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Integrated reporting: implementation-observation**Gennadii V. Sakharov**

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Abstract

Integrated reporting aims to integrate financial and non-financial information and provide a concise overall value of the organization in complete picture. In practice, this practice is early stage of development. There are doubts among many companies about what an integrated reporting is, what significance it has, and how to report it. These areas were discussed during 2014 Global Accountants' Forum (Italy), 2015 Asia-Pacific Accountants International Conference (Korea), 2018 International Integrated Reporting Councils and the Corporate Governance International Conference (Japan). During these conferences and meetings, the pioneers of the initiative, representatives of coordinating organizations, and researchers, based on their research studies, analyzed the current situation of the integrated reporting and how some countries are implementing it in the world.

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Keywords

Integrated reporting, International Integrated Reporting Councils, concept of Integrated Reporting, creating value, non-financial information, economic, social and environmental setting, governance reporting

Introduction

Nowadays, the primary purpose of any business entity is no longer only for profit-seeking, and on the top of the company's economic and financial benefits, they seek ways of running environmentally friendly business activities, bring positive changes in surrounding environment, practice social responsibility, and emphasize sustainable development. In this regard, an integrated reporting on the company's financial statements, governance, business model, society, environment and perspectives is high in demand in the society. This demand comes from all interested parties, including investors, regulators, suppliers, consumers and employees (KPMG 2013). In the past, the financial statement report has showed only the financial position of the company, but today's integrated reporting provides a comprehensive overview of the company's value in bigger picture. Integrated reporting enables the company's strategy to be more transparent and creates stability of the company's business model. In recent years, demand for transparency is still increasing, but in the United States, Australia and Japan, only handful of companies develop integrated reporting (IIRC 2015). In Japan, 385 companies develop integrated reporting (ICGN-IIRC Conference 2018). In Russia, 166 companies report their non-financial information (rspp.ru/simplepage/157. 2017).

Main part

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting professions such as the International Federation of Accountants (IFAC), Global Reporting Initiative (GRI), and Prince's Accounting for Sustainability Project (A4S). The coalition is led by Professor Mervin King. Reporting the value creation should be the next evolution of the company's reporting (IIRC 2015). The IIRC is a "An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term" (IIRC 2015). The integrated report aims to integrate non-financial information on environmental and social performance with traditional financial information. Non-financial information creates business value in integrated reporting. Integrated reporting has been a lever to change the traditional reporting (Hoppman 2014). This report demonstrates the value of financial capital, manufactured capital, intellectual capital, human capital, social relationship capital, and the use of natural capital and its growth and decline. If the integrated report is fully implemented, it can bring the comprehensive picture of the company to investors and all other interested parties. There are many different types of reporting templates. Therefore, companies face difficulties with how to report their financial and non-financial information. The traditional annual report contains small portion of non-financial information. However, non-financial reports (governance reporting, social accountability reporting, greenhouse gas emissions reporting, extraction reporting, transparency reporting, etc.) tend to focus on a particular issue. Integrated reporting includes non-financial information to report business strategies; therefore, it plays a role of bridge between multi-stakeholders. Annex 1 and Annex 2 show seven different types of reports. These include Annual Financial Report, Integrated Reporting, Social Accountability Report, Greenhouse Gas Emissions Report, Sustainability Report, Governance Report, and Transparency Report of Extractive Industries.

