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INTEGRATED REPORTING AND THE NEED OF IMPROVING THE COMMUNICATION PROCESS WITH THE STAKEHOLDERS

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Abstract
The current economic environment that is characterized by uncertainty and by the complexity of the business world, have led stakeholders to pay more attention to non-financial information, requiring entities to publish additional information on performance, corporate governance and sustainability. Thus, more and more companies have started to publish integrated reports that present this information in a concise and coherent way, facilitating decision-making processes for different stakeholders. The aim of this paper is to highlight the contribution of the integrated reporting to the improvement of the communication process with stakeholders by providing information that is not found in the traditional reports, but which have a major impact on the decision-making process. In this regard, the main results of the research are the presentation of the concept of integrated reporting as a corporate reporting tool, emphasizing the need to improve communication with stakeholders, as well as highlighting the importance and the way of using the non-financial information.

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

JEL Classification: *M41*

I. INTRODUCTION

The annual financial reporting regulated at international level in the International Financial Reporting Standards is the main corporate communication tool through which organizations give to the users of accounting information, the accurate image of their performance and financial position. Against the background of uncertainty that is more and more evident in the economic environment because of the numerous financial scandals, the corporate reporting has undergone significant changes, its requirements becoming more and more difficult to fulfill.

In this context, investors requested entities to publish an increasing volume of information needed for the decision-making process, emphasizing the importance of disclosing non-financial information on social, environmental and governance issues. At the same time, because the traditional reporting does not have the capacity to reflect the value of the intangible assets in the financial statements, the problem of information asymmetry was raised, the market value of companies being in most cases higher than their accounting value.

To meet these challenges, entities were required to publish a new type of report that would give information with both financial and non-financial implications for stakeholders, in addition to the traditional financial statements which give only financial information to the stakeholders (Cosmulese, 2020a).

Thus, the reporting of non-financial information on governance, social and environmental issues was done through corporate social responsibility reports which are internationally regulated through several bodies, like Global Reporting Initiative and AccountAbility's AA1000 - Principles Standard. Although both financial and corporate social responsibility reports provide relevant and useful information for the stakeholders, the effectiveness and the adequacy of traditional reporting mechanisms have been challenged in terms of at least two aspects: the length and complexity of the reports and the lack of capacity to describe the value creation process in the context of an uncertain economic environment, thus paving the way for a new type of corporate communication - integrated reporting.

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II. The Concept Of Integrated Reporting And The Necessity Of Improving The Communication Process With The Stakeholders

Economic crises accompanied by recent corporate scandals, economic instability and lack of trust in institutions have led stakeholders to put increasing pressure on companies to be more transparent in the reporting of the issues related to the sustainability and the durability of their economic activity. At the same time, due to the globalization and the development of companies, the public's attention was captured by numerous environmental and social issues, the entities being forced to publish a series of non-financial information in addition to the traditional financial information. The mentioned significant changes that have taken place in the economic environment, have led to major changes in corporate reporting practices, whose main purpose is to meet the information needs of the stakeholders by presenting them an overview of organization's activities. Thus, in order to improve the communication process with stakeholders, economic entities have had to permanently adapt the content and the form of their reports, the corporate reporting developing several dimensions over time: financial reporting, management remuneration, governance and corporate responsibility, narrative reporting, social and environmental reporting, human resources reporting, segment reporting and integrated reporting, all of them being illustrated in Figure 1.

