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## PRECONDITIONS FOR INTRODUCING INTEGRATED REPORTING IN UKRAINE

**Abstract.** Transformations taking place nowadays in the global economy require new approaches to scientific research related to providing the users with the information on activities of economic entities. Traditional approaches to presenting information, which are regulated by legislation, do not satisfy the users any more. In modern dynamically changing business environment, both the enterprise management and external users want to possess not only the actual (static) information about the activities of the enterprise but also the indicators that reveal the enterprise potential in the medium and long terms. For modern practices, there are also necessary indexes and indicators characterizing the enterprise activities in the areas that are not directly related to its business activities and achievement of profitability, they being activities in the area of environmental protection, social sphere and infrastructure sector.

Ukraine has already created preconditions for implementing the integrated reporting as a tool for socially responsible business that provides information about the impact of the company's activities on the development of society, economy and environment. The analysis of the differences between the existing and integrated reporting systems shows the role of the integrated reporting, which provides stakeholders (companies, contractors, and society) with essential information on the organization's strategy, management and solution of commercial, environmental and social issues. The integrated reporting has a certain range of users, specific components and sources of information necessary for its preparation and is closely linked with the existing financial and statistical reporting.

**Keywords:** enterprise, public information, integrated reporting, financial statements, report on progress, sustainable development, social responsibility.

### 1. Development of integrated reporting in Ukraine

In world practice, more and more enterprises are involved in preparing integrated reporting, which combines various indexes of financial as well as other types of reporting, thus creating a

systems information base that takes into account not only the key financial criteria but also economic indicators and information about the implementation of social, environmental and other programs by the enterprise.

In Ukraine, the issues of forming concepts of the enterprise integrated reporting have been dealt with by many scientists, including K. Bezverkhyyi, T. Davydyuk, R. Kostyrko, N. Lohanova, S. A. Kuznetsova, L. Pylypenko, I. Yaremko, and others.

The needs of modern economy in appropriate information are conditioned by such global challenges of the modern world as social networks, brands, virtualization, the future of retail, corporate social responsibility, the fight for talent, global computerization, demographic changes, the dynamic growth of spending on information in declining economies, the growing unemployment, new factors of instability in the economy, information overloads, global supply networking, global imbalance, increased pressure on markets, growth of strategies for volatile markets etc [1]. As it is almost impossible to process the whole array of existing information flows, different groups of users prefer certain types of information that is needed to assess either the potential possibilities of the economic activities in general or those of specific business processes, the performance of the company, its investment attractiveness, and innovative capacity.

The presented criteria of assessing the potential and the level of effectiveness of modern enterprise activities are described through numerous quantitative and qualitative indicators. In most cases, users get the information to meet their needs from public financial reporting, which characterizes the company by formalized financial indicators. Despite the factor of standardization of

the indicators presented in public financial reporting, many scientists tend to suggest the necessity of reviewing the system of accounting reporting for the purpose of satisfying the increasing information needs of the companies of the third millennium [2].

Ye. V. Mnych highlights the inability of modern accounting reports to satisfy the needs of management, as, according to sociological examination, 90 % of the accounting work done at both business and non-business entities is aimed at preparing tax declarations and tax control [3]. Formed at the legislative level in Ukraine, the system of accounting (financial, tax reporting, statistical) is focused primarily on satisfying the information needs of public authorities (state fiscal services, social insurance funds, statistical agencies), and therefore it is of little use for administrative services of the company itself or its market counterparties. Enterprises have to keep the accountants' staff responsible for the formation of such information, and, at the same time, try to create the information useful for the company's management by involving additional specialists and spending additional resources to support their work.

As to its generalized characteristics and content, the integrated reporting is presented as a system of interrelated and interdependent indicators of the enterprise activities that combines elements of both financial and non-financial reporting. It is believed that integrated reporting enables the company to identify and understand more precisely its strategic advantages and business models, which significantly affect the company value. In addition, integrated reporting discloses the company's sustainable development to external users. Together with business development, large and medium enterprises face other problems associated with the implementation of certain social and other programs for ensuring sustainable development of society.

