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CONTRIBUTION OF INTEGRATED REPORTING TO IMPROVING THE CORPORATE COMMUNICATION PROCESS

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Abstract
The annual financial reporting regulated at the international level in the International Financial Reporting Standards, is the main corporate communication tool through which the organizations present to the users of accounting information an accurate image of their financial position and performance. Against the background of the increasing uncertainty in the economic environment because of numerous financial scandals, corporate reporting has undergone significant changes, the reporting requirements becoming increasingly difficult to fulfil. In this context, investors asked entities to publish an increasing volume of information needed in the decision-making process, emphasizing the importance of disclosing non-financial information on social, environmental and governance issues. Therefore, due to the growing interest in non-financial issues that may affect the performance of an entity, companies have had to prepare additional reports containing sufficient information to meet the information needs of all stakeholders. The main purpose of the paper is to highlight the contribution of integrated reporting to the improvement of the corporate communication process, as well as the influence that the adoption of integrated reporting practices has on a company's performance.

Key words: *integrated reporting; non-financial reporting; stakeholders; sustainability*

JEL Classification: *M41*

I. INTRODUCTION

The global challenges and economic crises that have left their mark on the economic environment have led to major changes in corporate reporting trends. The main factor in the sustainable development of the economy and society is the sustainability of the present and future activities of companies. Thus, due to the pressure exerted by users of accounting information, economic entities were forced to report information on sustainability and social responsibility, in addition to the financial information. Social and environmental reporting was initially done through information presented in the annual financial statements, but in the last two decades this information has taken the form of independent reports. Satisfying the information needs of users of accounting information, required the presentation of a wider range of issues regarding the sustainability and the social responsibility of entities, the structure of social and environmental reports becoming increasingly complex (Socoliuc, Cosmulese, Ciubotariu, Mihaila, Arion, & Grosu, 2020). In response to the increasing length of preparation and the complexity of independent social and environmental reports, it was considered appropriate to prepare single reports by recombining environmental and social information with financial information. Unlike previous social and environmental reports made through annual reports, which included social and environmental information not integrated with financial information, these unique reports aim to integrate social, environmental, financial and corporate governance information, being known as integrated reporting (De Villiers, Unerman & Rinaldi, 2014).

Initiatives to integrate non-financial information in the annual reports published by economic entities have also shown interest in academic environment, in the literature being numerous studies that emphasize the importance and the timeliness of this topic. The main aim of the current studies is to provide a clear perspective on the concept of integrated reporting, taking into account both the determinants and the impact of the adoption and implementation of integrated reporting at national and international level (Dragu, 2015). Thus, integrated reporting is presented as more than "the publication of a report containing both financial and non-financial information" (Jensen & Berg, 2012); it aims a clear and concise representation of how an organization creates and sustains value, taking into account economic, social and environmental factors, contributing to stimulate organizational change in order to achieve more sustainable results (Stubbs & Higgins, 2014).

Therefore, integrated reporting comes in response to the criticisms of the disconnected financial and

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sustainability reporting, which many experts see as ineffective in describing the long-term value creation process within an organization. Proponents of integrated reporting believe that in order to be credible and comparable over time, non-financial information that is of interest for stakeholders should supplement the financial information reported on the basis of accounting data, placing this information in the economic and the financial context of an entity, fact that would highlight how social and environmental issues affect its financial performance, being much more useful to decision makers (Serafeim, 2015). Therefore, compared to social and environmental reporting, integrated reporting poses new challenges, the latter being closely linked to the business strategy and the ability of an organization to create value in terms of sustainability (Grosu & Tanasă, 2018).

This idea is also emphasized in the study conducted by Eccles and Armbrester (Eccles & Armbrester, 2011), where the authors argue that integrated reporting is the best way to illustrate an organization's ability to create long-term value for investors or other stakeholders (Cosmulese, 2020a). Additional information on corporate governance activities or on social and environmental responsibility can provide useful information about the value of the companies' intangible assets, as the market value of many companies exceeds their accounting value. Therefore, integrated reports provide decision makers with information on the strategy, vision and long-term prospects of an economic organization (Du Toit, Van Zyl & Schutte, 2017).

