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**INTEGRATED REPORTING -  
PART OF THE BUSINESS STRATEGY.  
A THEORETICAL-METHODOLOGICAL APPROACH**

**Maria-Mădălina BOGEANU-POPA, PhD Assistant**

Faculty of Sciences, Department of Economic Sciences,  
University of Petroșani, Petroșani, Romania  
madalinabogeanu@yahoo.com

**Mariana MAN, PhD Professor**

Faculty of Sciences, Department of Economic Sciences,  
University of Petroșani, Petroșani, Romania  
man\_mariana2006@yahoo.com

***Abstract:** This paper presents the way integrated reporting is part of the business strategy. Currently, financial information represents the main source of data in drafting periodic reports, but non-financial information is necessary for establishing the value of the economic entity, ever-so relevant in planning long-term strategies. Publishing financial and non-financial information through integrated reporting is subject to a set of regulations which must be followed by the economic entities. Through this study, the research question, Is the integrated reporting part of the business strategy? may receive a positive answer. The answer to the research question is argued by the involvement in environmental, social and governance actions which have classified the entity's activity as being an interaction between interested parties within the internal or external environment and the economic entity itself. This fact contributes to the improvement of the image on the long-term and implicitly the business strategy on the one hand, leading the entity towards integrated reporting by publishing non-financial information on the other hand. Structuring the integrated reporting is based on the reporting model proposed by the 2014/95/EU Directive. According to the targeted economic entities, they have opted for a responsible activity growth strategy leading to a sustainable development on the long-term. The involvement in environmental, social and governance actions has classified the economic entity's activity as being a strategy of interaction between interested parties within the internal or external environment and*

*the current economic organization. Thus, the content of the integrated report presents the strategy and the communication process with the main interested parties, a strategy of communication which details the necessary recommended process to follow, and an efficient strategy which concentrates on communication purposes, target demographics, communication plans and instruments used to provide information.*

**Keywords:** *integrated report, business strategy, non-financial information*

**JEL Classification:** *M14, M41*

## **1. Introduction**

The current economic context puts the traditional economic entity performance reporting system into difficulty, considering its exclusive basis on the specific of financial information. Reaching proposed goals and monitoring the economic entity's performance has highlighted, within the last years, the stakeholders' need of complex knowledge of every aspect regarding its activity. Considering this, the need to inform by emphasizing elements of non-financial nature has been highlighted, bringing an added value to the whole entity's reporting system. Combining information of financial nature with those of non-financial nature satisfies the increased expectations of the third parties and bears the name of integrated reporting (IIRC, 2023).

Parallel to the provided financial information, which is used no matter the specific nor the dimension of the economic entity, is the non-financial information which does not target the large public. For this reason, publishing financial and non-financial information under the form of integrated reporting is not mandatory for all economic entities. The category of individuals appreciating the non-financial information provided by the entity has a defined purpose, following well established objectives which project an overview on the economic entity's interactions. The parties interested in the information provided by the economic entity interpret the results in their own manner, using methods specific to economic analysis and appreciate in a subjective manner, attributing different values to financial or non-financial information. The current legislation imposes the requirement of providing non-financial information only by a certain category of economic entities, which meet the main condition of having a number of over 500 employees registered according to the last balance sheet. The economic entities which do not meet this condition are not covered by the European Directive but can voluntarily report information of non-financial nature. This kind of practice is appreciated and encouraged given the fact that through this procedure, the economic entity

has a high transparency of its activity, and moreover, it actively contributes to the process of sustainable development. In other words, through the decision of voluntarily reporting non-financial information, best practices bring a plus in the image of the economic entity and support its activity, promoting sustainable development (2014/95/EU Directive).

The continuous improvement of the regulations regarding integrated reports assumes continuous and permanent improvement of the way non-financial information contributes to exposing the business model of the economic entity. Establishing the way an economic entity chooses the integrated reporting represents a subject of interest in the context of its development (IIRC, 2019). Moreover, integrated reporting represents a useful approach for every interested party. The considerations regarding the integrated reporting and the impact it has on the business strategy must be reflected within the requirements and the particularities of the economic entity's performance (ACCA, 2023).

