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Compliance of Integrated Reporting Disclosures with the International Framework of Integrated Reporting – Analysis of Quoted Public Banking Companies in Sri Lanka

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Abstract:
The concept of "Integrated Reporting" is become newly discuss notion in the field of corporate disclosures and it used to improve the organization's communication with their stakeholders. After introduction of integrated reporting to Sri Lankan companies in 2011, they tend to apply it to their corporate reporting disclosures. However, there is a question on how far those disclosures are compliance with the international integrated reporting framework. To attempt this research question three objectives are formulated as: to compare current year (2014) integrated reporting disclosures with base year (2012), to identify the level of compliance of integrated reporting disclosures with the international integrated reporting framework and to identify the improvement areas of integrated reporting. In order to achieve these objectives study uses content analysis and under that, the study analyze annual reports of 13 quoted public banks in 2012 and 2014 and content elements are used to identify the level of compliance.
Disclosures on organizations context and external environment, Governance and Risks and opportunities are more compliance with the international integrated reporting framework and business model, strategy & resource allocation, performance, outlook and basis of preparation are showed the greatest room for improvement.
In 2014 the integrated reporting disclosures are increased compared to 2012. However, it is true that most of the companies are already took the first step to present the integrated reporting disclosures in their annual reports. However, they do not adequately compliance with the content element of international integrated reporting disclosures.

Keywords: *Integrated reporting, content elements, content analysis*

1. Introduction

The type of information that is needed to assess the past and current performance of organizations and their future resilience is much wider than is provided for by the existing business reporting model value (IIRC, 2011, pp.2). Therefore, it is important to have annual reports which consist both financial and non-financial information to meet the expectations of stakeholders. Beyond from that, the integrated annual report is a fusion of financial and non-financial information of a company which includes information of company overview, external environment, governance structure, business model, risk and opportunities, strategies, resource allocation for the strategies, performances and anticipated changes etc. As a result, integrated annual report will help to stakeholders to make a better decisions by looking the company's ability to create and sustain value in the future. Therefore, the importance of this concept have been recognized by the Institute of Chartered Accountants (CA) of Sri Lanka as a national body of accounts and who have the sole authority to promulgate accounting and auditing standards of Sri Lanka. After that, for the first time of the history of the annual report competition which is held by CA Sri Lanka introduced a special recognition award for excellence in integrated reporting (IR) in 2013.However, the integrated reporting concept is currently at initial stage in Sri Lanka and it is not a mandatory requirement for Sri Lankan companies. As an newly notion there are few academic studies on integrated reporting in Sri Lanka.

Financial reporting in Sri Lankan companies need to adhere to Sri Lankan Accounting Standards but adoption of integrated reporting is voluntary. Therefore most of the annual reports of the Sri Lankan companies are mix of the mandatory requirements and voluntary adoptions. However, the integrated reporting should be assisted by a new set of global corporate reporting standards that would improve the IR practice and lead ahead the evolution of IR (Dragu & Tudor-Tiron, 2013) and the international integrated reporting framework can be used as a guide for Sri Lankan companies .Though, there is a question that how far the integrated annual reports in Sri Lankan companies are confirmed with the international integrated reporting framework. With regard to that the research problem of the study is "To What extent the annual reports of the quoted public banks are compliance with the international integrated reporting framework?". Hence the objectives of the study formulated as: To compare current year (2014) integrated reporting disclosures with base year (2012), to identify the level of compliance of integrated reporting disclosures with the international integrated reporting framework and to identify the improvement areas of integrated reporting.

The balance part of the paper is organized as follows. The next section consists with the prior research studies on integrated reporting. Methodology section explains the sample, population of the study, data and research method. Fourth section analyses the data, results and findings. Lastly, the conclusion of the study presented.

