

MODEL OF THE INTEGRATED REPORTING FOR SMEs

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Abstract: The purpose of this study is to propose a model of Integrated Reporting (IR) for Small and Medium Enterprises (SMEs). A combination of interviews and surveys was used to provide insight into the initial stages of model development. The participants of the study are four pioneers of sustainability reporting (SR) practitioners, thirty-six Certified Sustainability Reporting Specialists (CSRS), three-hundred and fifty SME owners, and five heads of SME divisions. This research has revealed some remarkable findings. First, SMEs play an essential role in Sustainable Development (SD). Second, SMEs need to provide both financial and non-financial information. Third, it is identified that the local government, community, academicians, and customers as the crucial stakeholders to be involved in the process of preparing IR for SMEs. Fourth, focused-group discussion and surveys are the most suitable techniques to strengthen stakeholder engagement. Fifth, there are two types of non-financial information for SMEs, namely general information (organizational profile and stakeholder engagement) and specific information (environmental, economic, and social). Sixth, the government has an important role to play in encouraging SMEs to prepare IR by providing training, mentoring, and facilities. This study has both theoretical and practical implications. This research contributes to the disclosure of the social and environmental literature of accounting. The findings of this study are consistent with the legitimacy theories in developing countries where the stakeholders do not have the power to suppress corporate management to carry out social and environmental activities. There are two practical implications of this study. It emphasizes the importance of social and environmental disclosures for companies as an opportunity to legitimize company products from consumers and investors. It also provides useful information for regulators who will develop social and environmental reporting guidelines.

Keywords: Stakeholder, Integrated Reporting, Financial and Non-financial Information.

Introduction

The increase of public pressure due to environmental and social problems caused by population growth has demonstrated the need for the management and use of resources to maintain a sustainable environment to conserve or improve welfare. The increased pressure has prompted the business world to expand the presentation of not only financial but also non-financial information. As the International Integrated Reporting Committee (IIRC) points out that the increasing threats of climate change, the loss of biodiversity, and poverty suggests that the current form of corporate reporting no longer adequately illustrate business performance (IIRC, 2011, 2013). In addition to generating profits and increasing shareholder

value, businesses have ethical obligations to stakeholders regarding their economic, social and environmental responsibilities (Brown & Forster, 2013; Hasnas, 2013)

The idea of managing, measuring, and reporting on the three elements of the organization's social, environmental, and economic impacts became popular during the late 1990s and early 2000s. It is partly due to the popularity of John Elkington's book (1997), which contains a new non-financial reporting framework from a social and environmental perspective (Gray, 2006). Thus, at the time, triple-bottom-line reporting was seen as the solution to the shortcomings of traditional financial reporting. Elkington's work (1997) of SR, sometimes referred to Corporate Responsibility Reporting, has become popular,

and many companies have prepared such kind of reports. However, the report showed the shortcomings of being presented separately from the organization's financial statements and did not establish an explicit relationship between sustainability issues and core corporate strategies. (Sonnenberg & Hamman, 2006; Lozano & Huisinigh, 2011; Milne & Gray, 2013; Turk *et al.*, 2013). A similar opinion is stated by the Integrated Reporting Committee of South Africa/IRCSA (2011) that the annual financial performance and sustainability reports often fail to link the organizational strategy and financial performance with environmental, social, and governance issues. Against the backdrop of weakness in existing reporting models, the idea came to present an integrated reporting that integrates annual reports and sustainability reports (Dumay *et al.*, 2016).

Integrated Reporting (IR) has become an essential feature of external reporting by companies in all sizes, either large companies or Small and Medium Enterprises (SMEs). All companies seek to improve their efforts to achieve sustainability and protect resources for future generations. The development of the IR framework is aimed at solving the perceived inadequacies of traditional financial and SR frameworks through the disclosure of performance information related to a firm's value creation processes (Cohen & Simnett, 2015; KPMG, 2015). The IR is an effort to reduce the company's environmental problems, consume efficiently, protect resources, and interact responsibly with stakeholders. IR has emerged as a new reporting paradigm to provide a more comprehensive view of the entity, rather than the traditional financial report. IR combines financial and non-financial dimensions of corporate performance (Brown and Dillard, 2014).

Research studies on IR are numerous and focus on large-scale enterprises (Clayton *et al.*, 2015; Adams *et al.*, 2016; Maniora, 2017; Macias & Lievano, 2017; Kılıç & Kusey, 2018; Lai *et al.*, 2018; Camilleri, 2018). The prior research have offered differing perspectives regarding IR

in practice, for example, materiality judgments (Green and Cheng, 2018), forward-looking disclosures (Kılıç & Kuzey, 2018), information quality (Elda *et al.*, 2017), decision usefulness (Slack & Tsalavoutas, 2018), IR at universities (Brusca *et al.*, 2018), and the role of preparers (Lai *et al.*, 2018). For SMEs, the research is still focused on SR (e.g., Arena and Azzone, 2012; Langwell and Heaton, 2015; Massa *et al.*, 2015), and there is the only one which is focused on integrated reporting (Del Baldo, 2017).

