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The Patterns Of Integrated Reporting: A Comparative Study Of Companies Listed On The Johannesburg Stock Exchanges And Indonesia Stock Exchanges

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ABSTRACT

Integrated reporting is considered as the new format of financial reporting that provides users with more comprehensive and concise information. However, the format of integrated reporting is still developing that lead companies implementing integrated reporting with different level of information. This study aims at investigating the integrated reporting patterns of companies from two different reporting regimes (mandatory vs voluntary). Using annual reports of companies listed on the JSE and IDX, this study find that there are differences in seven of nine dimensions of integrated reporting among companies listed in the two markets. The only dimensions of integrated reporting with the similar patterns between the two regimes are ethical leadership and compliance with laws, codes, rules, and standards. The study contributes to the need for considering the institutional differences in studying integrated reporting issues and provide the regulators with the need for preparing relevant standards as a guidance for integrated reporting implementation.

KEYWORDS: Disclosure, Integrated Reporting, Institutional Theory

INTRODUCTION

Financial reporting is seen as important aspect in business communication among stakeholders and preparers of the reports. As financial reporting practice has developed in accordance with the development of business and organization, new formats of corporate reporting have also emerged in different styles and scopes (Havlová, 2015). The rise of such reporting is primarily caused by disappointment with conventional financial reporting emphasizing on historical and financial performance. The latest format of corporate reporting that promotes more integrated and transparent information about an entity is integrated reporting (Burke and Clark, 2016; Perego, Kennedy and Whiteman, 2016), which is commonly symbolized as <IR>. The King Report on Governance for South Africa 2009 (King III) defines integrated reporting as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability".

Integrated reporting <IR> provides users with more transparent information containing historical and future performance of an entity (Adams and Simnett, 2011; Azam, Warraich and Awan, 2011; Gurvitsh and Sidorova, 2012; Adams, 2015) and discloses financial and non-financial information (Jensen and Berg, 2012; Soyka, 2013; Eccles, Krzus and Ribot, 2015; Oprisor, 2015; Burke and Clark, 2016; Morros, 2016). It is argued that this reporting can change investors perspectives from short-term financial goals to long-term business strategies (Eccles, Cheng and Saltzman, 2010; Eccles, Krzus and Ribot, 2015). However, some findings (for example Poudel, Hellmann and Perera, 2014; Perego, Kennedy and Whiteman, 2016) shows that the <IR> is poorly understood by most companies. Pros and Cons regarding the implementation of the <IR> as corporate reporting has invited accounting researchers to study the <IR> (Adams, 2015). But unfortunately, the previous studies on this reporting are more directed to the benefits, development and problems encountered by business entities in applying the <IR> (Havlová, 2015; Burke and Clark, 2016). Other studies have tried to examine the relationship of the <IR> implementation and cultural factors and the legal system (Frías-Aceituno, Rodríguez-Ariza and García-Sánchez, 2013), and political and economic aspects (Dragu and Tiron-Tudor, 2013).

It is true that previous studies have contributed to the development of the <IR>, however, such studies have not disclosed the reasons why publicly listed companies present different scopes of the <IR>. In South Africa, for example, the <IR> has been practiced on mandatory basis (Carels, Maroun and Padia, 2013; Atkins and Maroun, 2015), but the detailed information (quantity and quality) included in the <IR> is not clearly stated. Indeed, there is no single standards describing how many information should be included on the <IR>. Hence, companies listed on the JSE have published different scope of information on the <IR>. Meanwhile, the adoption of the <IR> is still voluntary in Indonesia even though a number of companies listed on the Indonesian Stock Exchange (IDX) have implemented such reports. Therefore, this study aims to answer the following question: how are the patterns of information included in integrated reports of companies listed on the JSE and IDX. Secondly, if the patterns are different, are there any significant differences in the scope of information included in the report.

This study provides us at least with two main contributions. This study can be seen as the first attempt exploring the patterns and scope of information included in the <IR> of companies listed in different markets and regulation. Thus, research findings can extend the existing studies focusing only on their relationship of environmental aspects (cultural, political and social) and the <IR>. This research can hopefully attract further research to investigate the <IR> scopes and unique characteristics of companies. Secondly, the research findings are expected to be useful for accounting regulators.

