



Received: 29-02-2022

Accepted: 09-04-2022

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

A study on compiling integrated reporting for firms in Vietnam

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Abstract

Integrated reports have repaired the disadvantages of traditional financial statements and annual reports, so they are being researched and applied as a development trend of the business reports system. This study is conducted for measuring the challenges in compiling integrated reporting for listed firms on the Vietnamese stock market. We employ some descriptive analysis, Cronbach's Alpha, Independent T-test and ANOVA for evaluating and measuring the challenges in compiling integrated reporting for listed firms. The results show that the challenges in compiling integrated

reporting for listed firms achieved an average of 3.96 in the Likert of 5 grades. There is not insignificant difference on evaluation of the challenges in compiling integrated reporting for listed firms in terms of gender. But the study finds differences on evaluation of the challenges in compiling integrated reporting for listed firms in terms of the field of action of enterprises include produce industry, commercial services; and construction, real estate. Based on findings, some recommendations are given for listed firms to set up integrated reporting.

Keywords: Challenge, Integrated Reports, Accounting

JEL classification: M41, F65, A10

1. Introduction

According to Circular No. 155/2015/TT-BTC of the Ministry of Finance (Ministry of Finance, 2015) ^[14], from January 1, 2016, listed firms are required to disclose information on the stock market, which includes business sustainable development (BSD). BSD may be reported separately or included in annual reports. Contents reported must include: (i) Raw material management; (ii) Energy and water consumptions; (iii) Compliance of environmental protection; (iv) Employees-related policies; (v) Social responsibilities for local communities; (vi) Green capital market.

Integrated reports are considered a concise communication of a company's strategy, corporate governance, performance and potentials, which can be compared with environmental factors to anticipate the generations, maintenance or depletion of values in the short, medium and long term (IIRC, 2021) ^[9].

In Vietnam, integrated reporting and integrated reporting framework of International Integrated Reporting Council (IIRC) were recently introduced by the State Securities Commission, International Finance Corporation (IFC) and Association of Chartered Certified Accountants (ACCA) to target listed firms. While Vietnam has not officially mandated integrated reports, several firms have adopted integrated reporting such as Bao Viet Corporation, etc. Integrated reporting provides not only financial but also non-financial information on future orientation, opportunities and risks, personnel strategy and planning, performance and growth prospects of the enterprise, etc. The combination of non-financial and financial information provides perspectives of current and future prospects to develop sustainably. In addition, integrated reporting is a new trend that satisfies the needs of a developing and integrating economy.

On the basis of qualitative research and previous studies, the author examines attributes of challenge in compiling integrated reporting for firms. The group of authors proceed to analyze, assess and measure these attributes.

2. Literature review

2.1 Integrated Reports (IR) at firms

Krzus (2001) ^[11] presented the differences between IR and previous reporting methods, especially the focus of IR on physical aspects of organizational performance, including narrative and quantitative metrics in compliance with justification. IR is able to link complex information, orient sustainable criteria, comments on financial management and governance models in a strict and fully integrated manner (Stubbs & Higgins, 2012) ^[15]. In other words, IR can overcome the limitations of traditional

financial reporting’s ability of providing comprehensive information. Outcome information of IR helps stakeholders comprehensively assess the enterprise, which is essential for a safe and effective business plan.

IR is not simply a combination of 3 types of reporting (annual report, sustainability report and financial statements), but a creative integration of information to convey the thorough and transparent story of how enterprise value is formed (Stubbs & Higgins, 2012) [15].

For Vietnam, Hieu (2017) [7] pointed out that, in the current context of further international integration, while firms around the world are paying more attention to integrated reporting, most listed Vietnamese firms have yet to adopt this type of reporting. The author presented: (i) overview of international standards on integrated reporting; (ii) prospect of applying international standards of presentation and publication of integrated reporting in Vietnamese firms; (iii) recommendations for the publications of integrated reporting in Vietnam.

2.2 Challenge in compiling integrated reporting

Burritt (2012) [1] questioned whether the international IR framework has ensured stakeholders’ interest in the enterprises. IR discloses a variety of information, including prices, markets, business strategies, which may affect competitive edge.

