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THE JOURNEY TOWARDS INTEGRATED REPORTING IN BANGLADESH

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ABSTRACT

The necessities of cohesive, integrated and decision-supportive information for apprehending the future prospect and capacity of the companies have led to the advent of integrated reporting (<IR>). This study examines whether the Bangladeshi companies are moving towards <IR>. The extent of <IR> practices of the listed companies in Bangladesh for the year 2014 to 2016 has been measured with a view to reaching a conclusion. In regard to this study, DSE30 companies have been considered as the sample companies while their integrated reports or, in absence, their annual reports have been scrutinized. Content analysis approach has been followed in this study to construct <IR> index considering the fifty items of the eight content elements of <IR> as prescribed by International Integrated Reporting Council in its International <IR> Framework. Our analysis exhibits that in 2016, 22% of the sample companies have adopted <IR>, which has been commenced in 2015 whereas no company has undertaken <IR> in the year 2014. Content-wise <IR> index depicts that the disclosures of items under each of the content elements have been increasing over the time. Item-wise analysis has demonstrated some items of <IR> (i.e. materiality determinations process, linkage between strategy and resource allocation plan), disclosures of which have been appeared in the annual reports after the adoption of <IR>. Company-wise <IR> ensures that <IR> index for each company has been either increasing or remaining the same over the period. In total, <IR> index for all the sample companies has increased to 0.6148 from 0.4511 over the three years. These indicate that companies in Bangladesh have started adopting <IR> through standalone integrated report or annual report in an integrated way in spite of having no mandatory requirement.

Contribution/ Originality: In spite of an emerging area of corporate reporting, there are few empirical research exploring <IR> practices in developing countries. To the best of the authors' knowledge, this study is the first of its kinds which examines the extent of <IR> practices from Bangladesh perspective.

1. INTRODUCTION

Over the years, corporate financial reporting scandals have paved the way for issuing stringent financial reporting requirements. But in last two decades, the necessities of disclosing non-financial information along with the financial information have been emphasized. At present, stakeholders, not merely shareholders, demand information that portrays a holistic view of the company. Corporate reporting which covers only information about the past performance and discrete information about the future prospects cannot conciliate the just claims of the stakeholders. Reflection of integrated thinking and connectivity of the disclosed information is imperative to meet the stakeholders' information needs, which is the motive behind the emergence of integrated reporting (<IR>).

<IR> is an efficacious reporting of material factors which denotes the ability of an organization to create value over time. The quest of <IR> is to bestow stakeholders a complete apprehension of a company's strategy, performance and its dealing with sustainability challenges (IIRC, 2011). <IR> intends to elevate the quality of information which helps investors to undertake useful decision in regard to allocate their economic resources. In <IR>, the company displays a bird's eye view of its business model and its strategies to achieve goals for the stakeholders through establishing effective governance, formulating appropriate risk management policy, considering and minimizing the influence of external environment. Greater clarity about relationship and commitment, better decision, increasing commitment to all stakeholders and reputation risks management are the prime benefits of <IR> (Eccles and Krzus, 2010).

An increasing trend of movement towards <IR> has appeared among the companies of some developed countries. The integrated report has been made compulsory to produce in South Africa, Denmark and China, and these mandates are anticipated to be prescribed in France, Germany and England (Baue and Murninghan, 2011). In Japan, <IR> has been recommended as a means of corporate value creation by the Ministry of Economy, Trade and Industry (METI). Within September 2016, corporate reporting lab of Japan has filed 252 integrated reports from the listed companies. There is a prospect of 320 integrated reports to be published in 2017 from Japan's listed companies (Howitt, 2016).

In Bangladesh, <IR> has been not made mandatory yet. But, few companies have attempted to shift to the <IR> from traditional reporting apprehending the benefits of all the stakeholders as well as for creating the robust impression of it among the stakeholders. Recently, Institute of Chartered Accountants of Bangladesh (ICAB) has issued an <IR> checklist concentrating on the content elements suggested by International Integrated Reporting Council (IIRC) in its International <IR> Framework. This study demonstrates the level of initiatives taken by the Bangladeshi companies over the years with a view to providing voluntary information regarding how the organization creates value over time in order to help all the stakeholders in making the appropriate decision. This study has been undertaken in order to measure the <IR> practices at the introductory stage to lay foundation or baseline for future research associated with measuring advancement in <IR>. The prime objective of this study is to arrive at a valid conclusion whether the listed companies in Bangladesh are moving toward <IR>.

The study makes headway as follows. In the next section, the evolution of integrated reporting has been discussed. After that, theories and literature review has been delineated which is followed by the methodology of the study. Findings and analysis are presented in the next section and the final section contains the conclusion.

2. EVOLUTION OF INTEGRATED REPORTING

<IR> is a way to exhibit a more holistic view of corporate performance in a concise and more material way combining previously separate constituents of corporate reporting such as annual report and sustainability report and CSR report (Rowbottom and Locke, 2013). The necessities of financial and non-financial information in a single report for effective capital allocation have led to the advent of integrated report. The integrated report that combines different strands of reporting has been produced since 2002. Danish enzyme company, Novozymes produced the first ever integrated report in 2002. Vancity (2005) delineated the definition of <IR> relying on exploratory research and presented issues and challenges of <IR>. King III report on governance for South Africa recommended the companies to prepare an integrated report instead of the separate annual financial report and separate sustainability report (SAICA, 2010). In 2010, the Johannesburg Stock Exchange (JSE) placed a listing requirement which necessitated the listed companies to issue integrated report. The International Integrated Reporting Committee came into existence in 2010. <IR>discussion paper was launched in 2011 which contained

the initial proposals for the development of the International <IR> Framework. In 2013, IIRC developed the International <IR> Framework which consists of eight contents elements and seven guiding principles.

The concept of <IR> in Bangladesh is elementary. Basically, the Bangladeshi companies are adopting<IR> because of their tendency to be transparent to all the stakeholders and their desire to legitimize their operations. The first integrated report has been produced by in 2015 in Bangladesh following the issue of an <IR> checklist by Institute of Chartered Accountants of Bangladesh (ICAB) taking into account the content elements suggested in the <IR> framework.

