



Integrated Reporting Performance – Effect of Organizational Behavior Development

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Rezumat: *The effects of the economic crisis and the numerous financial failures of major companies call into question the reliability of financial reporting, which is considered insufficient in reflecting the clear and complete picture of performance, assessed in financial, environmental and social dimensions. In order to obtain an integrate report, it is necessary to combine both financial and non-financial information. Non-financial reporting supports and complements the classic ones, but the complexity of the information provided must also be taken into account, as the phenomenon of opacity may occur, not only due to lack of transparency but also due to difficulty of understanding by users and producer of financial information. Therefore, in the context of long-term global interests, to support sustainable development it becomes important to bring to the research area the identification of the current stage of implementation of integrated reporting with the exemplification of the ranking of sustainability reports of companies listed on the Bucharest Stock Exchange (BSE).*

Keywords: *Integrated reporting, Sustainability, Corporate social responsibility, Environmental responsibility, social inclusion*

JEL Classification: M41

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1. INTRODUCTION

Current strategies and policies for the sustainable development of society have brought new priorities to the concerns of professional accountants in terms of organizational behavior and financial reporting. In this context, this research proves its usefulness in terms of developing the state of knowledge in this field, but also to represent a starting point in the evolution of accountants professional thinking, who have an essential role in implementing this type of reporting.

It is known that the performance of a company is no longer limited to the information provided by the financial statements. More recently, investors are interested in non-financial issues such as: occupational health and safety, environmental protection, social inclusion, quality of resources used in the production process, digitalization, volunteering, respect for human rights, prevention of corruption and bribery. All these aspects fall within the area of the company's overall performance.

Sustainability reporting complements companies' responses to the requirements needed to assess the social role of companies.

2. DEFINING THE RESEARCH PROBLEM

2.1. Object of integrated reporting

Integrated reporting is defined by specialists in the field as an integrated thinking medium, a more transparent reporting of business objectives and decisions, which aims to provide a complete and accurate picture of a business. (Zaharie, 2004). It is also, a brief communication made by combining the company's strategy, corporate governance, results and its prospects, leading to the generation of value in the short, medium and long term. (Ighian, 2016). Lately, the concept of integrated reporting is extensively researched, being created for the diversity of the range of measures that contribute to the creation of long-term value, for increasing the role that the company has in society. (Ernst&Young, 2014). Thus, the central element can be observed, the value newly created by companies, this being generates numerous benefits for users of integrated reporting.

Companies may choose to publish non-financial information in an integrated and independent report, in a non-financial statement or in a section of the Directors' Report stating these provisions. If they draw up a separate report, it must be made available to the public within a reasonable period of time not exceeding six months from the balance sheet date on the company's website and it must be mentioned in the consolidated directors' report. (O.M.F.P nr. 1938/2016).

The importance of integrated reporting is given by the expected impact in the size of the decision-making process with effects not only in organizational behavior changes, allocation and use of resources, corporate communication, but also for a sustainable economy, the company's ability to create and maintain value over time, making an optimal use of productive, human, intellectual, natural capital and also in understanding the interdependencies between these factors. (Botez, 2013).

Developing a single report to provide a holistic picture of the company's ability to create value over time and to interconnect published reports will increase comparability, a key element



for future investors, as they are attracted to business resilience and sustainable development. Integrated reporting is not just about producing the report itself, but underpins integrated thinking, leading to organizational change, focusing on: ways to reduce pollutants, concrete actions for climate change management, social and personnel policies. (IFAC, 2017).

An integrated report, or sustainability as it is also called by economic specialists, must present the business model and explain the strategy by which the company creates value in the medium and long term. There is currently no standard structure for this report, which may affect the comparability between other companies, but the International Council for Integrated Reporting (IIRC) has provided a set of fundamental guidelines in integrated reporting (IIRC Framework, 2013; Lapteș & Sofian, 2016) to guide companies:

- **Strategic focus and future orientation** - the integrated report must provide a perspective on the company's strategy, the use of capital and the effects of its use, the ability to create and maintain value;
- **Information connectivity** - the integrated report must present a holistic image, along with the combination and inter-relationship between the factors that affect the ability to create value over time;
- **Relationships with stakeholders** - the integrated report must provide a perspective on the quality of the relationship with stakeholders, how the company responds to their needs;
- **Significance threshold** – the integrated report to include all aspects considered essential, to present information that sustainably affects the company's ability to create value);
- **Conciseness** - the integrated report must be concise;
- **Reliability and completeness** – the integrated report must include all significant aspects including negative ones, their relevance being influenced by integrity, neutrality and lack of material errors;
- **Consistency and comparability** - the information in the integrated report should have a consistent basis over time and allow comparison with other companies.