The importance of integrated reporting stems on the one hand from the fact that it plays a key role in corporate social responsibility and on the other hand, from the fact that a sustainable development strategy requires a truly transparent reporting. Integrating social and environmental reporting into a business strategy involves designing reporting tools that facilitate communication with the internal and external environment and at the same time, leading to continuous improvements in business culture. (Perrini & Minoja, 2008; Vaz, Fernandez-Feijoo & Ruiz, 2016; Cosmulese, 2020b). In other words, integrated reporting considers both the performance of companies and their responsibility to achieve the desired results without preventing future generations from achieving their own objectives.

II. The Context Of The Appearance Of The First Integrated Reports And Their Development Over Time

The concept of integrated reporting is not a completely new approach, recommendations for an integrated version of corporate reporting have been made since the 1970s. Thus, in the article "The Corporate Report" published in 1975 by the UK Accounting Standards Steering Committee, the issue of a narrow perspective in reporting the performance of companies was raised, whose main purpose was to satisfy the interests of shareholders, while emphasizing the need for a broader perspective that meets the information needs of all stakeholders.

Between 1970 and 1990, other approaches to corporate reporting were proposed and supported, namely: corporate social responsibility, sustainability accounting, environmental or ecological accounting, Triple Bottom Line accounting, etc. (Owen, 2013).

However, the concept of integrated reporting as defined today, began to take shape in 1994 in South Africa, with the publication of the King I report also known as South Africa's first King Code of Corporate Governance Principles, report developed by Mervyn King as a result of the need for a new system of government adapted to the economic and social context. In 2002, Mervyn King considered it appropriate to first review the report and published the King II report, which introduced the concept of "Integrated Sustainability Reporting", setting up at the same time a working group to identify and analyze new areas of non-financial reporting. After the collapse of Enron and WorldCom, the New York Stock Exchange adopted parts of the King II report and Mervyn King's notion of corporate governance has significantly influenced international corporate reporting principles (Dumay, Bernardi, Guthrie & Demartini, 2016).

The integrated reporting, as shown in the third version of the King III report published in 2009, envisages a holistic and integrated representation of the company's performance both in terms of financial aspects and in terms of the sustainability of an entity (Tanasă, Mihailă & Ciubotariu, 2020). King III contains a set of principles that have been included in the listing requirements of the Johannesburg Stock Exchange, listed companies being required to prepare an integrated report or provide explanations regarding the non-application of those principles. Due to the fact that the King III report did not provide information on the content or structure of an integrated report, it was necessary to set up the South African Integrated Reporting Committee, a voluntary, multi-organizational national body that brought together accountants, internal auditors, directors, institutional investors, the Johannesburg Stock Exchange (JSE), companies and other bodies interested in corporate reporting. The companies listed on the JSE, published the first integrated reports in 2010-2011, South Africa being the first country to adopt integrated reporting as a listing requirement. Currently, integrated reporting in South Africa is guided by the latest version of the report, King IV, which is a common practice that has spread to the public and non-profit sectors (Roberts, 2017).

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In Europe, the emergence of integrated reporting has been strongly influenced by the evolution of social and environmental reporting. Thus, in conjunction with the development of non-financial reporting, some bodies such as The Institute of Social and Ethical Accountability and the Global Reporting Initiative have initiated the development of voluntary reporting standards in order to guide organizations in implementing these reporting practices (Vitolla & Raimo, 2018). As these standards have covered a wider range of social, environmental and governance issues, sustainability reports have also become more complex and detailed, the information being disconnected and often difficult to interpret. As a result, the Prince's Accounting for Sustainability Project was born in 2004 with the main objective of solving the problem of disconnecting information from sustainability reports. In this regard, in 2007 it developed the concept of "connected reporting", providing guidance in order to guide organizations to report not only to present information on economic, social, environmental actions and results and on how these elements interact (De Villiers & Rinaldi, 2014).