At the present stage of the Ukrainian society development, the role of state institutions in the country's economy is being reduced and the role of private business is growing. The state has privatized the significant number of enterprises, allowing them to enter adequately the business environment and to become competitive. Investments have caused a significant economic growth of most of them. In addition, the newly creates business entities occupied a considerable niche in the economy. Thus, the role of

big business has increased significantly. Accordingly, public expectations are directed now not only at government authorities but mostly at businesses. The accumulation of huge assets by the enterprises of big business necessitated their "protection", heads of many companies took seats in representative state bodies: Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine, regional authorities, which protect the interests of such businesses.

Now the public representatives apply for help not only to public bodies, which have limited possibilities of funding, but also to businesses that have financial resources, and, in many cases, support community initiatives. The role of business in public life is no longer reduced to the timely and complete payment of taxes, but it deals with implementation and financing of socially important projects as well. Thus, the development of businesses is closely associated with their corporate social responsibility; and businesses reflect their programs implementation in the integrated reporting.

The world models of the corporate social responsibility have been formed for a long time and have certain traditions. In America, the establishment of social responsibility began in 60–70s of the twentieth century and in Europe – in the mid-90s. The main social and ecological programs related to corporate social responsibility are implemented in the USA through charitable foundations, in Canada – through implementation of quality improvement and healthy workplace programs, in Europe – through targeted social programs and business projects [4].

The complexity of Ukraine's transition from administrative-command system to market economy caused the primary problem for survival and strengthening of its business niche. A number of problematic aspects of the domestic enterprises transfer to "classic" market conditions as well as financial difficulties experienced by both privatized and newly created entities hardly contributed to the development of corporate social responsibility, though separate programs have been implemented by all major companies in the form of charity, patronage and financing of some social programs on a competitive basis.

The companies, which comply with the corporate social responsibility, having to face the challenges that occur in society (globalization, resource scarcity, unemployment, ecological problems, political impact on business, business

transparency etc.), should seek to get progress in sustainable development to the UN Global Compact, which declares the basic principles of responsible behavior of businesses concerning respect for human rights and freedoms, the environmental protection etc. The companies, which have joined this agreement, should strongly support it, implement its principles in their activities to be able to achieve strategic, cultural outcomes corresponding to this document as well as publish notification of the achieved progress annually (Sustainable Development Report), which is actually one of the varieties of integrated reporting. Notification of the achieved progress is formed according to the following standards: AA1000 series of standards of the International Institute of Social and Ethical Reporting, the Guidance of reporting in spheres of sustainable development, the G8 Declaration "Growth and responsibility in the global economy" and IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Since 2006 Ukraine has a national network of companies and organizations that have declared their commitment to the principles of the UN Global Compact. The basis of the Global Compact is made of 10 principles in the areas of human rights, labor, environment and counteraction of corruption, which constitute a peculiar code of ethical corporate behavior, observance of which is mandatory for the participants in their activities. Despite the voluntary participation, the provision of annual reports on the implementation of Global Compact principles in their daily activities is a requirement for companies.

During 10 years of its existence, more than 8000 companies and other organizations in more than 130 countries joined the initiative. In Ukraine, the UN Global Compact local network has existed since 2006 and unites more than 160 participants – from large international and Ukrainian companies to medium and small enterprises as well as non-governmental organizations, academic institutions, business associations etc. [5]. Based on the concept, in 2013 there was developed the strategy of promoting the development of social responsibility in Ukraine till 2020 [6].

## **2. Requirements to the preparation and submission of integrated reporting**

In Ukraine, the integrated reports now are made and submitted by more than 50 companies, among them Obolon, Kyivstar, Energoatom, Volia,

SCM, DTEK, MTS, Metinvest, METRO, Astelit and others. Most of them draw up and submit reports of forms AA1000 and the UN Global Compact, in one of the options chosen by the company: social, environmental, integrated reports, reports on sustainable development, independently choosing the reports' format and structure. Only four companies (SCM, DTEK, Metinvest and Obolon) prepare reports of the GRI3 complex system.