Integrated reporting has come to the attention of the public in recent years, especially after the formation of the International Integrated Reporting Council (IIRC) and after the publication of the guide developed by IIRC, but also by adoption of European Directive 2014/95. (Sriani&Agustia, 2020). The implementation of this type of reporting has experienced a favorable evolution that has led to the creation of standards, frameworks, guidelines and directions to be followed for streamlining the activity, aiming at qualitative equality between financial and non-financial reporting. (Albu et al, 2013; Nechita, 2019). From the interdependence between the two types of reporting, certain advantages emerge: improving the quality of information, efficient management of resources and identifying issues that affect sustainability. (Hurghiș, 2017).

2.2. Research methodology

Given the availability of data, we developed the research with an empirical study of companies listed on the Bucharest Stock Exchange, companies that due to public exposure are required to disclose more types of information in reporting to BSE. For the selection of the

sample, we used the BET-XT index - which ranks the companies with the highest liquidity ratio - and the criterion of Directive 2014/95 / EU, on the average number of over 500 employees for the existence of the obligation to report non-financial information. Based on these criteria, from the 27 companies analyzed, we selected 14 companies, the research being conducted for 2018, the financial statements and non-financial reports being taken from its own sites or from that of BSE.

Table no. 1 Research Hypothesis

Research hypothesis	Definition of research hypotheses
H1	Do companies listed on the BSE comply with the principles of Directive 2014/95/EU and report non-financial information annually?
H2	Is there a correlation between companies` financial performance and sustainable conduct?
H3	Does the decision to report non-financial information belong to professional accountants?

Source: authors' research and projection.

3. RESEARCH RESULTS

To achieve the general objective, identifying the current state of integrated reporting at the level of companies listed on the BSE and prioritizing sustainability reports, we created a model, using 7 research areas, 30 criteria, totaling 390 items. The score for each criterion is between 1 and 5 points (1 being the minimum value and 5 the maximum value), each company being analyzed independently and in full. The main areas of interest used were independent reporting, business model and non-financial policies, transparency, personnel, social, environment, people and corruption.

Companies from different fields of activity were analyzed to ensure the relevance of the research results. Most companies have chosen to publish information on integrated reporting, sustainability and social responsibility on their websites in visible and easily accessible places. Medlife S.A. it was removed because it did not present any non-financial information on its website and in the financial statements.

From the Figure 1 we can see how companies have chosen to present their non-financial information. According to the analysis carried out, a number of 7 companies OMV Petrom SA, Banca Transylvania, Romgaz SA, Transelectrica SA, Alro SA, Antibiotice SA and Compa SA, chose to present the non-financial information in the form of an integrated report, independent of financial situations. It will be demonstrated that this type of reporting is much more efficient, more transparent and will include a much wider range of information. 38% of the analyzed companies, namely 5 companies presented the social and environmental aspects in the form of a non-financial statement (BRD Groupe Societte, Transgaz S.A., Nuclearelectrica S.A., Purcari S.A., Conpet S.A.). DIGI Communications S.A. is the only one that has chosen to present the non-financial information in a section of the Directors' Report.