2. Literature Review

Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value (IIRC discussion paper, 2011). According to Dragu & Tudor-Tiron (2013) integrated reporting revolution began from 2010 and they identified three main coordinates for integrated reporting as; the international non-financial reporting initiatives (2001-2006), the sustainability era (began in 2007), and the integrated reporting revolution (began in 2010). There are several benefits comes from integrated reporting to the financial reporting system in an organization and local standard setters and regulators will be take the decision of the acceptance or rejection of integrated reporting system based on that (Singh, 2012).According to the IIRC (2011) studies on Integrated Reporting have been identified various advantages such as, reported information which are aligned with needs of investors; more accurate non-financial information available for data vendors, higher levels of trust with stakeholders; better resource allocation decisions, enriched risk management, better identification of opportunities, greater engagement with stakeholders, lower reputation risk, lower cost capital with better access and development of a common language and greater collaboration across different functions within the organization.

There should be some regulatory guide to adopt the integrated reporting. Therefore in 2013, the international integrated reporting council provided the international integrated reporting framework as guide to the statutory bodies and corporate sector to adopt integrated reporting. According to that the content and presentation of an integrated report should be consist with strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and consistency and comparability. Apart from that the international integrated reporting framework guided that there should be eight content elements namely, organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and basis of preparation. These content elements are recognized as the categories of information required to be included in an integrated report (IIRC, 2013). An integrated report should answer the questions i.e. What does the organization do and what are the circumstances under which it operates?(Organizational Overview and External Environment), How does the organization's governance structure support its ability to create value in the short, medium and long term?(Governance), What is the Organization's business model (Business Model), What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?(Risks and Opportunities), Where does the organization want to go and how does it intend to get there? (Strategy & Resource Allocation), to what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?(performance), What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?(outlook) and How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated? (Basis of preparation and presentation) (IIRC, 2013).

The integrated reporting is a voluntary requirement for most of the countries in the world and it will lead to different level of IR adoption by different nations. Tonello (2011) identified that 45% of Europe organizations are preparing integrated reports and Asian, American and Canadian organizations are having the lowest participating to adopt integrated reporting. Therefore, there is a question that whether this is valid for Sri Lanka or not.

However, there is a relatively fewer studies and small amount of literature on integrated reporting practices (Dumitru & Jinga, 2015). Therefore, this study fill the gap in the body of the literature pertaining to the integrated reporting practices.

3. Methodology

This section focuses the mechanism which used to achieve three research objectives of this study. Therefore, this explains the sample and population of the study data and research method.

All quoted public banks were used as population of the study. Currently there are 13 banks are registered under the banks, finance and insurance sector under the Colombo Stock Exchange.

This study do the content analysis[1] of annual reports of quoted public banks for the year 2012 & 2014. The CA Sri Lanka introduced a special recognition award for excellence in integrated reporting in 2013 for 2012 published annual reports. Therefore, year 2012 considered as the base year for this study. The content analysis can be identified as the primary tool for analyze the annual reports. It can be defined as "A method of codifying text into different groups depending on selected criteria" (Weber, 1988).The content analysis is aimed to measure the degree of compliance with the eight content elements which are mentioned in the international integrated reporting framework by sample banking companies in preparing their annual reports and to compare the level of compliance of current year with base year. Analyzing the presence or absence of particular items of information is a most commonly

[1] Studies such as Abeysekara & Guthrie (2005), Bowman (1982), Bowman (1984), Gouws& Cronje (2008),Ramanauskaitė and Laginauskaitė (2014) used content analysis to study the annual report disclosures of various organizations.

used from of content analysis (Patten, 2002). Therefore, this study also analyze the present or absent of 66disclosure items which are shown in table 1 (appendix 1)and which are developed based on eight content elements. Then to evaluate the findings, four main categories are formulated as, fully compliance with IR framework, high potential to compliance with IR framework, low potential to compliance with IR framework, not compliance with IR framework.

4. Analysis of Data

This section analyses the data, results and findings of the study. Firstly, the study compares the integrated reporting disclosures in base year with current year and the graphic presentation is shown as follows.