Up until now, the only country that all its open companies develop integrated reporting is the Republic of South Africa. It is agreed that it is vital to create synergy for the companies of the above

mentioned country when defining their business model while developing their integrated reporting (Roberts 2014). In the United States, integrated reporting is in the early stages of development, for example 51 per cent of the top 100 companies incorporate financial and non-financial information into their annual reports. This is done for a specific purpose (KPMG 2013). This form of integration is a step towards preparing further integrated reporting. In Japan, over the last 5 years, some companies have already undergone this experiment (ICGN-IIRC 2018). However, with the framework of the IIRC, it does not show a complete picture of the company's business. About 5 percent of companies that report their corporate social responsibility develop their integrated report consistent with the IIRC concept. The research illustrates that the companies that develop integrated reporting, 71 percent of the companies in Asia and 73 percent of the companies in Europe have already begun to develop certain non-financial information in their reporting. In addition, stock exchanges in Republic of South Africa, Brazil and Australia have started recommending their companies to develop integrated reporting (KPMG 2012). The IIRC concept was formally adopted which creates an environment that supports the rapid development of integrated report in these regions and in other countries. It is, therefore, important to understand the concept of integrated reporting and its reporting process.

History of the Integrated Reporting of South Africa is in the prime attentions of researchers. In fact, South Africa is home to an integrated reporting. The history of the integrated report began in 1994. At that time, regulators and interested parties in South Africa had low trust in companies' business and their reports. In order to restore public trust in the national business, Nelson Mandela, President of the country, established a King Commission on Corporate Governance and first appointed Mermaid Kins as the head of the Commission. Based on the series of reports from 1994 to 2009, King Code was developed. Companies were required to report their operations in transparent, accurate, and accountable manners to their investors, shareholders, and all other interested parties. The 2008 economic crisis proved that traditional annual reports of companies could not meet the needs of future stakeholders. The King III code accepted the distrust of public to businesses and it offered to provide information on financial and stability in a more integrated manner. Moreover, King-III code has provided a recommendation of "report or explain". Afterwards, the companies listed on the Stock Exchange were required to submit an integrated report. Since 2010, companies were required to develop integrated reports and in the case of not reporting, they have to explain the reason of not developing the integrated report. Integrated Reporting Committee of South Africa was established with an aim to develop a guideline on how to prepare an integrated reporting based on King-III Code. Now, the recommendation "Report or Explain" is in line with countries like Brazil, South Africa, Japan, Denmark and Australia (ICGN-IIRC Conference 2018).

Research materials developed by Integrated Reporting Team, members of the International Integrated Reporting Council, management of professional organizations, and the implementer of Integrated Reporting and other researchers were used as base materials for this research document. These researchers and reporters are widely debating on the following topics. These include: what the integrated reporting is, its future, why this has been brought to the center of attention, how to prepare the report, who prepares it, related laws, rules, and regulations, and other formal and informal regulations, validation and trust, environment, social and governance information, etc. These topics were chosen as their importance to implementing the integrated report.

Researchers and analysts have been discussing the importance of this report in recent years. The aim of the report is to integrate the environment, social and governance information with traditional

annual reports. It also creates the internal and external benefits of the organization. It also recognizes and accepts the company's integrity and external and internal reports send information on the value of the company to its customers. It creates a possibility of gaining information that contributes to cost reduction by increasing the flow and quality of internal information and communication and create value. On the external side, it provides information on real value of the company to its current and future investors and all other interested parties. Looking from research papers issued by the IIRC and other researches conducted by analysts and academic researchers, and practitioners, it is clear that public does not know much about the integrated reporting, its significance, and how this can be applied in practicum, etc. This lack of knowledge could be related to lack of information about integrated reporting to public. Therefore, it is also important to publicize the outcome of the Integrated Reporting. It could be concluded that Integrated Reporting is a big step forward and a new step in the reporting revolution. In the future, it will be a big step forward in building a business that will integrate business complexity and social significance into business and creating tools that are required to understand, manage, and measure the business.