New institutional theory plays important role in explaining the different patterns of the <IR> between two different institutional regimes. New Institutional theory is built on a belief that the characteristics of the environment can determine the structures and behaviors of an organization (DiMaggio and Powell, 1983; Meyer and Scott, 1983) and makes "organizations in their own image" (Carruthers, 1995, p. 315). Organizations adopt rational rules and routines not only for the reason of efficiency and gaining legitimacy (Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Meyer and Scott, 1983) but also for maintaining the trust of external stakeholders in the operations of organizations (Pfeffer and Salancik, 1978). Consequently, it is not technical criteria that affect structure but the process of isomorphism (Carruthers, 1995)—a cultural and political one that concerns legitimacy and power much more than efficiency alone" (p. 315). DiMaggio and Powell (1983) argues that there are four types of isomorphism: competitive, coercive, mimetic and normative. Competitive isomorphism is a process by which the forces of competition insist on organizations one single best way of doing things (Carruthers, 1995).

Coercive isomorphism occurs when the organization changes in response to pressures from other organizations on which the changing organization strongly depends for resources and support (DiMaggio and Powell, 1983). Tolbert and Zucker (1983) argue that when an organization operates in a wider environment, the legitimated changes in the more powerful organizations provide a pressure to change on the dependent organization. In financial reporting practice, an example of coercive isomorphism is the mandatory requirement of companies to obey accounting standards as promulgated by authoritative bodies when the companies want to raise capital through capital markets.

Mimetic isomorphism is determined by uncertainty and imitation processes. Indeed, organizations tend to copy other organizations when they face uncertainty about organizational technologies, goals and environmental expectations (Carruthers, 1995) for the purpose of gaining legitimacy and their survival (see Baldridge, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983). In line with financial reporting practice, for example, mimetic isomorphism can be seen from the tendency of one company to copy another company's disclosure by disclosing social and environmental information (see for example Patten, 1991; Deegan and Gordon, 1996). They adopt this disclosure for the reason of gaining legitimacy. Moreover, Gordon and Miller (1976) suggested that management perceptions of environmental uncertainty have a major effect on the nature and form of accounting information produced by a company.

Normative isomorphism is the last institutional isomorphism, which is based on a premise that organizations change because of the process of professionalism. This process, as claimed by DiMaggio and Powell (1983), takes places through two mechanisms: a transmission of norms by professionals and the development of professional networks. An example of normative isomorphism in financial reporting is the fact that the adoption of a number of accounting methods, techniques and principles to manage organizations is based on what have been learned from accounting education and training. This eventually make a company rely on professional specialists, such as accountants and auditors, who will wield their influence on corporate strategies, including financial reporting decisions (Thomas, 1989).

Research Hypothesis

In our conception, new institutional theory has the role of explaining the behavior of organizations in implementing the <IR> in order to fulfill their contract that enables the recognition of their legitimacy from stakeholders in a jumpy and turbulent environment. This is because the <IR> provides stakeholders with clear and more integrated information on financial and non-financial, such as economic factors, financial, governance, environment, intangible, and social issues (Eccles and Krzus, 2010; Reuter and Messner, 2015). Thus, the <IR> can be regarded as a medium of communication that explains how the strategy, governance, organizational performance and prospects of companies in the future be managed and reported to the company to show the process of value creation in the short term, medium term and long term (Eccles and Krzus, 2010; Adams and Simnett, 2011; Adams, 2015; Eccles, Krzus and Ribot, 2015). The <IR> is believed to be able to present a business perspective a more comprehensive and integrated in a report that the company can manage business risk more effectively and transparently (Eccles and Krzus, 2010; Brown and Dillard, 2014; Cheng et al., 2014; Lai, Melloni and Stacchezzini, 2016).

South Africa has been considered as a country which has been successful in the implementation of the <IR>, especially for companies listed on the Johannesburg Stock Exchanges (JSE). Indeed, the <IR> implementation is mandatory in South Africa (coercive isomorphism). Meanwhile, companies listed on the Indonesia Stock Exchanges tend to implement the <IR> voluntarily because they imitate the success of other companies in implementing the <IR> or because of normative consideration (mimetic and normative isomorphism). Borrowing claims by new institutional theory in regard to isomorphism, companies in a country adopting coercive isomorphism by making the <IR> mandatory will provide stakeholders with more information than those implement the <IR> voluntarily (based on mimetic and normative isomorphism). Consequently, this study proposes the following hypothesis:

Ha: *Companies listed on the Johannesburg Stock Exchanges provides more information in their integrated reports than those listed on the Indonesia Stock Exchanges*