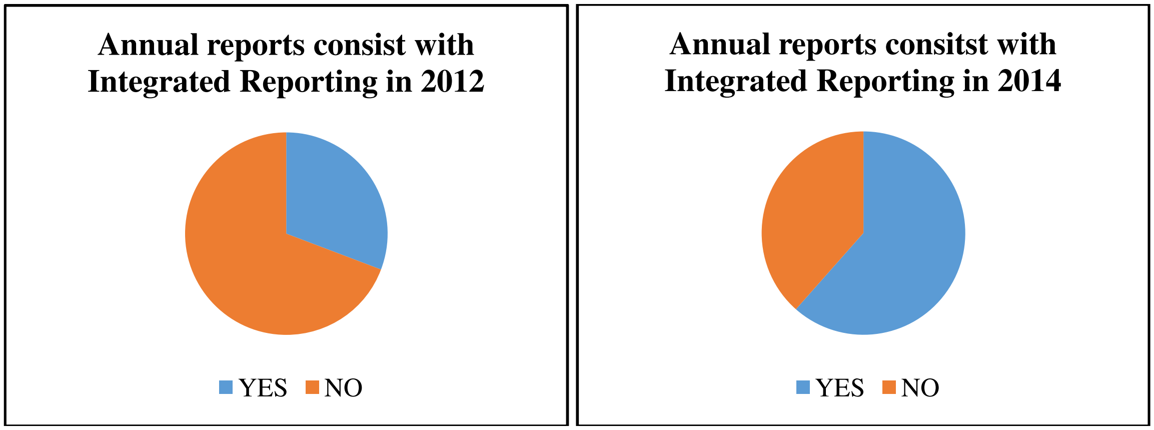

Figure 1: Annual reports consist with integrated reporting

The above figure shows the percentage of presence and absence of integrated reporting disclosures in the annual reports of banking companies in 2012 & 2013. In year 2012, only 31% of the banking companies separately disclose information on integrated reporting and in year 2014 it increased up to 62%.

Secondly, table 2 shows the number of disclosure item in each content element disclosed by companies in 2012 and 2014 and it also presents the average disclosure items and percentage of disclosed items from all items of each content element.

Content Element	Number of companies	Number of disclosure items	Total number of presence		Average		Average %	
			2012	2014	2012	2014	2012	2013
Organizational Overview & External Environment	13	20	122	175	9.4	13.4	47%	67%
Governance	13	7	41	56	3.1	4.3	44%	67%
Business Model	13	9	41	53	3.1	4.1	34%	46%
Risks& Opportunities	13	8	57	65	4.4	5.0	55%	63%
Strategy and Resource Allocation	13	7	14	25	1.1	1.9	16%	27%
Performance	13	5	20	30	1.5	2.3	30%	46%
Outlook	13	7	8	33	0.6	2.5	9%	36%
Basis for Preparation	13	3	7	15	0.5	1.1	16%	37%

Table 2: Extent of IR disclosures by the companies

In 2012, annual reports of companies average disclosed 9.4 (out of 20) organizational overview & external environment items, 3.1 (out of 7) governance items, 3.1 (out of 9) business model items, 4.4 (out of 8) risk & opportunities items, 1.1 (out of 7) strategy & resource allocation items, 1.5 (out of 5) performance items, 0.6 (out of 7) outlook items and 0.5 (out of 3) basis of preparation items. The average number of items disclosed by companies of these content elements has increased from 2012 to 2014 and they are recorded as 13.4, 4.3, 4.1, 5.0, 1.9, 2.3, 2.5 & 1.1 for the content elements of organizational overview & external environment, governance, business model, risks & opportunities, strategy & resource allocation, performance, outlook and basis for preparation. Only three content elements disclose the more than 50% of disclosure items from the total disclosure items namely; organizational overview & external environment, governance and risks and opportunities in 2014 and they score highest for both year. The balance five content elements disclose less than 50% of disclosure items form the total disclosure items. Therefore the findings highlighted that number of items disclosed under each content element increased from 2012 to 2014. Therefore introduction of integrated reporting cause to increase the extent of disclosure items of eight content elements.

Thirdly, the Figure 2 shows the compliance of IR disclosures with the eight content elements of IR framework and this results can be further explained as follows.

