1.3 Enterprise's integrated reporting under institutional transformations

At the current stage of economic relations development, involving integration of domestic enterprises into the global community, it is necessary to transform the content and structure of financial reporting, which is the main source of information for users to make managerial decisions.

The present processes require transformation of the reporting, which integrates financial and non-financial reports into a single model and systemizes company's strategic tasks. The reporting aims to improve the relationships with stakeholders. Such information should be provided in the integrated reporting, which is still not a common type of reports, prepared by enterprises because of its innovative nature and insufficient experience on preparation.

In developed countries, the first integrated reports were made by companies in the early 2000s as a demand of sustainable development. It is because the first official publication of the project on sustainable development reporting was presented by the Board in 2000. And it was only in 2014, when the updated project of integrated reporting of the international format appeared as a result of consolidated work of the Committee of the International Integrated Reporting Council (IIRC), which was established by the world authorized companies. The Committee aims to make progress from just market testing and partial application of integrated reporting to mandatory preparation of it. In the world, scientists conduct numerous researches on theoretical and practical principles of such reporting and Ukraine is also engaged in the process. However, domestic studies are mostly based on implementation of the advanced foreign experience [36].

The issues of integrated reporting, its constituents and indicators in the process of enterprise's management are studied in the works of domestic and foreign researchers, like T.V. Davydiuk, V.M. Zhuk, I.V. Zamula, R.O. Kostyrko, O.A. Lahovska, N.O. Lokhanova, M.I. Sydorova, K.V. Sorokina, T.V. Shymokhanska, D. Akerlof and others.

Nevertheless, the integrated reporting on economic, ecological and social components is currently one of the most promising spheres, which is dynamically developing, needs studying and requires preparing the appropriate methodological fundaments.

An integrated report is a short abstract of information on how the organization’s strategy, its management, activities and prospects in the environmental context contribute to creation of value in the short, medium and long run [41].

Integrated reporting consolidates all significant data on the organization’s strategy, corporate management, indicators of its activities and prospects in the way to demonstrate its economic, social and ecological surrounding. Intensifying those relationships, integrated reporting provides for managers an opportunity to make decisions on sustainable development, whereas investors and stakeholders can better understand the company’s activities. The relationships are demonstrated at the Fig. 1.

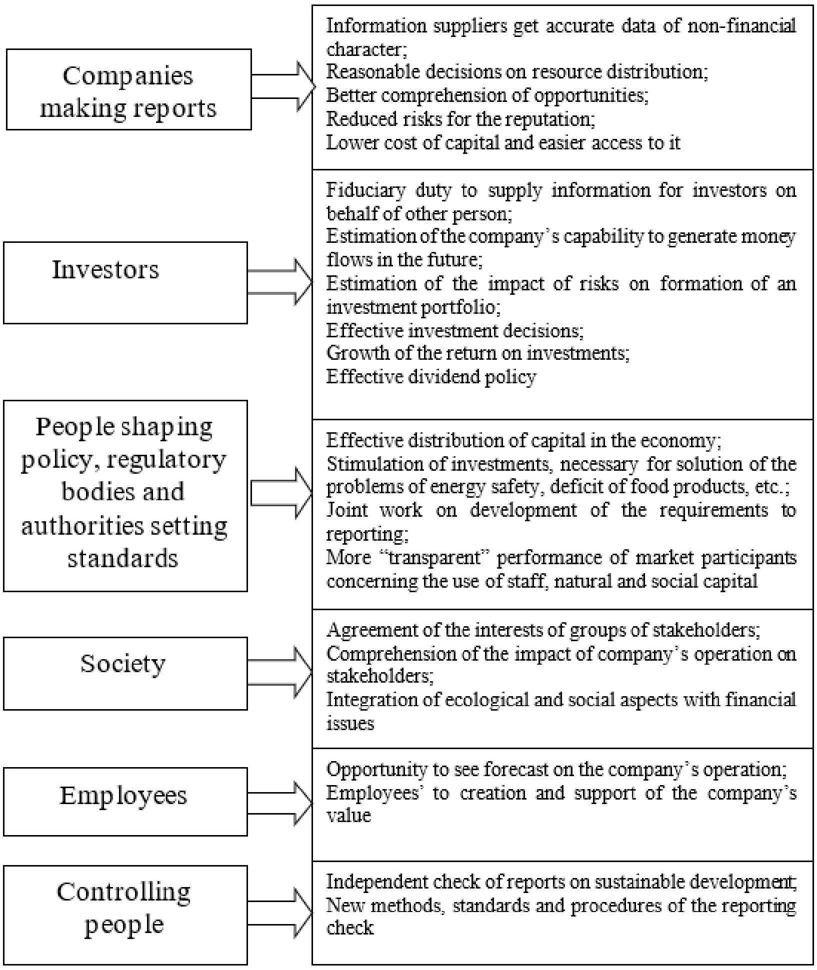

Fig. 1. Relationships of stakeholders in the integrated reporting and advantages of its using.