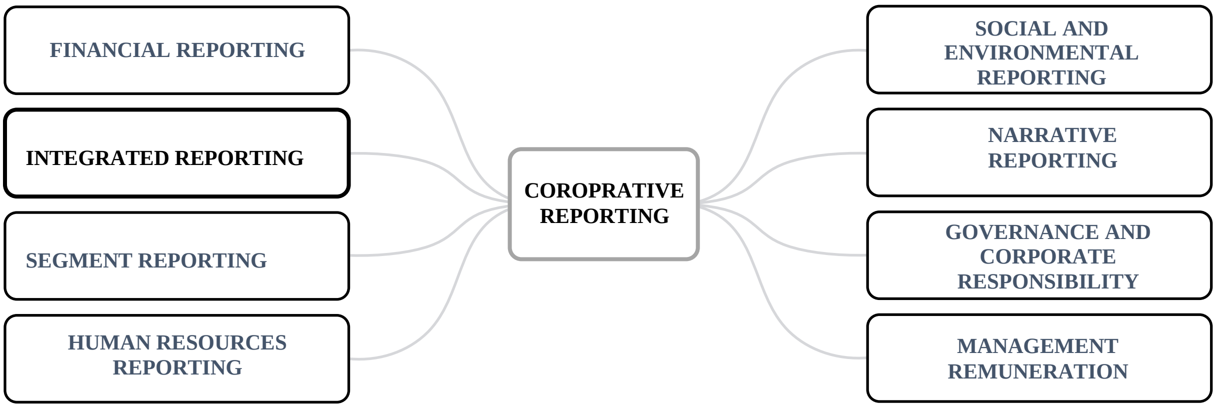

Figure 1 – Dimensions of corporate reporting
Source: adapted according to Hurghiș (2017)

In order to meet the reporting requirements regarding the disclosure of both financial and non-financial information, entities were constrained to prepare several types of reports such as traditional financial statements, corporate governance report and corporate social responsibility report, annual reports becoming increasingly complex and difficult to understand (Cortesi & Vena, 2019).

Although, through the previously mentioned reports, entities reported an increasing volume of financial information regarding their activity and its impact on the environment, the presentation of financial and non-financial information in a disconnected manner - given by the fact that are presented in separate reports - has been heavily criticized by experts.

As a solution to the problems regarding the disconnection of information and the complexity of annual reports, the International Integrated Reporting Council proposed to entities to prepare a single report in which to present all the elements involved in the value creation process, showing how financial components relate to the non-financial ones, this being a way to achieve the entity's objectives.

In this context, integrated reporting appears as an effective reporting tool that aims not only to present financial and non-financial information in a single report, but also to present an overview of the activities that a company carries out as a result of integrated thinking. Therefore, integrated reporting is a process based on integrated thinking that results in a regular integrated report, giving a clear and concise information on how the strategy, governance, performance and the prospects of any society - in the external environment - creates value for stakeholders in the short, medium and long term (Oprișor, Tiron-Tudor & Nistor, 2016; Iredele, 2019).

The main objective of the integrated reporting is to improve the quality of information available to stakeholders, in order to increase the efficiency of the allocation of the six types of capital and to promote integrated thinking for a better understanding of the interdependence of these resources.

A business administration, only in terms of financial performance, is not based on integrated thinking, because this concept includes other types of capital in addition to the financial capital, such as intellectual, human and social, all of these having a significant contribution to the long-term value creation process. The classification of the capitals, according to the International Integrated Reporting Framework is presented in Figure 2.

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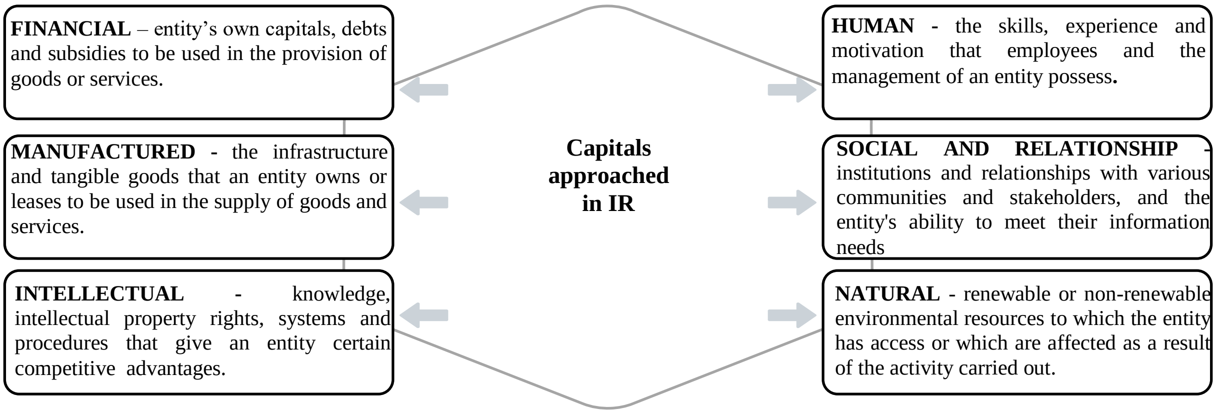

