THE VALUE CREATED THROUGH INTEGRATED REPORTING. A THEORETICAL APPROACH

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ABSTRACT: *In the current context of increasing concerns about environmental sustainability and social responsibility, integrated reporting (IR) is becoming more and more relevant for companies. IR is a holistic approach to communicating a company's performance, integrating financial and non-financial aspects into a single document. Thus, this work aims to approach this subject in a qualitative manner for a better understanding of the aspects related to IR and its contribution to the value of the company and the way capital is used in this process. By going through the specialized literature, it is proven that the importance of IR for the activity of companies represents a necessary aspect of the long-term value creation process.*

KEY WORDS: *value created, integrated reporting (IR), capital.*

JEL CLASSIFICATIONS: *M40, M41, G30*

1. INTRODUCTION

The conceptual framework of integrated reporting must provide a clearer picture of the overall performance of the organization than financial reporting alone can (Caglio, Melloni, Perego, 2020). This develops stakeholders' interest in corporate information, the organization's business model, long-term strategy and the creation of added social value (Bernardi and Stark, 2018). The Non-Financial Reporting Directive plays an important role in stimulating private sector action and commitment to meeting the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Integrated reporting is a necessity for company sustainability (Directive 2014/95/EU; Eccles, Krzus, 2015, pp.8-18).

Currently, classic financial reporting is no longer sufficient, being widely criticized by interested parties. This happens because financial reporting cannot explain the growing value gap between balanced equity and the value of an economic company or a public interest company (Beretta, Demartini, Trucco, 2019). As a result, interested

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parties request reports on both financial aspects and reports on non-financial aspects including environmental or social and governance information. Thus, many companies have thus decided to implement corporate social responsibility (CSR) reports alongside financial reports to supplement the need for non-financial information. Adopting a sustainable concept requires a company to look beyond its goal of making profit and aims to create a common value (Churet and Eccles, 2014). A large number of companies claim to carry out a commendable socially responsible activity in order to achieve common value, but it is practiced at a superficial level and the main objective remains to obtain profit (Nistor, et al., 2017, pp. 139-163).

However, the usefulness of non-financial reporting is questionable because it is not considered sufficient in the decision-making process (Fasan, and Mio, 2017). But, even financial information is not currently considered sufficient in the reporting process. Thus, the interest of the interested parties is directed towards integrated reporting, that is, the joint reporting of financial information and non-financial information. The final goal of the process of creating the integrated reporting framework aims to create a faithful image of the current performance and subsequent evolutions of the organization (Havlová, 2015, pp. 231-237).

In an international context, IR adoption is voluntary for economic companies, however IR has become very relevant in business practice (KPMG, 2017), but resources are needed for IR adoption. Events such as the financial crisis, population growth, climate change, intensive exploitation of limited natural resources, environmental disasters, numerous diseases and epidemics or the phenomenon of child labor, we can say that CSR aspects must play a fundamental role in the life of companies. Therefore, it is noted the need to adapt the reporting process to current realities and requirements, by incorporating the optimal volume of financial and non-financial information (Heimann and Lobre-Lebraty, 2018).

Due to the growing interest in IR, the current trends of researchers and experts in the field are related to covering the gaps in the international reporting framework in order to standardize it. The pressure shown derives from the increase in public concern vis-à-vis social and environmental problems (James, 2015, pp.1-20).

2. LITERATURE REVIEW

The specialist literature values IR as bringing a positive benefit to the company on the capital market (Schaltegger, Hörisch and Freeman, 2019; Carroll and Shaban 2010). In recent years, IR has gained great importance in empirical research. A series of specialized works on IR (de Villiers et al., 2017b; Kannenberg and Schreck, 2019; Velte and Stawinoga, 2017a; Vitolla, Raimo, and Rubino 2019a) appreciate that the systematic implementation of IR improves performance reporting and determines future value of the company.

Some authors are of the opinion that by adopting the IR, it is also required to ensure it by an external party (Velte and Stawinoga, 2017a). The purpose of IR assurance is to increase the quality of IR and the company's reputation according to the expectations of third parties. Thus, according to the authors (Velte; Stawinoga, 2017a) the insurance level of IR differs between a limited level and a reasonable level. This happens because it has been demonstrated that not only the adoption of IR is sufficient, but also its quality is very important. Some authors appreciate that the standardization of the IR reporting framework increases the comparability between economic companies (Flower, 2015).

According to the authors, no IR report is neither too short nor too long, but is useful for management, shareholders and other interested parties. The optimal size for IR is rather a minimum-maximum decision or a linear relationship based on internal decision. Previous research does not analyse this relationship, but assumes a linear relationship of the optimal length of an integrated report that is related to other company-specific determinants such as the field in which it operates, size and business model (Fasan and Mio, 2017).