In Indonesia, few big companies listed in Indonesia Stock Exchange (IDX) have presented IR, namely PT Timah Tbk., PT Pertamina EP, and PT Semen Indonesia Tbk. Although the companies that publish IR in Indonesia are still scarce, a number of them registered with IDX have included IR elements into their annual reports (Chariri & Januarti, 2017). Furthermore, there are lots of studies on SR in Indonesia (for example, Nugroho & Arjowo, 2014; Utama & Mirhard, 2016; Panjaitan, 2017; Caesaria & Basuki, 2017; Sutopo *et al.*, 2018), but only few concern with IR (Setiawan, 2016). Even though studies on SR and IR have been conducted in Indonesia, but none of them was undertaken to investigate IR in SME. This research tries to develop IR for SMEs using the Global Reporting Initiative (GRI) standard guidelines. To the best knowledge of the researchers, there has been no research discussing the model IR for SMEs.

Literature Review

Financial Information

Based on Financial Accounting Standards for Micro, Small & Medium Enterprises (MSME) issued by The Institute of Indonesia Chartered Accountants, there are three minimum financial statements presented by the MSME (Keuangan, 2016):

1. Statement of financial position

This statement is a summary of the financial position that includes assets, debt, and capital on a specific date, for example, the end of the semester, the end of the year

2. Financial statement

This statement is a summary of income and expenses over a certain period, for example, monthly, quarterly, semester, or yearly.

3. Notes to financial statement

This statement contains significant accounting policies and other explanatory information. For example, information about the types of depreciation methods used by the company, information about uncollectible accounts, reasons for changes in depreciation methods.

Non-Financial Information Standards GRI for Sustainability Reporting

The GRI was one of the earliest proponents of SR (Hahn and Lülfs, 2014; Hedberg and Von Malmborg, 2003). The Global Reporting Initiative (GRI) is an international organization based in Amsterdam, the Netherlands. The main activity is focused on achieving transparency and reporting of a company through the development of SR standards and guidelines. GRI issued a guide to sustainability reports for the first time in 2000. Next, GRI G2 or version 2 was published in 2002. Then GRI G3, GRI G3.1, GRI G4 was launched sequentially in 2006, 2011, and 2013. In 2015, GRI established the Global Sustainability Standard Board (GRI GSSB), which specifically developed the standard sustainability report. Towards the fourth quarter of 2016, GRI The Global Sustainability Standards Board (GSSB) began to introduce the GRI Standards, which were then launched in Indonesia in 2017. The GRI Standards taking effect on July 1, 2018.

The GRI Standards are organized as a modular structure, interrelated reporting standards. The standards create a common language for organizations and stakeholders so that the economic, environmental, and social impacts of these organizations can be communicated and understood. They are designed to improve global comparability and quality of information about the effects by enabling greater organizational transparency

and accountability (GRI, 2016). The standards show that SR provides a complete and balanced picture of the organization's material topics and related impacts and how these impacts are managed. There are two options for preparing reports following the GRI Standards: Core and Comprehensive. Under the core option, the company reports minimum information that is important to reveal the nature of an organization, its material topics and related impacts, and how they are managed. Meanwhile, the comprehensive includes the reports of additional disclosures about strategy, ethics, and integrity, as well as organizational governance. Besides, organizations are required to report more extensively about their impacts by reporting all specific topic disclosures for each material topic covered in the GRI Standard.

The GRI Standards are divided into four series, namely one series of universal standards 100 and three series of topic-specific standards (200, 300, and 400). The 100 series includes three universal standards. It applies to all organizations, regardless of the nature of their business sectors. It discloses general information about an organization and its approaches to sustainability management, reporting principles of defining report content, and general disclosures used to report contextual information, management approach on how companies manage material topics. Further topic-specific standards are GRI 200 series (economic topic), GRI 300 series (environmental topic), and GRI 400 series (social topic). The three series consist of 33 topic-specific standards, i.e., six standards on economic topics, eight standards on environmental topics, and 19 standards on social topics. The series outline approaches to disclose qualitative and quantitative information depending on the material topics which were identified by the organization. The topic-specific standards are based on the topic chosen by the company and determined by materiality. For each specific topic standard, the companies must report specific indicators that are relevant to their business and their management approach.

