European Research Studies Journal
Volume XXI, Special Issue 2, 2018

pp. 518-530

Global Promotion of Integrated Reporting by Enhancing its Informative and Analytical Value for Stakeholders

Zenkina I.V.[1]

Abstract:

Integrated reporting as the most advanced approach in modern corporate reporting meet stakeholders' demand for information on organization activities, relevant to making informed decisions on strategic cooperation.

High informative and analytical values mediate integrated reporting global promotion and its consistent introduction into Russian corporate management practice.

Keywords: *Integrated reporting, value chain, six types of capital, business model of organization, interaction with stakeholders.*

JEL Classification Codes: *C81, D01, M40, O12, O19,*

[1]*Doctor of Science (Economics), Professor of the Accounting, Analysis and Audit Department, Financial University under the Government of the Russian Federation, Moscow, IVZenkina@fa.ru*

1. Introduction

Consistently growing complexity of accounting target and scope under present circumstences has led to the need to change the disclosure methods on activities of economic entities in corporate reporting. In many respects the content of traditional accounting (financial) reporting, substance of the information it reflects, as well as its time horizon and reliability do not meet the high requirements for the information base of managerial decisions-making under complexity and dynamism of the competitive environment. Since the effectiveness and strategic sustainability of business is largely determined by the attraction and use of other types of capital, retrospective analysis of historical financial information has lost its key importance in assessing activities of economic entities under strategic management, as well as prioritization of financial capital has ceased to be relevant.

It resulted in the integrated reporting concept emergence in the early 2000's and its subsequent development on a global scale, which observes integrated reporting as organic unity of financial and non-financial information, summarizing the organization's ability to create and maintain value in the short-, medium- and long-term. Integrated reporting is intended to eliminate current discrepancy between limited informative and analytical value of financial reporting as well as practical needs of users related to information on the organization’s activities (Lado-Gonzalez and Calvo-Dopico, 2017). At the same time, integrated reporting is not aimed at increasing the burden of reporting in organizations, but at maximizing assistance to stakeholders in making the right decisions on resource management issues. As Ian Bol, Executive Director of the International Federation of Accountants, rightly noted: "Integrated Report is a powerful mechanism designed to help us all make better decisions about resources we consume and lives we lead" (IIRC, 2010).

Along those same lines, it should be noted that recent global challenges and trends as well as complex and unconventional tasks adressed at the corporate management level have caused mainstreaming of several managerial concepts that have received positive feedback from progressive representatives of global business community. These concepts include: the value chain concept, the stakeholder theory, the concept of sustainable development, the concept of corporate social responsibility, the six capitals concept, the concept of risk management and related risk-based approach, as well as systemic, situational, balanced and strategic approaches.

These concepts have been applied extensively in corporate governance and have provided a fundamental basis for integrated reporting formation within its major impact. The idea of integrated reporting defines the purpose, the requirements for content and the substance of information disclosed and identifies upward trends in informative and analytical value of corporate reporting directed at organization's stakeholders.

2. The upward trend in informative and analytical value of corporate reporting as the basis for integrated reporting promotion

Taking into account the parameters and the scale of corporate reporting, determined by modern management concepts, relevant informative and analytical value of integrated reporting data on organization‘s activities implies the following:

- to reflect the real situation in the company and the results of its activities;
- to provide detailed information, relevant to identify financial and non-financial value chain factors;
- to disclose data on all types of capital used by organization, including not only financial, but industrial, intellectual, human, social and natural capital;
- to provide balanced report of economic, social and environmental components within organization's sustainable development; provide an opportunity to identify, apart from economic efficiency and business performance, the level of its corporate responsibility, social and environmental externalities;
- to provide necessary completeness and reliability of the reporting data for a better forecasting of economic entity activities;
- to ensure high-potential development plan considering strategic goals and all kinds of risks connected with organization‘s activity; and therefore
- to satisfy information needs of all economic entity stakeholders.

Such an extensive list of criteria that should be met by integrated reporting confirms the view of Yoichi Mori, Technical director of the Japanese Institute of Certified Public Accountants, who said in an interview that "integrated reporting is the future of corporate reporting". At the same time, increasing the informative and analytical value of corporate reporting in order to meet stakeholders needs appears to be the most important factor determining the global mainstreaming of the integrated reporting concept (Popkova *et al.*, 2016).

