THESIS SUMMARY

INTEGRATED REPORTING – FINANCIAL REPORTING REPOSITIONING
FROM A SUSTAINABILITY PERSPECTIVE

Author: Phd Student Mihaela P. Turturea
Scientific Coordinator: Prof. univ. dr. Chirața Caraiani

Table of Contents

List of figures................................................................. IV
List of tables ........................................................................ V
Introduction ....................................................................... 1
Research methodology ...................................................... 4
1. Identification of the scientific benchmarks on Integrated Reporting ....................... 8
   1.1. The emergence and development of Integrated Reporting .................................. 8
       1.1.1. Approaches to Integrated Reporting ...................................................... 11
       1.1.2. The International Integrated Reporting Council ....................................... 12
       1.1.3. Integrated Reporting status .................................................................... 15
   1.2. Creating Value through Integrated Reporting .................................................... 20
   1.3. Assurance on Integrated Reporting .................................................................... 23
   1.4. Study on the corporate reporting evolution within Novo Nordisk company ......... 26
       1.4.1. Study objective ....................................................................................... 26
       1.4.2. Research methodology ........................................................................... 27
       1.4.3. Research results ...................................................................................... 29
       1.4.4. Conclusions ............................................................................................ 35
   1.5. Study regarding value creation process within the European companies registered within the IIRC Pilot Programme Business Network .............................................. 37
       1.5.1. Study objective ....................................................................................... 37
       1.5.2. Research results ...................................................................................... 38
2. Social and environmental reporting as part of the Integrated Reporting in Accounting .......................................................... 52

2.1. Approaching sustainability in Accounting.......................................................... 55
2.2. Corporate social responsibility – past, actual and future perspectives............. 57
2.3. Arguments for disclosing social and environmental aspects............................ 60
2.4. Social and environmental reporting characteristics within developing countries... 61
2.5. Corporate social responsibility and financial performance............................ 63
2.6. Regulatory framework regarding social and environmental aspects.................. 70
2.7. Study regarding the actual state assessment of social and environmental aspects within companies listed at Bucharest Stock Exchange........................................ 70

2.7.1. Study objective ......................................................................................... 70
2.7.2. Research methodology ............................................................................. 70
2.7.3. Data selection .......................................................................................... 72
2.7.4. Regression model ..................................................................................... 74
2.7.5. Data analysis and results obtained .............................................................. 77
2.7.6. Conclusions .............................................................................................. 80

3. Approaching corporate governance within Integrated Reporting ......................... 82

3.1. Literature review on corporate governance....................................................... 82
3.2. Corporate governance standards ..................................................................... 85
3.3. Theory implication in business development..................................................... 87
3.4. Link between corporate governance and Integrated Reporting.......................... 89
3.5. Connecting corporate governance to corporate performance................................ 91
3.6. Scores for measuring and assessing corporate governance practices.................. 93
3.7. The bidirectional impact between corporate governance and performance. Study on the companies registered within the IIRC Business Network........................................ 96

3.7.1. Study objective ......................................................................................... 96
3.7.2. Research methodology ............................................................................. 96
3.7.3. Defining working hypotheses .................................................................... 97
| 3.7.4. | Data selection | .......................................................... | 100 |
| 3.7.5. | Regression model | .......................................................... | 101 |
| 3.7.6. | Data analysis and results obtained | .......................................................... | 104 |
| 3.7.7. | Conclusions | .................................................................. | 110 |

### 4. Systems for measuring and reporting sustainability performance ................................................. 111

#### 4.1. Introduction to Key Performance Indicators ................................................................. 111

#### 4.2. Importance of nonfinancial indicators ........................................................................ 122

#### 4.3. Corporate performance reporting systems ................................................................. 126

#### 4.4. Sustainability Balanced Scorecard .............................................................................. 133

#### 4.5. Value relevance of the key financial indicators in explaining the corporate performance evolution. Study on major UK companies listed at London Stock Exchange ......... 137

##### 4.5.1. Study objective .................................................................................................. 137

##### 4.5.2. Research methodology .................................................................................... 137

##### 4.5.3. Data selection .................................................................................................. 139

##### 4.5.4. Regression model ........................................................................................... 140

##### 4.5.5. Data analysis and results obtained .................................................................... 144

##### 4.5.6. Conclusions ..................................................................................................... 147

### General conclusions ........................................................................................................... 149

### References ......................................................................................................................... 151

### Annexes ............................................................................................................................. 178

### Thesis summary (Romanian Language) ............................................................................ 209

### Thesis summary ................................................................................................................. 218

**Key words:** integrated reporting, sustainability, corporate social responsibility, social and environmental reporting, corporate governance, key financial indicators, key nonfinancial indicators
SUMMARY OF THE MAIN PARTS OF THE THESIS

The research, *Integrated Reporting – financial reporting repositioning from a sustainability perspective*, comprises four chapters which emphasize the overall status of contemporary reporting. Each chapter is constituted on a specialized literature review basis, being followed by empirical studies with respect to the themes approached.