In the opinion of Conway (2019), the contribution of companies to a promising future must be the result of their increased favourable impact on society, and this objective can only be met if they become sustainable.

According to Davila and Venkatachalam (2004), IR represents the last stage of sustainable development, which has environmental, social and economic content, in a long-term vision. In the opinion of the authors Heimann and Lobre-Lebraty (2018), one of the practical difficulties of IR is generated by the fact that there is a continuous imbalance between the information that companies want to provide in relation to their activity and the amount of information that end users actually want. However, the author observed that financial reports are getting longer and contain more complex and difficult to understand information. In the author's opinion, it is difficult to determine what the content of an integrated report should be because end users have different goals (Heimann and Lobre-Lebraty, 2018). Incomplete information or especially the lack of information can affect the decision-making process according to Kilic and Kuzey (2018).

A first version of the non-financial reporting was transposed through the CSR corporate social reporting, this being a different tool in structure compared to the IR but still with the purpose of informing the interested parties. Over time, it was found that IR is primarily addressed to investors and shareholders, being useful for interested parties as well (Eccles and Krzus, 2015). In this sense, the integrated reports must cover and harmonize the economic, social and environmental aspects.

With the decrease in interest in financial reporting and the increase in interest in IR. There is the problem of decreasing credibility from the point of view of ensuring the report through the financial audit according to the studies made by Gerwanski, Kordsachia and Velte (2019).

In order to standardize the content of reports and to respond to these challenges, the International Integrated Reporting Council (IIRC) has initiated a concept-framework based on principles for integrated reporting (IR) (IIRC, 2013). Thus, IR represents the bridge between financial aspects and intellectual, natural, human, social and relational capital (Gal and Akisik, 2020).

Starting from the specialized literature, this work was carried out around the research question: To what extent does the IR conceptual framework have an impact on the value created by the company?

3. METHODOLOGY OF THE RESEARCH

To complete this research, one started from the research question: To what extent does the IR conceptual framework have an impact on the value created by the company? Regarding the methodology addressed, this paper uses qualitative research as a result of the theoretical aspects dealt with in the context of IR adoption. The choice of qualitative research is due to the fact that through this method the studied concepts can be analysed in depth. The work is mainly based on legislative aspects but also on articles published in specialized magazines and websites. Through the content analysis, the work presented falls into a documentary type work.

4. INTEGRATED REPORTING: A SYSTEMATIC REVIEW

The integrated reporting initiative has helped generate global acceptance of value-based reporting that promises to improve the interconnectivity between financial and non-financial reporting (Conway, 2019). An integrated report must be easy to read and contain the most essential financial and non-financial information. A good understanding of non-financial information would help stakeholders to know the context in which they should interpret the information provided (Cosma, Soana, Venurelli, 2018). Integrated reporting, complete with tables, graphs, videos, could describe a holistic picture of the organization - the main objective of integrated reporting (Girella, Rossi and Zambon, 2019).

According to the largest audit, tax assistance and business consulting organization for organizations in the public and private sector named KPMG after its founders (Klynveld, Peat, Marwick, Goerdeler) there are three fundamental concepts that underlie the general framework of integrated reporting (KPMG, 2017). Creating value for the company and for other stakeholders refers to a company's activities, its interactions and results and influences its ability to create value in a continuous cycle (Guerrero-Villegas, et.al. 2018).

IR is closely related to the concept of capital within a company. Capitals represent the resources and activities that generate long-term value for the company and other stakeholders (Cortesi & Vena, 2019). In the context of IR, the concept of capitals is essential for understanding how a company creates and uses value in a sustainable and balanced way (Garcia-Sanchez & Noguera-Gamez, 2018; Garcia-Sanchez & Noguera-Gamez, 2017a; Girella, et al., 2019).

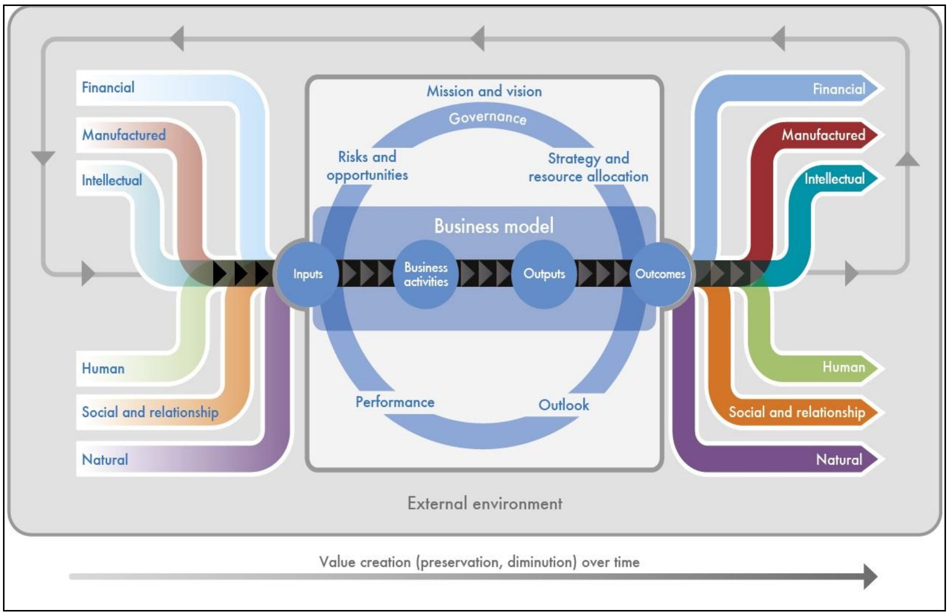
When it comes to the capitals, they represent the resources used and affected by a company, which are identified within the integrated reporting as follows according to table 1.

