

**ICTHM 2023****International Conference in Technology, Humanities and Management****BENEFITS AND OBSTACLES OF INTEGRATED REPORTING IN  
THE PUBLIC SECTOR**

Nor Farizal Mohammed (a)\*, Md. Shafiqul Islam (b), Norziana Lokman (c),  
Nik Haslizawaty Abdul Halim (d), Fauziah Yusof (e)

\*Corresponding author

- (a) Accounting Research Institute (HICoE) & Faculty of Accounting, Universiti Teknologi MARA, Shah Alam, Malaysia, norfa783@uitm.edu.my
- (b) Department of Business Administration, East West University, Dhaka, Bangladesh, shafiqul@ewubd.edu
- (c) Accounting Research Institute (HICoE) & Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA, Shah Alam, Malaysia, norzi716@uitm.edu.my
- (d) Faculty of Business, Accounting and Social Science, University Poly-Tech Malaysia, Kuala Lumpur, Malaysia, haslizawaty@kuptm.edu.my
- (e) Faculty of Business, Accounting and Social Science, University Poly-Tech Malaysia, Kuala Lumpur, Malaysia, fauziah\_y@kuptm.edu.my

**Abstract**

This article presents the benefits and obstacles of integrated reporting implementation in public sector organizations. Public sector is suitable to apply integrated reporting concept due to its critical role to deliver public value to the society. The review of prior literature highlights the potential benefits of integrated reporting, including enhanced stakeholder engagement, increased accountability and transparency, and a better holistic view of an organization. Additionally, the paper identifies several obstacles regarding the implementation of public sector integrated reporting, including data collection and analysis, resistance to change, and a need for more standardization of the integrated reporting framework. To address these obstacles, the paper suggests various strategies, such as increasing internal capacity, involving stakeholders in the reporting process, and leveraging technology to expedite the reporting process. Overall, the paper suggests that although public sector implementation of integrated reporting may be difficult, the possible benefits promote organizations seeking to improve accountability and transparency.

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*Keywords:* Benefits, Integrated Reporting, Obstacles, Public Sector

## 1. Introduction

The concept of sustainable development is in line with how sustainability reporting has evolved, concerning three critical issues: economic, environment, and society. The earlier concept of corporate social reporting to address these issues has now evolved into the integrated reporting concept, introduced by International Integrated Reporting Council (IIRC) in 2013, with the first revision in 2021. Integrated reporting is to promote financial stability and business sustainability through integrated reporting. Accordingly, the IIRC-issued multi-capital-focused international integrated reporting framework fosters an organization's high-level engagement and a holistic approach via integrated thinking. The 2021 revised definition of integrated reporting does not only concern on creating value but also to report the erosion of value.

Voluntary adopters of this framework reported significant improvements in identifying risks and opportunities, impacting long-term value creation through the multi-capital process. Furthermore, integrated reporting can help public sector entities achieve accountability by providing detailed and practical reporting (Adams & Simnett, 2011). This approach requires integrated thinking and breaking down departmental silos to give stakeholders useful information about value creation (Veltri & Silvestri, 2015). Integrated reporting is applicable to various types of public sector entities, as shown by the Auditor-General of South Africa's pioneering report (Bartocci & Picciaia, 2013). However, improvements can be made, such as clarifying definitions of capital and business models and incorporating relevant quantitative information. Public sector entities focus on creating public value, which aligns with the long-term value creation objective of integrated reporting (IIRC & CIPFA, 2016). A case study on six public sector entities showed integrated reporting approach can be applied in public sector, but improvements are needed in terms of accurately mapping stakeholders' needs by using relevant indicators (Manes-Rossi, 2018).