The research purpose represents the knowledge of the manner with which the integrated reporting represents a part of the business strategy in which the economic entity tends towards achieving the performances imposed on an international plan. For accomplishing the proposed purpose, one refers to the professionalism of the economic entities' managers to reflect, within the drafted reports, the events with significant impact on the sustainable development's exigencies, corroborated with the expectations and the needs of the third parties.

The research motivation is resulted from the desire to research the manner in which the economic entities use the integrated reporting to have a competitive edge. Respecting the same qualitative attributes regarding the drafted reports can represent an indispensable requirement within the targeted entities. The qualitative aspect of the reports drafted by Romanian entities refers to meeting the EU imposed standards and the used integrated reporting practices, to identify the influential internal and external involvements. Therefore, through this research one wishes to find the answer to the question: *Is the integrated reporting part of the business strategy?*

## **2. Literature review**

The economic legislation brings a major contribution regarding the regulations favouring diverse possibilities of improving the traditional reporting model and offering new directions towards integrated reporting. The international legislative initiatives have created a reference conceptual framework for the integrated reporting which should be applicable at European level (2014/95/EU

Directive). This reporting manner has objectives and particularities referring to the traditional reporting method (Cosmulese, et. al., 2019).

Within the traditional reporting system there are authors considering that the financial information represents the ratio of the results obtained by the entity to the methods used (Dima, Popa, Farcane, 2015). Other authors appreciate the importance of the entity's non-financial information which they consider to be responsible of creating value for the clients, suppliers, community, and the environment (Bratu, 2017).

Regarding integrated reporting, García-Sánchez, Rodríguez-Ariza, Frías-Aceituno (2013) consider that it represents an influence factor of the entity's market value. The research that has been drafted over time regarding the topic of integrated reporting did not fully approach the subject due to the subject being in an early stage nationally and at European level. Until recently, the subject of integrated reporting did not have a well-established basis due to the lack of mandatory regulations within the European space headed towards this direction. That being said, there are a number of entities which with time considered, other than the economic factors, the social, environmental and personnel aspects which are noticed in the effort of drafting integrated reports (2014/95/EU Directive).

Multiple economic entities publish integrated reports voluntarily, and these aspects are highlighted in a favourable manner being a practice surrounded by theorists and researchers (Shkromyda, et. al., 2023). Dragu and Tiron-Tudor (2013) transmit through specialty literature the existence of a positive relation between the commendable behaviour of the social responsibilities' practices and the effective activity of the economic entity presented through integrated reporting.

Based on the drafted studies and their results, the economic entities which consider, within their activity, aspects of environmental, social, economic and personnel nature, have a higher value of the business because due to the activity's transparency their performance can be better appreciated, where preferential information addressed to the requirements of the large public is provided (Falkenberg, Schneeberger, Pöchtrager, 2023). The research made up until now supports the adoption of integrated reporting and considers that it is a viable method of accountability of the internal as well as external factors of the economic entity (Frías-Aceituno, Rodríguez-Ariza, García-Sánchez, 2013), (Castilla-Polo and Guerrero-Baena, 2023). The value of the provided information and its structure defines the manner in which the subject of integrated reporting is treated by the economic entity (Oprișor, 2015).

### **3. Research methodology**

The paper at hand represents qualitative research made as a follow-up to the analysis of theoretical-methodological approaches regarding integrated reporting as a part of the business strategy. The reason for choosing this research method is due to the elements which can be presented only through qualitative research. The information sources this paper was based on are represented by the current legislation and mainly scientific articles published in this sense. Referring to induction and deduction this paper is headed towards an exhaustive analysis of the integrated reporting seen as a part of the business strategy. By appealing to the paper's content and its contribution, the text can be considered a documentation-type paper. Drafting this article included planning, data collection, data analysis and finally paper drafting.

### **4. Integrated reporting – an essential element in appreciating the economic entities' performance**

Relative to the international accounting framework, respectively IFRS and the International Accounting Standards Board (IASB) the performance results from the income, expenses, and the financial results the economic entity has obtained (Bratu, 2017). In this sense, information regarding the financial performance is comprised in the situations with general purpose drafted by the entity and it addresses a large user base. In this context one problem may appear because the general-purpose situations drafted by the entity may not be enough to reflect the entity's value, but they may satisfy the public's requirements (Dima, Popa, Farcane, 2015).