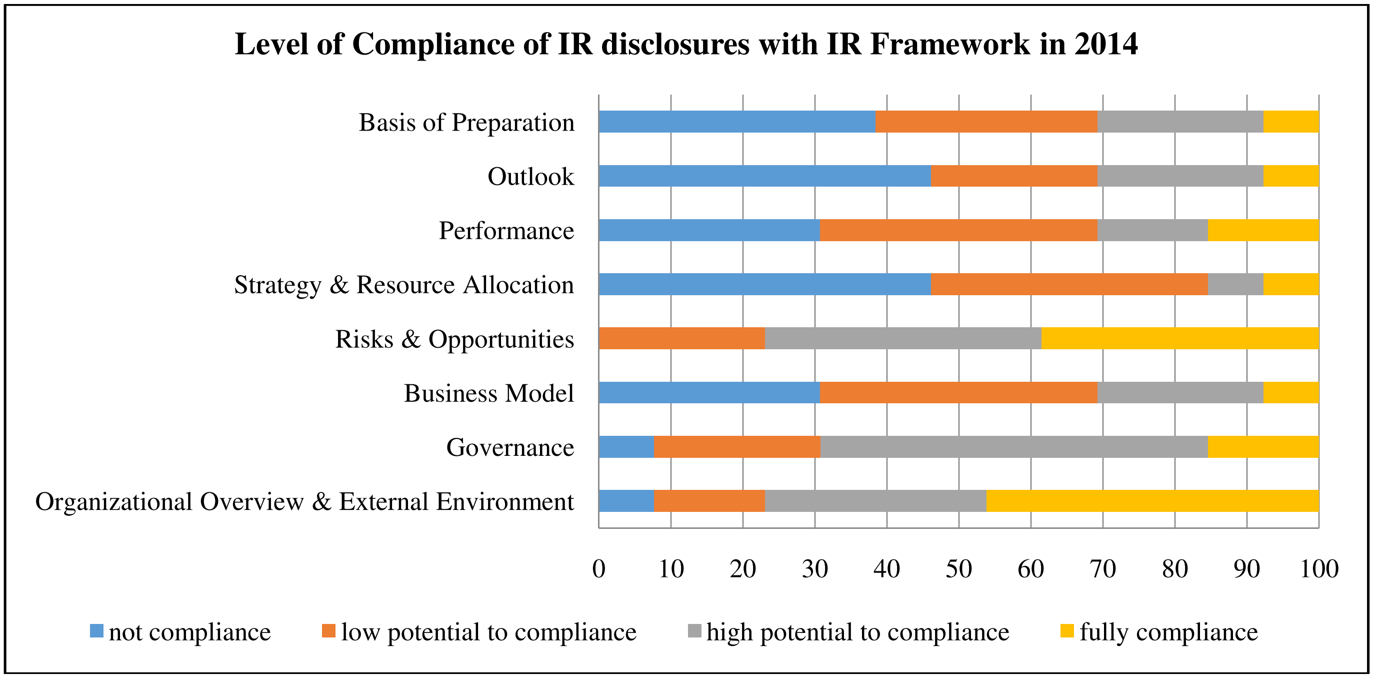

Figure 2: Level of compliance of IR disclosures with IR framework in 2014

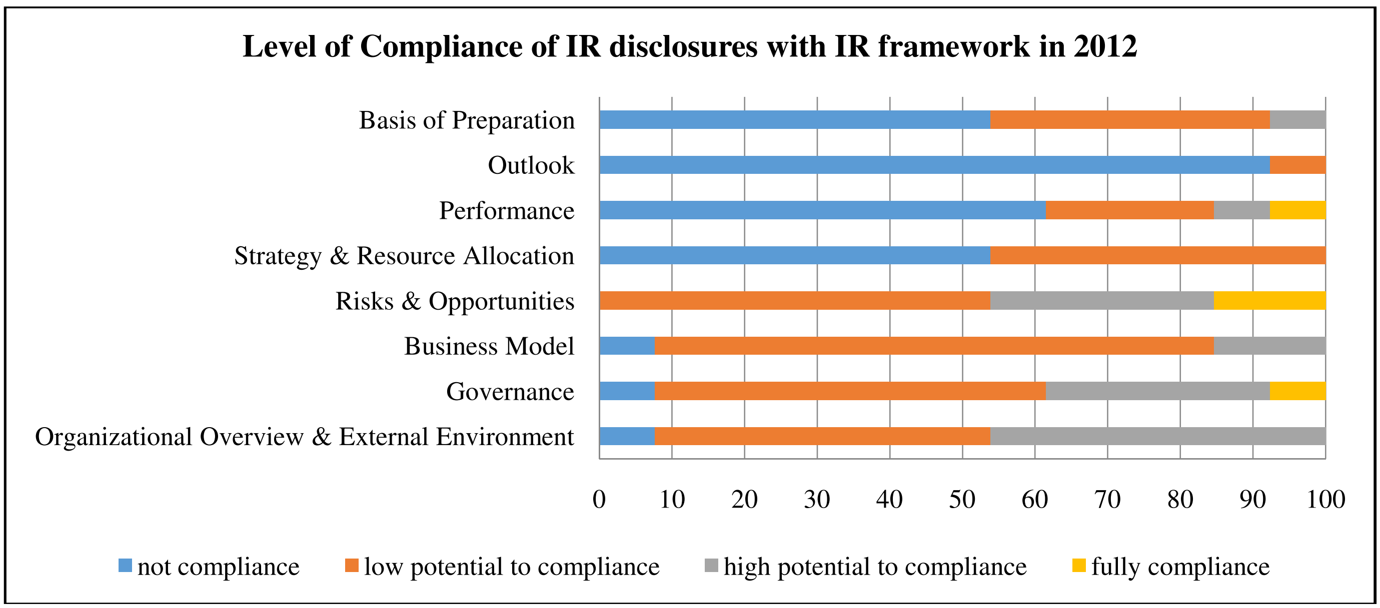

Figure 3: Level of compliance of IR disclosures with IR framework in 2012

4.1. Organizational Overview and External Environment

In 2014, Majority (46%) of the companies are fully compliance, 31% of the companies are high potential to compliance, 15% of companies are low potential to compliance and 8% of the companies are not compliance with the content element of organizational Overview & External Environment. Compared to 2012 there is a significant improvement in 2014 & in 2012 there is no any company fully compliance with IR framework, equally 46% of the companies are high potential to compliance and low potential to compliance and8% of the companies are not compliance with the IR framework. With regard to year 2014, some of the most important information lacking in this area are competitive landscape, market positioning, significant factors affecting the external environment, market forces and technological changes and no companies include any information regarding their position within the value chain.

4.2. Governance

In 2014, 15% of the companies are fully compliance, more than half (54%) of the companies are high potential to compliance 23%, of companies are low potential to compliance and 8% of the companies are not compliance with the content element of governance and compared to 2012, these scores can be identified as good scores and in 2012, the scores are 8% fully compliance, 31% high potential to compliance, 53% low potential to compliance and 8% not compliance. With regard to 2014,some of the most important information lacking in this area are specific processes used to make strategic decisions and organization's culture, ethics and values are reflected in its use of and effects on the capitals. Further, no companies discuss the information on the responsibility those charged with governance take for promoting and enabling innovation and the linkage between remuneration and value creation. Therefore the banks are unable to disclose that the impact from governance to the value creation.

4.3. Business Model
There is no satisfactory level of compliance in business model in 2014 which scores as, 8% of the companies are fully compliance, 23% of the companies are high potential to compliance38%, of companies are low potential to compliance and 31% of the companies are not compliance with the content element of business model. However, compared to 2012 there is a significant improvement and in 2012,the scores are 0% fully compliance, 15% high potential to compliance,77% low potential to compliance and 8% not compliance. With regard to 2014, some of the most important information lacking in this area are outputs, external outcomes and diagram explaining key elements and no companies discuss the relationship on key inputs to the capital and inputs ability to create value in the short, medium & long term. .