Integrated reporting execution is a natural development process with a robust stakeholder engagement commitment. This case can be observed in countries where new public governance is strongly present, and public entities follow the value-for-money principles in providing information to citizens. In other cases, the integrated reporting adoption depends on the politicians involved in the directives of these public entities. For instance, previous findings showed insights about the promotion of integrated reporting to generate value co-creation for decision-makers (Iacuzzi et al., 2020). The two interesting main processes of integrated reporting for consideration are integrated thinking and value creation. Additionally, the two main components of an integrated report for a public sector organisation are stakeholders' involvement and materiality.

According to Tirado-Valencia et al. (2019), there are many ways to enhance the information in nonfinancial information reports and to show how integrated thinking adoption in reporting government transactions. In the public sector, integrated reporting concept is a unique idea that emphasises the importance of organisations communicating to stakeholders their holistic value generation. As a framework to address the increasing complexity and interdependence of six capitals, namely intellectual, manufacturing, financial, natural resources, human and social, integrated reporting has attracted increasing interests from the researchers and public. Integrated reporting is to report the integrated

thinking process of inter-connecting these six capitals into organisational strategies to create value to the stakeholders. Public is the main stakeholder in the public sector services.

Research has yet to assess the perceived benefits of integrated reporting and the barriers that the government faces in implementing integrated reporting in the public sector, such as in public universities in Malaysia. Thus, this paper aims to review the available research on integrated reporting in the public sector while delving into its potential benefits and obstacles. The remainder of this paper is organised as follows. Section 2 discusses the benefits of integrated reporting based on the review of prior literature. Section 3 elaborates on the obstacles faced in implementing integrated reporting. Finally, section 4 summarises our conclusion and identifies future research related to integrated reporting in Malaysia.

## **2. Benefits of Integrated Reporting in the public sector**

The IIRC Pilot Programme gave businesses the chance to apply integrated reporting in 2011. The International Integrated Reporting Framework was made voluntarily accessible for adoption by any company worldwide in December 2013 following significant engagement. The IIRC updated the integrated reporting framework and published it in January 2021 after receiving comments from 1,470 people in 55 different jurisdictions. Approximately 2,500 organisations in more than 70 countries employ the original integrated reporting framework, which is still tough despite the changes (Integrated Reporting, 2021). In the context of a developing nation, Islam (2021) noted an increasing interest in the integrated reporting framework. He provided empirical evidence to support the claim that adopting integrated reporting content elements improves company performance.

An all-encompassing view of how an entity generates value over the short, medium and long term is provided by integrated reporting as a comprehensive and advance approach to corporate reporting. It attempts to improve the calibre and applicability of the data offered to stakeholders, including financiers, clients, staff, suppliers, regulators, and the general public. Integrating reporting is meant to promote integrated thinking across an organisation, boost accountability, and promote a long-term perspective. Recently, the public sector has started to adopt the idea of integrated reporting. The government, public agencies, and nonprofit organisations are responsible for creating public value for society, according to the International Federation of Accountants (2013), which defines integrated reporting in the public sector as a "comprehensive and strategic approach to reporting on public value creation."

Prior literature has explored the possible advantages of public sector integrated reporting. Hoque et al. (2019), for instance, contend that integrated reporting can increase transparency and accountability in the public sector by giving a holistic picture of an organization's operations. It also facilitates decision-making, performance measurement, and stakeholder engagement. Moreover, Innes and Mitchell (2018) argue that integrated reporting can ease the transition of the public sector to outcome-based performance management by emphasizing the delivery of public value. They argue that integrated reporting can aid public sector organizations in identifying and conveying their value proposition, outcomes, and impacts to key audiences.

Transparency and accountability are two primary advantages of implementing public sector integrated reporting. A broader perspective of an organization's performance is essential for stakeholders, such as citizens, investors, and regulatory authorities, to assess the impact of an organization and hold it

accountable. In a South African public sector study on integrated reporting implementation, Ngcobo et al. (2021) discovered that it improved transparency and accountability, allowing stakeholders to make informed decisions and hold organizations accountable for their actions.