A financial report is a summary of an entity's financial performance which offers information regarding the state of financial health, helping certain investors and interested parties take investment decisions. In the economic entity's dimension, the main instruments of financial reporting are the balance sheet, the profit and loss account, informative data, the cash flow statement, the statements of changes in equity, explicative notes to the annual financial situations and the administrator's report. There are multiple interested parties, including commercial creditors, bondholders, investors, employees, and management. Each group has its own interest in tracking the activity of an economic entity. The managers find out about the financial performances from the data published by the entity within forms or in known situations under the name of annual report. The purpose of the report is to offer interested parties

financially correct and reliable information reflecting an overview of the financial performance of the entity.

The non-financial reporting is represented by the *non-financial declaration*. This is composed of a series of elements such as the non-financial declaration: the performance, position and impact of the economic entity's activity, environmental, social and personnel aspects, respect for human rights, fighting corruption and bribing, describing the business model of the economic entity, describing the policies, procedures and measures adopted by the entity, presenting results obtained as a follow-up on taken measures, main risks regarding the economic entity's activity and the management mode of these risks, and last but not least key indicators of non-financial performance relevant for the economic entity's activity.

All these aspects are illustrated within figure 1.



Figure 1. Elements of the nonfinancial declaration

Source:\*\*\*[online] *What is integrated reporting?* Available at: <https://blog.amco.one/en/what-is-integrated-reporting-and-how-it-explains-value-creation>

The non-financial reporting refers to integrity, more exactly the management method of ethical principles within the entity. There is a close connection regarding the correlation between reporting and integrity, because the assumed aspects within non-financial reports call for information correctness. The 2014/95/EU Directive imposes the drafting of a report in consolidated form at the level of a mother-entity which has more subsidiaries. At EU's level, one proposes the idea of introducing the requirement of drafting nation-wide non-

financial reports or member country-wide ones where the entity is active. This initiative represents the answer of the groups of European interests favourable to non-financial reporting, but also the current trending in the domain of non-financial reporting. The big entities which have subsidiaries in multiple countries draft separate sections intended for each state where they are active in or draft individual nation-wide reports. No matter the outcome of the presented proposal, it is imposed that the big economic entities mobilise the capacity of the subsidiaries towards unitary reporting for the mother-entity.

The aspect regarding the pylons of sustainable development is a strong argument in defining the integrated reporting due to the fact that the care towards the environment, social, economic and personnel represents a valuable information, strongly related to the strategic perspectives that will characterize its future activity. Additionally, one can bring into discussion the aspects of moral order towards which the entity's management leads the activity, respectively of acknowledging the impact the entity has within the society. Such practice displays, on the short, medium, and long terms, real benefits and maybe even a competitive edge by intensely promoting cases of social responsibility and not just the interest for the financial aspects as it has been proven.

How one manages the integrated reporting influences policies and the management system of risks and highlights the business model. The real-time presentation and reflection of the defining elements of the integrated reporting can be distorted through human errors or through treating the subject inappropriately, affecting the perception of the investors regarding the anticipated performances. Moreover, supplying elements of integrated reporting has a significant impact on the value of the economic entity's market value.

Thus, the investors, creditors, suppliers, clients, local community, authorities and third parties have a predictable behaviour in appreciating the efforts the economic entity takes but, on the other hand, they put into unfavourable light the economic entities which delay or omit the communication of integrated reports.

The integrated reporting represents a complex reporting process composed on one hand of the financial reporting which has as basis legislative regulations under which the economic entity lies and the International Financial Reporting Standards (IFRS), as well as the non-financial reporting also named sustainable reporting which has as basis the Global Reporting Initiative (GRI) and the AccountAbility 1000 (AA100). The integrated reporting system can be represented as seen in figure 2.