Table no. 2 Analyzed companies and field of activity

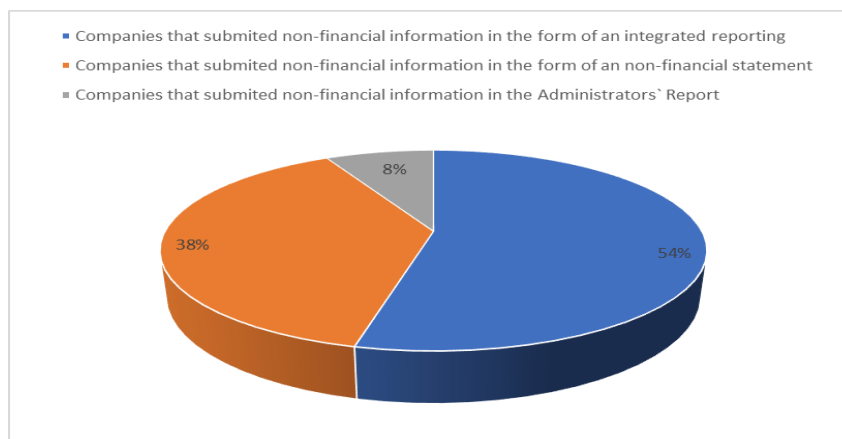
Current No.	Company symbol	Company name	Field of activity
1	SNP	OMV Petrom S. A	Extractive industry
2	TLV	Banca Transylvania	Banking
3	SNG	Romgaz S. A	Extractive industry
4	BRD	BRD Groupe Societte	Banking
5	TGN	Transgaz S. A	Pipeline transport
6	DIGI	Digi-Communications	IT & Telekom
7	SNN	Nuclearelectrica S. A	Production and supply of electricity/heat/gas and hot water
8	TEL	Transelectrica S. A	Production and supply of electricity/heat/gas and hot water
9	M	Medlife S. A	Medicine
10	WINE	Purcari S. A	Wine production and trade
11	ALR	Alro S. A	Processing industry (aluminum)
12	COTE	Conpet S. A	Pipeline transport
13	ATB	Antibiotice S. A	Medicine
14	CMP	Compa S. A	Processing industry (car accessories)

Source: authors` projection and research

According to our own reasoning, we established the following criterion for separating companies based on the scores awarded:

- 0-40 points – unknown non-financial performance (unpublished information);
- 41-80 points – average non-financial performance;
- 81-120 – good non-financial performance;
- 121-150 – very good non-financial performance.

Figure no. 1 Presentation mode of non-financial information



Source: authors` projection and research

Table no. 3 The final score of the analyzed companies

No.	Company symbol	Site/Independent report	Statement/Model/Policy	Transparence	Personal	Social	Environment	Man/Corruption	Total
1	SNP	10	23	19	23	15	23	13	126
2	TLV	8	12	9	17	9	15	13	83
3	SNG	10	24	22	24	12	26	12	130
4	BRD	9	11	15	20	15	23	11	104
5	TGN	10	16	17	23	10	23	9	108
6	DIGI	6	15	5	21	19	17	10	93
7	SNN	9	15	14	16	10	25	13	102
8	TEL	10	22	19	20	14	25	9	119
9	WINE	8	11	5	11	7	22	7	71
10	ALR	10	21	16	23	14	26	10	120
11	COTE	7	12	5	13	4	13	8	62
12	ATB	10	18	17	19	16	28	10	118
13	CMP	8	15	5	7	7	20	11	73

Source: authors` projection and research.

After the analysis performed, the following companies obtained an average non-financial performance: Conpet S.A. 62 points, Purcari S.A. 71 points, Compa S.A. 63 points. A number of 8 companies obtained according to their own model a good non-financial performance, these being classified in ascending order as follows: Banca Transylvania 83 points, Digi Communications S.A. 93 points, Nuclearelectrica S.A. 102 points, BRD Groupe Societte 104 points, Transgaz S.A. 108 points, Antibiotice S.A. 118 points, Transelectrica S.A. 119 points, Alro S.A. 120 points. OMV Petrom S.A. and Romgaz S.A. they are the only ones that obtained values above the threshold, their non-financial performance being considered very good obtaining 126 and 130 points respectively. It should be noted that, the integrated report of Romgaz S.A. was outsourced and developed by the company Innova Project Consulting S.R.L specialized in consulting on sustainability issues and preparation of non-financial reports.