However, not all categories of capital must be reported in an organization's integrated report. IR must emphasize the capitals relevant to the organization. Thus, IR focuses on capital elements related to the economy and represented by financial capital and manufactured capital, on elements related to social aspects represented by human, relational and social capital, on elements related to natural capital and intellectual capital. This connection between the six capitals defines a concise structure and a framework for integrated reporting. The connections between them are shown by means of figure 1.

Table 1. IR specific capitals

Capital	Explanation
financial	the totality of own or borrowed financial resources available to the organization that are used for the production of goods and services
intellectual	represent the intangible resources owned by the organization that give it competitive advantages and reputation (copyright rights, patents, systems, software, etc.)
productive	refers to the tangible resources owned by the organization (equipment, constructions, land) used to obtain goods and/or services;
human	the totality of the skills, capacities and experiences of the organization's employees that are used by the organization in managing and carrying out the activity;
social	all the relationships established both within the organization and between the organization and the community or interest groups, based on loyalty and trust built and developed over time;
natural	all the natural resources affected by the organization for carrying out the activity, such as mineral resources, water, forests, land, biosphere, etc.

Source: Author's projection based on KPMG (2017)



Source: IIRC (2013)

Figure 1. The Value Creation Process

Figure 1 demonstrates the linkages between the various components of the value creation process with all content elements in an integrated report. This is how the concept is described starting from the business model that is based on various capitals (as inputs) and thanks to the activities carried out, the capitals are transformed into outputs (products, services, secondary products and waste). A company's activities and its results lead to results having effects on capitals.

The creation of value for a company over time is manifested by increases, decreases or transformations of capital caused by the activities and business results of the organization. This value has two interrelated aspects: the value created for the company itself, which enables financial returns for the providers of financial capital and, value created for others (stakeholders and society at large).

Moreover, the IR conceptual framework explains the fact that providers of financial capital are interested in the value that a company creates for others.

IR defines capitals as "stocks of value that are increased, decreased or transformed through the activities and results of the organization". The opinions by which the companies quantify or monetize the capitals are thus explicitly supported, the obtained indicators being later included in an integrated report.

A fully integrated report also requires companies to consider the disclosure of capitals that influence value creation over time. Through the IR reporting framework, it was established that each company will issue reports customized to the specifics of the company. Moreover, the IR will be drawn up according to the reasoning of the company's management and the principles of governance. Thus, there are a series of seven guiding principles that underlie the preparation and presentation of an IR and a series of eight key elements of content included in such a report. These elements do not have to follow a certain order, but they must be specified in the sim report, moreover, it must be shown how these elements are interconnected.

Thus, the seven principles underlying the preparation and presentation of an IR are: information connectivity, strategic orientation and future orientation, relations with interested parties, reliability and completeness, materiality, brevity, consistency and comparability. Besides these, IR must include a series of eight key content elements such as: business model, risks and opportunities, overview of the external environment, strategy and resource allocation, governance, performance, outlook, basis of preparation and presentation.

The IR reporting framework also includes the concept of the reporting limit. Reporting scope refers to the scope or extent of information included in a company's financial or sustainability reports. It delineates what is included in the report and what is excluded. Establishing a clear reporting boundary is important for transparency and accountability in corporate reporting.