Integrated Reporting

IIRC defines IR as “a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization’s strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term” (<http://integratedreporting.org>). IR is the kind of reporting that covers much broader than SR. It is a report that links financial and non-financial performance in one report (de Villiers and Maroun, 2017; Beck *et al.*, 2015; Adams, 2015). An IR is a concise communication of the integration of an organizational strategy with corporate governance, the three dimensions of sustainability and how those dimensions of sustainability create value in the short, medium, and long-term (Busco *et al.*, 2013; Simnett and Huggins, 2015).

Methodology

This study was conducted in SMEs located in East Java, Indonesia. The Indonesian Central Bureau of Statistics divides the business upon the number of employees. Small-sized enterprises have 5-19 employees, while medium-sized have 20-99.

Interviews and questionnaires were used in this study to collect data from respondents. Unstructured face-to-face interviews were conducted in person with four pioneers of sustainability reporting practitioners and five heads of SME divisions. The pioneers selected in this study were those who hold the highest position in their organizations, as well as have good knowledge and experience regarding sustainability and integrated reporting. Division heads are individuals who can answer the researcher’s questions to meet the objectives of this study. Interviews were carried out to explore their opinions related to IR on SMEs implementation. These were examples of questions asked during interview: (1) The role of SMEs in Sustainable Development (SD), (2) SME’s needs for non-financial information, (3) The idea of IR for SMEs, (4) Non-Information

needs to be disclosed in IR; (5) stakeholder involvement in the preparation of IR, (6) the role of the government in the application of IR.

The semi-structured questionnaires designed in Indonesian were distributed to SME owners and CSRS to collect data of respondents’ opinions toward IR. SME owners were chosen because they had a strong influence over the operations and decisions in their companies. CSRS chosen as respondents of this study were those who understood the current practices of reporting in SME. The questionnaires were initially distributed to 63 CSRS holders who attended the sustainability forum. Among those 63 questionnaires, only 36 were finally returned, yielding response of 57%. Questionnaires for SME owners were spread to seven cities of East Java. The sampling technique used was quota sampling. For each city, 50 SME owners were chosen as respondents in which two criteria must be met: (1) at least ten years of experience in operating their business, (2) at least five years of experience in making financial reports regularly. Information about the SMEs was obtained from the local government fostering SMEs. With the help of field workers, the researchers were able to collect 350 questionnaires. The questionnaires consisted of two essential parts: (1) asking for demographic information of the respondents such as gender, age, education, and employment; (2) investigating IR related questions.

Results and Discussion

Background of Respondents

1. Interviewees’ Profiles

Interviewees were classified into two broad categories: pioneers of sustainability reporting practitioners (P) and heads of SME divisions (H). In this study, there were four participants for the first category and five for the second. The data showed that the three pioneers hold a doctoral degree, and one pioneer holds a master’s; three of them are male, and one is female. Meanwhile, among the five heads of SME divisions from different cities participated

Table 1: Interviewees' Profiles

Interviewees	Institution	Position	Highest Education
P1	National Center for Sustainability Reporting (NCSR)	Executive Director	Master (S2)
P2	Indonesian Center for Social and Environmental Accounting Research and Development (ICSEARD)	Director	Doctorate (S3)
P3	Center for Business, Social and Environmental Sustainability	Director	Doctorate (S3)
P4	Trisakti Sustainability Center	Director	Doctorate (S3)
H1	Cooperative and SME Services -Kediri	Head of SME division	Bachelor (S1)
H2	Cooperative and SME Services – Probolinggo	Head of SME division	Bachelor (S1)
H3	Cooperative and SME Services – Mojokerto	Head of SME division	Master (S2)
H4	Cooperative and SME Services - Pasuruan	Head of SME division	Bachelor (S1)
H5	Cooperative and SME Services - Batu	Head of SME division	Bachelor (S1)

in this study, one person holds a master's and four others hold a bachelor's degree; four of them are male, and one is female.

2. Certified sustainability reporting specialists

Table 2 presents the demographic profile of 36 CSRS who participated in this study. As shown in Table 2, it was known that 18 respondents (50%) are between 40 and 49 years of age, 14 respondents (38.9%) are between 50 and 59, and the other four respondents (11.1%) are between 30 and 39. Moreover, as presented in Table 2, the percentage of females is bigger than males, at 55.6% and 44.4%, respectively. Furthermore, when viewed from the level of education, most respondents (27 respondents or 50%) hold master degrees, 7 respondents (19.4%) hold doctoral degrees, and 2 respondents (5.6%) hold bachelor degrees. Finally, in Table 3, it showed that 52.8% of respondents are lecturers, 38.9% are consultants, and 3% are lecturers on study leave.

