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THE INTEGRATED REPORTING PHILOSOPHY IN BUSINESS STRATEGY

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Abstract: In relation to the reports published by organizations, today not only financial information is required, but also information related to sustainable development. Philosophical approaches of the beneficiaries using the information have changed. Currently, organizations are faced with the task of representing not only the economic interest of an enterprise, but also the contribution of the organization in forming the additional result pursuing sustainable development.

The purpose of the article is to present a new philosophical framework of reports published by organizations, as a result of which philosophical approaches to sustainable development, revised philosophical foundations of business strategy construction were revealed. Recommendations were made in the direction of building a philosophical concept for the dissemination of financial and non-financial integrated reports.

Keywords: philosophy of integrated reporting, integration of financial and non-financial reporting, business strategy for sustainable development, integrative philosophical thinking.

Introduction

Financial statements published by organizations are currently undergoing conceptual reforms. Since organizations report users' view is not only from the perspective of private but also of public interest (Tshuguryan, 2022). Today, high-pitched questions are already being asked in terms of what value the publicly accountable organization creates, how much it contributes to the solution of the environmental, social and effective corporate governance (ESG) problems faced by the public. Today, just being a large taxpayer is not enough for a reporting organization to be valued from a public point of view. In addition to the partial ends of business (increase in profit, in-

crease in profitability, financial stability, etc.), investors, partners of the organization value the solutions to the key problems of sustainable development.

In the last decade, these questions became so intense that the International Council of Accountants (IFAC) set a task of developing international standards for financial statements of organizations, addressed to disclosures of the capabilities of sustainable development of business, projects are already circulating (IFRS-S). In case of application of such standards, organizations will have to present reports aimed at sustainable development in parallel with traditional financial reports, where financial and non-financial information flows will be combined and "environ-

mental protection-social-management” line will be implemented ((ESG) disclosures, risk assessments, opportunity utilization (*Accounting for sustainability: From sustainability to business resilience*, 2018)).

However, the compilation and publication of integrated reports are still related to a number of methodological problems of accounting, such as the recognition, measurement, evaluation and systematic monitoring of sustainable development results in information flows. If the “International Council of Integrated Accounts” currently poses the philosophy of interrelationships between the business activities of organizations and sustainable development, then, at the same time, it might not present the accounting methodology by which the architecture of building the informational bridges of that interconnection would be implemented. In the article, an attempt is made to present the information provision methodology for the formation of combined reports of financial and sustainable development results by organizations from the point of view of accounting.

Framework for Integrated Reporting Philosophy

The business sector has always been accountable for its economic achievements, when the beneficiaries, be they investors, financial investors or managers, were provided with information about the organization’s assets, liabilities, share capital, regarding the emerging financial results (Tshughuryan et al., 2022). Nowadays, the objectives of the reports published by the organization have changed, simply going beyond the scope of private interests of the company and serving wider public information requirements.

Today, organizations are considered not only from the point of view of individual operations, as sources of profit formation, but also from the society’s perspective, being evaluated as structures that create additional results. If in the recent past the organizations were accountable to the public mainly for the financial results of the business and published financial reports, today the public is already looking at the business in terms of creating an additional result, also pointing towards the sustainable development of the organization of non-financial information. And,

if the business traditionally pursues narrow economic interests and the goals of sustainable development, it leads to the formation of serious environmental protection problems, the weakening of social responsibility, the dusting of human capital and ineffective economic management resources. In this regard, there is an informational requirement to explain what additional values the business creates for the public, how much it contributes to the sustainable development of the environmental, social and administrative spheres in the short and long term.