The emergence and first steps taken to implement the integrated reporting concept originate in the 2000s. However, the emergence of this corporate reporting development trend was formalized in 2010 by International Accounting Community at the VIII World Congress of Accountants and Auditors (Malaysia, Kuala Lumpur). The need to shift the current financial reporting towards integrated reporting was also proclaimed at this event.

In 2010, the International Integrated Reporting Committee (IIRC) was established in order to develop an integrated approach to corporate reporting and to standardize information provided by corporations to stakeholders. IIRC was composed of representatives from professional accounting community, standard setters and investors. IIRC's mission is to create an internationally recognized concept of integrated reporting that provides financial, environmental, social information as well as management information in a clear, concise, consistent and comparable format.

It should be noted that IIRC actively cooperates with the Integrated Reporting Committee of South Africa (IRCSA), created in 2010. This committee plays a significant role in establishing and promoting the concept of integrated reporting. In 2002, the summit on sustainable development took place in Johannesburg, the largest city in South Africa. It was Johannesburg that became the first city to present an integrated city report to the public and a wide range of stakeholders. Following South Africa experience other countries have realized the feasibility of introducing mandatory and voluntary recommendations on disclosure of information on organizations‘ sustainable development (Table 1).

Table 1. *Implementation of Integrated Reporting by Different Countries at the Initial Stage*

Country	Implementation of integrated reporting
Sweden	2009: parastatal companies from now on are required to prepare integrated reporting
Denmark	2009: the top 100 largest companies from now on are required to publicize integrated reports certified by auditors
Republic of South Africa	2010: companies listed on the Johannesburg Stock Exchange need to provide integrated reports on their performance
EU	According to the accounting harmonization concept in the EU, annual reports of companies should contain both financial and non-financial indicators reflected in the Transparency Directive, as well as in the EU Reporting Modernization Directive
India	2011: the Securities and Exchange Board of India introduces compulsory training according to the National Voluntary Guidelines and the business responsibility report for the country's 100 largest companies
France	2012: adoption of the state act Grenelle II, obliging companies to include information on social and environmental performance of their activities in annual reports

The concept of integrated reporting was supported at the United Nations Conference on Sustainable Development Rio + 20, held in Rio de Janeiro in June 2012. The experience of preparing sustainability reports by public and large organizations and their inclusion in the reporting cycle was approved by delegates from governments of 196 countries, as well as the UN itself. All this was reflected in the final document, which is a package of agreements reached at the intergovernmental level.
The International Integrated Reporting (IR1) was published In December 2013.

According to the definition provided by IR1, integrated reporting is "a concise representation of how an organization's strategy, management, results and prospects lead to value creation in the short-, medium- and long-term within an external environment" (IR1, 2013). It also says that development of integrated reporting as a standard of corporate reporting and its thorough preparation involve the widespread application of integrated thinking in business practice. Spreading integrated reporting aimed at effective and efficient use of capital, in turn, will ensure the achievement of financial stability and sustainable development of organizations. According to IIRC principles, the priority objective of economic entities is to create value chain for the benefit of the organization itself and all stakeholders, that is, to ensure the growth of all capital types. In this regard, integrated reporting is designed to develop a clear vision of how an organization generates value over a long period of time (Novokreshchenova *et al.,* 2016).

The International Integrated Reporting Council made a major breakthrough in integrated reporting promotion in 2016. That year became notable due to IIRC, which with the support of the World Bank and CIPFA, issued the following guidance documents: "Creating value chain in the public sector", containing information on the benefits of integrated reporting; "Creating value chain. Cyclic force of integrated thinking and integrated reporting"; "Technologies in preparation of integrated reporting" and a document on the role of human capital in creating value chain. Integrated reporting was actively supported at the World Economic Forum in Davos and was further promoted on a global scale (the United Kingdom, New Zealand, the Netherlands and Malaysia). IAASB set up a working group to develop a basic approach to the audit of integrated reporting.