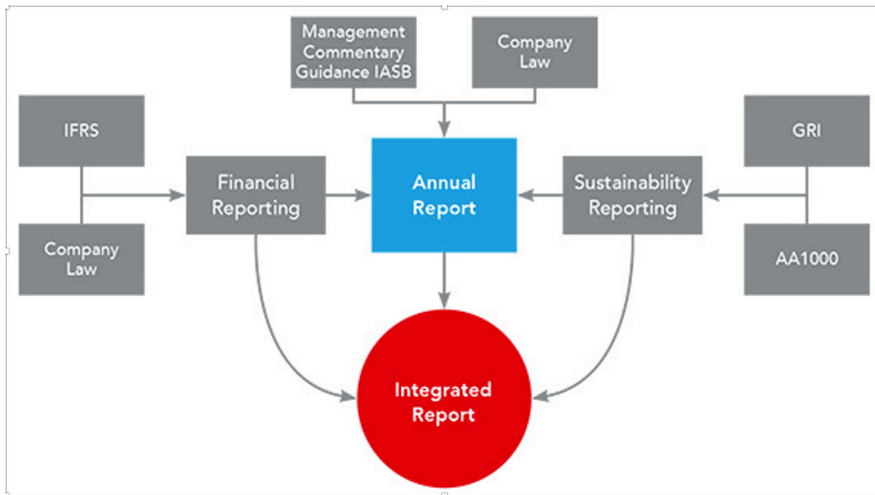


Figure 2. Content of the integrated report

Source: ACCA, (2023). How to respond to assurance needs on non-financial information. [online] Available at: <https://www.accaglobal.com/gb/en/student/getting-started.html>

The existing standards regarding integrated reporting suppose the existence of a favourable economic environment, in concordance with the progress of sustainable development. Connecting the integrated reporting to the entities' performance, as well as measuring and evaluating the registered progress with time during its activity, represents the ideal to be accomplished for all economic entities. The economic entity must focus on adopting the key indicators used within the integrated reporting through which one tracks the relevance and performance of the results. Therefore, a complete and interconnected process between financial information and non-financial information within the integrated reporting is promoted for enhancing the relevance of evaluating the performance of the economic entity.

## 5. Conclusions

The paper "*Integrated reporting- part of the business strategy. A theoretical-methodological approach*", refers, through a theoretical-methodological manner, to the business strategy of an economic entity the integrated reporting is part of, being an indispensable component in measuring performance.

With the help of the drafted study, one must determine whether the research question, *Is the integrated reporting part of the business strategy?* can receive a positive answer. In motivating the answer one can start from drafting



integrated reports which are either drafted in a mandatory fashion, or a voluntary one offering the third parties much more generous information than in the case of the traditional financial reporting. Therefore, by supplying mainly non-financial information materialized through direct implications in social, environmental and personnel implications, the recognition, visibility, and transparency of the entities grows, which can be a business strategy constituting a competitive edge as compared to other entities active on the competitive market.

Drafting integrated reports represents a defining element of the economic entity's image, governed by the credibility and the precision of the non-financial information made available to the user. Therefore, the integrated reporting offers the interested parties the possibility of outlining an opinion regarding the followed aspects of interest. A possible justification regarding the non-drafting of integrated reports, and implicitly not presenting integrating reports, can be represented by the lack of obligation from a legislative point of view or the low interest regarding this subject, coming from the economic entity as well as the interested parties.

Currently, the investors want to know as much information as possible about the performance and the way the economic entity creates value in time on short, medium, and long term. As a follow-up to the ever-so complex phenomena, to measure the activity, one imposes an in-depth analysis of the financial and non-financial indicators from the level of the entity found under the form of the integrated reporting.

Through integrated reporting, one wants to make an interconnection between indicators, for the relations between them not to be omitted or neglected, and for the made analysis to have expected results. The environmental, social and personnel events from the entity's point of view are associated to better performance, predicting future higher levels of sustainable development.

The economic entities' objectives regarding the drafting of integrated reports and the offering of as much non-financial information as possible are given by the desire to be aligned to the European standards, considering the integrated reporting framework. Aligning to the requirements of the integrated reporting using the pylons of sustainable development is more and more common within economic entities which wish to answer to the exigencies of the competitive market regarding the improvement of the business model and the business strategy.

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