Integrated reporting makes corporate disclosures a transparent communication tool to improve the effectiveness of management and investment decision-making. They serve as an accountability mechanism to address deficiencies in current accounting systems (*International <IR> framework*, 2021). Organizations prepare many disparate reports, which sometimes lead to an overload of unnecessary information. In addition, accounting information systems are currently criticized for their backwardness, short-term orientation and inclusion of non-core factors that are the main drivers of organizational performance. The requirement for integrated reporting arises from the need to mitigate concerns about sustainable development (*General sustainability-related disclosures*, 2022). Social and environmental problems, the depletion of natural resources and the degradation of the ecosystem require development of reporting mechanisms to be able to support the transition to sustainable management models. Combined reports aim to provide decision makers with perspective and strategic direction information. They encourage decision-makers to consider long-term perspectives for sustainable business development (Bebington & Unerman, 2020).

The combined reports are called “One Report”, which are both a tool and a symbolic representation of organizational commitment to the sustainable development. It has a clear tendency to have a turnaround effect on corporate operations and change the mindset of investors from a short-term orientation to a long-term orientation. They also see integrated reporting as a means of communication for all stakeholders and an opportunity to rebuild trust between business and society (Busco et al., 2020).

Currently, the financial accounting used in organizations, which by the way has been receiv-

ing its reporting regulations according to international standards for almost two decades, is not able to fully satisfy the information requirements of both external and internal stakeholders of business, because it is retrospective in nature and, it records only retrospective results. In other words, the financial accounting system is generally oriented towards the recording of economic activity events and financial results of the past period and does not set goals related to the foreseeable future, which weakens the vigilance of entrepreneurs in the competitive struggle.

Herewith, it turns out that the accounting information published by organizations based on international standards is not only retrospective in nature, but also mainly reflects the financial side of economic activity (Tshughuryan et al., 2022). However, report users also need non-financial information when making decisions.

From the point of view of decision-making, this information is not enough, especially when it comes to the interests of external users of reports and the evaluations of the business competitiveness of companies (Adams & Larrinaga, 2019). As a rule, the traditional financial accountability of accounting is aimed at satisfying the internal interests of the organization, protecting assets, and making decisions aimed at the uninterrupted production process.

For this reason, the accountability of the non-financial results of economic activities addressed to the external users of information is currently not given much attention, while its necessity is felt in the field of decision-making to ensure the competitive positions of organizations. Already, the external beneficiaries of the organization's activity are currently interested not only in the scope of financial reporting indicators, but also in non-financial accountability that encourages sustainable development and strengthening of competitive positions, not only in connection with narrow economic, but also public interests related to the operation. with satisfaction, such as environmental issues, the social sphere, the fulfillment of public obligations assumed by organizations towards the state, solutions to community problems, business behavior towards colleagues, etc. It is for these reasons that the task of organizing the accounting of non-financial results and presenting the corresponding reports arising from it is currently being set (Al Mahameed et al., 2020).

In the framework of the preparation of financial statements according to current international standards, there is no special requirement for organizations to present information on non-financial results of their activities. However, at the same time, the package of annual reports can present not only non-financial information addressed to corporate interests, but also non-financial results pursuing public interests, which are related to the activity of the organization. They are mainly management comments aimed at strengthening the goodwill of the organization among the organization's internal and external stakeholders. For this reason, the non-financial information presented in this way is not systematic and is often presented with the positive aspects of the organization's activity, bypassing the negative manifestations.

In this sense, the current financial accounting system is entering a crisis stage, because perhaps the reports do not fully satisfy the information expectations of internal and external users, both in terms of obtaining non-financial results, as well as a future-oriented target along with the lines of sustainable development. To be more specific, an effective way to overcome this crisis is the compilation and publication of a single, combined report on financial and sustainable development by the organizations, which, by the way, is already beginning to be regulated by international standards (Tshughuryan, 2022)

Today, business trends are already leaving the private sphere and appearing in the focus of the public sphere, forming an integrated thinking of reporting in organizations. It should be noted that the combined reports are not a mechanical integration of private and public motives of business and the results of their access, having on the one hand published traditional financial indicators, on the other hand indicators of sustainable development of business. Moreover, the informational mechanical combination cannot solve the problem of effective decision-making by the beneficiaries of the sustainable development of the business, when there is no integrated thinking based on the systematic evaluations of the consequences of the business (Jorgensen et al., 2021).