It should be noted that in 2016 IIRC published results of the first stakeholder opinion survey on integrated reporting, according to which 87% of respondents rated the integrated reporting initiative as a complex and effective approach to corporate reporting. In addition, the nomination "Communicating Integrated Thinking" first appeared at the major international competition Finance for Future Awards'2016. This confirms the consistency of integrated reporting concept, the effectiveness of its implementation at the global level as well as the recognition of its informativeness and analytical value for stakeholders decision-making.

Today regional networks, representing professional associations of people and organizations interested in improving corporate reporting quality, form an integral part of the International Integrated Reporting Council (IIRC) infrastructure. These networks are intended to create institutions supporting reporting quality in different countries and global promotion of integrated reporting. Currently, such regional integrated reporting networks are established in 14 countries, including Switzerland, Great Britain, France, Germany, Holland, Spain, Turkey, Brazil, India, Russia, the USA, South Africa, Japan and Australia. Representatives of business community and professional expert organizations, scientific and educational institutions, institutional investors, stock exchanges, authorities as well as auditors and consultants act as participants in regional networks on integrated reporting.

With regard to the promotion of integrated reporting, it should also be noted that international organizations, especially the United Nations, have long recognized the role that institutional investors can play in stimulating solutions to environmental, social and corporate governance issues. As a result of work carried out from the late 1990 - early 2000's to promote the principles of corporate social responsibility and to involve investors in this process, such international projects in the field of responsible investment as the Financial Initiative of the United Nations Environment Program (FI UNEP, 1992), the Principles of the Equator (2003), the Principles of Responsible investment (2005) were developed and disseminated (Usenko and Zenkina, 2016).

Since 2012 the world's largest stock exchanges, such as BM & FBOVESPA (Brazil), Johannesburg Stock Exchange (South Africa), NASDAQ (USA), Egyptian Exchange (Egypt) and Istanbul Stock Exchange (Turkey), the Hong Kong stock exchange actively interact with investors, companies and regulators in order to promote responsible investment for ensuring sustainable development of organizations and of information disclosure on environmental safety, social responsibility and environmental management (environmental, social, governance - ESG) by economic entities. The extent of this initiative implementation can be seen from the fact that it was supported by more than 4,500 companies listed on their stock exchanges.

Thus, the idea of integrated reporting is initiated by investment community, supported by a wide range of stakeholders and promoted at the global level through reporting that provides comprehensive information on management, strategy, operational, financial indicators and sustainable development aspects, forms the basis for analysis and allows making informed decisions.

3. Contents and indicators of integrated reporting analysis in terms of business model and organization's capital

An important feature of integrated reporting is its focus on meeting information needs of stakeholders, but primarily those of investors. According to the international standard, integrated report has informative value to all stakeholders who are interested in the organization's ability to create value in the short-, medium- and long-term, including staff, customers, suppliers, business partners, local communities, legislatures and regulatory structures. However, "the primary purpose of integrated report is to explain to providers of financial capital how organization creates value over time" (IR1, 2013). In this regard, the value chain concept occupies a central place among fundamental concepts of integrated reporting.

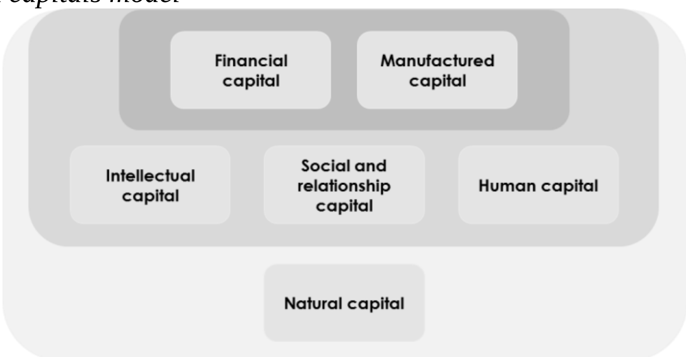
According to the Stakeholder Value Creation concept presented in the IIRC Integrated Reporting Standard, the value created by organization has two key aspects: "for organization itself", which ensures payback of investment to providers of financial capital, and "for other subjects ", including stakeholders and society as a whole. This implies that organization's ability to generate value for itself is related to the value created for others due to a wide range of activities, interactions and relationships resulting in stakeholders satisfaction and mutually beneficial cooperation.