Typically, there are two main aspects to consider when defining the reporting limit. Organizational boundaries refer to the entities or operations that are included in the report as follows:

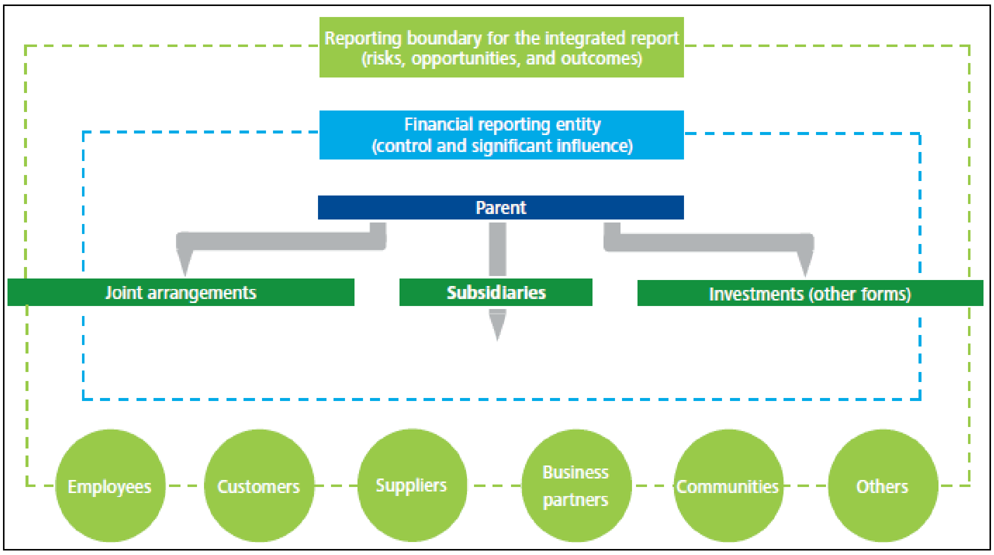
- the parent company: prepares the financial reports that usually cover its financial performance and position;
- subsidiaries: present the reporting limit that can also include their financial data.

- joint ventures: depending on the level of control or influence, the company may include the financial results of joint ventures;
- associates: similarly, if the company has a significant influence on another entity, this may include the financial results of associates using the equity method;
- controlled entities: they can be companies in which they have control, directly or indirectly, over financial and operational policies;

Operational limits refer to the activities or operations that are included in the report as follows:

- geographic locations: Companies can report operations from specific regions or countries.
- business segments: large companies often have several business segments and can report on the performance of each segment separately;
- product lines: in sustainable reporting, companies can report the environmental impact of certain product lines;
- supply chain: some reports include information about suppliers and the impact of the company's supply chain activities.

Figure no. 2 details examples of IR reporting boundaries that include employees, customers, suppliers, business partners and communities.



Source: IIRC (2013)

Figure 2. The Reporting Boundary

Companies often provide clear explanations in their reports about the limits they have chosen and why certain entities or operations are included or excluded. This transparency helps stakeholders understand the scope of the report and make informed decisions based on the information provided. In addition, reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards

Board (SASB) provide guidance to companies on how to define their reporting boundaries in sustainability reporting.

5. CONCLUSION

In conclusion, through the conducted research, the research question can be answered: To what extent does the IR conceptual framework have an impact on the value created by the company? In motivating the answer, we start from the conceptual reporting framework that establishes the principles underlying the reporting. It provides guidance on identifying reporting boundaries, selecting transactions, other events and circumstances that should be represented as well as how they should be recognized and measured and how they should be summarized and reported. The increasing pressure exerted by stakeholders has determined the increase of concern of organizations regarding their responsibility and contribution for the improvement of the environment and the community. This practice entails the creation of value for the company in the short, medium and long term.

Thus, it was studied how a company that creates value for others actually creates value for itself - and vice versa. As a result, a company's business model and value creation process benefit not only the providers of financial capital, but also all other parties interested in the organization's ability to create value over time. A company's activities, interactions and relationships it has influence its capital capacity continuously.

Through this paper it was found that IR does not require a company to cover every capital, as they will not be equally relevant for all reporting companies. A key aspect of the guiding principles concerns the medium and long-term time horizon and not their short-term focus. A company's provision of capital may not be significant enough to be provided in its own IR. The IR value creation process diagram shows the connection between a company's business model and its ability to create value. The business model must be dynamic and not static. The results associated with capital are as important as the company's results defined by products or services to actually create value over time for the company itself.

The author appreciates that IRs must be designed and drafted in a manner that reflects the importance of relations with interested parties. This way of writing provides an insight into the quality of the relations that the company has with third parties and the extent to which the company understands the needs of third parties and takes them into account. It is appreciated that it is extremely important to connect the information presented in the integrated report. For example, establishing the links between the company's strategy, risks and opportunities and performance, but also the key financial and non-financial performance indicators.

The limit of the research carried out refers to the manner in which the studied aspects were exposed, these being subject to a high degree of subjectivity. In order to overcome this limitation, the subject addressed can be deepened through additional research or qualitative research to test research hypotheses.

Future research can be extended by studying value creation through integrated reporting through applicability for quantitative research. The advantages of conducting future research on this topic derive from the collection of more information about this subject, being able to compare over time the evolution of the reporting process, but also the value created by the integrated reporting.

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