Frias-Aceituno *et al.*, (2012) [4] found out that monopolies are less likely to make integrated report, they are protective of their interest and objected to the publication of information.

Cheng *et al.*, (2014) [2] argued that the international IR framework outlined types of 6 capitals and movement of capital types in creating organization’s value without providing detailed instructions on how to measure them. This poses a challenge to companies when making IR. In addition, IR mainly focuses on attracting investment capital, which impedes the provision of information to other stakeholders.

Dumay *et al.*, (2016) [3] summarized the impediments in applying, acquiring supports, promoting the IR framework

that is responded to by stakeholders. Among which, several suggest IIRC provide detailed instructions of how to employ IR.

When firms first compile integrated reports, the role of accounting in the reporting procedures changes, and IR requires the combination of different departments and consultants. Besides, Individuals in the process of making IR are required to understand integrated reporting. Thus, new expenses would arise in the process of making IR reports, such as cost of staff training, cost of hiring consultants (Joshi *et al.*, 2018) [10].

Vitolla & Raimo (2018) [17] affirmed that IR is a new form of reporting, which discloses both financial and non-financial information of enterprises. Although this type of reporting benefits business with potential perks, it has not been implemented extensively. One reason for the slow promotion of IR can be attributed to the fact that there lacks practical evidence to prove the profitability of this reporting type while information disclosure regulations for IR reporting are strict and complicated, which requires companies to closely follow the international IR framework.

3. Research methodology

The authors use qualitative research methods based on having in-depth interviews with five senior lecturers in accounting and finance of some universities including National Economics University, University of Labor in Hanoi who have extensive experience in integrated reporting at enterprises. At the same time, we interviewed five experts working as chief accountants in listed firms in Hanoi. The results of the interviews include challenge in compiling integrated reporting for firms.

Then, we have conducted inductive method to verify, adjust and add attributes in questionnaires for collecting final data of the research. Inheriting the results conducted by Burritt (2012) [1], Frias-Aceituno *et al.*, (2012) [4], Cheng *et al.*, (2014) [2], Dumay *et al.*, (2016) [3], Joshi *et al.*, (2018) [10] and Vitolla & Raimo (2018) [17], we identify the challenges in compiling integrated reporting for firms as follows (see table 1).

Table 1: Observable variables’ challenge in compiling integrated reporting for firms

Variable	Observable variable	Sources
C1	International integrated reporting framework does not provide detailed instruction for an optimal integrated report	Burritt (2012) [1], Frias-Aceituno <i>et al.</i> , (2012) [4], Cheng <i>et al.</i> , (2014) [2], Dumay <i>et al.</i> (2016) [3], Joshi <i>et al.</i> , (2018) [10] and Vitolla & Raimo (2018) [17]
C2	Enterprises are afraid that integrated report discloses too much information regarding prices, markets, business strategies	
C3	The complexity of integrated report and strict regulations regarding information disclosure on report	
C4	Integrated reporting requires much time while accuracy and credibility is not high	
C5	First-time integrated reporting causes new expenses to arise	
C6	Many enterprises make integrated reports for achievement purposes or to follow regulations	
C7	Capabilities of report-making team	

Then, we have designed a questionnaire including 7 attributes with a 5-point Likert scale from 1 “not totally agree” to 5 “fully agree”. The data collection was conducted through the survey and subjects were accountants who working for listed firms on the Vietnamese stock market. We sent 150 questionnaires and received the feedback of 135. After screening information of the respondents, 125

questionnaires with full information were used for data entry and analysis. This sample size is consistent with the study of Gorsuch (1983) [5].

SPSS is a tool to support us to have descriptive statistics, Cronbach's Alpha, Independent T-test and ANOVA for evaluating and measuring the challenges in compiling integrated reporting for firms in Vietnam.

