

EXPLORATORY RESEARCH ON INTEGRATED REPORTING AND INTEGRATED THINKING AT ORGANISATIONS LEVEL

Mariana-Monica MADAR-COMAN

mariana.coman@econ.ubbcluj.ro

Coordonator științific: **Adriana TUDOR-TIRON**, ORCID ID: 0000-0001-5530-5635

adriana.tiron@econ.ubbcluj.ro

Babes-Bolyai University, Cluj-Napoca, Romania

Abstract. *The paper aims to provide a rigorous and systematic overview of the academic literature focusing on the role of integrated reporting (IR) and integrated thinking (IT) in achieving sustainable development at entity level, outlining the benefits, and challenging for the implementation of integrated thinking and integrated reporting. Literature review to respond to the following research questions: Which is the interconnection between integrated thinking and integrated reporting? Why organizations should embed integrated thinking and reporting? How do companies approach information integration? The literature review is done with the purpose of emphasizing the benefits and challenges, the interconnection between integrated reporting practices and the principle of integrated reporting.*
Design/methodology/approach. *The paper proposes an analysis of a database containing 50 publications in English with a publication up to 2021, a content analysis is conducted. The methodology involves selection of the articles on integrated reporting and thinking, data on publications, journals and authors.*
Preliminary Findings. *The notoriety of IR and IT is not spread uniformly across countries, the adoption rate varying due a legitimate framework globally accepted. Further, IR having the foundation on IT principles, is perceived by business environment as an innovation in the field of corporate and sustainability reporting. Companies are embracing the “transformation” of their reporting moving the direction of transparent communication towards stakeholders, changing corporate governance, and improving decision making process, increasing performance. However, there is still a lack of championship from organizations side to improve processes and to do a massive transformation in the management mindset and to install integrating thinking mentality across organisation.*
Originality/Value *The study shows that IR concept is subject of relevant academic research without a direct connection to IT. Lately, the academic research is more focused in developing IT connecting organizations internal processes by bringing people together, creating value and maximizing the benefits. Up to the present moment, there is a gap between academic literature and practice, between formalised IR adoption and practice at organisation level.*

Keywords: Integrated Reporting (IR), Integrated Thinking (IT), Non-Financial Reporting,

Introduction

Industrial revolution, digitalization, and the social progress are improving our day by day lives, but looking at worldwide the challenges, human being is facing climate change, limited natural resources and inequality between economic development, social development and environmental protection, developed countries and the poor ones. These challenges can be solved by sustainable development engagement to economic, social development and environmental protection.

The recent global financial and pandemic crisis has brought to the light weaknesses in traditional financial reporting (Adhariani, 2018). Furthermore, the way Financial reporting and reporting of sustainability, environmental, social, and governance (ESG) are implemented in different organizations have become a concern to all those interested in corporate socio-environmental impacts (Adams, 2007). Being sensitive to this topic, the largest companies in the world are putting efforts to explain the main environmental, social, and governance ratio in their financial and sustainability/ESG reports (McNally M., 2017).

For that reason, entities are investing and implementing tools, and systems on sustainability management (Ramos, 2019), covering non-financial reporting data (NFR) in order meet stakeholders' needs.

The world has changed – reporting must too - is defining the status of Corporate Reporting, challenge raised 10 years ago by International Integrated Reporting Council (IIRC) when the IIRC framework was lunched. (IIRC, 2011) This was an initiative to create a global umbrella recognized for entities reporting which incorporates financial, environmental, social and governance data in an “integrated” report.

Integrated reporting (IR) is proposing to consolidate “financial transparency with the environmental and social information needed to understand the development, performance and position of a company, as well as the impacts of its activities on society” (Guthrie, 2017)

Integrated reporting is the result of integrated thinking therefore Integrated thinking is used by businesses to improve decision-making, accountability, and communication. It is essential to the development of strategy and provides a valuable connection to the board.

Numerous studies have focused in the last 10 years on different aspects of integrated reporting as concept and implementation on medium and long term ((Dragu, 2013a); (Adams, 2015); (Thomson, 2015); (Dumay, 2016);; (de Villiers, 2017); (Vitolla, 2019)), but few of them analyzed the IT and IR as a single concept reflecting on the benefits and challenges raised at entities level.

