. It need more specialized knowledge people or different record keeping system. It creates multiple challenges from availability of people and additional cost too.

6. Integrated Reporting is advantageous in long term. Adoption of such reporting system can bring more transparency. Such system provides more relevant information to every stakeholders of society too. However, non-recognition of such benefits amongst different stakeholders and top level management employees is one of the important challenge.
7. It is not possible to evaluate what amount/level of benefit has an organization achieved by putting lots of time, money, expertise efforts after adopting integrated reporting. There are hardly any validating direct/obvious calculation in knowing benefits received directly through implementation of Integrated Reporting. 25% strongly agreed to this statement. 46% agreed to this. 25% are of neutral opinion. 4% disagree to this.
8. Lack of knowledge about implementation of Integrated Reporting can be considered to be one of the prime reason amongst the various organisations and professionals. Nearly Two third of the respondents are of the opinion that systematic knowledge of implementation of Integrated reporting system can enhance chance of adoption of Integrated Reporting System.
9. Gender and Experience of respondent have not significantly influenced perception about challenges in implementing Integrated Reporting System.

Conclusion:

Integrated Reporting system is a reporting system which can provide all financial and nonfinancial information to every stakeholder. Over and above such reporting system can include Sustainability and Societal reporting too. However, Indian organisations are not adopting such enhanced tool of presentation due to many challenges which includes high cost of implementation, lack of professionals, Lack of Regulatory compulsion as well lack of awareness about benefits of Integrated reporting system.

Here, we conclude that role of professionals and regulating body is significant in the above topic. Professionals and regulatory body should play a pivotal role for creating awareness of such reporting system. Over and above both community can also extend their help if better and quick implementation of Integrated Reporting System.

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