4. Research results

4.1 Descriptive statistics

Information of data collected is shown in Table 2. It shows that among the 125 respondents, about 25.6% were male while the remaining 93 (74.4%) were female. Of these,

37.6% of the participants working for produce industry firms, 32% of the participants working for commercial services firms, and the participants working for construction, real estate firms accounted for 30.4%.

Table 2: Respondents by gender, the field of action of enterprises

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	32	25.6	25.6	25.6
	Female	93	74.4	74.4	100.0
		The field of action of enterprises			
Valid	Produce industry	47	37.6	37.6	37.6
	Commercial services	40	32.0	32.0	69.6
	Construction, real estate	38	30.4	30.4	100.0
	Total	125	100.0	100.0	

Next, Table 3 indicates that the respondents agree with the dependent variables of “the challenges in compiling integrated reporting for firms” where seven (7) attributes were quite high with an average of 3.96 compared with the highest of the Likert 5-point scale. All 7 attributes were rated at an average of 3.87 or higher.

C6	125	2.00	5.00	3.97	.683
C7	125	2.00	5.00	3.99	.629
Valid N (listwise)	125			3.96	

Table 3: Descriptive Analysis of Attributes of the challenges in compiling integrated reporting for firms

	N	Minimum	Maximum	Mean	Std. Deviation
C1	125	2.00	5.00	3.98	.615
C2	125	2.00	5.00	4.02	.628
C3	125	2.00	5.00	3.87	.622
C4	125	2.00	5.00	3.91	.696
C5	125	2.00	5.00	3.97	.608

4.2 Cronbach’s Alpha

The challenges in compiling integrated reporting for firms have been measured by the Cronbach's Alpha. Results of testing Cronbach’s alpha of attributes are presented in Table 4 below. The results also show that attributes of the dependent variables have Cronbach's Alpha coefficients that are greater than 0.6; and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the dependent variables are statistically significant (Hair *et al.*, 2010; Trong & Ngoc, 2008) ^[6, 16].

Table 4: Results of Cronbach’s Alpha Testing of Attributes

Cronbach’s Alpha	N of Items			
.872	7			
Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted	
C1	23.74	8.777	.616	.859
C2	23.69	8.474	.692	.849
C3	23.84	8.700	.631	.857
C4	23.80	8.387	.628	.858
C5	23.74	8.789	.622	.858
C6	23.74	8.273	.677	.851
C7	23.72	8.477	.691	.849

4.3 Independent T – test

Comparison of the results of the challenges in compiling integrated reporting for firms between participants have different genders (male and female) can be seen in Table 5. According to the results shown in Table 5, Sig Levene's Test is 0.546, which is more than 0.05. The variance between

male and female is not different. Moreover, Sig value T-Test = 0.327 > 0.05, which means that there is not, statistically, significant difference in the level of the challenges in compiling integrated reporting for firms from these different genders (Hair *et al.*, 2010; Trong and Ngoc, 2008) ^[6, 16].

Table 5: Differences of the challenges in compiling integrated reporting for firms between Participants have Different Genders - Independent Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
challenges	Equal variances assumed	.366	.546	.984	123	.327	.09730	.09887	-.09840	.29300
	Equal variances not assumed			.927	48.794	.358	.09730	.10493	-.11359	.30820

4.4 Anova

Anova test was needed to make a comparison of the results of the challenges in compiling integrated reporting for firms between the three subjects, including participants working for produce industry firms, participants working for commercial services firms and participants working for construction, real estate firms. Table 6 shows that sig levene statistic of 0.036 is less than 0.05, which means that the hypothesis of homogeneity variance among the variable value groups (different the field of action of enterprises) has been violated. Table 7 shows that, sig. = 0.003 is less than 0.05, which indicates that there is, statistically, significant difference in the level of challenges in compiling integrated reporting for firms between the mentioned three groups of the field of action of enterprises (Hair *et al.*, 2010; Trong & Ngoc, 2008) [6, 16].