Table 2: CSRS Profile

Description	Frequency	Percentage (%)
Age		
<29 years	0	0
30-39years	4	11.1
40-49years	18	50
50-59 years	14	38.9
Total	36	100
Gender		
Male	16	44.4
Female	20	55.6
Total	36	100
Highest Education		
Bachelor	2	5.6
Master	27	75
Doctorate	7	19.4
Total	36	100
Occupation		
Lecturer	19	52.8
Consultant	14	38.9
Lecturers on study leave	3	8.3
Total	36	100

3. SME owners

Table 3: SME Owners Profile

Description	Frequency	Percentage (%)
Age		
<29 years	22	6,3
30-39years	114	32.6
40-49years	137	39.1
50-59 years	77	22
Total	350	100
Gender		
Male	132	37.7
Female	218	62.3
Total	350	100
Highest Education		
Elementary school	8	2.3
Junior high school	30	8.6
Senior high school	248	70.9
Bachelor	60	17
Master	3	0,9
Doctorate	1	0,3
Total	350	100
Type of business		
Service	37	10.6
Trading	221	63.1
Manufacturing	92	26.3
Total	350	100
Sales per year		
Maximum 300 million rupiah	6	1.7
More than 300 million – 2,5 billion rupiah	294	84
More than 2,5 billion – 50 billion rupiah	50	14.3
Total	350	100

Table 3 shows the demographic criteria of the SME owners who participated in this study. It shows that most SME owners are between 30-49 years of age. One hundred thirty-seven owners of SMEs (39.1%) are between 40-49. Then followed by 114 owners (32.6%) are between 30-39, 77 owners (22%) are between 50-59, and 22 owners are under 29 years of age.

As presented in Table 3, there are more female than male participants; 218 owners (62.3%) were female respondents, and the remaining 132 respondents (37.7%) were men. Furthermore, when viewed based on the highest education level, 248 owners (70.9%) graduated from senior high school, 60 owners (17%) graduated from university/college with a Bachelor's Degree. Moreover, 30 owners (8.6%) graduated from junior high school, 8 owners (2.3%) were elementary school graduates; meanwhile, the remaining 3 participants (0.9%) have a Master's degree, and only 1 participant (0.3%) has a Ph.D./Doctorate degree. According to the types of business, Table 3 shows that most of the SMEs (63.1%) are trading businesses, the other 92 ones (26.3%) are in manufacturing, and the remaining 37 ones (10.6%) are in services. Furthermore, based on the number of employees of the SMEs, the majority of them (83.4%) have 5-19 employees, the 52 others (14.9%) have 20 - 99 employees, and the remaining 6 ones (1.7%) have fewer than 5 employees. Finally, 84% of SMEs have annual sales of more than 300 million - 2.5 billion, 14.3% of SMEs have more than 2.5 billion - 50 billion, and the remaining 1.7% is below 300 million.

Results from Interviews

The findings from interviews with pioneers of sustainability reporting practitioners and heads of SME divisions result in six categories:

1. Role of SMEs in Sustainable Development (SD)

Interviews both of the pioneers and the head of SME divisions have come to the same conclusion that SMEs have a critical role to play in the achievement of the Sustainable Development Goals (SDGs). P3 argues that SMEs are business, therefore like any other businesses, SMEs are also responsible for SD. Similarly, P1, P2, and P4 state that all parties must be involved in SD and no exception for SMEs. Furthermore, to support his opinion, P2 states that their impact is particularly strong through employment creation and the usage of natural resources. P3 asserts that SMEs play a crucial role in sustainable

development. They provide a high contribution to the country's development. They also offer a considerable number of products to the society and help to generate income for the country. Given these advantages, their impacts on the environment and society are substantial. Based on the interview with the head of SME divisions, they all agree that Sustainable Development is imperative for everyone to include SMEs. H5 states that SMEs consume energy to generate waste and use water resources; therefore, they have an essential role in SD.

2. SME's need for non-financial information

All of the pioneers and the four head of SME divisions (H2, H3, H4, H5) all agree that financial information alone is not sufficient. SMEs should provide a complete picture of performance, not only financial but also non-financial information. As stated by P3 that because SMEs play an essential role in SD, then as a consequence, they should present non-financial information to stakeholders. Moreover, P3 says that "financial and non-financial information will enhance SMEs' reputation among stakeholders, build trust and improve customer loyalty." On the contrary H1 states that non-financial information is not suitable for SMEs. He further argues that although SMEs have been trained to prepare financial reports, some are still reluctant to present them. Therefore if they are required to present non-financial reports, it may seem difficult for them to provide such a report. Similarly, H5 states that many SMEs make financial reports only if they want to get a loan from the bank. If they are asked to present non-financial information, it seems that they will face some difficulties.