From the discussions and researches of regulators, speakers, and researchers, it was found that there are many benefits for internal efficiency. For example, better understanding of value creation is helpful in decision making. The study of IIRC, EY and KPMG also proven this. Innovation and learning attitude will become a cornerstone. Non-financial reporting is also a fundamental guide to the company's operations. From researches it can be seen that companies are acknowledging that their internal efficiency is increasing by knowing how company's social responsibility contributes to business efficiency and how business model elements are linked. When quoting a report from a speaker, "By focusing on the business model... defining material status..., business must be managed and reported. The innovation is important to clearly define how to create value in business model and making business decisions... ". Second, Integrated reporting will start when inter-departmental collaboration, understanding, and coordination are emerging. Integrated reporting allows companies to bring their issues together and work together. One researcher said that "the problem of separate thinking is being abolished." Another researcher said improved internal information led the best resource allocation and reduced costs. Third, the integrated report will improve the measurement. Many reporters pointed out that, for example, as the basis for reporting that leads to more complete look at a business is the measurement of what has not been previously explored. This new process creates a very quality data and information. It also provides the necessary information for making external and internal decisions. Corporate integrated reporting is a simplified reporting that contributes to excellent coordination of external and internal reporting. While this report is not a mandatory reporting tool, it is a self-sustaining reporting mechanism designed for internal decisions making.

Integrated reporting is a simplified reporting about the company value. During a number of international conferences, experts and researchers are discussing the application of integrated reporting, including shareholder decisions, law regulations, measurement indicators, reporting templates, and regulations of regulators. This reporting is used to communicate with many interested parties, such as current and future employees, partners, board of directors, regulatory organization, and so on. CEO of one management company stated that "... the market is seeking for the information of this integrated report. Because these information are related to the opportunities of investment and social, environmental and governance factors are becoming more important." In other words, first, it reports the company's value. It also provides information on the company's financial value, production, and

growth and decline of intellectual, human, social, and natural capital. Second, interested stakeholders and parties shall provide comprehensive information on the same time. Integrated reporting creates credibility for investors to reduce information imbalances of interested parties, understand corporate business strategy, sustain business models, and creates the trust among investors. Although investors are the main players of integrated reporting, many other stakeholders may receive information from this report. Plus, it brought a change in reporting in the business field. Consequently, unpredictable external benefits of integrated reporting is that it is improving relations among stakeholders.

Considerations of transition period to an integrated reporting

The process of advancement and preparation of the integrated reporting can be divided into five sections. It is necessary, first, to create common understanding of the report, second, to use available guidelines, third, acquire quality data and information, fourth, understand consumers, and fifth, ensure the reliable and valid certification.

Develop a unified and common ideas and thinking

Integrity creates stimulation in business processes. Integrated and unified thinking refers to the relationship between business operations and individual entities. It reduces the separation of departments and provides completeness and wholeness in business. Integrated and unified thinking brings many internal benefits. For example, it considers the value of business within the business model and preparing and developing integrated reporting improves state of the company and its reporting. Different reports are not important, but simplified and concise reports attract consumers and interested parties. Integrated concepts can run deep in the company's future activities, so the information can flow freely between departments, management decisions, and external reporting. Many companies set up a steering committee representing all departments and subdivisions to prepare the integrated reporting.

Usage and application of available guidance

The future trend of integrated reporting will be its common application among business for reporting. Application and concepts of a comprehensive reporting process illustrate the process to compare, to be compared, and develop trustworthy relations among investors. These comparisons and trustworthiness can be easily implemented and applied. For example, evaluations, reports, and assurances carried out by commonly accepted principles are well coordinated. The integrated report being voluntary make it not feasible to compare and compile. The IIRC believes that the most important means of achieving a consistent reporting is the principle of an integrated reporting. The principle will be the main guide for the dissemination of knowledge and information of integrated reporting. The principle of the integrated reporting seeks to report, measure, examine, and verify the information and data. The speakers from conferences, reporters, evaluators, and researchers mentioned about using the concepts and principles. One researcher said that the principle of the integrated report is highly convincing, which is the best tool for achieving a common goal of integrated reporting. In the future, the implementers of the integrated reporting should develop the integrated reporting principles as a general standard. (ICGN-IIRC Conference 2018).