METHOD

The main objective of this study is to explore and compare the <IR> patterns among companies in South Africa and Indonesia. The data of this study consist of all integrated reports (annual reports) of companies listed on the Johannesburg Stock Exchange (JSE) and the Indonesia Stock Exchanges (IDX). Sample size is based on the Slovin formula as the population of the study are clearly identified. All data are gathered from annual reports (integrated reports) published at http://www.jse.co.za and http://www.idx.co.id. Integrated reporting is measured by integrated reporting index based on 64 items developed by NKONKI (2011) that adopt the King III Code of South Africa. The index consists of Ethical Leadership and Corporate Citizenship (2 items), Board and Directors (26 items), Audit Committees (11 items), The Governance of Risk (3 items), The Governance of Information Technology (1 item), Compliance with Laws, Codes, Rules, and Standards (1 item), Internal Audit (3 items). Governing Stakeholders Relationship (2 items). Integrated reporting disclosure (15 items).

Content analysis is applied to identify the number of items disclosed in the <IR>. If the company discloses the item, then a score of 1 (one) for each disclosed item is given to the company, otherwise zero (0). The <IR> index is then determined by dividing the disclosed items by total number of suggested items (64 item). Differences in scope of <IR> of companies listed on the two markets are then compared and analyzed using the independent-samples t-test.

RESULTS AND DISCUSSION

The main objective of this study is to compare and analyze the patterns of <IR> among companies listed in the JSE and the IDX. Based on the total population, 383 and 398 companies are listed on the JSE and the IDX respectively.

Using the Slovin formula with confidence level of 95%, the sample size of the companies listed in the JSE were 195 companies but three of them did not provide us with the required data. Hence, this study used total sample of 192 companies listed in the JSE and 170 companies listed on the IDX. The companies listed on the IDX which are selected as research sample consist of those with similar firm size (assets) and industry to the companies listed on the JSE which are used as sample (22 companies are excluded because they have very different firm size and industry). Table 1 describes the sample of this research.

Table 1. Sample Size

Object	population	Sampel (Slovin)	Usable Sample
JSE	383	195	192
IDX	398	195	170

Figure 1 (below) illustrates the patterns of information presented in the <IR> of the two capital markets:

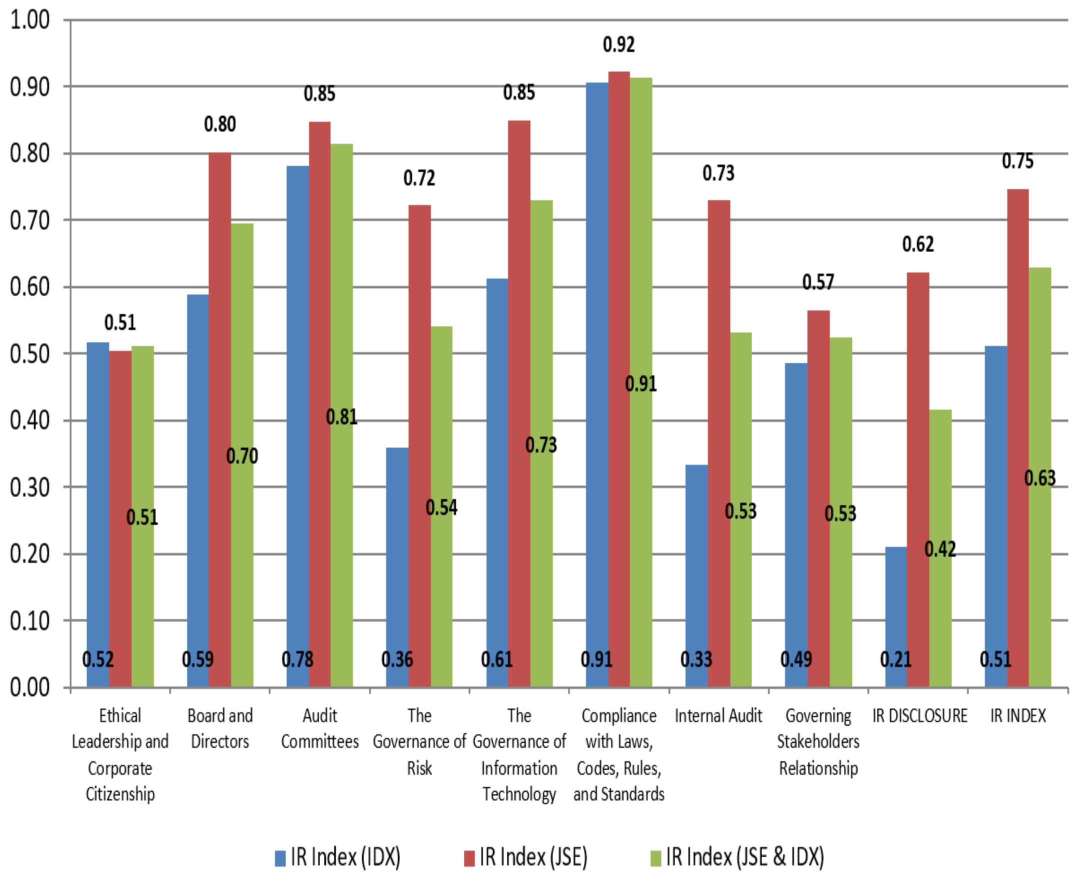

Figure 1. Patterns of Integrated reporting (JSE=192, IDX=170)

Comparison and analysis of the patterns and scope of <IR> among companies listed on the JSE and the IDX are based on indicators developed by NKONKI (2011) containing nine elements with 64 indicators. The following section describes the findings of this study.

On the basis of the nine elements of the <IR>, content analysis is then used to calculate the number of indicators presented and published by the companies in their integrated reports. If a company discloses an item of the <IR>, the company will be scored one and otherwise zero. The overall indicators or items disclosed by a company are then divided by the total of 64 indicators to produce the patterns of <IR> (we called this as integrated reporting index). The results of content analysis resulted, which describes the <IR> patterns can be seen in Figure 1.

Overall, the figures describe that most companies (over 60%) listed in both markets displays information related to the board and directors (70%), audit committees (81%), the governance of information technology (73%), and compliance with laws, codes, rules, and standards (91%). In general, based on Integrated reporting index, a company listed on the JSE presents more information (75%) of the <IR> compared to companies listed on the IDX (51%). This finding provides us with the general impression of how the company reacted well to the <IR>, as guided by the Framework for Integrated Reporting and the Integrated Report - Discussion Paper of the IRC (2011).

Overall, companies listed on the JSE provide more information in the <IR> than that listed on the IDX. The only elements of the <IR> that provides similar patterns among companies in the two countries are Compliance with Laws, Codes, Rules, and Standards, on which the both markets have integrated reporting index of 92% and 91%, respectively and Ethical Leadership (52% Indonesia and 51% South Africa). Furthermore, of all <IR> elements, it can be seen that the companies in the two markets have differences in the presentation of the <IR> as described below.

Ethical Leadership and Corporate Citizenship. This element is concerned with disclosure of the values, vision, mission and the code of ethics) of the company. Thus, companies should disclose any information about the ethical performance of the company, as well as the process to measure, monitor and evaluate the performance (NKONKI, 2011). Companies should ensure that ethics is embedded in the strategy, vision, values, mission, stakeholder engagement and risk management of the company and is disclosed as such. The finding showed that companies listed both in South Africa and Indonesia disclose information about this issues in similar ways and level (average around 51-52%). As the companies scored around 51%, it is an area where disclosure practices need to be improved.

Board and Directors. This element discloses the process for and person responsible for the assessment of the independence of directors, what factors are used in evaluating the independence of directors and whether the chairman did the valuation (NKONKI, 2011). A critical element in the disclosure of good governance is around the boards of directors. It is important to show the composition of the board and board committees, the independence of directors, how their performance is measured and their remuneration, as well as the remuneration policies and full disclosure of the elements of remuneration (NKONKI, 2011). The result shows that companies listed on the JSE disclose more information on this dimension (80%) than that of companies listed on the IDX (59%).

Audit Committees. This element of the <IR> is intended to ensure that the audit committee has accepted its responsibilities. Thus, the provided information describes about how audit committee has recommended the integrated report for approval to the board and whether the audit committee has reviewed the financial statement section in the <IR> (NKONKI, 2011). The result showed that the use of audit committees is already strongly established in South Africa and the majority of the companies scored well in the disclosure of the audit committee activities (average 85%) compared to Indonesia (78%).

The Governance of Risk. This section aims to ensure that a report from the risk committee is included in the <IR>. Companies should disclose risks under various categories including IT governance and risk and all its various aspects (the risk management policy, risk governance structure, risk management methodology, internal controls, strategic risk and the lines of defense (NKONKI, 2011). In general, companies in South Africa scored well on compliance with scores 72%, which is higher than the scores of Indonesian companies (only 36%). This clearly indicates a need to improve the level of compliance and compliance disclosure in Indonesian companies.