Thus, the present research proposal aims to answer to the following questions:

- ✓ Which is the interconnection between integrated thinking and integrated reporting?
- ✓ Why organizations should embed integrated thinking and integrated reporting? (BENEFITS)
- ✓ How do companies approach information integration? (CHANLLENGE)

To find responses to the research questions, we performed a literature review.

The research proposal paper is structured as follows: The first section explains the overview concerning the emergence of IR and IT concepts. The second section describe the methodology on how the literature review (LR) was performed. Third section presents preliminary findings. Finally, the conclusions are presented in the Section four where we highlight the main results of our research proposal.

Overview concerning the emergence of IR and IT concepts

Corporate reporting has evolved during the years, companies are delivering to their stakeholders' appropriate disclosures in their financial and sustainability reports. Financial information lies at the heart of decision-making process regarding future investments by delivering cash flow fair value of companies, etc. (Sherman D., 2016). However financial reports are providing limited data as it does not incorporate information concerning global competition, innovations, and strict regulations in response to financial and governance crisis (Dumay, 2016).

Moreover, for organizations is essential to develop a holistic and integrated approach in implementing a corporate strategy capable of taking business decision that will drive better business performance.

The transition to integrated approach is not limited to a report issuance but is supposing to develop and implement a process that engages all sectors of an organization to think together. (Lodhia, 2015). Fostering collaboration between teams across organization is breaking down silos and is driving to an Integrate Thinking approach.

Integrated thinking is the foundation for the Integrated reporting, is improving decision making, accountability and communication, is linking purpose with business performance.

The globalisation phenomenon has impacted the world, triggering a high level of fast available and transparent information at all levels, so that decision can be taken in the shortest and most efficient way. A long with this, corporate reporting is adapting incorporating non-financial information (social

and environmental) and the road to voluntary reporting was opened to supply useful information to the parties interested.

South Africa was the first country that introduced the integrated reporting concept when the King Committee was set up by Mervyn King in 1994.

Subsequently, the King II report (amended version of King I) impelled by Johannesburg Earth Summit, introduced “Integrated Sustainability Reporting” as the new domain of non-financial reporting (Dumay, 2016). Following the tradition South Africa was the first country that adopted the integrated reporting system (IRS) in March 2010, following the implementation of King III.

Under the umbrella of King III all listed companies on the Johannesburg Stock Exchange (JSE) had to mandatory produce IR. International Integrated Reporting Council (IIRC) (earlier known as the International Integrated Reporting Committee) was established in August 2010 to create an internationally accepted IR framework.

However, the IR framework was first published in December 2013, to accentuate future value creation for stakeholders and to create the opportunity for the companies to deliver the entire story (financial and non-financial).

At European level, in the last decades huge steps have been done in the direction of reporting integration, but the decisive step was once with the adoption of the mandatory requirements of Directive 2014/95/EU (NFRD), effective beginning with annual reports of 2018, which regulate the mandatory non-financial reporting for large undertakings and groups in Europe.

The adoption of Directive 2014/95/EU on the disclosure of non-financial and diversity information (referred to as the 'Non-financial Reporting Directive' –NFRD) set the EU on a clear course towards greater business transparency and accountability on social and environmental issues.

Certain theories have been presented by researchers ((Menicucci, 2018); (Camilleri, 2018); (Adams, 2017a); (Frias Aceituno, 2014); (Tiron-Tudor, 2014)) to enlighten the comprehensive framework of IR, disclosure and adoption practices by process owners. However, the signaling theory, stakeholder theory, legitimacy theory, agency theory, stewardship theory and institutional theory are the most debated theories.

Integrated reporting is on the agenda of international bodies, taking an interest in integrated reporting and integrated thinking as part of the answer to market challenges worldwide.

On 21 April 2021, the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the NFRD.

On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard setting board the International Sustainability Standards Board (ISSB).

The ISSB aim is to transmit a comprehensive global guideline of sustainability-related disclosure standards, in order to sustain investors and other stakeholders with complete information about companies to help them in the decision-making process.

In the light of the changes that are announced concerning CSRD, the role of Integrated Thinking is increasing by adopting a holistic approach embracing a strong understanding of social and environmental changes, considering the new global initiatives.