Such report should include both financial and non-financial information. Therefore, the boundaries of reporting are expanded and new tasks are faced by the accounting and analytical system concerning preparation of such reports. Integrated reporting should reveal related indicators concerning the organization description, as well as the business model of the environment of the organization performance, including risks, and opportunities of strategic goals, strategies to achieve them, corporate management, and benefits of production indicators, including financial and non-financial forecasts for the future [38].

In an integrated report, only one of the six mentioned information blocks is made by an accounting department in its present form, whereas other managerial information is of non-financial character.

The important fact is that all information, supplied in the integrated reporting, should be interrelated, not just a simple set of different indicators, which are generally made by the companies, but an integral and agreed information about the enterprise's strategy on the way of value creation with specification of the strategy fulfilment by applying all available resources, as well as description of opportunities, threats and risks in the process of its implementation.

The International Integrated Reporting Committee has prepared a model of integrated reporting, which is based on five main principles and seven essential elements. The main principles included [37]:

1) strategic focus;
2) connectivity of information;
3) future orientation;
4) stakeholder relationships;
5) conciseness, reliability and completeness

The mentioned principles create a methodological basis determining the content of an integrated report by the following key elements (Table 1).

An integrated report defines short-term, medium-term and long-term strategic goals of the organization; strategies, which have been approved or are planned to be introduced to achieve the set goals; how the targets and results will be assessed in the short, medium and long run [41].

Table 1

Elements of integrated reporting

Element name	Element description
Description of the organization's performance and business model	Description of segments, related parties, status, operational and reporting directions, review of specialization
Environment, in which the organization runs its operation, particularly risks and opportunities	Integrated reporting contributes to reduction of the reputation risk (disclose of negative and positive results of performance, conditions and measures to improve the situation)
Strategic goals and strategy of the goals achievement	Integrated reporting is a basis for making decisions on the future strategy, ways of risk minimization, identification of attractive opportunities
Corporate management and benefits	Organization of internal and external audit of non-financial information to avoid errors in the report (to improve the system of corporate and operational management)
System of production indicators and sustainable development indicators	Costs, grouping of expenses by the "character" and "functions", methods of cost audit
Future expectations	Planning, budgeting, expert and analytical reports
Analysis of non-financial results	Development of metrical systems and methods of non-financial (social, ecological) indicators assessment
Mechanisms to create added value of a product	Process, continuous operation, innovation

Quality of accounting information significantly depends on justification of managerial decisions, subjects and participants of business activity. It is a basis for economic thinking and social consciousness that rises confidence to accounting and financial reporting. Indicators of the information quality provide for the users an opportunity to see advantages and restrictions on the integrated reporting use, as well as to make adequate interpretation and to improve reliability of analytical studies [42].

To evaluate quality of the information supplied in the integrated reporting of an enterprise, it is proposed to apply the integrated reporting principles and consider interests of the reporting users that are demonstrated at the Fig. 2.

In its turn, reporting quality is determined by the degree of the information asymmetry reduction, as well as uncertainty of its user. George Akerlof [34] is quite right saying that quality and uncertainty are interdependent. Therefore, the goal of managerial accounting is to reduce the information entropy. A low degree of uncertainty of the information user is determined by the level of information completeness.