4.4. Risks & Opportunities
In 2014, 38% of the companies are fully compliance, 38% of the companies are high potential to compliance 24%, of companies are low potential to compliance and no companies are not compliance with the content element of risk & opportunities and the scores are better than 2012. In 2012 it scores as15% fully compliance, 31% high potential to compliance,54% low potential to compliance and 0% not compliance and in 2014, some of the most important information lacking in this area are external opportunities, likehood of risks and likehood of opportunities.

4.5. Strategy & Resource Allocation
Content element strategy and resource allocation is not in satisfactory level in both years. In 2014 and 2012, 0% &8% of the companies are fully compliance, 0% &8% of the companies are high potential to compliance 46% &38%, of companies are low potential to compliance and the vast majority (54% &46%)of the companies are not compliance with the content element of Strategy & Resource Allocation respectively. In 2014, some of the most important information lacking in this area are measurements for target outcomes, differentiates which give competitive advantage and enable to create value and stakeholders engagements used in formulation strategy & resource allocation plans and no companies declared the information on linkage between organization's strategy & resource allocation plans and resource allocation plans to achieve objectives.

4.6. Performance
In 2014, 15% of the companies are fully compliance, 15% of the companies are high potential to compliance 39%, of companies are low potential to compliance and 31% of the companies are not compliance with the content element of performance. However, in 2012, 8%, 8% 23% and 61% of the companies are fully compliance, high potential to compliance, low potential to compliance and not compliance with IR framework respectively. In 2014, some of the most important information lacking in this area are organization's effect on the capital and response for key stakeholder's needs and interests.

4.7. Outlook
8% of the companies are fully compliance, 23% of the companies are high potential to compliance 23%, of companies are low potential to compliance and 46% of the companies are not compliance with the content element of outlook in 2014 andin 2012, no companies are fully compliance no companies are high potential to compliance 8%, of companies are low potential to compliance and 92% of the companies are not compliance. Therefore there is a significant improvement of disclosures in 2014. However, some of the most important information lacking in this area are organization's effect on the capital, responses for key stakeholder's needs & interests and key performance indicators that combine financial measures with other components and no companies discuss about the effect from external environment, risk and opportunities to achieve the strategic objectives.

4.8. Basis of Preparation
In 2014, 8% of the companies are fully compliance, 23% of the companies are high potential to compliance 31%, of companies are low potential to compliance and 38% of the companies are not compliance with the content element of basis of preparation. It can be identified as good score compare to 2012 and in 2012 the scores are 0%, 8%, 34%, and 58%for fully compliance, high potential to compliance, low potential to compliance and no compliance. In 2014, information on all three areas i.e. summary of the organization's materiality determination process, a description of the reporting boundary and the summary of significant frameworks & methods used to quantify or evaluate material matters.

5. Concluding Remarks
Integrated reporting is vital to be implemented and it has been accepted gradually by organizations and by local standard setters and regulators (Singh 2012).In line with the conclusion made by Singh (2012) there is a significant improvement in integrated reporting disclosures in 2014 compared to 2012.

Overall, companies have better scores on organizations context and external environment, Governance and Risks and opportunities. Most of the disclosure items of organizational context and external environment such as mission, vision, culture, ethics, values, ownership, operating structure and micro and macro-economic conditions are the information which are included by the organization before started the integrated reporting revolution. It is a legal requirement to provide risk management information and governance practices by the banking companies. However, the banking companies who have fully and high potential to compliance on integrated reporting reports more information of opportunities apart from risk management practices. Sri Lankan banks should compliance with direction no.11 of 2007, issued by the central bank of Sri Lanka on the subject of “Corporate Governance for Licensed Commercial Banks in Sri Lanka”. Therefore, banks able to good score on governance. However, they do not

Banks achieve less score on business model, strategy & resource allocation, performance, outlook and basis of preparation. These content elements should reveal more challenging information which goes further than traditional reporting and it could be the reason for less scores.