3. THEORIES AND LITERATURE REVIEW

3.1. Theories

There is no unique theoretical foundation for <IR> but many theories can bolster <IR> in their own distinctive approach (Magnagh and Aprile, 2014). Stakeholder theory, and Institutional theory can delineate the reasons behind the adoption of <IR>.As of Stakeholder theory, companies are not only liable to their owners or shareholders but also accountable to the stakeholders who have specific interests in the companies (Freeman, 1984). Companies, whose primary motive is to earn the profit for the shareholders, are required to perform the social responsibility of meeting the legitimate interests and needs of different parties (Stakeholders). The practices of voluntary disclosures by the companies to sustain the positive relationship with the stakeholders and to gain support for its strategy demonstrates stakeholder theory (Magnagh and Aprile, 2014). Stakeholder theory describes that social reporting by companies is a reflection of accountability of the companies to all the stakeholders-employees, suppliers, regulators, governments, customers and society at large (Gray *et al.*, 1996). <IR> benefits all stakeholders including creditors, suppliers, employees, customers, regulators, policy makers which is the cornerstone of the Stakeholder theory.

In accordance with Institutional theory, organizations become influenced by its surroundings financial, political, educational, cultural, economic institution and get pressurized by these institutions to follow the institutional practices (Jackson and Apostolakou, 2010). Jensen and Berg (2012) identified ownership structure, the value system of the country, laws regarding investor protection and the level of national corporate responsibility as potential determinants of <IR>. It has been observed that company practices <IR> more in countries with strong investor laws. Companies in an industry of dispersed ownership are more likely to practice <IR>. If companies originated from a country which values self-expression, then companies are more likely to produce integrated reporting. High level of national corporate responsibility implies a comprehensive system of different institutions where <IR> practices are emphasized (Jensen and Berg, 2012).

3.2. Literature Review

IIRC (2013) refers to <IR> as "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation". The aim of an integrated report is to allow a better communication of the entity's short, medium and long-term value creation propositions through providing "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term" (IIRC, 2013). <IR> intends to improve the quality of information by promoting a more cohesive and efficient approach to corporate reporting which communicates the full range of factors which have the direct influence on the ability to create value over time.

Traditional public reporting has a dominant orientation towards the analysis of the past and present results of the organization. This type of reporting typically focuses on short-term and retrospective performance and do not provide adequate information for investors, creditors and other stakeholders to make informed financial decisions about current and future performance of the entity. The concept of <IR> has arisen to address such deficiencies in recent corporate reporting regimes (ACCA, 2011). <IR> would be a potential solution for the dearth of forward-looking information disclosures in traditional reporting. <IR> should disclose information on the methods of value creation in the medium and long term of the company with a perspective towards the future (Marcon and Mancin, 2016). Financial returns to the investors depend on the organization's ability to create value (IIRC, 2013). <IR> determines how resources and governances will be deployed to create value (ACCA, 2011). Through <IR>, an organization should illuminate its journey towards reaching the vision, underpinned by its values, enacted by management, monitored by governance, and using facets of resources relating to financial, intellectual, social and environmental capital (Abeysekera, 2013).

A significant number of studies of <IR> indicate the elevated interests of the academic researchers and professional bodies. <IR> as a new and emerging trend of corporate reporting is still in its early development phase (Hossain *et al.*, 2016). For being relatively new concept, most contribution to the study of <IR> is theoretical and conceptual in nature (Abeysekera, 2013; Adams, 2015; Flower, 2015; Dumay *et al.*, 2016) without having a comprehensive perception regarding the ways of preparing integrated reports by companies (Marcon and Mancin, 2016).

Many studies have been conducted for the theoretical development of <IR> undertaking case-study approach (e.g. (Solomon and Maroun, 2012; Higgins *et al.*, 2014; Ahmed Haji and Hossain, 2016; du Toit *et al.*, 2017; Macias and Farfan-Lievano, 2017)). Besides, empirical studies have been undertaken to assess the extent of adoption <IR> though using content analysis (Lipunga, 2015; Jamal and Ghani, 2016; Ahmed Haji and Anifowose, 2017; Kılıç and Kuzey, 2018). Eccles and Krzus (2010) asserted that both financial and non-financial information should be combined into one integrated report. The aim of <IR> agenda is to bring together material financial and non-financial information through the lens of multiple capitals, i.e. financial, manufactured, intellectual, human, social & relationship, and natural capital (Ahmed Haji and Anifowose, 2017).

Studies regarding the challenges of adopting <IR> and exercising <IR> practices have reflected prime concerns to focus and improve. There is the significant increase in the corporate disclosure practice following the adoption of <IR> practice (Ahmed Haji and Anifowose, 2017). Corporate disclosure and forward-looking information are mostly qualitative in nature rather than quantitative (Kılıç and Kuzey, 2018). A case study of <IR> regarding financial and non-financial reporting trends for ASX 50 listed companies found empirical evidence for integration of non-financial information among annual reports, sustainability reports, shareholders briefings and websites (ACCA, 2011). The absence of ubiquitous standards and assurance methodologies, poor comprehension of the link between financial and non-financial performance and deficiency of adequate regulations for preparation and presentation are main drawbacks or challenges (Krzus, 2011).

Eccles *et al.* (2015) examined the randomly selected integrated reports of 25 multinational companies with a view to identifying the best practices centering strategic focus, connectivity of information, and materiality. Marx and Dyk (2011) delineated the inevitability for assurance of sustainability reporting and for assurance of information that would be included in integrated reports. Adams and Simnett (2011) discussed the importance of flexibility in the <IR>. They urged that form of <IR> must be tested across different sizes of the organization in order to gauge the applicability. Therefore, company size has been found to be one of the prominent factors in influencing voluntary disclosure (Uyar *et al.*, 2013; Ghasempour and Yusof, 2014; Ibrahim, 2014). Frias-Aceituno *et al.* (2013) concluded that the decisions to undertake <IR> are prevalently influenced by the size of the company, its management bodies, and its gender diversity. Jamal and Ghani (2016) examined 189 annual reports of 63 real property listed Malaysian companies and found weak <IR> practices. Company size has a significant positive association with the extent of <IR> practices (Jamal and Ghani, 2016). Similarly, Kılıç and Kuzey (2018) found the positive correlation between firm size or gender diversity and forward-looking disclosures. Furthermore, board size, board composition, profitability or industry has the insignificant impact on forward-looking disclosures (Kılıç and Kuzey, 2018).

Churet and Eccles (2014) and Berndt *et al.* (2014) evaluated the content of <IR> rather than merely its adoption. Churet and Eccles (2014) examined the extent and growth of <IR> and its likely effects on both qualities of management and financial performance. They pointed out that the percentage of companies practicing <IR> grew 50% from 2011 to 2012 and they also found a strong relationship between the practice of <IR> and quality on environmental, social and governance (ESG) management which is indicative of the overall quality of management, while no statistically significant association between <IR> and financial performance was found. According to Kılıç and Kuzey (2018) profitability does not have the significant impact on forward-looking disclosures. Likewise, Barin and Ansari (2016) found no significant relationship between return on assets (ROA) or return on equity (ROE) and the level of disclosure for environmental and social information. Lee and Yeo (2016) demonstrated the relationship between company valuations and <IR> using a sample of listed companies in South Africa. They found a positive association between company valuations and <IR> disclosures. It was predicted <IR> reduces the processing costs in firms with complex operating and informational environment (Lee and Yeo, 2016).