Use of concise information

Integrated reporting is a new concept corporate reporting. Consequently, reaching the unified understanding on the information pertaining to an integrated reporting has been one of the challenges faced in the development stages of integrated reporting process. Concise data and information is essential for internal and external decision-making. Gathering concise and accurate information and data for integrated reporting is an endless process that requires time and effort. It requires to locate

different sources such as websites, the internet, and reports to get accurate and concise data and information. Information and data included in the integrated reporting is both about past and future. Information and data about future trend is more comprehensive than traditional data and information. Non-financial information is very messy, poorly regulated and enforced. There is a challenge of whether the information and data is factual and legitimate or posted for advertising or PR purposes and whether these information and data can be used for decision making.

Understanding the consumers

A person in charge of preparing the integrated report should be well aware of who will use the report. The principle of IIRC integrated reporting seeks to present how the value of a company is created. Interested parties include investors, consumers, suppliers, employees, state and professional regulatory organizations, land owners, etc. With the release of integrated report, there is external efficiency of creating a multi-faceted relationship with current and future investors, customers, and consumers. Consumers and interested parties receiving required information and data creates possibility of defining the scope of the report. By reporting these interested information, it ensures customer satisfaction, meet the requirement and needs, and make decisions. To integrate financial and nonfinancial information to create value, an active relationship is vital. Therefore, an integrated reporting allows investors to make their decisions optimally.

Matters related to validation and verification of reliability and validity

The integrated report is new concept. Therefore, the issue of verification has just started. It would require time for voluntary verification. The validation and verification this reporting will take some time, but it is important that it is accurate, trustworthy, and reliable. Two issues related to integrated reporting verification. Firstly, the reports and researches reveal that there is a large variation in the data validation. There are many other validators who may be involved with the financial reporting validation. As there are much non-financial information, there needs to be multiple forms of validation and verification. This is a broad and important issue. It is required to define various types of validation and verification, including traditional audits, financial firms, certification bodies, special consultants, non-governmental organizations, universities, and interested groups. One researcher concludes that integrated reporting is voluntary which requires different needs and significance, and therefore, it has different validation fees. However, the companies that are doing wide-range of validation accepts the price options that suit the company's needs. The availability of specialized professionals for the integrated report is still developing (ICGN-IIRC Conference 2018). Second, there is no standard for validation and verification. There is also a combined verification and validation. Causality validation and verification uses audit techniques. Limited validation does validation during the process.

Integrated reporting process

The International Integrated Reporting Council constitutes information database of companies's reports, data, and information of the companies that develop their reports using integrated reporting. Currently, over 100 companies in different fields from over 40 countries are involved in experimental programs. The information database can be a leverage and support to companies that are first-time developing integrated reporting as well as companies that want to improve their reports.

Where are we heading

After analyzing and evaluating the research and presentation of international conferences, speakers and coordinators mentioned above, it could be concluded that integrated report is contributing to creating company value. This is confirmed by the major changes in business modeling and reporting.

It is a fact that non-financial information that generates value is accepted and recognized. Integrated report is a mean of expressing unity. The integrated report has future of becoming an official report.

Summary

Here is a summary of the integrated report for our country (Mongolia):

1. There is no common understanding of integrated reporting. In other words, the concept of integrated reporting is very poor among all parties, such as society, the public, policymakers, legislators, investors, and all other parties.

2. State-owned and private companies make various reports that are unrelated and poorly coordinated at different times. These are usually financial statement reports. However, these reports include limited non-financial information such as governance, society, environment and sustainability. However, the public wants companies to make their values transparent, open and accountable way of reporting, and run socially and environmentally-friendly businesses.

3. The reports they developed do not fully report financial, industrial, intellectual, human, social, and natural capitals that are vital components to the value of the company. Most of our business organizations have a profit-driven business model. In other words, there is a lack of business model based on modern innovation and business value.

4. Legal environment for registration, measurement and reporting is inadequate and the role of government and professional regulators is lacking.