Additionally, integrated reporting can also enhance public sector decision-making. By delivering the wholesome perspective of an organization's performance, including its environmental, social and governance (ESG) operation, integrated reporting can assist public sector organizations in identifying areas for improvement and making decisions that consider the long-term consequences of their actions. In examining the execution of public sector integrated reporting in the United Kingdom, Abdi and Northcott (2022) discovered that integrated reporting enhanced decision-making by fostering integrated thought and a long-term perspective.

Integrated reporting can also increase public sector stakeholder engagement. Integrated reporting enables organizations to effectively engage with their stakeholders and resolve their needs and concerns by affording a thorough view of value creation process of an organization, including its connection with the stakeholders. In a study on integrated reporting application in Kenyan public sector entities, Kibati and Musau (2021) discovered that integrated reporting improved stakeholder engagement by allowing organizations to identify their stakeholders and their requirements and effectively communicate their impact.

Finally, integrated reporting can enhance public sector resource management. Integrated reporting can help public sector organizations identify opportunities to reduce waste, increase efficiency, and manage resources more effectively by providing a comprehensive view of an organization's performance, including its ESG performance. In a study on implementing integrated reporting in Dutch municipalities, Van der Zwan et al. (2021) discovered that integrated reporting enhanced resource management by fostering integrated thought and identifying opportunities for sustainable development.

### **3. Obstacles to implementing integrated reporting in the public sector**

Indeed, integrated reporting is attaining acceptance to enhance public accountability, transparency, and stakeholder engagement in the public sector. This sector is urged to advance the implementation of integrated reporting, despite several obstacles have been identified. The need for more guidance and standardization is one of the most significant obstacles to realizing integrated reporting in the government sector. For instance, Caperchione and Doni (2020) assert that the lack of a standard framework and guidance for applying public sector integrated reporting is a significant obstacle. Whereas the private sector has established frameworks for integrated reporting, such as the International Integrated Reporting Council (IIRC) Framework, the public sector lacks a standard framework. This lack of direction and standardization is a halting factor for public sector bodies to identify relevant materials to report and determine how to convey the value that they generate. Grey et al. (2021) critically assessed governmental integrated reporting and discovered that the absent of a standardized framework was a significant barrier to implementing integrated reporting. They suggested that creating a standardized framework would be essential in addressing this difficulty.

Data acquisition and analysis is an additional significant challenge in implementing integrated reporting in the government sector entities. They are having difficulties to acquire, analyse accurately,

and report data due to the diversity and complexity of their data sources and datasets. Moreover, many public sector organizations need more resources or capacity to collect and analyse data effectively. Kibati and Musau (2021) conducted a study on implementing integrated reporting in Kenyan public sector organizations and identified data acquisition and analysis as a significant difficulty. They suggested that organizations in the public sector invest in data collection and analysis by creating systems to acquire, analyse, and report data accurately.

Moreover, the engagement of stakeholders is essential to ensure the effectiveness of integrated reporting application. Public sector organizations must identify their stakeholders and effectively involve them in the reporting process. However, many organizations in the public sector need more resources, expertise, and instruments to engage stakeholders effectively. In their study on the challenges of instituting integrated reporting in Dutch municipalities, Van der Zwan et al. (2021) identified stakeholder engagement as a significant obstacle. They recommended that public sector organizations identify their stakeholders and their reporting requirements, communicate the benefits of integrated reporting, and engage stakeholders in the reporting process through social media, surveys, and workshops.

Further, in the public sector, organizational culture is a further obstacle to implementing integrated reporting. Integrated reporting necessitates a transformation in organizational culture towards greater integration of thought and a longer-term perspective. Organizations in the public sector frequently encounter resistance to change, making it challenging to implement effective integrated reporting. Abdi and Northcott (2022) identified organizational culture as a significant obstacle to ensure the successful adoption of integrated reporting in public organisations. They suggested that public sector organizations should foster an integrated culture by promoting integrated thinking and more sustainable strategies through training, leadership progress, and incentives that stimulate integrated thinking and long-term decision-making.