Some studies have been performed to apprehend the usages of <IR>from the user perspective. Rensburg and Botha (2014) demonstrated that integrated reports were taken as additional disclosures and these reports were taken or used as the main source of information by the very limited number of providers of financial capital. Many studies have addressed the needs of <IR> (Brown and Dillard, 2014; Cheng *et al.*, 2014; Villiers *et al.*, 2014; Adams, 2015). Lee and Yeo (2016) asserted that the benefits of this reporting exceed its costs.

Though there are the significant amount of studies of <IR> in the world, from the Bangladesh perspective to the best of our knowledge there is no significant study of <IR>. Again, Dumay *et al.* (2016) asserted there is little research examining the <IR> practice. Moreover, there is the scarcity of longitudinal studies to demonstrate the implications of <IR> on corporate reporting practice (Ahmed Haji and Anifowose, 2017). Therefore, this research paper attempts to conduct a longitudinal study of <IR> practice in Bangladesh.

4. RESEARCH METHODOLOGY

This research is based on secondary data. The integrated reports or, in its absence, the annual reports of the selected companies have been reviewed to investigate the extent of the <IR> practice (Marcon and Mancin, 2016). We considered the information only available within one report excluding website or any other source of information. As sample companies in this regard, DSE30 companies (as at 17th April 2017) which represent approximately 51% of the total equity market capitalization have been selected. So, the data for this research has been gathered from either the integrated reports or the annual reports of the DSE30 companies.

Table-1. DSE 30 companies

1	ACI Limited	**16**	Jamuna Oil Company Ltd.
2	Bata Shoe Company (Bangladesh) Ltd.	**17**	Lafarge Surma Cement Ltd.
3	British American Tobacco Bangladesh Com. Ltd.	**18**	Lanka Bangla Finance Ltd.
4	Bangladesh Export Import Company Ltd.	**19**	MJL Bangladesh Ltd.
5	BRAC Bank Ltd.	**20**	National Bank Ltd.
6	Bangladesh Submarine Cable Company Ltd.	**21**	Meghna Petroleum Ltd.
7	Bangladesh Steel Re-Rolling Mills Limited	**22**	Olympic Industries Ltd.
8	BSRM Steels Ltd.	**23**	Orion Pharma Ltd.
9	Beximco Pharmaceuticals Ltd.	**24**	Rak Ceramics (Bangladesh) Ltd.
10	The City Bank Ltd.	**25**	Reneta Ltd.
11	Delta Life Insurance Company Ltd.	**26**	Square Pharmaceuticals Ltd.
12	Grameenphone Ltd.	**27**	Summit power Ltd.
13	Heidelberg Cement Bangladesh Ltd.	**28**	Titas Gas Tranmission and Distribution Co.
14	IDLC Finance Limited	**29**	United Commercial Bank Ltd.
15	Islami Bank Bangladesh Ltd.	**30**	Unique Hotel and Resorts Ltd.

Source: (DSE, 2017)

For the purpose of this study, integrated reports or annual reports of the DSE30 companies of the year 2014, 2015 and 2016 have been used. But in each year, the integrated report or the annual report of all the sample companies has not been tracked down because some companies have shifted their reporting period from the calendar year to fiscal year and some companies have produced only audited financial statements accompanied by the notes to these financial statements in the specific period. In this study, total 77 integrated reports or, in its absence, the annual reports have been scrutinized.

Table-2. Total number of firms observed

Year	Number of DSE30 firms	Number of firms observed
2014	30	27
2015	30	23
2016	30	27
Total		77

In order to conduct the analysis, content analysis approach has been carried out. Content analysis is considered to be one of the most used and effective techniques in case of social and environmental research (Guthrie and Abeysekera, 2006). The integrated reports or the annual reports of the DSE30 companies are analyzed and examined to determine whether the selected companies comply or not with the disclosure of the eight content elements of <IR> prescribed in the International <IR> Framework. The disclosures of the eight content elements have been analyzed intensely through their items. The eight content elements along with their selected items of <IR> as per the International <IR> Framework promoted by International Integrated Reporting Council (IIRC) are provided in table 3.

Table-3. Content elements and items of the content elements

Content elements	Items of the content elements
A. Organizational overview and external environment	• Mission and vision • Culture, ethics and values • Ownership and operating structure • Principal activities and markets • Competitive landscape and market positioning • Position within the value chain • Key quantitative information • Legitimate needs and interests of key stakeholders • Macro and micro economic conditions • Market forces • The speed and effect of technological change • Environmental challenges • The legislative and regulatory environment • The political environment
B. Governance	• Leadership structure • Strategic decision making and culture establishing & monitoring process • Particular actions of governance for risk management • Reflection of culture, ethics and values on the capitals • Whether governance practices exceed legal requirements • Responsibility for promoting and enabling innovation • The link of remuneration and incentives with value creation
C. Business model	• Inputs • Business activities • Outputs • Outcomes • Identification of key stakeholders and other dependencies

D. Risk and opportunities	• Specific sources of risks and opportunities • Assessment of risks and opportunities • Specific steps taken for risks and opportunities
E. Strategy and resource allocation	• Short, medium and long term strategic objectives • Strategies to achieve those objectives • Resource allocation plan • Way of measuring achievements and target outcomes • The linkage between strategy and resource allocation plans and other content elements • Role of Innovation • Developing and exploiting intellectual capital • Features and findings of stakeholder engagement used in strategy and resource allocation
F. Performance	• Quantitative indicators about targets and risks and opportunities • State of key stakeholders relationships • Linkage between past and current performance • KPIs that combine financial measures with other components • Significant effect of regulations on performance
G. Outlook	• Challenges and uncertainties regarding pursuing its objectives • Potential respond to the critical challenges and uncertainties • Potential implications for its business model and future performance • Anticipated changes over time • The potential effect of external environment, risks and opportunities on the achievement of strategic objectives
H. Basis of preparation and presentation	• Organization's materiality determination process • Description and determination of reporting boundary • Significant frameworks and methods used to quantify or evaluate material matters

Source: (International <IR> Framework, 2013)

A disclosure index is generally prepared to determine whether the sample companies engage in disclosure practices of particular information in the annual report (Marston and Shrives, 1991). With a view to examining the extent of <IR> practice of the sample companies in Bangladesh, a company-wise <IR> index along a content element-wise <IR> index with have been constructed for the period 2014 to 2016. In this approach, if any item has been reported by a company in its annual or integrated report, the score has been assigned as 1, otherwise 0.

