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Integrated reporting - a new management tool in analyzing the performance of a company

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INTRODUCTION

- Integrated reporting (IR) is a relatively new concept but it has a long story behind it. Starting from traditional financial reporting with its limitations to sustainability reporting, corporate reporting has evolved to meet the information needs of stakeholders and changes in the global economy. Moreover, the concept of IR first appeared in practice and then was developed theoretically and developed a framework for this new type of reporting.

INTRODUCTION

Integrated reporting

- promotes a more coherent and efficient approach to corporate reporting and aims to improve the quality of information available to financial capital providers to enable more efficient capital allocation (IIRC, 2013).
- involves an integrated vision on a company's strategy and objectives, on the whole activity and on the reporting mode, implicitly on the way of understanding, achieving and presenting the performance

Main pillars of IR

- The companies Novozymes and Natura (2002), Novo Nordisk (2004)
- the King Committee from South Africa
- GRI
- IIRC

Main objective of this research

- the analysis of the performance of the companies that have adopted integrated reporting, according to the specific business sector, in terms of profitability.

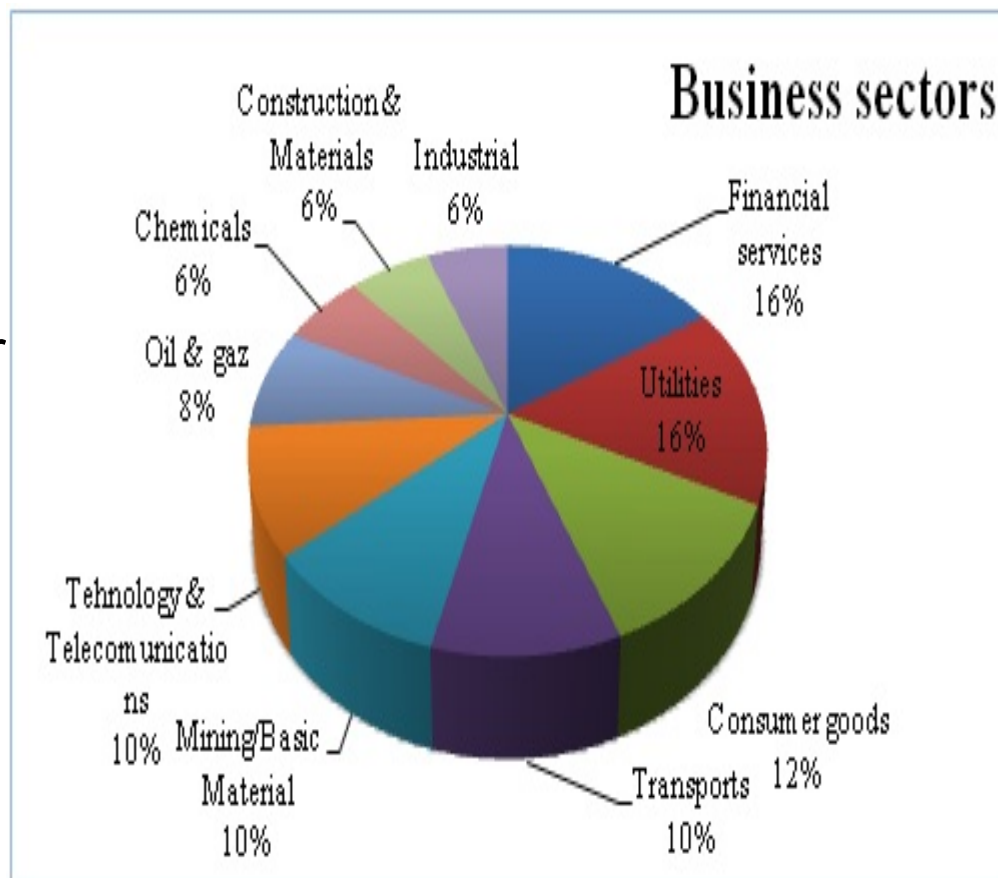
Research methodology

- According to the main objective of this research, I advanced the following hypothesis: *The companies that have adopted the IR present an improvement of the analyzed performance through the profitability indicators;*
- I also consider that, the management of a company plays an essential role in the implementation of the integrated reporting concept because its decisions can lead to the understanding and correct implementation of the IR or not, exceeding the declarative level, and at the same time improving the activity of the company.