3. The idea of IR for SMEs

All pioneers agreed about the idea of IR for SME. P1 and P3 emphasize the need for differentiation between IR and combined reports. For SMEs, the combined report (CR) is more suitable than IR because there is still no guidance for IR. P3 further argues that CR is a combination of financial and sustainability information. Both P1 and P3 state that "financial statements must be

prepared following SME financial accounting standards. Non-financial information can be presented using SR elements issued by GRI. Furthermore, P1 said that integrated reporting is for an investor. However, the majority of SMEs do not have any investors. However, P2 said that a CR is different from IR. Up to now, companies in Indonesia use CR and step to move to IR. P2 preferred that SMEs use IR. P4 expressed an interesting opinion that it does not matter whether SMEs use CR or IR. What is important is to emphasize that the preparation of non-financial information is not difficult. Therefore, the non-financial statement should be made as simple as possible. Further, P4 then gave examples such as sticking *halal* labels, providing information about employees, and the number of child labour. The examples are simple non-financial information that can be reported by SMEs.

Interview with the head of SME divisions showed that they all did not know what IR was. But once explained, they could understand and give their opinion. H1 argued that by having an IR, SMEs could demonstrate their performance and create trust and a positive reputation not only among customers but also among lenders. H4 and H2 mentioned that a big company is accustomed to transparency in their business activities. As with large companies, SMEs also had the responsibility to be transparent. Companies could create a competitive advantage by developing transparency habits. H3 stated his different opinions with others, and he said that he did not; it was easy to implement IR and SMEs. He added that implementation should have been done gradually. First, they must be taught to make financial statements correctly. Second, there must be a party, whether it was the government or professional organization, which set the IR standards.

4. Non-financial information needs to be disclosed in IR for SMEs

The information which is needed to be reported in IR were asked only to pioneers. All pioneers argued that the content of the IR should be determined from the perspective of

stakeholders. Stakeholders had differences in their expectations of the IR content, depending on what they deemed to be essential and material to them. As stated by H3, the involvement of stakeholders in the accounting and reporting process enabled organizations to identify and incorporate their material concerns, issues, needs, and expectations. P1 and P2 asserted that stakeholder’s engagement was an essential aspect of the IR process used to identify the social and environmental matters perceived by them. The following Table 4 presents non-financial information that needs to be disclosed by SMEs.

5. Stakeholders to be involved in the preparation of IR for SMEs

All pioneers argued that SMEs could not act alone to prepare IR, because they required the cooperation of their stakeholders to identify the economic, social, and environmental issues. The inclusion of a broad range of stakeholders

enabled organizations to recognize and address their social and environmental impacts. P4 stated that the pressure to communicate more proactively and more frequently with stakeholders demanded an engagement with a variety of stakeholders; this will enhance partnership and dialogue. Table 5 below presents pioneers’ opinions regarding SME stakeholders.

6. The role of government in the application of IR

All pioneers and heads of SME divisions emphasized to make SMEs can present an integrated or combined report, and there should be government interference. A government should provide services that assist SMEs in preparing such a statement. P3 stated that the preparation of IR takes time, effort, and cost; hence, the involvement of the government is imperative. The government could help SMEs by providing the necessary infrastructure or by providing consulting facilities. The government

Table 4: Non-financial Information

Interviewees	General Disclosure	Specific Disclosure
P1	<ul style="list-style-type: none"> Organizational Profile, Stakeholder Engagement 	<ul style="list-style-type: none"> Economic: economic performance, procurement practices, indirect economic impacts Environment: materials, energy, water, effluent & waste, product & services Social: employment, customer health, and safety
P2	<ul style="list-style-type: none"> Organizational Profile Governance Stakeholder Engagement Reporting practices 	<ul style="list-style-type: none"> Economic: economic performance, procurement practices Environment: materials, energy, water, product & services Social: employment, customer health, and safety, local community
P3	<ul style="list-style-type: none"> Organizational Profile Stakeholder Engagement 	<ul style="list-style-type: none"> Economic: economic performance, procurement practices, market presence Environment: materials, energy, water, Economic: economic performance, procurement practices, effluent & waste Social: employment, customer health, and safety
P4	<ul style="list-style-type: none"> Organizational Profile Strategy Stakeholder Engagement 	<ul style="list-style-type: none"> Economic: economic performance, procurement practices Environment: materials, energy, water. Social: employment, customer health, and safety, child labour, marketing, & ecolabelling.