The need to harmonize different corporate reporting practices has led to the creation of an authorized body to standardize the principles and the criteria for integrated reporting at the international level. Thus, in 2010, Prince's Accounting for Sustainability Project and Global Reporting Initiative together with regulators, investors, companies, auditors and non-governmental organizations, formed the International Council for Integrated Reporting (IIRC), in order to develop an internationally accepted Integrated Reporting Conceptual Framework (Owen, 2013). Therefore, the evolution of corporate reporting practices has been driven by the information needs of users of accounting information, who over time, became increasingly interested in social and environmental issues and in the way these non-financial issues affects the performance of an entity.

III. INTERNATIONAL <IR> FRAMEWORK

The International Integrated Reporting Council (IIRC) was formed in 2010 at the initiative of three organizations - IFAC (International Federation of Accountants), the Global Reporting Initiative (GRI) and Prince's Accounting for Sustainability Project and has significantly contributed to the development and the implementation of integrated reporting. IIRC is a global coalition of regulators, investors, companies, accountants and NGOs that promotes the presentation of the entire value creation process as the next step in the evolution of corporate reporting. According to IIRC, integrated reporting is a process based on integrated thinking that materializes in an integrated periodic report in which an organization presents information about all the elements involved in the long-term value creation process (Stubbs & Higgins, 2014).

IIRC's mission is to normalize integrated thinking and reporting in public and private sector business. In this regard, the International Integrated Reporting Council has set itself the goal of achieving three main objectives: creating a clear, concise, comparable and globally accepted integrated reporting framework that includes information on an entity's strategy, governance, performance, environmental impact and prospects, ensuring the adoption of integrated reporting by reporters and obtaining support from regulators and investors (Ogata, Inoue, Ueda & Yagi, 2018).

The long-term objectives of the International Council for Integrated Reporting are to incorporate integrated management and thinking as general business practices in the public and private sectors through integrated reporting as the norm for corporate reporting. The cycle of integrated thinking and reporting, materialized in the efficient and productive allocation of capital, will lead to sustainability and financial stability. Thus, the main purpose of the International Council for Integrated Reporting is to develop comprehensive integrated reporting standards, as well as guidelines for their application, in order to ensure common reporting bases (Mihăilă, Tănasă, Grosu & Timofte, 2020).

The Conceptual Framework for Integrated Reporting is without a doubt the most important guide for companies looking to implement integrated reporting. It explains the key content elements of an integrated report and the fundamental concepts underlying them, setting out guidelines for organizations that adopt integrated reporting and contributing to ensure coherence at national and international level. At the same time, taking into account the variation of individual circumstances of different organizations, but also ensuring a certain degree of comparability of information, the Framework developed by the International Integrated Reporting Council aims to provide an appropriate balance between flexibility and regulation, being based on principles and not on rigid rules for presenting information or specific indicators. Thus, through the integrated thinking promoted by the Conceptual Framework for Integrated Reporting, organizations are stimulated to focus on the connectivity and interdependence between those factors that contribute to their ability to create value over time (Mio, Marco & Pauluzzo, 2016).

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IV. The Main Characteristics Of Integrated Reporting

Integrated reporting is an innovative and efficient reporting tool that includes both financial and non-financial information and has emerged as a result of the natural evolution of corporate reporting practices, being able to go beyond traditional reporting and therefore to represent better the value creation process (Vitolla & Raimo. 2018).

Thus, the increasing complexity of integrated reporting requirements and standards has led to the transformation of financial statements both in terms of their content and in terms of the format in which the information has to be reported. However, even in this complex form, it has been found that the information included in the financial statements cannot fully present the value creation process within a company. In order to meet the new reporting requirements introduced by stock exchange standards, laws, guidelines and regulations, but also as a result of the increasing importance given to the social and environmental information, entities have begun to publish information on sustainability and corporate social responsibility through separate reports, accompanying the financial statements (Chersan, 2015).