These actions, interactions and relationships are included in integrated reporting due to significant impact on organization's ability to create value for itself. Thus, the understanding of value in this concept is related to the shareholder value theory (Shareholder Value). However, only financial value is clearly insufficient for value chain assessment, which can go beyond financial benefits of organization and result in utility, evaluated by client or other stakeholder, in particular, in functional, economic and emotional utility.

Since the value chain is characterized by the length of time and is carried out for different stakeholders, its creation is based on the balance of various forms of capital. In this regard, among the features of integrated report its focus on corporate strategy, financial prospects and changes in following capitals: financial, industrial, intellectual, human, social and natural should be emphasized. This allows us to note the decisive role of the six capitals model in terms of information disclosure in integrated reporting, its subsequent analysis and evaluation to justify stakeholders' decisions.

The standard of integrated reporting interprets capital as "stock of value that are increased, decreased or transformed through the activities and outputs of the organization" (IR1, 2013). All types of organization capital are interrelated and interact within a particular hierarchy. Figure 1 shows the capitals according to their mutual configuration and role in the value chain.

Figure 1. *Six capitals model*



See the description of six capitals in Table 2.

Table 2. *Capital Components Features*

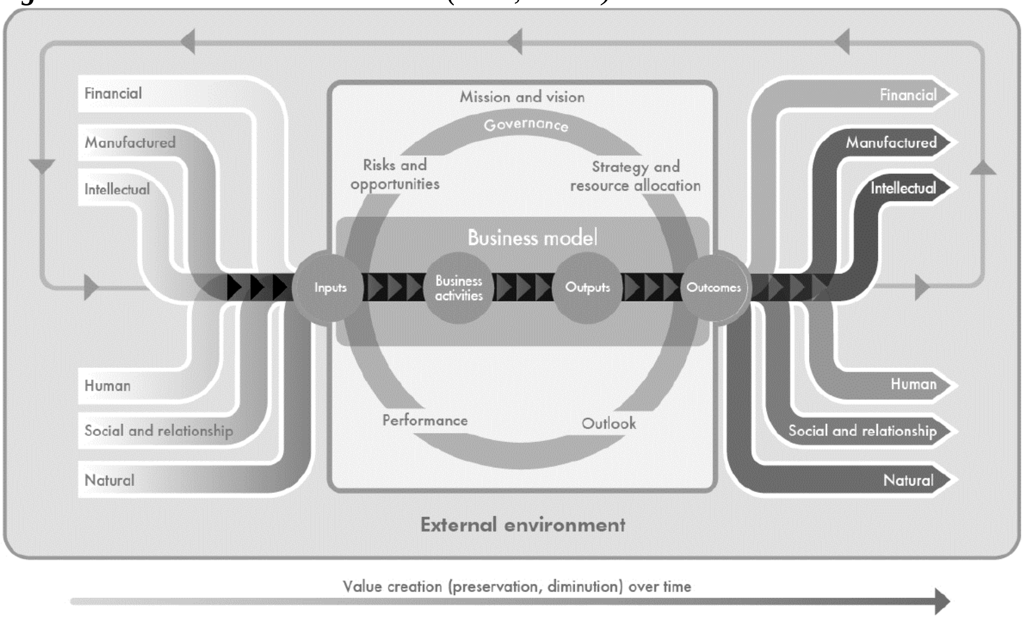
Type of capital	Definition in IR1	Contents	Comments
1. Financial capital	The pool of funds available to an organization for operational activities raised through financing or generated through operations or investments	Long-term funds from investors and lenders invested in organization	Has a direct impact on maintenance and development of other types of capital
2.Manufactured capital	Production-oriented equipment and tools	Buildings, machines and all forms of infrastructure involved in organization's operation activities	It can include assets produced by organization itself and intended for its own use
3. Intellectual capital	Organizational intangible assets based on knowledge; a pool of identifiable and non-identifiable intangible assets that form a source of intellectual property and organizational capital	Intellectual property (patents, copyrights, software, rights and licenses); organizational capital (tacit knowledge, systems, procedures and protocols)	The main source of intellectual capital for organization is its staff
4. Human capital	Total available knowledge, experience, skills and qualifications of company employees, their abilities and opportunities in implementing business strategy, initiative, drive towards innovation	Consistency with organizational structure of management; strategic thinking; risk-based approach; loyalty and motivation for improving business processes, goods and services; ability to lead, manage and cooperate; ethical values	Staff is a carrier of human capital, organizational culture is not a part of human capital
5 Social and Relationships capital	Institutions and relationships within and among communities, as well as between stakeholder groups and other groups, and the ability to share information to enhance individual and collective well-being	The brand created by organization, the company's reputation in society; social connections with customers, suppliers, business partners, staff, public authorities, developed and maintained as a source of benefits	Employees of organization often take part in development of social and relationships capital
6. Natural capital	Natural capital: All renewable and	Air, water, land, forests, minerals; biological	Current and future