According to the survey of representatives of the largest companies in Ukraine, which were offered to become the founders of the National Business Council for Sustainable Development, the issue of preparation of non-financial reports is relevant for most of them (86 % of respondents). According to the staff research of the Global Reporting Initiative (GRI), 82 % of American and 66 % of European companies believe that the "transparency" of information has a positive impact on corporate reputation. [7] Thus, the promulgated integrated report causes a certain level of respect and trust in the company, making it socially significant.

Preparation and publication of the progress report is useful both for the company and its stakeholders. The research done by Baker Tilly distinguishes such benefits of integrated reporting as a sure way to bring investors the information about the direction in which the company is moving, how it creates its own values and what position it will have in the market and socio-economic environment in a few years. The format of such reporting provides an opportunity to get a concise, information- concentrated version of all available company's documents and reports in one place. The main advantage of such reporting is that the potential investor receives the information necessary for making a decision in favor of the company.

Qualitatively composed and favorably presented, integrated financial and non-financial reporting shows the openness of the company, which, in turn, improves its business reputation, its perception as a reliable partner, strengthening economic relationships and, consequently, increasing the company's capitalization due to accumulated goodwill and other intellectual assets [8].

Financial reports usually contain a lot of concentrated (synthesized) data, in many cases, difficult to understand. In modern practice, many

investors are more interested in marketing approaches used by the company, its corporate policy and social responsibility. Therefore, it is important that the integrated report reveal not only financial indicators, including profit, but also all the main practices of the company, which help it to function effectively.

Integrated reports are universal, more accurately reflecting the interrelation of financial and non-financial factors that affect the company's development. This, in turn, creates a better view of its competitive advantages and the added value that the company generates, in addition to direct revenue. Compliance with international standards requirements to the integrated reporting enhances the quality of the reports and improves communication with their target audience.

The integrated report is useful for the company's management because its functional purpose is to serve as the additional tool to improve the efficiency of management. While preparing the integrated report, the company's management can evaluate practically all aspects of the company's activities as well as the deep processes that either strengthen or cause the destruction of the foundation of the business. In terms of the practical use of this tool for the company's management, it is believed that the better the information in the report is structured, the easier it is to use it for making strategic decisions while managing the company. Research results show that in 71 % of cases the transition to integrated reporting has a positive impact on the effectiveness of decision-making by the company's authorities.

From the perspective of internal corporate management, it is noted that integrated reports improve communication between employees since their preparation involves not only financial staff but also employees from other departments. This interaction, in its turn, accelerates the decision-making in the long term and contributes to a complete satisfaction of the interests of different groups within the company. The positive dynamics of employee engagement, on the one hand, gives them a better understanding of the functioning of the company as a whole, on the other hand, it improves the efficiency of the entire organizational structure.

Integrated reports help to better reveal the competence and achievements of the company, both in the immediate areas of its activities and in

other related areas of functioning as well as directly in the practice of management. Complex information disclosure helps customers and partners realize whether they want to use the products and services of this or that company, and it also helps investors understand how profitable their investment into a certain company promises to be. Target research shows that in 91 % of cases the transition to integrated reporting increases involvement of the target audience (customers, investors, and partners) into interaction with the company.

This is because the professionally prepared integrated report allows estimating business activities from the inside, identifying strengths and weaknesses of the company, attracting more partners, investors and consumers, serving as a kind of advertising professionalism and publicity of the company [9].

Considering diversity of information, such a report provides increased transparency of the company's functioning. For example, the report on progress of SCM company provides the description of the business in terms of its types (mining and metal, energy, transport, banking and insurance, real estate, "Shakhtar" football club, machine building, telecommunications, production of clay, media business, agriculture, retail, filling complexes), stresses that the company employs over 300 thousand workers and has more than 100 branches in seven countries. In 2013 the SCM Group invested about 8 billion UAN in the sustainable development, including the professional and personal development of employees, strengthening their health and labor safety, environmental protection and energy saving, improving the quality of life in the regions of SCM activities and developing the business environment. The report has also formulated the SCM Group goals for achieving the sustainable development, they being an integral part of the company's strategy, including safety and health of workers, decent working conditions, improvement of the quality of education, creation of decent life conditions and community development, environmental protection, energy efficiency, compliance with international standards of business ethics.