Company-wise <IR> index $=\sum_{i=1}^{n} f_i/n$

Where:
f_i= 0 if the item has not been disclosed
f_i= 1 if the item has been disclosed
n = the maximum number of items under all content elements (i.e. 50 items)

The total number of items presented by the companies in each year has been divided by the maximum number of items under all the content elements in each particular year to prepare company-wise <IR> index in a particular year. On the other hand, content-wise <IR> index has been constructed through dividing the total number of items presented under each content element by the sample companies in each year by the total possible number of items under that content element in that particular year.

Content-wise <IR> index $=\sum_{i=1}^{t} f_i/t$

Where:

f_i= 0 if the item has not been disclosed

f_i= 1 if the item has been disclosed

t = the total possible number of items under each content elements (i.e. total 5 items under business model)

5. ANALYSIS AND FINDINGS

This section deals with the analysis and findings of the study which have been delineated by content element-wise disclosure index with the help of item-wise analysis and industry-wise disclosure index. The following table indicates the level of adoption of <IR> by DSE30 companies as the core reporting practice over the years.

Table-4. Adoption of <IR> as the core reporting practice

Particulars	2014 (n=27)		2015 (n=23)		2016 (n=27)	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Companies with either integrated reports or integrated annual reports	0	0%	1	4%	6	22%
Companies with traditional annual reports	27	100%	22	96%	21	78%

Table 4 exhibits that the adoption of <IR> is increasing gradually over the year. Actually, this adoption has been commenced from 2015. Before that, no sample companies have used <IR>. In 2015, only one sample company has undertaken <IR> as its main reporting practice. In 2016, 5 sample companies have produced integrated annual report whereas one sample company has prepared integrated report. It is important to note that one of the sample companies (United Commercial Bank Ltd. which has not been included in the table) has described <IR> as an additional part in its annual report in 2015 and 2016.

Content-wise <IR> index indicates the level of disclosed items by the sample companies under each particular content element. In 2016, 71% of the total possible items under organizational overview and external environment have been reported whereas 58% and 66% of the total possible items under the same content element have been disclosed in 2014 and 2015 respectively (See Appendix 1).

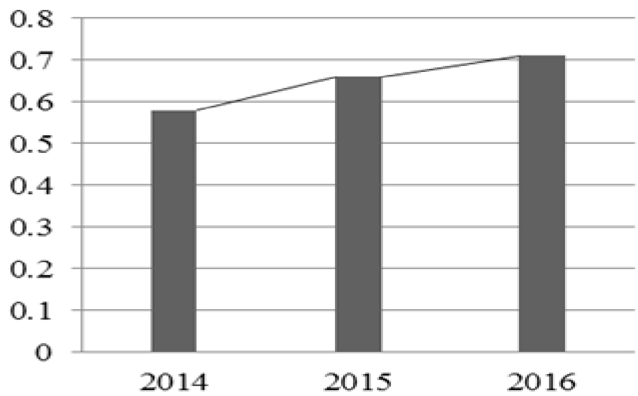

Figure-1. Organizational overview and external environment

The afore-depicted graph shows an upward trend in disclosing items regarding organizational overview and external environment. The reason is the overall increasing practices of disclosing items related to organizational overview and external environment. The disclosures of the political environment and environmental challenges have been declined over the years. The political environment was reported by 59.26% and 69.57% of the sample companies in 2014 and 2015 respectively while only 33.33% of the sample companies reported it in 2016 (See Appendix 2). In 2015, 82.61% of the sample companies have described environmental challenges while the environmental challenges have been mentioned by 74.07% of the sample companies in 2016. All the sample companies have reported ownership and operating Structure, principal Activities and markets, key quantitative information in their integrated or annual reports over all the selected years. Among all the items under organizational overview and external environment, position within the value chain has been least reported. Only 3.70% of the sample companies in 2014 have explained their position within the value chain which was reported by 13.04% and 29.63% of the sample companies in 2015 and 2016 respectively. There is also a great scope for improvement in reporting of competitive and market positioning, legislative and regulatory environment. An increasing tendency to report legitimate needs and interests of key stakeholders has been observed over the years.

Though Bangladesh Securities and Exchange Commission (through its notification no. SEC/CMRRCD/2006-158/134/Admin/44 under section 2CC of the Securities and Exchange Ordinance 1969) has strengthened the corporate governance practices by the listed companies in Bangladesh, results from our analysis under the content element governance denotes to an average governance-related disclosures in the integrated or annual reports. 34% of the total possible items under governance have been reported in 2014. In 2015, 42% of the total possible items have been reported while disclosures of items related to governance have been increased to 51% in 2016.

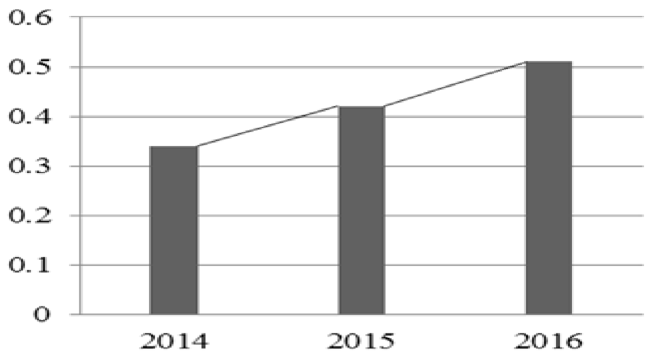

Figure-2. Governance

Disclosures of all the items under governance have been increased over the years. It is important to note that, for the adoption of <IR> sample companies have started to report items i.e. reflection of culture, ethics and values on the capital, responsibility for promoting and enabling innovation from 2015 which were not mentioned by any of the sample companies before 2015. More importantly, these two items have experienced a rapid increase in later years. Reflection of culture, ethics and values on the capitals was reported by only 8.70% of the sample companies in 2015 while this item was reported by 25.93% of the sample companies in 2015. Only one of the sample companies have reported responsibility for promoting and enabling innovation in 2015 while this particular item has been reported by 33.33% of the sample companies in 2016. Leadership structure has been reported by all of the sample companies in 2016 while this item was reported by 92.59% and 95.65% of the sample companies in 2014 and 2015 respectively. There is a place for major improvement in disclosing items like strategic decision making and culture establishing & monitoring process, the link of remuneration and incentives with value creation under the content element governance. 39.13% and 37.04% of the sample companies have mentioned that their governance practices exceed legal requirements in 2015 and 2016 respectively, which indicates an affirmative motive among the sample companies to exercise good governance practices.