The first five companies that obtain the highest score were used in second part of the empirical research, where we studied the correlation between financial and non-financial performance. To increase the relevance, the financial analysis was performed for 2017 and 2018, the indicators used to be the rates of return (ROS - Return on sales, ROE - Return on equity and ROA - Return on assets), general liquidity and financial solvency indicators, PER stock market ratio and EBITDA margin. We also used again the points system with values between 1 and 5, a little different this time because the company that obtained the lowest value of the indicator received 1 point and the one with the most favorable value 5 points, there aren't two companies with the same score in an indicator.



Table no. 4 – The score of financial performance indicators

No.	Company	Average ROS	Average ROA	Average ROE	Average LG	Average SG	Average PER	Average EBITDA	Total score
1	SNG	33.93	15.48	18.87	3.15	5.62	8.01	52.09	31
2	SNP	19.01	7.42	10.75	2.17	3.20	5.95	44.75	24
3	ALR	10.73	10.21	20.75	3.68	1.97	7.62	20.71	25
4	TEL	1.99	1.19	1.97	1.40	2.52	42.82	13.77	8
5	ATB	9.66	5.36	7.65	2.32	3.35	10.49	16.17	17

Source: authors` projection and research

Following the table with the scores obtained by the five companies, we observe again the Romgaz S.A. company obtained the highest score with 31 points, being the most performing company both financially and non-financially, followed by Alro S.A. with 25 points and OMV Petrom with 24 points. On the last positions of the ranking are the companies Antibiotice S.A. with 17 points and Transelectrica S.A., the most underperforming financially obtaining only 8 points.

Table no. 5 Correlation of financial performance with non-financial performance

Company symbol	Non-financial score X	Financial score Y	$(X - \bar{X})$	$(Y - \bar{Y})$	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
SNG	130	31	7.4	10	54.76	100	74
SNP	126	24	3.4	3	11.56	9	10.2
ALR	120	25	-2.6	4	6.76	16	-10.4
TEL	119	8	-3.6	-13	12.96	169	46.8
ATB	118	17	-4.6	-4	21.16	16	18.4
Average	122.6	21	-	-	107.2	310	139
-	-	-	-	-	SSx	Ssy	SP

Source: authors` projection and research

$$\text{Pearson correlation coefficient } R = \frac{SP}{\sqrt{SSx * SSy}}$$

After the calculations used in the previous table and using this formula, Pearson's correlation coefficient r obtained the value of 0.7624. The result obtained shows that there is a strong, positive and direct correlation between the score of non-financial and financial performance.

Table no. 6 Results of research hypotheses

Hypothesis	Explanation
H1 - confirmed	The analyzed companies submitted the mandatory information according to Directive 2014/95/UE.
H2 - confirmed	According to the own model between the two elements there is a strong and positive correlation.
H3 – partially invalidated	The obligation of non-financial reporting belongs to corporate governance, the role of accountants is only to provide support for the preparation of the report.

Source: authors` projection and research

4. CONCLUSION

Integrated reporting when properly applied in all areas will produce a significant change in organizational thinking and behavior. Trends indicate a development of integrated reporting at the national level, companies are increasingly interested in their employees, providing them with a safe work environment, practices developed in health and safety at work, ensuring equal opportunities in selection and promotion respecting the principles contained in the Universal Declaration of Human Rights. This improvement in aspects and policies will improve employee confidence, thus achieving a more favorable outcome at the end of the reporting period.

Testing the correlation between sustainable behavior and the financial performance of the top five companies resulted in the value of 0.7624 of Pearson's correlation coefficient "r", which indicates that there is a strong, direct and positive correlation between the two types of performance. Thus, we consider it necessary for the management's attention to be directed towards both types of performance, because they are dependent on each other, the sustainable development of the business bringing favorable results in the near future.

Regarding the identification of the current state of integrated reporting at the level of companies listed on the Bucharest Stock Exchange, we find a complex reporting, which involves compliance with certain rules and a lot of professional reasoning from the rapporteurs as the reporting framework contains options for certain information or does not specify the extent and degree of synthesis of the information that should be included in an integrated report. We specify that in Romania integrated reporting is required only for about 3-4 years, noting the need to develop the experiences of rapporteurs, to raise their awareness of the social utility of disclosing non-financial information that transparently presents a sustainable business model.

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