#### **4. Conclusion**

Integrated reporting adoption in public sector is still at an infant stage and this new concept has garnered traction in recent years. Given the fact that the public sector's duty is to contribute value creation to the public and society, integrated reporting can improve public sector accountability, transparency, and performance by presenting an all-encompassing view of an organization's activities and impact. However, adopting governmental integrated reporting is commended to be more advance and aggressive, and several obstacles must be overcome. From the above review, instituting integrated reporting in the public sector has the following benefits: increased transparency and accountability, improved decision-making, increased stakeholder engagement, and enhanced resource management. Public sector organizations can capitalize on these advantages by implementing integrated reporting effectively and employing it to inform their decision-making, engage their stakeholders, and manage their resources more efficiently.

Nevertheless, a lack of guidance and standardization, data collection and analysis, stakeholder engagement, and organizational culture hinder implementing integrated reporting in the public sector. Government organizations can overcome these obstacles by establishing a standardized framework,

investing in information capture and analysis, engaging stakeholders effectively, and fostering an integrated culture.

Integrated Reporting (IR) can benefit the public sector in Malaysia or other emerging countries by promoting transparency, accountability, and better decision-making. When government entities adopt integrated reporting practices, they can effectively communicate their performance, goals, and strategies to stakeholders, fostering public trust and promoting sustainable development. First, IR encourages government entities to view their activities, including financial and non-financial performance comprehensively. By disclosing social and environmental impacts and governance practices, the government can demonstrate its commitment to transparency and accountability in managing public resources. Second, IR emphasises the importance of engaging with stakeholders and understanding their needs and concerns. Government entities can use this approach to foster meaningful dialogue with citizens, civil society organisations, and businesses. By considering diverse perspectives, the government can make more informed decisions that align with public interests.

Thirdly, the public sector can shift its focus from short-term objectives to long-term sustainable development goals with IR. By considering social and environmental impacts in their reporting, government entities can work towards creating positive outcomes for society and the environment. Fourth, IR encourages a holistic view of financial, human, and natural resources. By understanding the value created from various resources, the public sector can make better-informed decisions on resource allocation and prioritise investments that deliver the most significant social and environmental benefits.

Fifth, the public sector can proactively identify and manage potential risks by disclosing non-financial information such as environmental risks, social challenges, and governance practices. This can lead to more effective risk mitigation strategies and improved resilience in the face of uncertainties. Sixth, adopting IR allows government entities to align their reporting practices with international standards and frameworks, such as those developed by the International Integrated Reporting Council (IIRC). This alignment can enhance the credibility and comparability of government reporting on the global stage.

Seventh, when government entities adopt transparent and sustainable reporting practices, they become more attractive to international investors and potential development partners. These partnerships can bring in foreign investments, technical expertise, and support for sustainable development initiatives, and finally, by adopting IR, the public sector can enhance its reputation and public trust. Transparent reporting fosters confidence in the government's ability to manage public resources responsibly and achieve meaningful outcomes for society.

Thus, implementing integrated reporting in the public sector may require capacity-building and training to ensure that reporting processes are effective and align with the specific needs of public entities. Additionally, there should be supportive policies and regulations to incentivise and mandate government agencies to embrace integrated reporting practices for maximum impact.

In conclusion, this article serves as a starting point for more research on integrated reporting to be conducted regarding the public sector. Future studies should focus on creating a standardized framework for integrated reporting in the public sector and examining how it affects that sector's performance. Future studies could also look into the best ways for organizations in the public sector to implement integrated reporting and gauge its effects on the aforementioned advantages.

## Acknowledgments

The authors would like to thank the Universiti Teknologi MARA, grant code: 100-TNCPI/PRI 16/6/2 (052/2022) and Accounting Research Institute (HICoE) and Universiti Poly-Tech Malaysia for providing the necessary financial assistance for this study.

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