Figure 2 – Types of capital
Source: adapted according to IIRC (2021)

These types of capitals are in fact resources of the entity and their interdependence and connections are established in order to achieve the objectives of the organization, and depending on how they are distributed in the value creation process, these elements can increase, decrease or turn into another type of capital (IIRC, 2021).

Thus, integrated reporting differs from traditional reporting in that it highlights how these types of capital relate and provide information about how the six types of capital affect an entity's ability to create and maintain value, helping organizations understand the process of creating value in the short, medium and long term. Therefore, integrated reporting facilitates the understanding of organizations' business strategy and the way it performs and creates value, enabling them to make informed decisions and manage key risks in order to increase investors' and stakeholders' confidence (KPMG, 2011). Integrated reporting becomes one of the most effective way to identify significant issues that affect company's activity and to manage a better allocation of resources. All these aspects support and encourage integrated thinking and management decisions and actions remain value-oriented (Bratu, 2017).

So, beyond the idea of value creation, integrated reporting also becomes a bridge between companies and capital markets, the purpose of an integrated report being to meet primarily the information needs of capital providers and decision makers, as well as for other stakeholders, including employees, suppliers, customers, local communities and regulators (IIRC, 2021). The need to improve communication with stakeholders is emphasized by one of the seven guiding principles contained in the International Framework for Integrated Reporting, a principle that reflects the importance of stakeholders relations that can provide useful information on economic, environmental and social issues with a significant impact on the entity's ability to achieve its objectives. These perspectives assist the organization in knowing the legitimate interests of stakeholders and understanding how stakeholders perceive value, thus improving the quality of communication and laying the foundations for a transparent relationship (IRC of South Africa, 2018).

The benefits of improving the communication process with stakeholders through integrated reporting are reflected in more efficient capital allocation, simplified reporting processes, reduced reporting costs and increased organizational clarity in terms of business strategy and business model. At the same time, the corporate reporting process is enhanced by the fact that all those reports that were generated separately are now merged into a single report. As a result, its significance is clearly increasing and the costs of reporting are substantially reduced.

III. UTILIZATION OF NON-FINANCIAL INFORMATION FROM INTEGRATED REPORTING IN THE COMMUNICATION PROCESS WITH STAKEHOLDERS

In the current economic context, both companies and stakeholders have become increasingly aware of the impact that non-financial information has on decision-making process, users of corporate reports needing adequate information to properly assess a company's risks and opportunities and to estimate future cash flows. Thus, with technological development based on innovation and knowledge, there is emphasized the need of disclosure of the non-financial information on corporate governance, on the entity's strategy and sustainability of the business, these having a significant role in identifying new growth opportunities and especially in understanding the impact of entity's activity on environmental factors. The idea of transparency and accountability for the sustainability of economic activities has been increasingly addressed in the voluntary sustainability reports regulated by the Global Reporting Initiative. This independent international organization has helped entities that wanted to adopt this type of voluntary reporting by developing a set of reporting standards that propose a generally accepted framework for the content, format and presentation of information in the sustainability reports. GRI standards are the result of

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intense collaborations with different actors of the economic environment and are divided into three universal standards and three sets of independent or modular standards, as represented in Figure 3.