An increasing tendency to disclose items related to business model has been viewed over the years. 62% of the total possible items under business model have been reported in 2014 while after two years 79% of the total possible items under the same content element have been described.

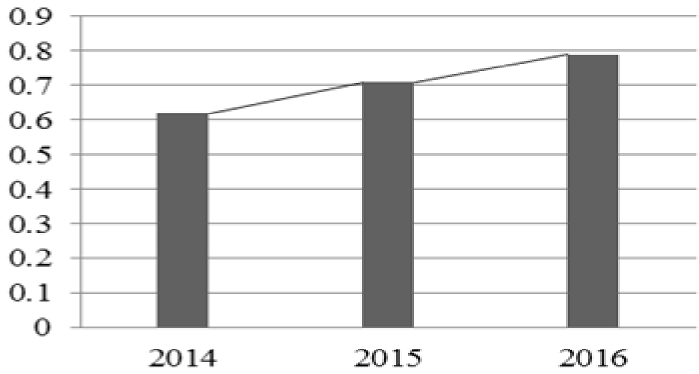

Figure-3. Business Model

Outcomes and business activities are the two items under the business model which have been reported by all the sample companies from 2014 to 2016. Input in the business model was reported by only 3.70% of the sample companies in 2014 and this item was the least reported among all the items under the business model. But after adopting the <IR> the companies have started to emphasize on reporting how they create value. This eventually has instigated to disclose inputs in their respective business model and it is seen that 48.15% of the sample companies have explained their inputs in the integrated or annual reports. In 2015, 69.57% of the sample companies have identified their key stakeholders while the percentage of the sample companies who have identified their key stakeholders has reduced to 62.96% in 2016. But the overall increase of other elements of business model has raised the <IR> index for the business model. It is notable that British American Tobacco Bangladesh Company Ltd has been seen to disclose regarding business model even before its adoption of <IR>.

Reporting of items related to risks and opportunities has slightly increased from 2014 to 2015 but in 2016 reporting of items under risks and opportunities has increased notably. 68% and 71% of the total possible items related under risks and opportunities have been elicited in 2014 and 2015 respectively while in 2016, 81% of the total possible items have been reported by the sample companies.

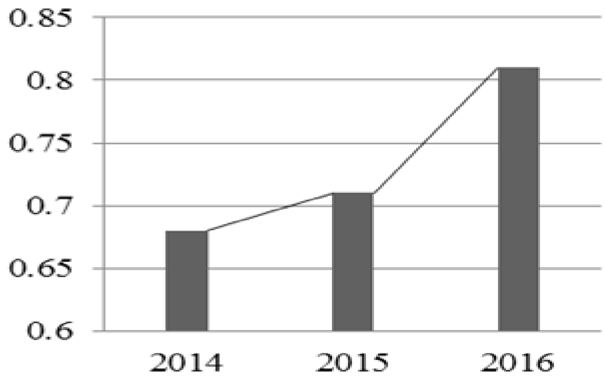

Figure-4. Risk and Opportunities

Disclosure of specific risks and opportunities by the sample companies has been declined over the years. Among the reported companies, a tendency to present risks in the annual reports has been found more robust than reporting specific opportunities to them. The reason behind this leaning might be the menace of losing competitive advantage. Sample companies have increased their reporting of other two items (i.e. assessment of risks and opportunities and specific steps taken for risks and opportunities) which eventually has raised the <IR> index for risks and opportunities.

Only 25% of the total possible items under strategy and resource allocation content element have been reported in 2014. The companies were reluctant to disclose their strategies and resource allocation plant not to lose competitive advantages. But with the passage with the companies have commenced reporting their strategies and resource allocation to become more transparent and to indicate their abilities to create value over time and to beget a positive image among the stakeholders. 38% of the total possible items under the strategy and resource allocation have been disclosed in 2015 while in 2016 the disclosures of the total possible items have been increased to 49%.

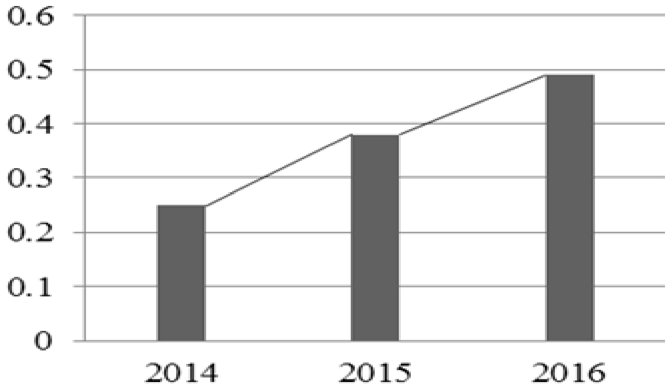

Figure-5. Strategy and Resource allocation

No sample companies have explained the linkage between their strategies and resource allocation plan in their annual reports in 2014. Further, the sample companies have not disclosed whether they have used the findings from stakeholder engagement in their strategies and resource allocation in their annual reports of 2014. These two items have been commenced to appear in the integrated or annual reports from 2015 and in 2016 both of the items have been disclosed by only 25.93% of the sample companies. Resource allocation plan has been narrated by 11.11% of the sample companies in 2014 whereas in 2015 and 2016 this item has been reported by 34.43% and 37.04% of the sample companies. It has been seen that the companies are enthusiastic to report how they are developing and exploiting intellectual capital. There is a major gap in reporting regarding the way of measuring the achievements and target outcomes and only one-third of the sample companies have noted this item in their integrated or annual reports.

<IR> index for the performance content elements has experienced an upward trend from year to year. The index for performance was 0.33 in 2014 which has risen to 0.40 and 0.51 in 2015 and 2016 respectively.

