THE INTEGRATED REPORTING AND ITS ADOPTION PERSPECTIVES IN THE EUROPEAN UNION

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Abstract
The limited character of the resources used in business and the increasing needs of the shareholders and stakeholders to understand the way in which these resources are used in the business process have developed over time new business reporting practices. In view of this, the main objective of this paper is to present the integrated reporting concept and its future perspectives of being a widely accepted non-financial reporting standard.
In order to ensure a better describing, interpretation and a good contextualization of the objective of this paper I considered suitable to make a literature review using qualitative research method through content analysis.
The results obtained show that the business environment has serious intentions to report non-financial information along with the classic financial reporting. The integrated reporting represents interest for the business environment but there are also other non-financial reporting standards and regulations competing with IIRC (International Integrated Rerporting Council). Also, there is sufficient evidence to show that there is a lack of international synchronization of the non-financial reporting standards which makes integrate reporting or other non-financial reporting standards not to have 100% chance of being adopted by the companies from the European Union.
Although there is an interest of the way the value is created in a company, the objective of integrated reporting must be deeper in the sustainability and environment problems. In order to have high chances of adoption, the integrated reporting must be extended and corroborated with the international requirements regarding non-financial reporting.

Keywords
Integrated reporting, non-financial reporting, environment, sustainability.

JEL Classification
M14, M21, M41, Q01

Introduction

Given the limited character of the resources and the increasingly stringent regulatory policies in the economic and environmental field, the classic financial reporting (the financial statements) proves to be outdated by its ability to deliver sufficient information to the stakeholders regarding the real business process of a company. Therefore, it came naturally to the idea of presenting to the stakeholders the business process from another perspective than the financial one: creating an integrated report which will include both financial and non-financial information. One example of this kind is the integrated reporting.

The integrated reporting is a concept developed by the International Integrated Reporting Council (IIRC) and represents a process founded on integrated thinking in which periodically an organization reports about value creation over time (IIRC, 2013). The objective of IIRC is to simplify and make more efficient the corporative reporting.

Regarding the definition of integrate reporting, there are several definitions but before listing them, I think it's better to "Give back to Caesar what is Caesar's and to God what is God's", meaning by this the presentation of the official definition given by IIRC: "integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communication regarding aspects of value creation" (IIRC, 2013). Integrated reporting is "a concept that offers to readers a holistic image on the way in which the activity of an organization is performing through adding non-financial information about environment, society and governance together with financial information" (Jeyaretnam and Niblock-Siddle, 2010). "Integrated reporting is a set of processes and activities which have as a visible and concise result a periodic report on how the strategy, management, performance and the organization's forecasts allow the creation and maintenance of value on long term" (Botez, 2013). A more concise definition is "integrated reporting is a process which results in a periodic communication, an integrated report that tracks the value created by the company over time" (PricewaterhouseCoopers, 2014a; 2014b; 2014c).

Considered "the main result" of integrate reporting (IIRC, 2016a; IIRC, 2016b), the integrated reports are meant to become the main report of a company, made to replace the traditional corporate reporting (Flower, 2014; King and Roberts, 2013). To provide a global image of an organization, the reports/report issued by that organization must include both financial and non-financial information (Cozma, 2015).

The world economy is in a continuous change and the companies are facing with global competition, technological innovations and tightened regulations in response to financial and governance crisis. The accounting profession is put to the test as the old and traditional corporate reporting model does not satisfy information's user needs in order to evaluate the past and future performances of the companies (Flower, 2015).

Some authors consider the traditional corporate reporting model as being limited (Reverte, 2015) as it implies the use of the historic financial information and offers financial perspectives on short term, without taking into consideration other aspects around the company: the society, the environment, corporate governance issues etc.

The need for complete information regarding external reporting of the activities of the organizations led to expansion and transformation of the traditional corporate reporting by including social and environment aspects (Mallin, 2009; Hopwood et al., 2010). The development of a new kind of corporate reporting seems to be inevitable because it allows individuals and organizations to counterbalance the strength of financial information with the integration of the non-financial information (considered nontraditional) in the annual financial statements (Smith, 2014). In order to evaluate the risk and to create value on long term, the risk analysis involves in addition to the analysis of financial indicators also the analysis of other aspects such as: governance, society, ethics and environment (Bosch, 2016).

The integrated reporting is more than a corporative reporting framework: it creates value and brings together the information from all the departments in order to create a strategy (CIMA 2014; IIRC, 2014).
Some researchers consider that integrated reporting does not meet yet the status of a main report as at this moment there is no regulation that obliges the companies to prepare a single report (Flower, 2014). Integrated reporting is a for a new version of corporate reporting and it is essential to explain the proposed value to the potential users (Abeyskera, 2013).
There is also some criticism about integrated reporting: it focuses on investors and not on stakeholders (Cheng et al., 2014); represents a potential lack of transparency and a potential use of information by other companies (Frias-Aceituni et al., 2014); the six capitals concept may lead to inconsistent stories (Cheng et al., 2014); the existence of problems related to the audit of integrated reports (Brnit, 2012; Cheng et al., 2014).
The aim of this paper is to present the integrated reporting concept as it is described by researchers and practitioners for the reader to understand which way integrated reporting is heading. After reading this paper the reader will clear understand the place and the role of integrated reporting in corporate reporting. Also, the reader will be able to understand the current state of the integrated reporting and it chances to become a widely accepted non-financial reporting standard.