Table 6: Test of Homogeneity of Variances

C			
Levene Statistic	df1	df2	Sig.
3.411	2	122	.036

Table 7: Robust Tests of Equality of Means

C				
	Statistic ^a	df1	df2	Sig.
Welch	6.200	2	77.281	.003

a. Asymptotically F distributed

4.5 Discussion and Implications

Several enterprises during the report-making process raise concern over information disclosure, as this may influence competitive position by revealing crucial information, such as business model, initiatives and markets. However, the IIRC framework (2013) [8] allows organizations to include simplified data for sensitive information that may affect competitive advantages of the enterprise. Another mentioned challenge that was faced by organizations when disclosing non-financial information is that measuring non-financial information and assessing business activities' impact on the environment, which makes organizations tend to avoid disclosing the information. The credibility of non-financial information is not high and has not been guaranteed by organizations.

There has not been a general structure or principles for integrated reports, which causes many enterprises to be uncertain about IR structure. Besides, the international IR framework has not provided detailed instructions about concepts and principles, which poses challenges to accounting staff of companies because they are familiar with the standards of financial reporting. These challenges may include: it is difficult to identify capital types in IR; it is challenging to express means of creating values of the company; it is also challenging to present resource allocation in the future strategies.

IIRC framework was first published in 2013, and instructions are considered basic. This means that enterprises should be able to improvise during the integrated report making process. However, it raises the question: What should be the standard for companies to follow. In addition, it is also difficult for auditing firms to conduct assurance services.

First-time integrated report making may cause new expenses to arise, such as training cost, consultancy cost, etc.

Information management system is also unprepared, which makes information collection more time-consuming and lower credibility. Therefore, enterprises need to improvise in report making to optimize management efficiency. IR is a management tool to evaluate activities, develop procedures, and its benefits are extensive, including contributing to companies' value.

As enterprises have gone through the annual report voting season, patterns related to annual reports may influence the process of integrated reports making. In addition, the contents of the annual report as guided in Circular 155/2015/TT-BTC (Ministry of Finance, 2015) [14] are basic, which makes it easy for enterprises to follow; however, the quality, standard and creativity of the report-making department.

Experts suggest that the most challenging part in integrated reporting is the credibility of the report, as few auditing firms could provide suitable accounting services.

5. Conclusions and recommendations

In recent years, several countries in the world have paid more attention to integrated reporting such as China, India, Thailand, Malaysia, etc. However, in Vietnam, few organizations pay attention to IR, one of which is Bao Viet Corporation - a successful corporation in integrated report making. IR is still new to the stock market in general and firms in particular, as there lack standards and detailed instructions to conduct. Therefore, issues concerning integrated report making process need to be discussed so that companies could improve and perfect integrated reporting.

To build an integrated report, firms need to connect with stakeholders, especially investors, to locate critical issues that should be attended to and can be directly influential to the enterprise, because IR emphasizes conciseness, future orientation and business's focus of strategy, business model and creation of value. The interconnection of information reinforces the value of information, which allows better distribution and integration of information and aims for long-term success. As different stakeholders could provide different information in IR, an organization would have a better overview of information regarding strategy, business model; and the profitability in short, medium and long term. In addition, this contributes to solving critical issues in business activity management of the organization, because IR helps realize potential benefits (Kun *et al.*, 2013; Mauro *et al.*, 2020) [12, 13].

Vietnam does not have specific standards and guidelines for implementation, nor has a consulting unit and IR training and practice courses, so most firms have to learn and apply integrated reports themselves. Therefore, in the context of international integration, Vietnamese firms need pioneers in studying, applying and implementing integrated reports, in order to reshape goals and develop appropriate procedures for reporting, creating long-term value and meeting increasing requirements from stakeholders.

One of the biggest challenges to adopt integrated reporting is the reliability of the reports. Because, there are too few auditing firms that can perform audits of non-financial information. Therefore, in order to provide timely and comprehensive information to investors, which will help improve the efficiency of the market and best support decision-making, will be given more and more importance, the Ministry of Finance In conjunction with the State

Securities Commission, it is necessary to organize retraining, training and capacity building of auditors to be able to audit non-financial information in the future. To ensure the transparency of information on the stock market to protect the interests of investors, customers and related parties.

International Journal of Business and Management. 2018; 13(12):244-250.

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