Table 5: Stakeholders Involvement

Interviewees	Which stakeholders must be involved?	How are stakeholders involved?
P1	Local governments related to SMEs, community leaders, academicians, owner.	Survey (questionnaires) through email/post office, interview (face to face contact)
P2	Direct stakeholders: owners, investors, suppliers, customers, employees Indirect stakeholders: Local government, academicians, local communities	Focus Group Discussion (FGD), survey
P3	Customers, local government, academicians, consumer protection institutions, owner.	FGD, survey
P4	Academicians, local government, customers	FGD

needed to establish a clinic for SMEs in all cities as a method to consult directly about IR. If necessary, the clinic could assist the SMEs until they could develop the IR independently. H1 and H3 said that based on their experiences, SMEs had been trained on how to prepare financial statements; but among those SMEs, only a few manage to provide the report. Therefore, for SMEs that apply such reports consistently, they are required not only to participate in training but also in mentoring.

Furthermore, P2 stated that the government's role is enormous for the successful implementation of IR on SMEs. The government plays a vital role in educating SMEs about sustainable business and the importance of IR. Nevertheless, the government's sole involvement is not sufficient, and it requires the participation of others who can help the government, one of them is academicians. The Academician could help the government by conducting socialization and mentoring as a part of community service.

Results from the Questionnaire

1. Role of SMEs in sustainable development

The majority of SME owners (312 owners or 89.1%) agreed that SMEs have an essential role in sustainable development. Only 38 owners (10.9%) stated that SMEs did not have a crucial role in sustainable development. In line with the majority of SME owners, all CSRS (100% or 36 CSRS) agree that SMEs have an essential role in sustainable development

2. Economic information should be reported.

Table 6 above reveals that the majority of SME owners want two types of economic information that must be disclosed in the IR, namely economic performance (38.5%) and procurement practices (36.0%). Being consistent with SME owners, most of CSRS also requires the disclosure of both information in the SMEs' report.

Table 6: Economic Information

	SMEs Owners		CSRS	
	Freq	%	Freq	%
1. Indirect Economic Impacts	56	16.0	2	5.6
2. Economic Performance	135	38.5	19	52.8
3. Procurement Practices	126	36.0	7	19.4
4. More than one answer (2 & 3)	15	4.3	7	19.4
5. Others	18	5.1	1	2.8

3. Environmental information should be reported.

Table 7 above shows that most SME owners and CSRS agree that there are four types of environmental information that should be reported in IR for SMEs, namely materials used, energy consumption within the organization, water use within the organization, and products and Services.

4. Social information should be reported.

Table 8 above presents information that needs to be disclosed by SMEs in IR. The majority of SME owners and CSRS agree that there are two main pieces of information that SMEs must present, namely employment and customer health and safety.

5. The role of government in the application of IR

The majority of SME owners (335 owners or 95.7%) emphasized the need for government,s involvement to help SMEs in preparing reports. The remaining only 15 owners (4.3%) stated that there is no need for the government to be involved in assisting SMEs in making reports. The following table 9 presents the opinions of SME owners about the types of government involvement to support SMEs in preparing reports.

Table 9 shows that 165 (49.3%) SME owners want the government’s assistance in the form of training, mentoring, and report preparation. 110 (32.8%) SME owners stated that they only needed training, and the remaining, owners want mentoring (6.6%) and preparing a report (11.3%).

Table 7: Environmental Infomation

	SMEs Owners		CSRS	
	Freq	%	Freq	%
1. Material	58	16.0	7	19.4
2. Energy	4	5.1	9	25
3. Water	12	38.5	7	19.4
4. Biodiversity	5	36.0		
5. Emission	5	1.4		
6. Effluent and waste	13	2.9		
7. Product & services	74	21.1	12	33.3
8. Environmental compliance	8	2.3	1	2.8
9. Supplier environmental assessment	6	1.71		
10. More than one answer (1,2,3)	37	10.57		
11. More than one answer (1,2,3,6)	26	7.42		
12. More than one answer (1,2,3,7)	82	23.43		
13. Others	20	5.71		

Table 8: Social Information

	SMEs Owners		CSRS	
	Freq	%	Freq	%
1. Employment	186	53.1	20	55.6
2. Human right assessment	22	6.3	3	8.3
3. Child labour	19	5.4	11	30.6
4. Customer health & safety	112	32	2	5.6
5. More than one answer (1 & 4)	6	1.7	0	0
6. Others	5	1.5	0	0

Table 9: Types of Government Involvement

		SMEs Owners	
		Freq	%
1.	Training	110	32.8
2.	Mentoring	22	6.6
3.	Preparing	38	11.3
4.	All answers (1,2,3)	165	49.3