As also mentioned before, the Content Elements ‘strategy and resource allocation’ and ‘performance’ are difficult for companies, as is ‘business model’. The reason for this can be found in the fact that these Content Elements are closely linked to some of the more challenging aspects of the Guiding Principles and those include more forward looking information than others. As such, then follows that these aspects are also challenging and companies are reluctant to reveal their future direction.

When analysis of data implies that the companies reveal the information which they can easily find and which are available in the non-integrated report as well. Therefore, there is a lack of forward looking information and as a result it is difficult to investors and other stakeholders to assess an organization’s ability to create value. Therefore it is very essential to include the factors which may have impact to the organization’s value. Therefore, those are responsible for corporate reporting should adhere to international integrated reporting guidelines and content elements to give better output to the stakeholders and to achieve the objectives of integrated reporting and there is a much room for improvement in the context of integrated reporting.

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Appendix

Content Element	Code Symbol	Disclosure item	Code Symbol
Organizational Overview and External Environment	OE	Mission	MI
		Vision	VI
		Culture	CU
		Ethics	ET
		Values	VL
		Ownership	OW
		Operating Structure	OS
		Competitive Landscape	CL
		Market Positioning	MP
		Position within the value chain	PV
		Key Quantitative Information	QI
		Significant factors affecting the external environment	EE
		Needs & Interests of stakeholders	NS
		Macro & Micro environment conditions	MM
		Market Forces	MF
		Technological changes	TC
		Societal Issues	SI
		Environmental Challenges	EC
		Regulatory Environment	RE
		Political Environment	PE
Governance	GO	Leadership Structure	LS
		Processes used to make strategic decisions	PS
		Actions taken to monitor the strategic decisions	AS
		organization's culture, ethics and values are reflected in its use of and effects on the capitals	UE
		Governance practices exceeding legal requirements	LR
		Responsibility those charged with governance take for promoting & enabling innovation	RI
		Linkage between remuneration and value creation	LV
Business Model	BM	Relationship on key inputs to the capital	IC
		Inputs ability to create value in the short, medium and long term	IV
		Organization's differentiation used in the market	DM
		Design of business model to adopt to change	DC
		Outputs	OU
		Internal Outcomes	IO
		External Outcomes	EO
		Identification of key elements	IE
		Diagram highlighting key elements	DE
Risks & Opportunities	RO	Internal Risks	IR
		External Risks	ER
		Internal Opportunities	IO
		External Opportunities	EO
		Likelihood of Risks	LR
		Likelihood of Opportunities	LO
		Specific steps taken to mitigate risks	MR
		Specific Steps taken to create value form key opportunities	VP
Strategy & Resource Allocation	SR	Strategic Objectives	SO
		Strategies it has in place	SP
		Resource allocation plans to achieve objectives	RP
		Measurements for target outcomes	MO
		Linkage between Organization's strategy & resource allocation plans	SR
		Differentiates which give competitive advantage and enable to create value	DV

		Stakeholders engagements used in formulating strategy & resource allocation plans	ES
Performance	PF	Quantitative indicators with respect to target risk & opportunities	QI
		Organization's effect on the capital	OC
		Response for key stakeholder's needs & interests	RS
		Linkage between past and current performance	PC
		Key performance indicators that combine financial measures with other components	FM
Outlook	OL	Organization's expectations about the external environment	EE
		Impact from external environment to organization	IE
		Organization's response to critical challenges & uncertainties	CU
		Effect of external environment, risk & opportunities to achievement of objectives	ES
		Realistic appraisal of the organization's competitive landscape and market positioning, and the risks it faces.	RA
		The availability, quality and affordability of capitals	AC
		Disclosures about the organization's outlook	DO
Basis of Preparation & Presentation	PP	Summary of the organization's materiality determination process	SM
		A description of the reporting boundary	DR
		Summary of significant frameworks & methods used to quantify or evaluate material matters	FM

Table 1: Content Codes[2]

[2] The study based on the eight content elements which are mentioned in the IR framework. Therefore, IR framework is a prominent framework for the coding instrument.