	nonrenewable environmental stocks that provide goods and services that support the current and future prosperity of an organization Renewable and non-renewable natural resources involved in economic activities of organization	diversity and eco-system state	prosperity of organization substantially depends on natural capital

Source: *Adapted by the author (IIRC, 2013a).*

The international standard for integrated reporting IR1 is based on the economic model In-Out, which involves the analysis of all the resources consumed by the company in conjunction with the goods produced as a result of its activities, as well as emerging waste, losses, environmental and social changes. Such business model, linking operational resource indicators, business processes with production and giving an idea of economic efficiency, social responsibility, environmental safety and financial performance, is considered as a tool for generating value. A comprehensive model of the value creation process is shown in Figure 2.

Figure 2. *The Value Creation Process (IIRC, 2013b)*



According to this model, the value creation cycle in an organization begins with the identification of components of aggregate capital at the input of the managed system, their analysis and determining the degree of participation in this process. At the end of the cycle, capital components are valued in terms of the effectiveness and the application, the nature and extent of the influence of different types of capital on the creation, maintenance or depreciation of value.

Thus, the basic concepts of integrated reporting are the concepts of value, business model and elements of the total capital of the organization. They are also the most important objects for analyzing integrated reporting. The integrated report is based on the general recommendations for the preparation of the report and includes the following eight key content elements (IR1, 2013):

1. Organizational overview and environment;
2. Management;
3. Business-model;
4. Risks and opportunities;
5. Strategies and resource allocation;
6. Performance;
7. Future outlook;
8. Basic principles of preparation and presentation.

At the same time, it should be noted that the International Standard for Integrated Reporting only regulates the information included in the integrated report, but does not determine the comparative indicators for the information contained in the report, nor does it prescribe the key performance indicators and methods for assessing individual processes and facts of the economic activity of the organization. The ability of the organization to create value can best be reported on through a combination of quantitative and qualitative information

Nevertheless, IR1 standard specifies that both quantitative and qualitative information presented in the integrated report is useful to reflect the organization's ability to generate value, with different types of information mutually complementing each other. Various indicators and coefficients introduction is considered to be an effective way of demonstrating quantitative and qualitative information’s interralation. In addition, the standard for integrated reporting indicates that quantitative indicators are useful for inhancing reported data comparability to the target indicators defined.

According to this standard, to be included in an integrated report, quantitative indicators should meet the following criteria:

- relevance to the circumstances of the organization;
- compliance with indicators used by those charged with governance;
- connectivity with other indicators;
- focus on the matters identified by the materiality determination process;
- correlation with the corresponding targets, forecasts and projections for two or more forthcoming periods and presentation in comparison with them;

- presentation of relevant factual data for multiple (three or more) periods to provide an appreciation of trends in the indicator;
- compliance with generally accepted industry or regional indices used for comparative analysis to provide a basis for comparison;
- reporting continuously and consistently over successive periods, regardless of the nature of the processes and trends being favorable or unfavorable;
- presentation with qualitative information that creates context and improves relevance and analytical value of quantitative information. However, significant quantitative information includes an explanation of the assessment methods and underlying assumptions, the reasons for significant deviations from targets, trends or comparative data, as well as commenting on why they are expected or not expected.