Discussion

The results reveal that SMEs play a crucial role in SD. The awareness of SMEs to run a socially and environmentally friendly business is a guarantee of the survival of future generations. Moreover, SMEs have an essential role in national economic development because they play a crucial role in economic growth and employment. Besides the positive sides, SMEs also contribute to environmental problems. The contribution has resulted in increasing recognition of SMEs' to provide not only financial but also non-financial information. Based on the Financial Accounting Standards in Indonesia, the minimum financial information for MSME is the statement of financial position, financial statements, and notes to financial statements. This study also reveals that the disclosure of non-financial information consists of general and specific disclosures. General disclosures consist of organizational profiles and stakeholder involvement. The types of specific information that should be disclosed in IR are environmental, economic, and social. Surprisingly the findings of this study indicated that respondents suggested the need for environmental information about products and services to be disclosed in IR; however, the information was not in the GRI standard. Products are everything that is offered to the market to get attention, be bought, used, and that can satisfy the desires or needs of consumers. Consumers are, of course, less likely to buy a product if they do not have enough information about the product. Consumers need complete information about the product, for example, information about the raw materials used

to produce the product, which is useful for consumers to determine whether the product is safe for their health and the environment, or whether the product is *halal* to eat.

The results also suggested that stakeholder engagement is an essential component in the development of IR as it informs the preparation of material concerns, issues, and aspirations of key stakeholders. The two-way communication between SMEs and stakeholders not only allows organizations to listen, share, and consult with their stakeholders on critical issues. During the preparation of IR, stakeholder engagement facilitates organizations to recognize stakeholders' information and demands regarding contents, forms, and media to develop an IR that meets their specific needs. Stakeholder's engagement is an essential aspect of the IR reporting process within the organization and has the potential to be a dominant driver of change in the presentation of non-financial information. The goal is to encourage the company's role in social and environmental reporting. The importance of stakeholder engagement is an interactive mechanism of the SR process becoming increasingly important both in the corporate and public sectors. These results were consistent with Kaur and Lodhia (2014), which found that stakeholder engagement is an essential component in the development of SR. The engagement informs reporters of material concerns, issues, and aspirations of key stakeholders. The IR process is an essential tool to achieve transparency and disclose IR to SME's stakeholders. Although stakeholder's engagement and dialogue are a necessary aspect of SR, there is little evidence to suggest that such a discussion takes place in SR practices (Gao and Zhang, 2001; ACCA, 2005; Unerman, 2007).

The stakeholders of SMEs are clients, local communities, owners, and academicians. They are stakeholders of SMEs because they are the closest party to SMEs and, therefore, they have a vital role in responding to sustainability issues of the public. Through the relationships with the stakeholders, SMEs can receive feedback

on their business operations, which will enable them to review processes and identify business opportunities. All SME owners should be aware that they can not act alone to develop IR. They need their stakeholder cooperation to identify the social and environmental problems faced by stakeholders. One form of relations with stakeholders can be done through focus discussion groups and surveys.

Furthermore, this study also found that IR is necessary for SMEs, regardless of their line of business and the size of the company. IR in this finding is following the opinion stated earlier by the pioneers, who emphasized that CR is more suitable for SMEs. CR combines financial statements and SR elements into one report. This finding was also consistent with the opinion of one of the pioneers who stated that the implementation of IR for SME should be as simple as possible so that it can be understood and applied by SME owners. Most SME owners included in this study had the highest education in senior high school. The findings of the previous research show that the low level of education indicates a lack of ability of SME owners to prepare financial statements as desired by the standards. They prefer simple reports (Sari & Setyawan, 2012; Savitri, 2018). The reluctance of SMEs in preparing financial statements is due to low education, lack of understanding of Financial Accounting Standards, and lack of training in financial report preparation (Suhairi, 2004)

Furthermore, to encourage SME owners to prepare IR, they need government involvement in the form of training and mentoring. The government's assistance to SMEs is required to improve competitiveness and the realization of sustainable businesses. Based on data from the Ministry of Cooperatives and Business, Small and Medium Enterprises, around 70-80 SMEs had failed in running their businesses due to the absence of assistance related to business management, including the preparation of financial reports. So far, only ten per cent of SMEs had prepared financial statements, 90 per cent had not done so. Recording and

reporting of business transactions are essential so that SME owners know the progress of their business. Reporting is also needed by the owner to obtain credit from the bank. In addition to the government's involvement, academics can also be involved to help SMEs prepare the report. The role of universities is critical in empowering SMEs in Indonesia. Higher education plays an active role in the development of SMEs. Collaboration between universities and SMEs has provided solutions to problems faced by SMEs such as reporting, marketing, finance, product, and technology development. Based on the description above, the IR model for SMEs can be presented in Figure 1.