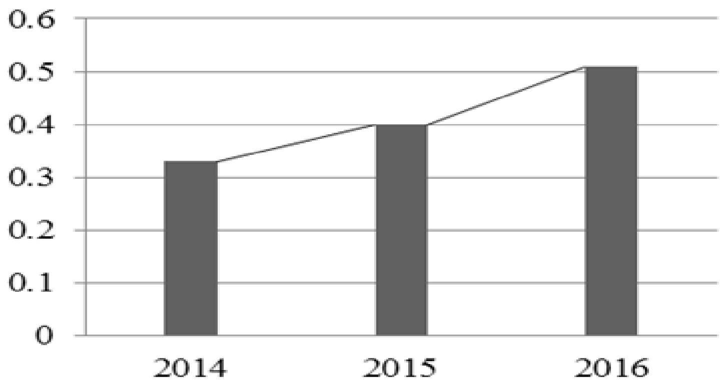

Figure-6. Performance

Among the items related to performance, the linkage between past and current performance has been reported by all of the sample companies in 2015 and 2016. Most of the reported companies have reported this very linkage between past and current performance in the Financial Highlights, Message from Chairman, Director's Report, Managing Director's or CEO's review section of the annual reports or integrated reports. State of key stakeholders has been reported by only 14.81% of the sample companies and this item has been explained by 33.33% of the sample companies. The item named significant effects of regulations on performance has been delineated by 11.11%

of the sample companies in 2014 while this item has been described by 8.70% of the sample companies in 2015. Again, 25.93% of the sample companies in 2016 have reported the effects of certain regulations on their performances in their integrated or annual reports. Under the performance content element, there is also a room for improvement in reporting KPIs that combine financial measures with other components.

In 2014, only 24% of the total possible items under outlook content element have been disclosed while the sample companies have reported 31% and 43% of the total possible items under outlook. Though there has been an increasing trend, major improvement is needed in reporting of items related to outcome.

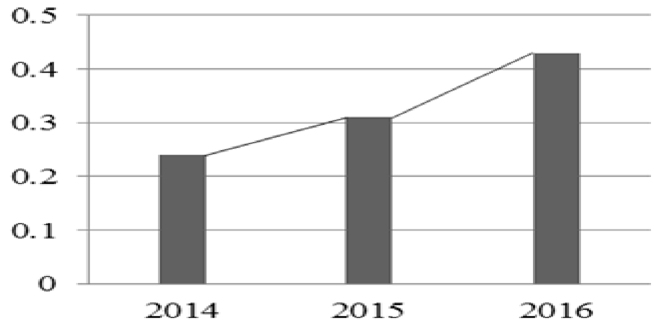

Figure-7. Outlook

Challenges and uncertainties regarding pursuing its objectives have been reported by 44.44% of the sample companies and this item has been reported by 60.87% and 62.96% of the sample companies in 2015 and 2016 respectively. Reporting of potential responses to the critical challenges and uncertainties has also increased over time. Two important items (i.e. potential effect of external environment, risks and opportunities on the achievement of strategic objectives, potential implications for its business model and future performance) have not appeared in our sample annual reports of 2014. In 2015 these item has been delineated by only IDLC Finance Ltd (sample Company which has adopted the <IR> in 2015). Reporting of anticipated changes over time has been increasing gradually.

Reporting of items related to the basis of preparation and presentation has been increasing steadily. 67% of the total possible items on the basis of preparation and presentation have been reported in 2014 while in 2015 and 2016 the sample companies have disclosed 70% and 70% of these items respectively.

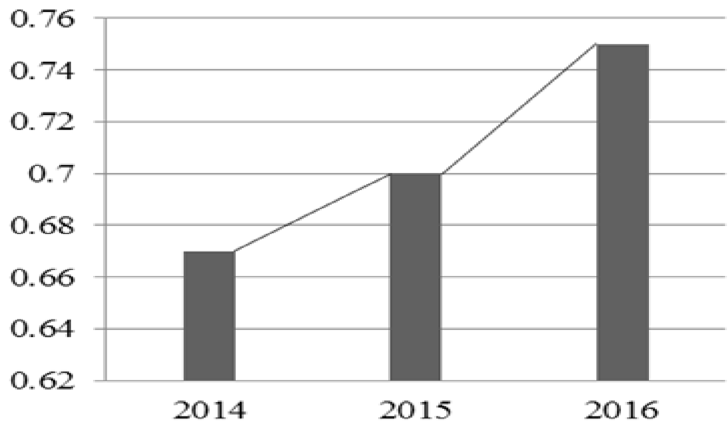

Figure-8. Basis of preparation and presentation

Before the adoption of <IR>, no sample company has reported regarding their materiality determination process. In 2015 and 2016, only those companies who either adopted <IR> as their core reporting practices or presented <IR> as an additional part in their annual reports have explained their materiality determination process. All the sample companies have delineated and determined their reporting boundary in their annual reports or integrated reports in all the three years. The companies, who didn't produce the integrated report or annual report in an integrated way have mentioned their boundary used for financial reporting purposes which are called the financial reporting entity (usually consists of parent and its subsidiaries along with its interests in associates and jointly controlled entities). On the other hand, most of the companies, that prepared integrated report or annual report in an integrated way, have mentioned their boundary beyond the reporting entity in order to embrace risks, opportunities and outcome which have noteworthy consequences on the capability of the financial reporting entity for value creation. All the sample companies have also disclosed significant frameworks and methods used to quantify or evaluate material matters. All the companies have stated the applicable financial reporting standards which they have used to compile their financial information.

Company-wise <IR> index indicates the level disclosures of the total possible items under all the eight content elements by each of the sample companies in each year. Actually, this index demonstrates the trend of disclosing the items related to <IR> by the sample companies over the time and answers the questions whether the companies are eventually going towards the <IR>.

Top 6 performing companies on the basis of average <IR> practices over the three years period have been depicted in the following graph. Among these 6 companies, IDLC Finance Ltd has been using <IR> practices since 2015 while the rest of these companies except Grameenphone Ltd have adopted <IR> practices in 2016.

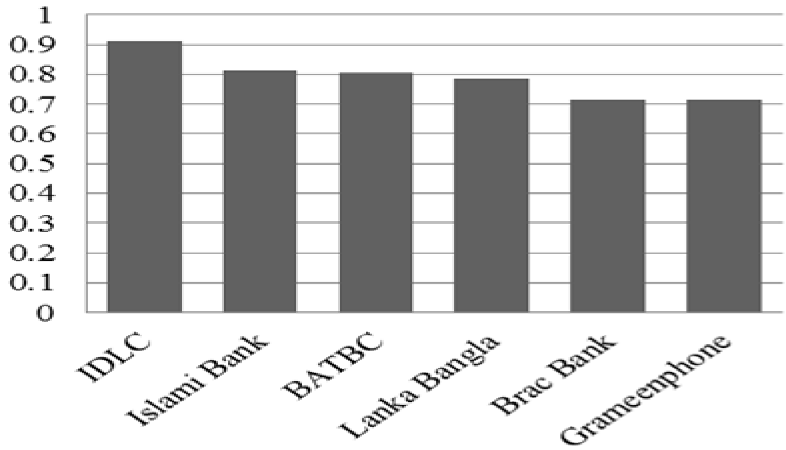

Figure-9. Top 6 performing companies

Among these top six performing companies, four companies are from the industry of financial institutions and the rest two are multinational companies (MNCs) which acquiesce with the institutional theory in the sense that financial institutions have a tendency to be more transparent and use the comprehensive approach to stakeholder management. Besides, MNCs follow their global standard of reporting which eventually leads them to undertake the most effective and transparent reporting practices.