Methodology

The methodology used implies a qualitative approach focused on the content of papers in IR and IT in the sustainable development at entity level perspective. Content analysis is a study of documents focused on analyzing and summarizing data to examine a pattern; therefore, it is important to decide the documents to be analyzed (Krippendorff, 1980).

The collection of data is done using Web of Science data bases (WOS), where the search was done using the concepts that are under scope of this research proposal. The reason we have used WOS is the fact that is assuring the accuracy and reliability of data gathered, easy to access and to manage the database output.

The methodology consists in two phases: extraction and study of the articles selected for the scope of this research proposal and content analysis of the selected article. The next steps followed are:

- ✓ extraction of articles from library databases
- ✓ selection of relevant articles

To identify the relevant papers, we have used for our search the following word groups: IR and IT(group1), IT and NFR(group2), IR and NFR(group3), IR and SD(group4).

The mix of searching words were selected by combining the keywords chosen by other scholars who have conducted studies on IR, IT, SD, to underline the interconnection between these topics.

The four combinations of words were used to include as many relevant articles as possible. Certainly, IR and IT appear as constant references in our searches because they are the reference point for scholarly investigation.

The strategy used for topic research on WOS was the four group of words defined earlier. For each string search we have obtained a data base with the articles containing the key words search. Gathering the four data bases assigned to each search group, 190 articles. After cross checking the data base, we observed that some articles are common to the four databases, eliminating the common articles we have obtained a final data base of 75 articles.

The next phase was to identify the relevant documents; the content of each article was studied by reading the abstract to ensure consistency with research questions and objectives.

Going furthermore in detail, we analyzed the keywords, the abstract of each article was read and its relationship with the topic analyzed on IT and IR was highlighted the interconnection between the two concepts and the importance inside organization. From 75 articles, we have selected 50 articles. The criteria of article elimination was done taking the reference the title and the content of the abstract.

Using VOS viewer, we have generated the map below, where the co-occurrence index shows the strong link between IR, IT and sustainability, demonstrating that the IR is relying on the connectivity of the processes, creating a favorable environment for IT adoption, facilitating communication among all company areas.

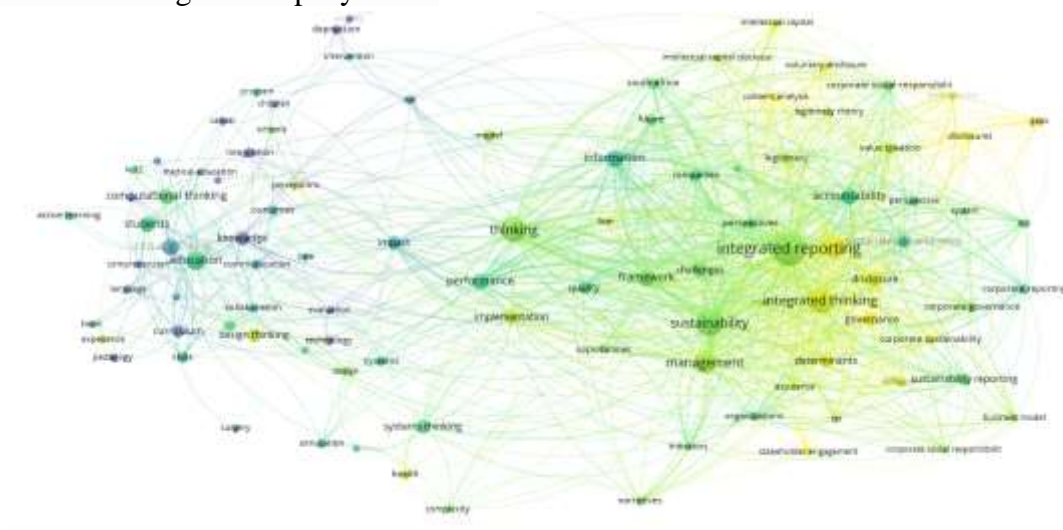


Figure 1. Thematic maps cluster selecting “IR” and “IT”

The articles selected, from our point of view are the most relevant ones, due to the fact that the purpose of each paper reveals the role played by IR and IT as a tool inside organization, raising expectation from the stakeholders concerning reporting on management and process. Moreover, the papers are investigating the connection between long term sustainability and corporate strategy, systems and processes, people, and operational areas by adopting IT.