In this regard, the importance of creating a system of integrated reporting indicators is highligted, which is supposed to be of great value for both internal and external users of accounting when making various decisions. Due to the integrated reporting formation specifities, which include financial information prepared in compliance with International Financial Reporting Standards and Russian Accounting and Reporting Standards developed on the basis of IFRS; as well as non-financial information compiled in accordance with the IR1 Integrated Reporting Standard, the integrated reporting system should include indicators for value creation for stakeholders, capitals and ESG factors (environmental, social, governance) that determine the sustainable development of the organization.

The system of integrated reporting indicators should provide an adequate idea of s how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental and social conditions, developments and trends at the local, regional or global level (G4 Sustainability Reporting Guidelines, 2013). Taking into account the significant level of the integrated reporting information disclosure relevant for making both operational and strategic decisions by stakeholders, one can not but agree with the opinion of T. Lessindrensky that, «an integrated report is, foremost, a strategic analysis, that is, practically governence reporting, a platform for operating a company» (Lessidrenska, 2012). The representative of the International Council on Integrated Reporting, Henning Draeger also agrees with this point of view: «An integrated report is a report that highlights the strategic direction of a company's development and how it works with resources».[2]

In 2015, GC "Da-Strategy" specialists conducted a study of the integrated reports preparation world practice to analyze the of of organizations’ business model presentation. The review was based on foreign companies’ integrated annual reports

[2]*Integrated Reporting — an Opportunity for Russian Companies to Catch Up. Available at: http://ir.org.ru/en/mass-media/intervyu/45-integrirovannayaotchetnost-vozmozhnost-dlya-rossijskikhkompanij-naverstatupushchennoe.*

examples for 2014, included in the IIRC examples database, as well as in the best business model disclosure practice in the opinion of the International ReportWatch Best Annual Reports 2015. In total, 47 companies were included in the best integrated reporting formation examples, differing in size, organizational structure and belonging to different sectors of the economy, including electric power (10%), industry (14%), services (25%), transport and communications (12%), chemical and oil (15%), real estate and construction (8%), metallurgy and machine building (6%), pharmaceuticals (6%), and electronics and household appliances (4%).

Following the consideration of the organizations‘ integrated reporting practice, it is possible to assess the business model‘s information disclosure completeness. In the course of this study, such aspects as the division of capital into internal and external capital, the description of the results (the transformation of capital), the description of products and services, the graphic image and textual description of the business model, the relationship between strategy and business model, a description of the impact on the business model environment, disclosure of information on capital were analyzed. Judging by the results obtained, the description of the business model, products and services, as well as the results of capital transformation is the most fully developed in the integrated reporting world practice. Wherein, the least revealing aspects are the description of capitals and their division into internal and external ones. A similar situation, according to the Russian regional network for integrated reporting, is observed in domestic practice. This allows us to state that the informative and analytical nature inherent in integrated reporting largely depend on the skillful practical implementation of integrated reporting, organizations‘ governance willingness to an open dialogue with stakeholders on the basis of reporting as the generally accepted business communications language.

4. Conclusion

Thus, while remaining voluntary, integrated reporting has become widespread in the world and is consistently being introduced into Russia’s corporate governance practices, becoming a public face of the company, a testament to the high corporate culture, public proof of effective reputation management and responsible competition. A distinctive feature of the integrated report from other reports and information products produced by the company is that it emphasizes the materiality, consistency and effective information strategy, the data on types of capital and interaction with stakeholders are interrelated, and the importance of integrated thinking in the organization is emphasized. At the same time, integrated thinking involves a comprehensive review of the organization's relationships between its various operational and functional units and the capital that the organization uses or for which it has an impact. Integrated thinking contributes to a closer interaction of information systems that support internal and external reporting, integrated decision-making and actions aimed at creating value in the short, medium and long term, as well as the company's sustainable strategic development. A significant level of information disclosure in the integrated reporting relevant for the adoption of operational-tactical and strategic decisions provides highly informative and analytical value of integrated reporting to meet the needs of all stakeholders of the organization and, in particular, investors.

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