Only 4 companies, that have adopted <IR>, have reported all the items of <IR> in 2016. Rest two of the sample companies which have also undertaken <IR> have reported 98% of the selected items of <IR>. It has been observed that the companies which have adopted <IR> used to disclose more than 60% of the items of <IR> before the adoption of <IR>. From our analysis, there are 6 sample companies which have reported more than 60% of the selected items of integrated reporting in 2016 and these companies are anticipated to adopt <IR> in near future. So, the companies which have been attempting to ensure ethical perspective of Stakeholder theory are more likely to adopt <IR>. On the other hand, 13 sample companies have reported less than 50% of the selected items of <IR> in 2016, which actually indicates that these companies are not being expected to adopt <IR> thought over time their <IR> index is increasing. But, these companies will be willing to undertake <IR> when they will perceive the companies that adopted <IR> are receiving benefits from <IR> and apprehend the benefits of adopting <IR> in their own reporting practice weights more than their costs of undertaking <IR>. Apparently, the <IR> index for three of the sample companies has not increased over the three years period while rest of the sample companies have experienced an increasing trend in their <IR> index.

The following graph depicts the disclosures related to <IR> over the three years which actually demonstrates the trend that the <IR> practices in Bangladesh has been experiencing. The total number of items presented by the all the sample companies in each year have been divided by the maximum number of items under all the content elements for all the sample companies in each particular year to construct yearly <IR> Index (Appendix C). The graph exhibits an upward trend in reporting disclosures related to <IR>.

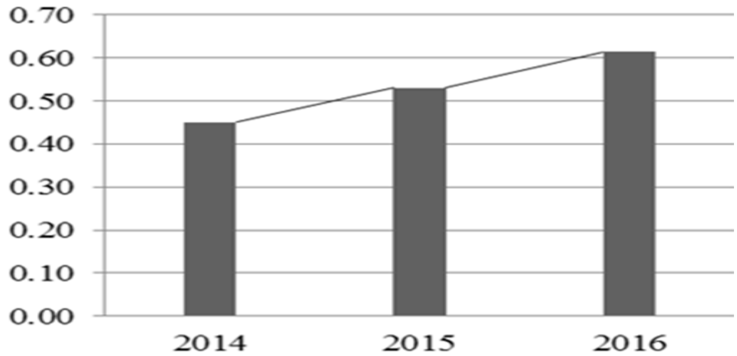

Figure-10. Overall <IR> practice over the years

In total, 45.11% of the total selected items under all the content elements of <IR> have been reported by the companies while after two years the overall <IR> index for all the companies has increased to 61.48% in 2016. This denotes that the companies are heading toward reducing information asymmetry to a greater extent through adopting <IR> which elicits how the company will create value in short-term, mid-term and long-term. In essence, we are expecting that more listed companies in Bangladesh will be willing to adopt <IR> and we will not become surprised to see <IR> as the industry practice in future.

6. CONCLUSION

Even in absence of mandatory regulations, some companies in Bangladesh have stepped forward to adopt <IR> with a view to creating a positive impression among the stakeholders. This study shows 61.48% of the items are already covered by the DSE30 companies in either their annual reports or integrated reports in 2016 while in 2014 and 2015 the sample companies cover 45.11% and 53.04% of the items respectively. This upward trend indicates that Bangladeshi companies are on the right track to adopt <IR>. It is anticipated that the apprehension of positive benefits that <IR> bestows to the companies can work as a catalyst to undertake <IR> as the core reporting practice rapidly. In our study, a tendency to present the required financial and non-financial information in a discrete way rather than in a more connecting and cohesive way has been observed in the annual reports or integrated reports of the sample Bangladeshi companies. As <IR> benefits both the companies and their stakeholders, there exists a win-win situation which contains a reflection of more transparency and accountability. In order to fulfil the needs of the stakeholders for effective and decision-supportive non-financial information and cope up with the rest of the world, an increasing trend of <IR> practices by Bangladeshi companies in the ensuing future is being anticipated. Comparative studies can be conducted in future to gauge any uprising trend in case of <IR> practices by Bangladeshi companies.

This study lays the foundation for the further research on <IR> practices from Bangladesh perspective. Besides, other developing countries for which the level of <IR> practices has not identified, this study may lend a hand in this regard. This study has been conducted from the content elements perspective of the International <IR> Framework. Hence, this study can be used as a guideline to perform a study to determine the extent of compliance by the Bangladeshi companies with the guiding principles of the International <IR> Framework. There is a scope for further research to identify the determinants of <IR> from the perspective of Bangladesh companies. Besides, studies to apprehend the value relevance of <IR> and the impacts of corporate governance on <IR> can also be conducted.

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APPENDICES

Appendix A

Content element-wise <IR> index

Content elements	2014		2015		2016	
	Score	Index	Score	Index	Score	Index
Organizational overview and external environment	221	0.58	212	0.66	267	0.71
Governance	64	0.34	67	0.42	97	0.51
Business model	84	0.62	82	0.71	106	0.79
Risk and opportunities	55	0.68	49	0.71	66	0.81
Strategy and resource allocation	54	0.25	70	0.38	106	0.49
Performance	45	0.33	46	0.40	69	0.51
Outlook	32	0.24	36	0.31	58	0.43
Basis of preparation and presentation	54	0.67	48	0.70	61	0.75