The Governance of Information Technology. This element is intended to disclose how the companies govern their information technology in providing users with more relevant and integrated information. The findings also showed that companies in South Africa provided more information of IT governance (85%) than Indonesian companies (61%).

Compliance with Laws, Codes, Rules, and Standards. This dimension disclose the compliance framework used to monitor and communicate compliance to all these aspects and how the board has discharged its responsibility to ensure this framework and related processes (NKONKI, 2011). The result showed that both companies in South Africa and Indonesia disclose information with similar level (91-92%). This indicated that in both countries, companies have complied well with all laws, codes, rules and standards.

Internal Audit. Although this section deals with internal audit, the disclosure recommendation is limited in terms of disclosing the effectiveness of the system of internal controls in the integrated report (NKONKI, 2011). In cases where the companies do not have an internal audit function, an explanation of how adequate assurance of an effective governance, risk management and internal control environment has been maintained (NKONKI, 2011). On average there is proper disclosure of companies listed on the JSE on the effectiveness of the internal control system with 73% score, which is higher that Indonesia companies (only 33%).

Table 2 showed about the results of Independent Samples T-Test:

Table 2. Results of Independent-Samples T-Test (JSX and IDX)

Integrated Reporting Elements	**Mean**		**Pr (T > t)**
	JSE	**IDX**	
Ethical Leadership and Corporate Citizenship	1.010417	1.035294	0.8207
Board and Directors	20.85417	15.29412	0.0000*
Audit Committees	9.322917	8.588235	0.0000*
The Governance of Risk	2.166667	1.076471	0.0000*
The Governance of Information Technology	0.848958	0.609468	0.0000*
Compliance with Laws, Codes, Rules, and Standards	0.921875	0.905325	0.2884
Internal Audit	2.187500	1.000000	0.0000*
Governing Stakeholders Relationship	1.130208	0.970588	0.0002*
Integrated reporting disclosure	9.333333	3.152941	0.0000*
Integrated Reporting Index	47.77604	32.63529	0.0000*
N Observation	192	170	

*Significant at 5%

Governing Stakeholders Relationship. The recommendation in the King III Code of the <IR> is that the board should disclose in its integrated report the nature of its dealings with its stakeholders and the outcomes of these dealings (NKONKI, 2011). The level of disclosure on the methods used and results of other engagement with stakeholders of companies listed on the JSE was (62%), which is better than Indonesian companies (only 21%).

Integrated reporting disclosure. The Chapter 9 of King III code of the <IR> request that annual financial statements to be included in the integrated report. Hence, the board should include commentary on the company's financial results, the board must disclose whether the company is a disclosure in the sustainability or similar report as part of the integrated report, assurance of the sustainability information, a summarized integrated report (including key financial information), and assurance of the summarized integrated report (NKONKI, 2011). The finding showed that companies listed on the JSE provide more information on the <IR> disclosure (75%) than companies listed on the IDX (51%).

To analyze more details about the differences in the items presented in the <IR>, this study employed the independent-samples t-test. Table 2 shows the results of independent-samples t-test. It can be inferred from Table 2 that there are significant differences in the <IR> indicators/items among companies listed on the JSE and companies listed on the IDX. The <IR> items which have significant differences are: Board and Directors, Audit Committee, The Governance of Risk, The Governance of Information Technology, Internal Audit, Governing Stakeholders Relationship, Integrated reporting disclosure. It can also be inferred that integrated reporting index (total items disclosed in the integrated reporting) are significantly different for the two markets. The only two elements of the <IR> which have no significant differences between the two market are Ethical Leadership and Compliance with Laws, Codes, Rules, and Standards.

Findings of this study indicate that companies listed on the JSE have implemented the <IR> well, even though they have different level of the <IR>. Overall, integrated reporting index of companies listed on the JSE (72%) is much higher than that of companies listed on the IDX (51%). This is reasonable given the fact that it is mandatory for companies listed on the JSE to adopt the <IR>, even though there are no clear standards of how many items should be disclosed in it. Indeed, as (Clayton, Rogerson and Rampedi, 2015) claim, South Africa has played innovative roles in integrated reporting movement. Moreover, South Africa has been internationally recognized a country with excellent achievements in corporate governance during the 1990s and 2000s and for its regulatory and legislative requirements (Bezuidenhout et al., 2007; Eccles, Serafeim and Armbrester, 2012).