The separate reporting of financial and non-financial information has the disadvantage that it does not reflect the way these elements interact in the value creation process, making sense only if they independently contribute to the entity's performance. Also, traditional reporting is past-oriented and does not present information on the future risks and opportunities of the entity, information that is of major importance in the decision-making process (Jensen & Berg, 2012).

In order to overcome these limitations of the traditional and social reporting, it was considered appropriate to adopt new reporting practices that include both financial and non-financial information and present through an integrated report a more complex picture of an entity's future performance and prospects, as well as how the company uses its resources to fulfill its mission and objectives (Havlova, 2015).

Therefore, integrated reporting promotes a more efficient approach to corporate reporting by improving the quality of information made available to stakeholders, being characterized by highlighting how financial and non-financial components interact in the value creation process (Cosmulese, Socoliuc, Ciubotariu, Mihăilă & Grosu, 2019). Presented in this way, the information is more secure and transparent and the risk of misinterpretation by stakeholders is considerably reduced. Also, unlike traditional reporting, which has a retrospective character, integrated reporting presents forward-looking information that can underpin long-term decisions.

In Figure 1 we present the main aspects that differentiate integrated reporting from financial and non-financial reporting.

	Financial reporting	Integrated reporting	Sustainability reporting
1. Information	Disconnected financial (quantitative) information	*Connected financial and non-financial information*	Disconnected non-financial (qualitative) information
2. Administration	Financial capital	*All six types of capital*	Social, human, natural, productive capital
3. Focalization	Past	*Past and future*	Past
4. Time horizon	Short term	*Short, medium and long term*	Short term
5.Conciseness and confidence	Long and complex Limited disclosure	*Concise and meaningful* *Increased transparency*	Long and complex Limited disclosure

Figure 1 – Integrated reporting vs. financial and non-financial reporting
Source: adapted according to KPMG (2011).

Integrated reporting is therefore characterized by presenting a holistic image of a company, fac-ilitating the creation of a common language between management and investors by connecting internal resource management to the financial performance of the entity. In this way, the information included in the integrated report highlights how the six types of capital available to the entity relate in order to achieve its objectives. At the same time, the application of integrated reporting practices encourages the construction of good relationships with stakeholders,

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improves the image and the strategy of the entity, allows better identification and assessment of risks and facilitates comparison with competing companies, as well as access to the capital markets. Integrated reporting also differs from traditional reporting through the fact that it focuses on integrated thinking and on organization's ability to create value in the short, medium, and long term, integrated reports being characterized by conciseness, future orientation, and connectivity of the presented information.

V. CONCLUSION

Integrated reporting is therefore a new type of corporate communication that comes as a solution to the criticisms of the traditional reporting, differing from this by the fact that it includes qualitative and quantitative information, retrospective, but also about the future. Thus, by integrating the financial aspects with those related to the governance, social and environmental performance of the entity, integrated reporting results in a holistic and transparent picture of the entity's activity, representing an opportunity for entities wishing to improve their reporting process.

The implementation of integrated reporting at organizational level is based on integrated thinking and involves the description of the value creation process by taking into account all the elements that influence the performance of the entity. In this regard, the International Council for Integrated Reporting establishes - through the International Integrated Reporting Framework - eight content elements that must be found in an integrated report and seven guiding principles that must govern the process of its preparation. At the same time, IIRC provides entities with a series of practical guidelines to stimulate and facilitate the process of adopting integrated reporting globally, the long-term perspectives of this international body aiming to implement integrated thinking and integrated reporting as a corporate reporting norm.

In conclusion, we can say that integrated reporting is an opportunity for entities that want to improve their corporate communication process and that its implementation within a company will positively influence its performance.

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