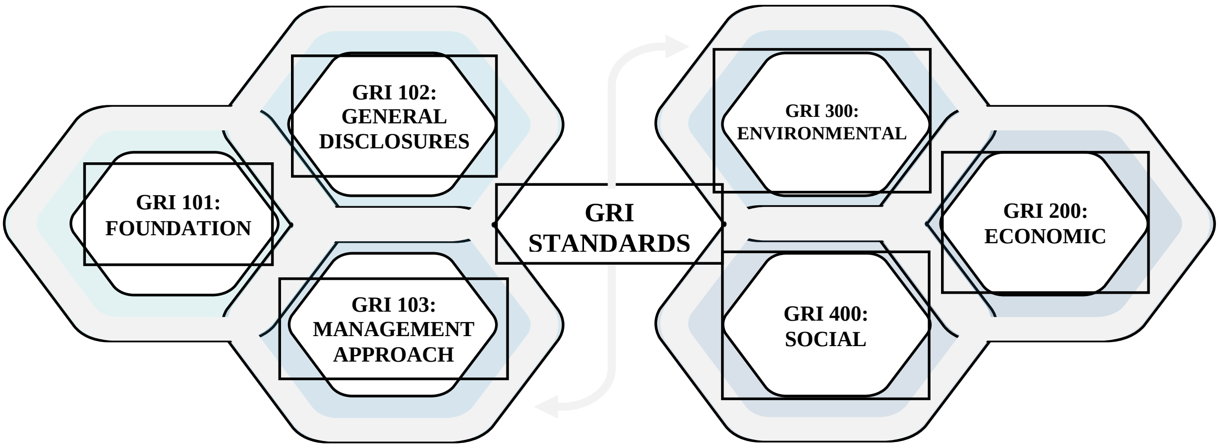

Figure 3 – GRI Standards
Source: adapted according to GRI (2019)

The purpose of GRI standards is to provide transparent and coherent principles for sustainable development reporting and to encourage organizations to provide reliable data. Reporting information on the economic, social and environmental impact of the organization along with the financial ones increases the usefulness of business reporting, which leads to improved management performance, more innovation and a more efficient allocation of resources in organizations (Callen, Gavious & Segal, 2010).

Therefore, the forward-looking information presented in the integrated reports allows users to create a clearer view of an organization's strategy, prospects, risks and opportunities, as well as on the sustainability of its business (Cosmulese, Socoliuc, Ciubotariu, Mihaila & Grosu, 2019). Even if the information contained in the integrated reports is primarily addressed to the capital providers and the decision makers, the architecture of an integrated report and its components have been designed so that through the connection of financial and non-financial information, there will result a clear and concise communication on all aspects regarding the value creation process, meeting this way the information requirements of all stakeholders. Therefore, integrated reporting contributes to the improvement of the company's communication with internal and external users. In Table 1 we present a series of information provided by integrated reporting that is of interest to different types of users and how they can be used.

Table 1. Utilization of the information provided by integrated reporting in relation with stakeholders

Stakeholders	Information	Utilization of the information
Current and potential investors	• The management structure of the entity and the abilities of those in charge of governance; • Specific processes used to make strategic decisions, risk attitudes and mechanisms used to address integrity and ethical issues; • Remuneration of capital and incentives granted; • The entity's strategy, performance, risks and opportunities; • The relationship with stakeholders and how the entity responds to their needs; • The connection between past performance, current performance and the organization's prospects; • Forecasts on revenue growth and market share;	• Ensuring transparent reporting and facilitating the strengthening of a trust-based investor relationship; • Understanding and satisfying the legitimate interests of investors; • Increasing the company's performance; • Access to various capital markets; • Alignment with international reporting practices; • Reducing the asymmetry of information;
Business management	• The legitimate interests of key investors and how the entity can meet their needs; • The economic, legal, political and social context in which the entity operates; • Information on competition and existing market demand;	• Adopting integrated thinking at the level of an entity and making long-term decisions; • Improving risk management; • Improving the internal communication process by encouraging the exchange of