First chapter, *Identification of the scientific benchmarks on Integrated Reporting*, establishes the current state of this concept’s concerns. The main reasons for financial reporting repositioning as well as the steps towards a holistic reporting are synthesized in order to demonstrate the need of a unitary reporting. Also, here are presented the regulatory initiatives with respect to the consolidation of a reference framework at a global level regarding integrated reporting. The objectives and characteristics of this type of reporting, as well as of its fundamental outcome, are highlighted. Simultaneously, the integrated reporting status is examined by reference to traditional reporting and the possibility of providing assurance on integrated reports is presented herein.

The conducted research follow the design of an overall image on the integrated reporting initiatives and the identification of the benefits arising from it. The first study analyses the corporate reporting evolution within Novo Nordisk company, considered a pioneer in integrated reporting (Eccles & Armbrester, 2011). Results obtained show an increasing trend in financial profitability and in stock price evolution in the case of this company, characterised by the use of good practices of corporate reporting and development of responsible actions.

The second empirical study examines the value creation process within the companies coming from Europe which are registered in the International Integrated Reporting Council Business Network. The study aims on one hand to present Novo Nordisk’s corporate performance with respect to its main competitors, highlighting superior financial and market performance as compared to them. On the other hand, research examines the performance of the companies registered within the IIRC Business Network in Europe, generally emphasizing positive evolutions of the financial indicators. It is also observed a higher development of the market value of the analyzed companies against reference indexes.

The second chapter, *Social and environmental reporting as part of the Integrated Reporting in Accounting*, considers the evolution of sustainability concept within Accounting. Moreover, there are tracked the characteristics of corporate social reporting proved to include social and environmental aspects with respect to corporate financial performance. Next, there are highlighted the social and environmental advantages together with their characteristics within
developing countries. The main regulation requirements regarding social and environmental disclosure are underlined at a global and national level alongside the commitments examples from this perspective.

The empirical study outlines the current state of social and environmental reporting within companies listed on the Bucharest Stock Exchange. The research highlights the extent to which stock price evolution can be explained through corporate social responsibility disclosures, corporate performance and other control variables.

The results obtained demonstrate a significant influence of the disclosures regarding corporate social responsibility aspects, turnover and financial leverage in explaining the evolution of the companies market value. It is also distinguished an active commitment of the companies listed on the Bucharest Stock Exchange in reporting corporate social responsibility aspects through various means of communication.

Approaching corporate governance within Integrated Reporting, the third chapter of this thesis, examines the relationship between corporate governance and integrated reporting. Theories presentation underlying business relationships are considered in the actual development of voluntary reporting practices. At the same time, the need for standards on corporate governance is emphasized in relation to the development of the current economic environment. The link between corporate governance practices and corporate performance, as well as the scores referring to the measurement and assessment of corporate governance practices are outlined in this section.

Empirical research aims to determine the role corporate governance aspects plays in corporate performance within the companies included in the IIRC Business Network. It is also examined the likelihood existence of a bidirectional relationship between them. Following the regression results it is emphasized a positive, statistically significant impact between corporate governance performance, measured through the percentage of independent directors in the board, and the overall corporate performance. Thus, confirming previous studies, the importance of transparency in corporate reporting is demonstrated to maximize overall performance. The study does not identify a bidirectional relationship between the overall performance of companies and corporate governance issues.

Last chapter, Systems for measuring and reporting sustainability performance, is focused on the transition from performance measurement to performance management. Within this chapter, it is underlined the need for the complementarity of financial information with nonfinancial information able to capture an overview on corporate performance. Measurement and reporting systems evolution are highlighted in this chapter starting with systems centered
exclusively on financial performance to systems which embed economic, social and environmental perspectives.

Empirical study is focused on key financial indicators and seeks to determine their relevance in explaining the overall performance of large companies listed at London Stock Exchange. Results obtained reveal the fact that one third of the stock price evolution can be explained through the analyzed financial indicators. Thus it is sustained the need for complementarity of the financial indicators with nonfinancial ones in order to enhance corporate performance assessment.