Preliminary Findings

The adoption of IR by entities implies internal changes in the organization, as it involves incorporating an integrated thinking process and value creation, generating challenges in the entire process chain.

The first LR question was challenging the interconnection between integrated thinking and integrated reporting, arguably, integrated thinking is about connecting all companies departments, people, strategy and performance, so to be able to provide quality information, integrating financial and non-financial data, under the umbrella of an integrated reporting system. Integrated thinking is the centrality of Integrated Reporting.

To respond to the second question (Why organizations should embed integrated thinking and reporting?) the preliminary results indicates that IR and IT is challenging the traditional accounting, opening a new way of reporting combining the disclosure of financial information and non-financial information into one single document, which requires a new way of Thinking with the purpose of maximizing shareholders value creation and delivering transparent information to the investors, contributing to a long term sustainable development of the organization.

Companies with long term vision and strategies, which are putting a high emphasis on social and environmental aspects and are expecting in the same time high business performance, should be open to adopt integrated thinking at all level of the organization, creating a vertical and horizontal connection inside organization, engaging all actors in an integrated thinking process, connecting performance with the purpose, monitoring business decision for long term value creation.

We were asking ourselves how do companies approach information integration. The findings shows that the process of adopting IR and IT will be different for each organization due to the organizational context and the specificity of each organization.

Approaching information integration (IR and IT) is equivalent with the mindset change inside the organization, transformation of corporate governance model and redefining and improving the internal processes and practices. The adoption of Integrating Thinking and Reporting requires a fully commitment from the organization management to sponsor the process implementation. It is important that the people involved in “changing that way of doing thing” to be fully engaged.

Conclusion

Part of organization are applying IR and IT by the steps they have done in real terms in sustainability direction, without formalization. Some companies want to “look good” for the investors and different categories of stakeholders and are promoting concepts like sustainability or integrated reports. No matter which part is analyzed, the symbolic must transform, as the need of accurate and complete information in terms of financial and non-financial must be available. We need the beginning and the end of story for the companies.

Integrated thing is the centrality of integrated reporting and will be a continuously topic of research, opening new opportunities for organizations, the ones already applying IR will be the source of a new integrated journey for the new ones.

Meanwhile, we hope in the nearest future to have clear guidance in IR and IT adoptions in the light of organizations sustainable development, a standardization of financial and non-financial standards and to witness the adoption of IR also by small and medium companies. The road was opened, now must be paved.

Referințe bibliografice

1. Adams C. Understanding Integrated Reporting: The Concise Guide to Integrated Thinking and the Future of Corporate Reporting, Routledge. [Journal]. - 2017b.
2. Adams C.A. and Larrinaga-González, C. Engaging with organisations in pursuit of improved sustainability accounting and performance", Accounting, Auditing & Accountability Journal [Journal]. - 2007.
3. Adams C.A. Conceptualising the contemporary corporate value creation process [Journal]. - 2017a.
4. Adams C.A. The international integrated reporting council: a call to action [Journal]. - 2015.
5. Adams S. Simnett R. Integrated Reporting: An Opportunity for Australia's Not-for-Profit Sector [Journal]. - 2011.
6. Adhariani D. & De Villiers, C. Integrated Reporting: Perspectives of Corporate Report Preparers and Other Stakeholders, Sustainability Accounting, Management and Policy Journal, forthcoming. [Journal]. - 2018.
7. BlackSun Realizing the benefits: The impact of Integrated Reporting [Journal]. - 2012.
8. Busco C., Fiori, G., Frigo, M.L. and Angelo, R. Sustainable development goals: integrating sustainability initiatives with long term value creation [Journal]. - 2017.
9. Camilleri M.A. Theoretical insights on integrated reporting: the inclusion of non-financial capitals in corporate disclosures [Journal]. - 2018.
10. Committee The International Integrated Reporting Towards Integrated Reporting - Communicating Value in the 21st Century [Journal]. - 2011.
11. de Villiers C., Hsiao, P.C.K. and Maroun, W. de Villiers, C., Hsiao, P. Developing a conceptual model of influences around integrated reporting, new insights and directions for future research [Journal]. - 2017.
12. de Villiers C., Rinaldi, L. and Unerman, J. Integrated reporting: insights, gaps and an agenda for future research [Journal]. - 2014.
13. Dragu I. and Tiron-Tudor, A. New Corporate Reporting Trends. Analysis on the Evolution of Integrated Reporting [Journal]. - 2013a.
14. Dumay J. and Dai, T. Integrated thinking as a cultural control? [Journal]. - 2017.
15. Dumay J. Developing trust through stewardship: Implications for intellectual capital, integrated reporting, and the EU Directive 2014/95/EU [Journal]. - 2019.
16. Dumay J. Integrated reporting: A structured literature review [Journal]. - 2016.
17. Dumay J., Bernardi, C., Guthrie, J. and Demartini, P. Integrated reporting: a structured literature review [Journal]. - 2016.
18. Fink A. Conducting Research Literature Reviews: From the Internet to Paper [Journal]. - 2010.
19. Foundation Value Reporting Integrated Reporting [Journal].
20. Frias Aceituno J.V., Rodríguez Ariza, L. and Garcia Sánchez, I.M. Explanatory factors of integrated sustainability and financial reporting [Journal]. - 2014.