Appendix-B

Item-wise analysis of content elements

Content Element	Items	2014		2015		2016	
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Organizational overview and external environment	Mission and Vision	21	77.78%	19	82.61%	26	96.30%
	Culture, Ethics and Values	21	77.78%	18	78.26%	25	92.59%
	Ownership and Operating Structure	27	100.00%	23	100.00%	27	100.00%
	Principal Activities and Markets	27	100.00%	23	100.00%	27	100.00%
	Competitive Landscape and Market Positioning	9	33.33%	7	30.43%	12	44.44%
	Position within the value chain	1	3.70%	3	13.04%	8	29.63%
	Key Quantitative Information	27	100.00%	23	100.00%	27	100.00%
	Legitimate needs and interests of key	5	18.52%	8	34.78%	15	55.56%

	stakeholders						
	Macro and Micro economic conditions	15	55.56%	16	69.57%	22	81.48%
	Market forces	10	37.04%	11	47.83%	15	55.56%
	The speed and effect of technological change	17	62.96%	18	78.26%	21	77.78%
	Environmental Challenges	20	74.07%	19	82.61%	20	74.07%
	The legislative and regulatory environment	5	18.52%	8	34.78%	13	48.15%
	The political environment	16	59.26%	16	69.57%	9	33.33%
Governance	Leadership Structure	25	92.59%	22	95.65%	27	100.00%
	Strategic decision making and culture establishing & monitoring process	10	37.04%	10	43.48%	13	48.15%
	Particular actions of governance for risk management	16	59.26%	13	56.52%	19	70.37%
	Reflection of culture, ethics and values on the capitals	0	0.00%	2	8.70%	7	25.93%
	Whether governance practices exceed legal requirements	7	25.93%	9	39.13%	10	37.04%
	Responsibility for promoting and enabling innovation	0	0.00%	1	4.35%	9	33.33%
	The link of remuneration and incentives with value creation	6	22.22%	10	43.48%	12	44.44%
Business model	Input	1	3.70%	5	21.74%	13	48.15%
	Business Activities	27	100.00%	23	100.00%	27	100.00%
	Outputs	16	59.26%	15	65.22%	22	81.48%
	Outcomes	27	100.00%	23	100.00%	27	100.00%
	Identification of key stakeholders	13	48.15%	16	69.57%	17	62.96%
Risks and opportunities	Specific sources of risks and opportunities	25	92.59%	21	91.30%	24	88.89%
	Assessment of risks and opportunities	17	62.96%	15	65.22%	21	77.78%
	Specific steps taken for risks and opportunities	13	48.15%	13	56.52%	21	77.78%
Strategy and resource allocation	Short, medium and long term strategic objectives	5	18.52%	9	39.13%	17	62.96%
	Strategies to achieve those objectives	5	18.52%	8	34.78%	14	51.85%
	Resource Allocation Plan	3	11.11%	7	30.43%	10	37.04%
	Way of measuring achievements and target outcomes	5	18.52%	6	26.09%	9	33.33%
	The linkage Between strategy and resource allocation plan	0	0.00%	2	8.70%	7	25.93%
	Role of Innovation	13	48.15%	15	65.22%	19	70.37%
	Developing and exploiting intellectual capital	23	85.19%	22	95.65%	23	85.19%
	Features and findings of stakeholder engagement used in strategy and	0	0.00%	1	4.35%	7	25.93%

	resource allocation						
Performance	Quantitative indicators about targets and risks and opportunities	8	29.63%	9	39.13%	14	51.85%
	State of key stakeholders relationships	4	14.81%	6	26.09%	9	33.33%
	The linkage between past and current performance	26	96.30%	23	100.00%	27	100.00%
	KPIs that combine financial measures with other components	4	14.81%	6	26.09%	12	44.44%
	Significant effect of regulations on performance	3	11.11%	2	8.70%	7	25.93%
Outlook	Challenges and Uncertainties regarding pursuing its objectives	12	44.44%	14	60.87%	17	62.96%
	Potential respond to the critical challenges and uncertainties	11	40.74%	12	52.17%	15	55.56%
	Potential implications for its business model and future performance	0	0.00%	1	4.35%	7	25.93%
	Anticipated changes over time	9	33.33%	8	34.78%	12	44.44%
	The potential effect of external environment, risks and opportunities on the achievement of strategic objectives	0	0.00%	1	4.35%	7	25.93%
Basis of preparation & presentation	Organization's Materiality Determination process	0	0.00%	2	8.70%	7	25.93%
	Description and determination of reporting boundary	27	100.00%	23	100.00%	27	100.00%
	Significant frameworks and methods used to quantify or evaluate material matters	27	100.00%	23	100.00%	27	100.00%

Appendix C

Company-wise <IR> index						
Company name	**2014**		**2015**		**2016**	
	Actual Score	**<IR> Index**	**Actual Score**	**<IR> Index**	**Actual Score**	**<IR> Index**
ACI Limited	20	0.4			24	0.48
Bata Shoe Company Ltd.	20	0.4	20	0.4	21	0.42
British American Tobacco Bangladesh Company Ltd.	35	0.7	36	0.72	50	1
Bangladesh Export Import Company Ltd. (BEXIMCO)	14	0.28			14	0.28
Brac Bank Ltd.	25	0.5	33	0.66	49	0.98
Bangladesh Submarine Cable Company Ltd.			21	0.42	24	0.48
Bangladesh Steel Re-rolling Mills Ltd.	25	0.5	30	0.6		
BSRM Steels Ltd.	25	0.5	30	0.6		
Beximco Pharmaceuticals Ltd.	16	0.32			20	0.4

The City Bank Ltd.	31	0.62	33	0.66	38	0.76
Delta Life Insurance Company Ltd.	14	0.28	16	0.32	20	0.4
Grameenphone Ltd.	34	0.68	34	0.68	39	0.78
Heidelberg Cement Bangladesh Ltd.	20	0.4	20	0.4	23	0.46
IDLC Finance Ltd.	38	0.76	49	0.98	50	1
Islami Bank Bangladesh Ltd.	36	0.72	36	0.72	50	1
Jamuna Oil Company Ltd.	13	0.26	15	0.3	16	0.32
LAFARGE SURMA Cement Ltd.	15	0.3	15	0.3	21	0.42
Lanka Bangla Finance Ltd.	33	0.66	35	0.7	50	1
MJL Bangladesh Ltd.					37	0.74
Meghna Petroleum Ltd.	10	0.2	15	0.3	19	0.38
National Bank Ltd.	0	0	30	0.6	33	0.66
Olympic Industries Ltd.	13	0.26	17	0.34	23	0.46
Orion Pharma Ltd.	19	0.38			49	0.98
RAK Ceramics (Bangladesh)Ltd.	25	0.5	26	0.52	32	0.64
Reneta Ltd.	13	0.26			18	0.36
Square Pharmaceuticals Ltd.	21	0.42	21	0.42	25	0.5
Summit Power Ltd.	24	0.48	25	0.5		
Titas Gas Transmission and Dist. Co. Ltd.	16	0.32	15	0.3	21	0.42
United Commercial Bank Ltd.	32	0.64	38	0.76	38	0.76
Unique Hotel and Resorts Ltd.	22	0.44			26	0.52
Total	**609**	**0.4511**	**610**	**0.5304**	**830**	**0.6148**