Conclusion

This study aims at investigating the stakeholder's perspective of IR in SMEs. The research revealed some remarkable findings. First, SMEs played an essential role in SD. Second, SMEs needed to provide both financial and non-financial information. Third, the implementation of IR in SMEs is a good idea. Fourth, this study identified local government, community, academicians, and customers as crucial stakeholders to be involved in the process of preparing IR. Fifth, FGD and surveys are the most common techniques to bolster stakeholder's engagement. Sixth, the primary information needed to be disclosed in IR is environmental, economic, and social. Seventh, the government has an important role to play in encouraging SMEs to prepare IR.

To the best of the author's knowledge, this is the first study that explores IR for SMEs. The results of this study can improve the limited literature on stakeholder's engagement and provided information about various stakeholders and their contributions to the IR process. IR covers so many aspects of a firm's operations, including financial performance, economy, environmental and social, and it would be helpful if the government provided a clinic. The clinic could give intensive consultation, coaching, and mentoring with IR experts so that SMEs would be able to prepare

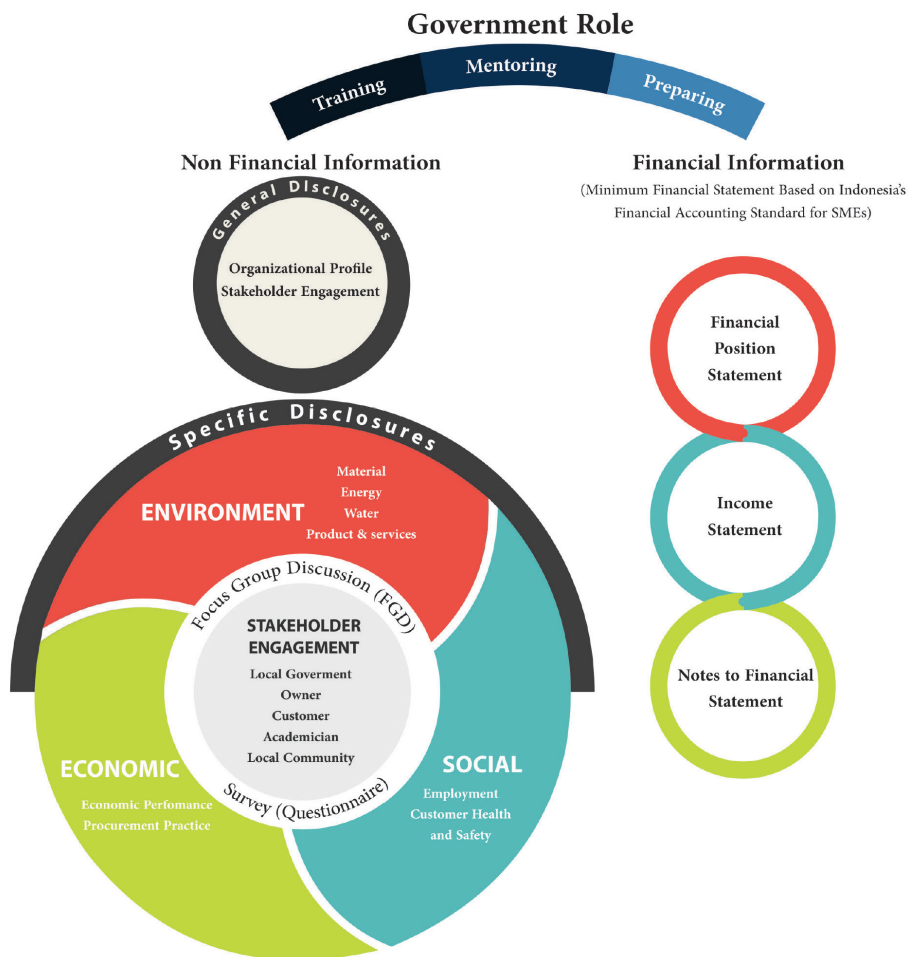


Figure 1: Model IR for SMEs

IR independently. Besides, the government needs to instruct all companies to carry out their social responsibility by presenting IR. So far, these obligations are only mandatory for certain companies. There are two rules about this. First, Law number 40, the year 2007 regulating social and environmental responsibility for companies that carry out their business activities in the field and/or related to natural resources must implement the Social and Environmental Responsibility. Second, the regulations issued by the Financial Services Authority Number 51/POJK.03/2017 is concerned with sustainability finance implementation to financial institutions, issuers, and public companies. Professional

bodies, such as the Institute of Indonesia Chartered Accountants, can promote this agenda by providing standard IR for SMEs.

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