Research methodology

- The sample included in the research comprises 50 companies that have adopted the principles of integrated reporting from IR Examples Database. The sample includes companies that have published integrated reports according to the framework elaborated by IIRC fully adopted or reports which refer to this framework for the years 2015 to 2017. I excluded all companies that applied the IR framework according to KING III. The profitability indicators were calculated for each company

separately and then, an average of them was determined for each business sector as below:



Results and discussions

- The Figures 1 and 2 show the profitability rates for the business sector *Financial services* and *Utilities*, where the oscillating trend of each indicator is observed separately over 2015-2017 and not as ascending as I expected. Within the *Financial Services* sector, all the 8 banks included show an oscillating trend of the indicators as follows in 2016, there is a decrease in the profitability of the activity compared to year 2015, followed by an increase in 2017. Also, the highest values it registers them for RCH, which reaches about 25% in 2017, suggesting that the business sector is characterized by a high capacity to obtain profit after calculating all operating costs. The increase in the rate of gross and net commercial profitability related to the operating activity relative to the turnover reflects a positive state and occurs when the dynamics of the absolute profitability indicators outweigh the dynamics of the turnover, which we cannot say about the *Utilities* sector where negative values are recorded.

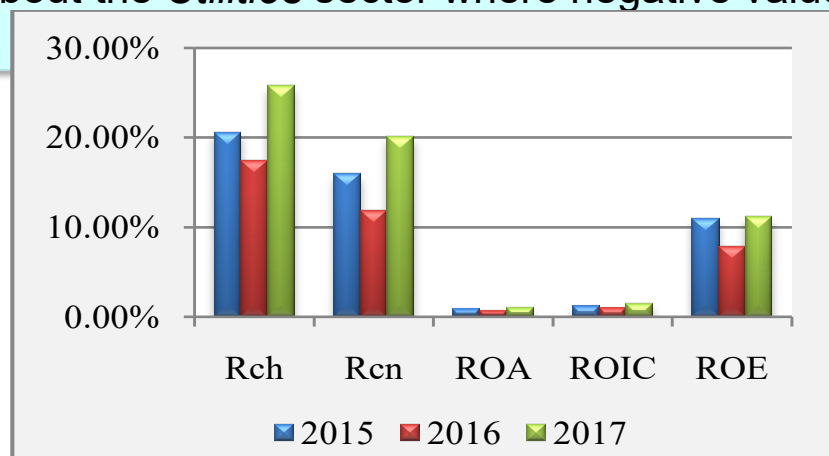


Figure 1: Financial services

*source: own elaboration

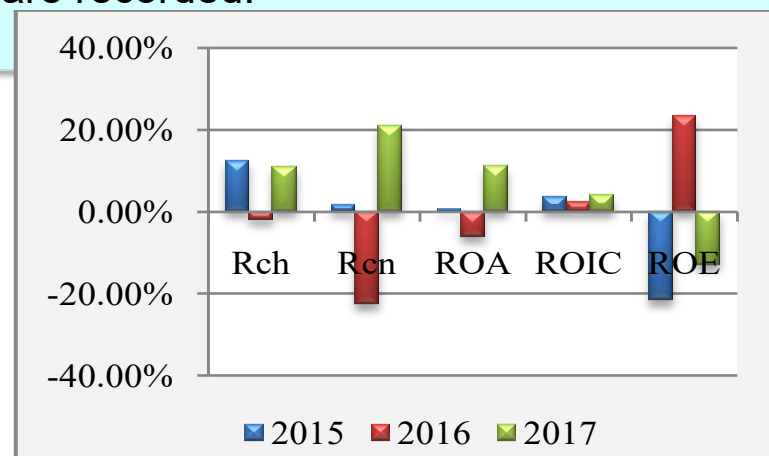


Figure 2: Utilities

*source: own elaboration

Results and discussions

- The profitability indicators in the sector of *Technology & Telecommunications* are characterized mainly by an oscillating evolution but with high values between 7% - 25%. The economic profitability rendered by ROA and ROIC captures the efficiency of the material and financial means allocated for carrying out the activity of a company.
- In this case, the ROA is positioned between 7.78% - 9.67% and the ROIC between 11.29% - 13.56% that shows a high degree of remuneration of the capital employed in the companies activity,

Analyzing the average result on each indicator separately from the *Technology & Telecommunications* sector, I can say that in this area, the companies show a high profitability that could be influenced by the adoption of IR.

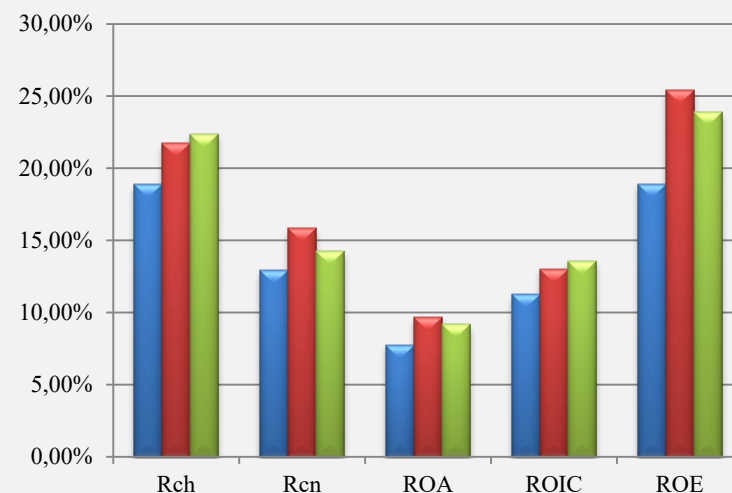


Figure 6: Tehnology & Telecommunications

*source: own elaboration

■ 2015 ■ 2016 ■ 2017

Results and discussions

- This graphic shows the situation of the profitability rates in the *Mining* sector, where negative values are recorded on all indicators, but shows an ascending trend, significantly improving the profitability of the companies in this sector in 2017 compared to the other reference years. It is the only business sector where we find an ascending trend in profitability and we can say that integrated reporting was one of the factors that influenced the performance of companies through the prism of an efficient and open management for innovation.