Therefore, it is proposed to adopt and implement the "National Program on the Integrated Report". This creates a possibility of implementing multi-stage activities such as conducting research, raise awareness, conduct baseline study engaging investors, open companies, and all consumers, define implementing stages, establish legal environment, establish state and professional regulators, and engage piloting companies.

Table 1 - Commonly used reports

Indicators	Annual Report	Integrated report	Social Responsibility Report	Green Gas Emission Report
Goal	Reports the detailed performance of operation and financial year	Reports corporate governance, strategy, performance, and perspectives, short, medium and long-term values within the external environment	Reports the economic, environmental and social impact of the organization	Reports the level of greenhouse gas emissions and their impacts
Consumer	Current and future investors and shareholders	Investors, sponsors, regulating agencies, and all types of interested parties	Employees, shareholders, regulators and local associations	Government
Content	-Financial Statement Analysis and Management Discussion -Auditors' report	-History and external environment -Governance -Policy strategy -Business models -Risks and opportunity -A resource allocation -Performance -Perspectives	-Strategy and analysis -History -Reporting parameters -Leadership management attitude -Performance indicators	Amount of greenhouse emission

Indicators	Annual Report	Integrated report	Social Responsibility Report	Green Gas Emission Report
Reporting Principle	-International Standard for Financial Reporting -Commonly accepted principles	-Integrated reporting principle	-Global Reporting Initiative Standards -The United Nations Global Agreement	-The Environmental Protection Agency
Regulation	Mandatory	Voluntary	Voluntary	Mandatory

Table 2 - Commonly used reports

Indicators	Sustainability report	Governance report	Extractive industries transparency initiative report
Goal	Support and report on sustainable development	Create good governance	Create transparency, accountability and accountability for mining
Consumer	Current and future investors, shareholders, state and professional regulators	Investors, sponsors, regulators and all stakeholders	People, public, employees, regulators, and local associations
Content	-Economic indicators -Social communications -Environment and ecology -Governance	-The shareholders -Activities of the Board of Directors and committees -Executive management -Board meetings and transparent reporting	-Mining resource use -Royalty fees and charges -Tax paid to state and local budgets -Rehabilitation -Social responsibility, support and assistance
Reporting Principle	-Global Reporting Initiative -GRI 201-419	-Corporate governance code	-The UN Convention -UN Initiative 2008 -EITI Standard 2016
Regulation	Mandatory and Voluntary	Mandatory and Voluntary	Mandatory

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13. 2014 World Congress of Accountants (Italy, Roma)
14. 2015 Asia-Pacific Accountants International Conference (Korea),

15. 2018 International Integrated Reporting Councils and the Corporate Governance International Conference (Japan)
16. 2018 World Congress of Accountants (Australia, Sydney)

Комплексная отчетность: осуществление-наблюдения

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Аннотация

Комплексная отчетность направлена на интеграцию финансовой и нефинансовой информации и обеспечение краткой общей стоимости организации в полной картине. В практике эта практика находится на ранней стадии развития. Многие компании сомневаются в том, что такое интегрированная отчетность, какое значение она имеет и как ее следует представлять. Эти направления обсуждались в ходе глобального форума бухгалтеров 2014 года (Италия), Международной конференции бухгалтеров Азиатско-Тихоокеанского региона 2015 года (Корея), международных советов по интегрированной отчетности 2018 года и международной конференции по корпоративному управлению (Япония). В ходе этих конференций и встреч пионеры инициативы, представители координирующих организаций и исследователи, основываясь на своих научных исследованиях, проанализировали современное состояние интегрированной отчетности и то, как некоторые страны внедряют ее в мире.

Для цитирования

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Ключевые слова

Интегрированная отчетность, международные советы по интегрированной отчетности, концепция интегрированной отчетности, создание ценности, нефинансовая информация, экономическая, социальная и экологическая обстановка, управленческая отчетность

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