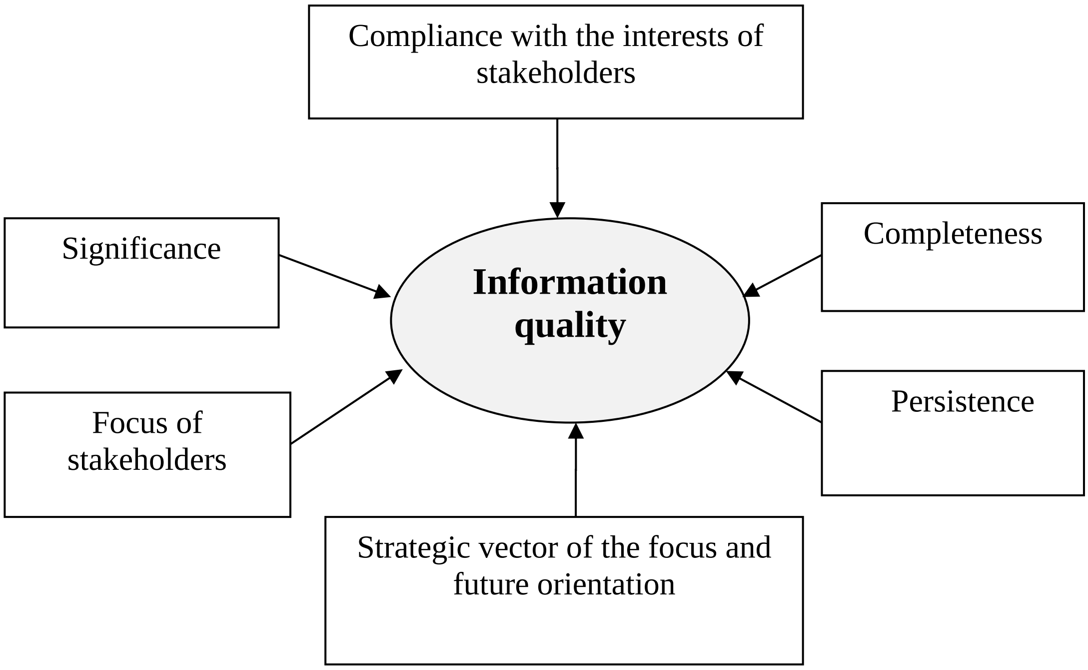

Fig. 2 Quality of information supplied in integrated reporting.

Hence, effectiveness of integrated managerial reporting is estimated by the achieved level of users' supply with the information. A preliminary research was conducted to identify seven basic criteria to assess effectiveness of each report and the reporting in general (Fig. 3).

Considering the character of issues, which should be concerned in integrated reporting, the future time limit, expected for integrated reporting preparation, will normally take a longer period as compared to some other forms of reporting.

Duration of each reporting period for a short, medium, and long term is determined by the enterprise by considering its commercial and investment cycle, its strategy and legal demands, interests and expectations of stakeholders.

Therefore, an integrated report supplies a broader explanation of efficiency than traditional reporting, due to description and assessment of the significant components of creating value and relationships between them.

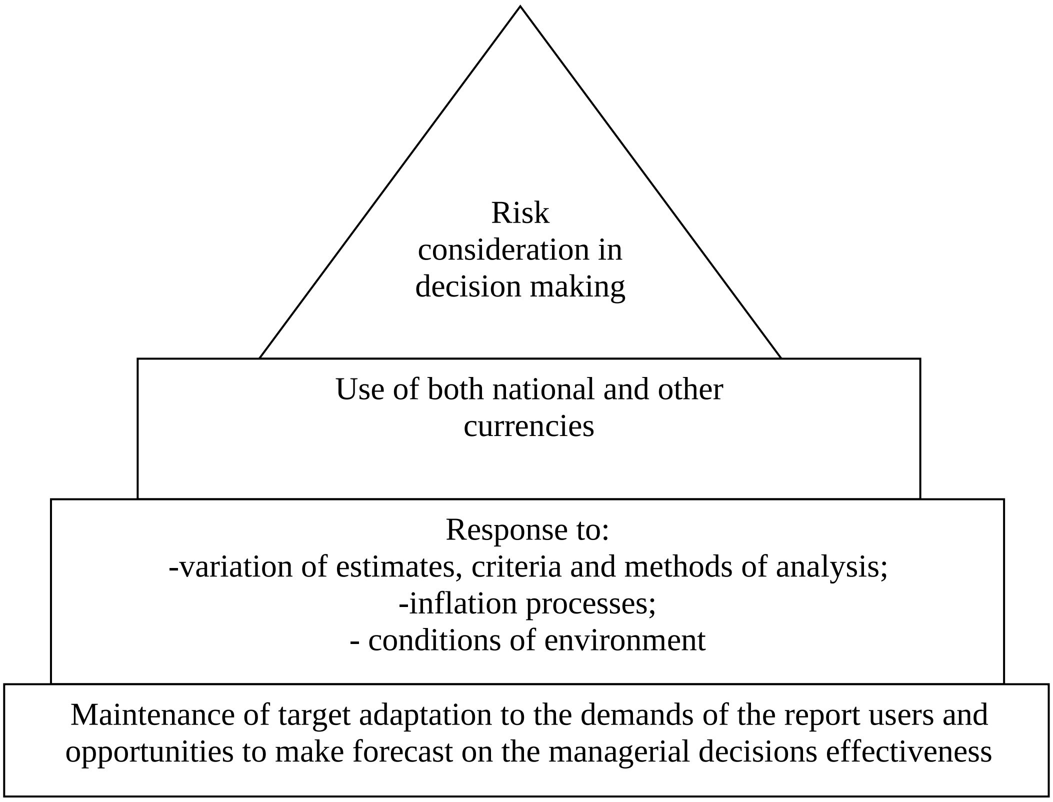

Fig. 3. Hierarchy of the criteria of assessment of the integrated reporting effectiveness. *

* Source: developed by the authors.

In particular, such report manifests all kinds of capital, which influence the value creation (in the past, present and future), describes how the organization uses that capital, and what impact it makes.

In the long run, after approving an official international structure of integrated reporting, the number of integrated reports will increase, whereas enterprises may face the problem of poor development of the internal corporate system of data recording. At the domestic level, it requires legislative supply concerning the content, procedure of preparation, terms of the integrated reporting submission, which will provide not just estimates of the current conditions of the enterprise's operation, but also an opportunity to make forecast about its performance in the future.