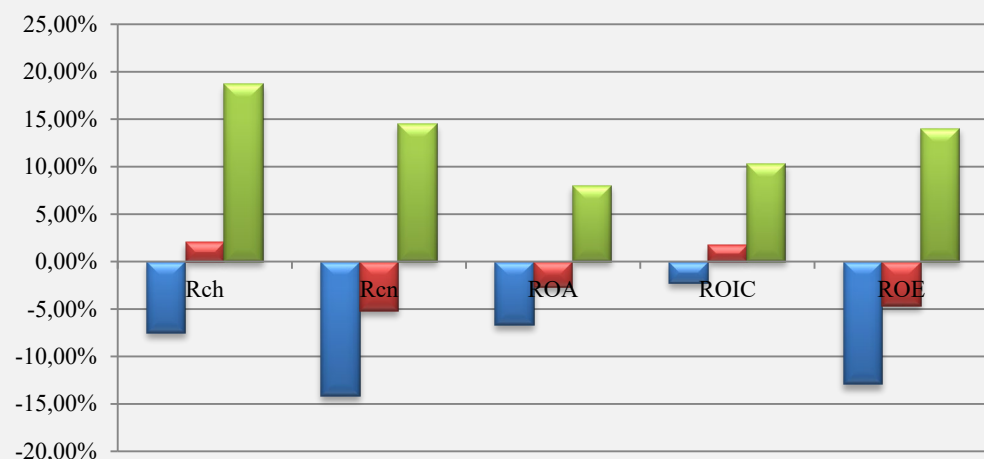


Figure 4: Mining

*source: own elaboration

■ 2015 ■ 2016 ■ 2017

Results and discussions

- In the *Consumer goods and Transport sectors*, there is clearly a descending evolution of most profitability indicators over 2015-2017, which shows that IR did not lead to an increase in the performance of companies. In general, the companies included in these two sectors show a descending or oscillating trend with the decrease of the rates of profitability rates in 2016 compared to 2017.

In the *Construction & Material sector* (figure 11) we can see the descending trend of the rates of profitability between 2015 to 2017s, which shows us that the IR did not lead to a better management of the activity of the companies in this sector so that the profitability will increase. In the *Oil & Gas* sector I find an ascending trend in the case of the RCH, with high values of up to 31.31% which reflects a high financial capacity of the companies in this sector to provide the necessary resources for investments and for the ROIC indicator but which it has low values, above the minimum of 5%. The rest of the indicators are characterized by an oscillating trend.

The situation is another in *Chemicals* sector where the average of the rates of profitability shows an ascending trend for 3 of the rates and others with an oscillating tendency, having high percentage values in comparison with *Oil & Gas* sector which shows a higher profitability in this business sector, but also, a more efficient management of the companies activity plus a security of their investments and their remuneration. The situation is similar in the *Industrial* sector.

Conclusion

- The results of my research showed that integrated reporting does not constitute a major influence factor on the financial situation of a company, in order to improve it from year to year. Therefore, I cannot generalize the hypothesis that IR leads to the increase of the profitability of the companies, implicitly of their performance because within the 10 business sectors analyzed there are mainly oscillating and descending trends of the profitability rates, finding in a very small proportion, ascending trends (for example *Mining*).
- This situation can be determined by a faulty management that did not correctly implement the concept of IR and that did not help to understand the concept of integrated thinking, so as to improve the financial performance, but also non-financial.

- My results support the opinion of Vitolla et al. (2019) that managers of a company must adopt a culture based on sustainability and not focus only on financial objectives. They should avoid the formal adoption of integrated reporting and be aware of the boomerang effect resulting from the publication of a qualitative integrated report but which does not yet meet the expectations of the stakeholders. It should also avoid using this tool as a commercial policy, viewed from a philanthropy perspective and disconnected from the company's management.

- Therefore, if financial capital providers remain too focused on short-term financial performance, this may prevent an organization's ability to implement the fundamental business model changes needed to reorient the organization toward creating short, medium and long term value, which is fundamental to IR.
- The limits of this research are the analyzed time period and the sample size. Future research may include larger samples as a number of companies and as a number of financial exercises, as well as performance analysis through other indicators.