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Stakeholders	Information	Utilization of the information
	• Technological development and how the entity adapts to these changes; • Key investors and other elements on which the entity is dependent;	information within the organization;
Employees	• Organizational culture and values of the entity; • Social issues, such as respect for human rights and collective values; • How to remunerate human capital; • Policies on investments in human resources; • Significant risks that could prevent the entity from operating under normal conditions;	• Access to workforce and ensuring the human capital necessary to carry out the activity;
Financial creditors	• Key performance indicators; • The borrowing capacity of the entity and the policies regarding the remuneration of the borrowed capital; • Significant risks that could lead to the entity's inability to pay its debts;	• Access to advantageous financing sources for making investments and increasing the entity's performance;
Customers and suppliers	• The way the organization differentiates itself on the market; • Key products and services; • Elements that could lead to the inability of the entity to honor its orders or to carry out its activity normally; • Long-term customer relationships and their satisfaction; • Relations with suppliers and the entity's ability to pay its debts;	• Knowledge of the market and competition; • Access to the resources necessary to carry out the activity; • Increasing revenues and market share;
Public and other stakeholders	• Aspects regarding social and environmental issues; • Resources and relationships used and affected by the entity; • Cooperation with local communities; • Investments in technologies to address social issues;	• Focus on key issues for the future of the organization, such as environmental and social issues; • Increasing transparency regarding the impact that the entity has on the environment;

Source: adapted according to IIRC (2021)

Therefore, reporting non-financial information through corporate reporting practices contributes to improving transparency in the communication process with stakeholders and to short, medium and long-term decision-making by the entity's management, but also by investors or other users of integrated reporting (Cosmulese, 2020b).

At the same time, the presentation of connected financial and non-financial information highlights the links between the strategy, the governance and the financial performance of an organization and the social, environmental and economic context in which it operates. By strengthening these connections, integrated reporting can help entities make long-term decisions and enable investors and other stakeholders to understand how an entity uses the resources at its disposal to achieve its objectives.

IV. CONCLUSION AND PERSPECTIVES ON INTEGRATED REPORTING

Integrated reporting, as a corporate communication tool resulting from the natural evolution of reporting practices, is an opportunity for entities that are interested in improving communication with stakeholders by presenting a holistic, transparent and useful image of the entity's work. The transparent approach of the reporting process goes beyond the limits of rule-based reporting, thus covering a much wider range of issues and providing an honest representation of performance. Although the application of integrated reporting practices requires a certain degree of compliance by respecting a set of principles, this type of corporate reporting allows organizations to emphasize those aspects that have a significant impact on their current and future performance, while being more receptive to the needs and requirements of stakeholders.

Connecting information about an organization's strategy, governance, financial performance with the social, environmental, and economic context in which it operates and with the way it relates in the value creation process, contributes to building a stable and trust-based relationship between the organization and stakeholders. Thus, by strengthening these connections, integrated reporting helps companies to make sustainable decisions and to address some of the most complex and far-reaching issues of our time, such as climate change, employee well-

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being and organizational impact on society and environment, allowing investors and other stakeholders to understand the level of performance of an organization and making decisions based on the financial and non-financial information included in the integrated reports.

The importance and the necessity of reporting financial and non-financial information in a connected manner is also confirmed by the prospects for adopting such practices, recently announced by the European Commission. In this regard, a package of measures has been proposed at European level to promote sustainability and improve the flow of information on social and environmental issues, so that investors and the public can benefit from comparable and relevant information in decision-making. According to this Directive, it is envisaged to develop new reporting frameworks that will contain additional reporting requirements to the current rules, such as qualitative and quantitative information, retrospective, but also prospective information to be included in the sustainability reports.

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