21. Grassmann M., Fuhrmann, S. and Guenther, T.W. Drivers of the disclosed 'connectivity of the capitals': evidence from integrated reports [Journal]. - 2019.
22. Gray R. Social, environmental and sustainability reporting and organisational value creation? [Journal]. - 2006.
23. Guthrie J., Manes-Rossi, F. and Orelli, R.L. Integrated reporting and integrated thinking in Italian public sector organisations [Journal]. - 2017.
24. <https://www.integratedreporting.org/when-advocate-for-global-adoption/> [Report].
25. IIRC The International Integrated Reporting Framework [Journal]. - 2011.
26. J. Flower The International Integrated Reporting Council: A story of failure [Journal]. - 2015.
27. Jensen J. Berg N. Determinants of Traditional Sustainability Reporting Versus Integrated Reporting. An Institutional Approach [Journal]. - 2015.
28. Kitchenham B., Brereton, O.P., Budgen, D., Turner, M., Bailey, J. and Linkman, S. Systematic literature reviews in software engineering – a systematic literature review [Journal]. - 2009.
29. Krippendorff K. Content Analysis: An Introduction to Its Methodology (2nd ed.) [Journal]. - 2004.
30. Krippendorff K. Validity in content analysis [Journal]. - 1980.
31. Lodhia S. Exploring the Transition to Integrated Reporting Through a Practice Lens: An Australian Customer Owned Bank Perspective [Journal]. - 2015.
32. McNally M. Cerbone D., Maroun W. Exploring the challenges of preparing an integrated report [Journal]. - 2017.
33. McWilliams A. Siegel D. Corporate Social Responsibility: A Theory of the Firm Perspective [Journal]. - 2001.
34. Menicucci E. and Paolucci, G. Forward-looking information in integrated reporting: A theoretical framework [Journal]. - 2018.
35. Milne M.J. and Gray, R. W(h)ither ecology? The triple bottom line, the global reporting initiative, and corporate sustainability reporting [Journal]. - 2013.
36. Ramos T.B. Sustainability assessment: exploring the frontiers and paradigms of indicator approaches [Journal]. - 2019.
37. Sherman D. Young S. Where Financial Reporting Still Falls Short [Journal]. - 2016.
38. Thomson I., Atkins, J., Atkins, B.C. and Maroun, W. Good' news from nowhere: imagining utopian sustainable accounting [Journal]. - 2015.
39. Tiron-Tudor A. and Dragu, I. Research agenda on integrated reporting: new emergent theory [Journal]. - 2014.
40. Vitolla F., Marrone, A., & Raimo, N. Integrated reporting and integrated thinking: A case study analysis [Special issue]. Corporate Ownership & Control, 18(1), 281-291. [Journal]. - 2020.
41. Vitolla F., Raimo, N., Rubino, M., Garzoni, A. The impact of national culture on integrated reporting quality. A stakeholder theory approach [Journal]. - 2019.