With comprehensive regulatory reporting requirements on both the social and environmental fronts and a growing interest in responsible investment, South Africa remains in a leading position with regards to the <IR> (Clayton, Rogerson and Rampedi, 2015). The most recent trend towards the <IR> is leading to further increases in both the quantity and quality of sustainability reporting linked with financial reporting (GRI, 2013). Meanwhile, although some companies listed on the IDX have adopted the <IR> practice, such an adoption is still voluntary in Indonesia. This findings are consistent with study by (Frias-Aceituno, Rodríguez-Ariza and Garcia-Sánchez, 2014) claiming that companies located in civil law countries are more likely to publish a broad range of integrated reports, thus favoring decision-taking by the different stakeholders. Moreover this study also support claims by Dragu and Tiron-Tudor (2013) that the political, cultural, and economic factor, are influencing the release of integrated reports.

The <IR> patterns of companies listed in the two markets indicate that although the information disclosed on the <IR> of companies listed on the markets are different but at least this study shows that the companies have been trying to present the information in accordance with the criteria required by the IIRC. The reason for doing this can be related to the argument of agency cost reduction. The companies purposively utilize integrated reporting as a medium to gain legitimacy, as claimed by institutional theory, by providing more integrated and comprehensive information focusing on financial and non-financial ones. At least integrated reporting aims at fulfilling the information needs of stakeholders and ensuring the effective allocation of scarce resources (Eccles and Krzus, 2010; Schaltegger and Wagner, 2011; Frías-Aceituno, Rodríguez-Ariza and García-Sánchez, 2013; Eccles, Krzus and Ribot, 2015).

Interestingly among nine elements of integrated reporting, two of them showed similar patterns. The elements of integrated reporting are Ethical Leadership and Compliance with Laws, Codes, Rules, and Standards. This finding is not surprising as leadership and compliance with regulations are considered as crucial part of the implementation of good corporate governance. This is perhaps the single most important aspect to consider, because strong leadership will ensure proper governance and that will lead to proper disclosure and high quality of integrated reports. It is mandatory for companies listed in the two markets to implement ethical leadership and to comply with regulations. Borrowing new institutional theory, the <IR> patterns of the two countries occur because of coercive isomorphism in South Africa and mimetic and normative isomorphism in Indonesia

CONCLUSION

This study aims to explore the patters of the <IR> among companies listed in the JSE and IDX with different rules (mandatory vs voluntary). The finding showed that the level of <IR> of companies listed in JSE is much higher than that of companies listed in IDX. Of 9 elements of <IR>, there are two elements of the <IR> (Ethical Leadership and Compliance with Laws, Codes, Rules, and Standards) shows similar patterns and are significantly the same. Regardless, the different level of the <IR> among the companies listed in the two markets, the findings shows that companies have provided information requested by <IR> in their annual reports, especially for companies listed in IDX, in which the adoption of the <IR> is still voluntary. The <IR> implementation needs more regulation about what items should be included in the <IR> to show the conciseness of the <IR>. Borrowing argument by (Ruiz-Lozano and Tirado-Valencia, 2016) the results show that, despite the efforts of the analyzed companies to address the guiding principles, they still have a long way to go, especially in relation to the principle of "conciseness" of the <IR>.

The pattern of information disclosed in the integrated reporting of companies listed either in the JSE or in the IDX shows that companies in the two market have stakeholders with relevant and integrated information for decision making, even though study by (Rensburg and Botha, 2014) found that very few stakeholders use the Integrated Reports as their main source of financial and investment information. To get companies more transparent, and to win stakeholder's trust, companies need to communicate their actions and level of commitment to incorporate sustainability into every organizational decision (Azam, Warraich and Awan, 2011). On the basis of these findings, two policy recommendations are proposed: first, to implement the <IR>, we need to establish national laws and protection mechanisms to promote and ensure holistic transparency in financial reporting. Second, managers should be able to decide on the appropriate disclosure practices in the context of their own legal environment in order to obtain maximum benefits from their decisions. Providing more holistic financial and non-financial information as required in the <IR> can be good strategies for companies to gain legitimacy.

Despite its contributions, this study suffers from weaknesses. First. We only compare annual reports of companies listed in two different regimes (mandatory vs voluntary). Thus, the future studies may include two markets from similar regimes (voluntary vs voluntary). Second, this study ignores determinants of the <IR>. We suggest that the next studies may consider contextual factors that may affect the scope of the <IR>.

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