The company also reports on the implementation of the ten principles of the UN Global Compact in its strategy and activities. On

## *Preconditions for Introducing Integrated Reporting in Ukraine*

the basis of non-financial information, the report discloses the company's compliance with the following groups of principles: human rights (implementation of more than 560 social projects, the total investment amounted to more than 240 million UAH), labor standards (health and safety investments amounted to more than 1.6 billion UAH; investments into development of workers – 112 million UAN), environment (modernization of equipment, introduction of ISO 14001 and ISO 50001 standards, development of wind energy; investments into environmental protection amounted to about 5.4 billion UAH), and anti-corruption [10].

In 2013, the International Integrated Reporting Committee (IIRC) has released "consultative version" of the principles of integrated reporting, which is the basis for a new model of reporting that defines the basic concepts, guidelines, content components, describes the procedure of preparation and presentation. In December 2013, BDO, ACCA companies together with IIRC conducted a nationwide presentation of the Standard of Integrated Reporting [11].

The Standard, in particular, implies the reflection of the following information in the integrated report: description of the organizational structure of an enterprise and its interaction with the environment (what the organization does and the conditions in which it operates); the impact of the organization's management structure on its ability to create value in the short, medium and long term; description of the opportunities and risks that affect the organization's ability to create value in the short, medium and long-term, and how the organization copes with them; description of the strategy and resources allocation; directions of development of the organization; description of the business model of the organization and its elasticity; performance of the organization (to what extent the organization has achieved its strategic objectives, and what results it has in terms of capital, which appeared as a result of its activities); opportunities, risks, challenges and uncertainties that may face the organization while implementing its strategy, and what are the possible outcomes for its business model and future activities.

The main components of the integrated reporting are: description of the company activities and its business model, description of the environment in which the company operates, the

company's strategic goal and the ways to achieve it, corporate governance structure, sustainability scorecard, forecast indicators. The information generated in such statements will ensure the transparency of the company, which will have a positive impact on corporate reputation. Integrated reporting is designed to provide a high level of trust in relations with employees and investors, appropriate resource allocation decisions, non-financial information base. It will provide more information to investors, government authorities, general public, regulatory authorities, employees etc.

In drawing up the integrated reporting, large and medium-sized companies should use the system of state statistical observations existing in Ukraine, adapting it to international standards. The system of statistical observations accounts and uses both financial and non-financial indicators, particularly those which reflect the impact of enterprises on social processes (employment, wages, and gender indicators), the impact on the environment, energy saving and so on.

### **Conclusions**

Integrated reporting is a powerful tool of expanding information parameters and content that is necessary to the external users interested in different areas of the company's activities (investors, suppliers, customers, general public) and directly to the company's management. The importance of such comprehensive information can be explained by the fact that large and medium-sized companies have a significant influence in the society not only due to their being conscientious taxpayers but also in terms of social responsibility. Many enterprises joined the UN Global Initiative and carry out activities related to developing the territories, ensuring appropriate working conditions and labor security. They participate in social programs, programs associated with the preservation of the environment, energy efficiency and so on.

Integrated reporting of companies should be considered as useful to investors because it displays not only financial indicators but also approaches of the companies to marketing, corporate policy and social responsibility as well as its strategy. Integrated reporting allows objective assessing, in a complex, of the relationship between financial and non-financial factors that

reveal the development of the company, as well as the compliance with the structure of such reporting under the International Standard of integrated reporting, ensures the quality of the reports and improves communication with their target audience.

The practical use of the information base of such reporting allows the management of the company to assess practically all aspects of the company's activities, the underlying processes that either reinforce or cause the loss of potential for doing business. Preparation of integrated reports improves communication between employees since their preparation involves not only financial department but also other departments. Adapted to the conditions and the specifics of the enterprise activities, integrated reports help to better reveal the enterprise competence and achievements in different spheres of its activities and in its adjacent areas of operation as well as the validity of the corporate structure and the management efficiency. Integrated reporting should be considered as a means of decent representation of the company in the market, because it allows assessing the effectiveness of doing business, identifying the strengths and weaknesses of the company, attracting more partners, investors and consumers. In general, it can be stated that the Ukrainian companies that are joining the process, are increasing certain social and environmental standards and improving their image.

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