Methodology

For a better describing, interpreting and contextualizing the integrated reporting I considered it appropriate to use the qualitative research method through content analysis as the main purpose of this paper is to understand the trend and practices regarding the concept of integrated reporting developed by IIRC.

Specific features of integrated reporting

If by 2015 some authors considered the literature regarding the integrated reporting as being relatively reduced (Dumitru and Jinga, 2015; Chersan, 2015), after more than two years from the aforementioned statements the literature has taken shape, most of the publications focusing on the benefits of the integrated reporting and on the concept of sustainability as a continuous growth of academic research contributes to the explanation and development of the concept of integrated reporting (Smith, 2014).
Unlike traditional financial reporting, integrated reporting is future-oriented and reflects the connections between financial and non-financial aspects of an organization (Higgins et al., 2014). It presents a consolidated approach, bringing together different types of reporting such as sustainability reporting and financial statements (Rowbottom and Locke, 2013). The complex development of an integrated reporting framework implies a new mentality regarding the way of creating, reporting and sustaining the value in the financial reporting process (Tilley, 2014).
Conceptually, integrated reporting is a mix between traditional financial reporting and sustainability. Leaving this concept aside, the sustainability reports were published anyway for some companies, but not all the time in the annual reports, but also in some additional reports requested by certain users of financial information (banks, business partners, social partners etc). One of the weaknesses of these reports is that do not allow to users of the financial information to take a decision regarding a company as long as they do not contain sufficient financial information (Dumitru and Jinga, 2015).
An integrated financial report must be able to explain the mission and the scope of the organization, to highlight the corporate governance, to monitor the methods used to ensure the conformity with the mission and to prove the ability of the organization to measure the impact on the financial performance of the organization (Smith, 2014). According to research conducted by Berndt et al. (2014), the organizations make connections between integrated

reporting and financial performance and the organizations that draw up entirely an integrated reporting register a 30% higher increase than the organizations that do not create an integrated report.

Reporting in accordance with IIRC

The regulation of integrated reporting has its origin in South Africa where the listed companies are required to prepare an integrated report as it is presented in the King Code of Governance for South Africa 2009, known also as King III. Also, there was the option to not prepare an integrated report but the listed companies had to explain this choice. An important observation is that the principles of King III were included in the listing requirements of the Johannesburg Stock Exchange (JSE). From those explained above we can deduce that at the beginning there was only integrated reporting, without Integrated Reporting Committee of South Africa, organization that was established with the following main role: to developed a framework for integrated reporting as King III did not came up with instructions regarding preparation of the integrated reports.

Even if integrated reporting was imposed in Africa, its coverage increased and extended to Europe and not only (fig. no. 1). Even if the literature show that the Netherlands has a rich history in corporate reporting and prominent leaders in terms of integrate reporting in the sense that many companies Dutch have had a consistent contribution to development of the IIRC framework, the most integrated reports are produced in France where 58% of the top 40 French listed companies are producing integrated reports.

Fig. no. 1. Countries leading the way for adoption of integrated reporting

Source: International Integrated Reporting Council (IIRC), 2019. Countries leading the way for adoption of integrated reporting

The list continues with Malaysia where 100 listed companies prepared integrated reports (in 2018) and Japan which has 342 self-declared integrated reports in 2017. Good prospects are also in Australia and United Kingdom where listed companies partially meet the requirements of an integrated report: some adopt the principles of IIRC, others include the capitals in theirs business models etc.

Non-financial reporting in the European Union

Through the non-financial reporting directive (NFRD), the European Union (EU) law requires large public-interest companies to report specific information regarding social and environmental issues. Beginning with 2018 companies are required to include non-financial information (environment protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards) in their annual reports. Currently, the reporting requirement is applicable to companies that have more than 500 employees. In this way, the NFRD will be adopted by over 6.000 large companies and groups across the EU (listed companies, banks, insurance companies and other companies designated by national authorities as public entities).

Though the non-financial reporting is mandatory in the EU by the companies who meet the criteria, the EU does not set a standard or a framework under whose flag the non-financial reporting requirements must be fulfilled. NFRD gives significant flexibility to disclose relevant information in the way in which the companies consider most useful. The companies have the freedom to choose the reporting guidelines relying on one of the following: United Nations Global Compact, OECD guidelines for multinational enterprises, ISO26000 or Global Reporting Initiative. The companies have also the possibility to use the non-binding guidelines (available from 2017) to disclose non-financial information.

It seems that the non-financial reporting is set up quite well in the European Union and the integrated reporting may lose ground.

Conclusions

The business environment seems to have serious intentions to report non-financial information along with the classic financial reporting. The integrated reporting represents interest for the business environment but there are also other non-financial reporting standards and regulations competing with IIRC. Also, there is a lack of international synchronization of the integrated reporting with the non-financial reporting standards and regulations (NFRD, United Nations Global Compact, OECD guidelines for multinational enterprises, ISO26000 or Global Reporting Initiative).

Although there is an interest of the way the value is created in a company, the objective of integrated reporting must be deeper in the sustainability and environment problems. In order to have higher chances of adoption in the EU, the integrated reporting must be extended and corroborated with the international requirements regarding non-financial reporting.

This literature review can lead to a more complex study using cantitative research method to determin the correlation between the IIRC non-financial reporting standard and the others non-financial reporting standards (NFRD, United Nations Global Compact, OECD guidelines for multinational enterprises, ISO26000 or Global Reporting Initiative).

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