Thus, if an organization producing automobiles with an internal combustion engine switches to the emission of electric vehicles, thereby

preventing the emission of dangerous gases and the risks of global warming, then it in parallel creates an additional environmental problem in another organization in relation to the mining of non-ferrous metal ore required for the production of electronic batteries and the consequences of the formation of environmentally harmful tailings arising from it. In other words, an integrated approach to the value chain of the business is shown for the preparation of reports based on sustainable development, considering the business model not only in the internal sphere of the organization's activity, but also in the scope of external socio-economic effects.

Therefore, the accounts compiled based on integrated thinking present information about the interrelated risks related to business operations, the possibilities of their prevention, as well as the possibilities of further management. In our example, the organization will not consider the issue of electric cars only from the point of view of its own business considerations, but will give a comprehensive picture of the intra-organizational and external effects of the release of electric cars. It is what environmental benefits and harms are formed in the value chain of the production of electric cars, how they affect the formation of additional business results of the organization, what are the opportunities for managing the overall risks of the business, for example, replacing electronic batteries with solar batteries installed on cars, etc. Here, too, the assessment of the organization's capabilities is highly fluctuating, in the direction of making and implementing decisions aimed at regulating the future course of development.

In this sense, the integrated concept of reporting has the goal:

- to improve the quality of available information in the environmental, social and governance (ESG) fields,
- to contribute to the formation of a more consolidated report, based on the value chain of the organization's business model (Demir & Min, 2019),
- to identify the organization's ability to create values over time,
- to support comprehensive approach to decision-making and actions aimed at creating value in the short-term, medium-term and long-term perspective (Cho et al, 2020).

Research Methodology

The combined financial and sustainable development report of the business characterizes not only the organization's involvement in effective environmental, social and corporate management programs of public interest, but also presents the process of forming the comprehensive added value related to them. If the added value in the financial statement is characterized by the growth of equity capital as a result of business, then in the combined accounting it is estimated by the resource growth approach. In this case, in the "International framework of integrated reports", the resources for the sustainable development of the business are presented in 6 groups: financial, production, intellectual, human, social, natural, which have a tendency to increase in the foreseeable future, or vice versa.

Traditionally, financial resources are considered a key pillar of business organization, and in combined accounts, they are discussed not only from the point of view of investors' private interests, but also from the perspective of public interests. If investors are convinced that the activity of the organization does not contribute to the sustainable development of business, causing environmental and social problems, then they prefer the public interest to the private one and show a passive investment position, which in practice is called "responsible mutual investment". And, on the contrary, when business objectives also target sustainable development, the involvement of financial resources expands, including not only investors, but also grant providers and change providers. Therefore, when presenting the combined report, the increase in financial capital due to sustainable development will be interpreted being the result of value creation by the organization.

The growth of production resources (buildings, equipment, rolling stock, stocks, etc.) is also qualified in the combined reports as a result of the formation of value by the organization, if the business targets sustainable development. Thus, when the organization modernizes the operating flow lines with the aim of increasing productivity, it mainly pursues private business interests, and when the range of filtering equipment for the prevention of air basin emissions is expanded, then in this case, in the combined report, it is

considered as an organization.

The expansion and use of intellectual resources also creates an opportunity for the creation of added value by the organization. If the obtained patents, creative projects, developed research programs, on the one hand, aim to improve the competitive positions of the organization in the case of their application, on the other hand, the expansion of intellectual potential contributes to the innovative activities aimed at sustainable development, thereby, in the combined reports it is identified as a factor in the formation of surplus value.

The value system of sustainable development also includes the human capital used by the organization. Having a staff endowed with competitive abilities and skills, the organization achieves success in the field of providing quality products or services and occupies a competitive position in the market. However, the continuous expansion of the qualitative composition of human capital enables organizations to develop a creative approach conducive to sustainable development, and, therefore, it is interpreted in the combined reports as a key unit of value creation.

In the course of doing business, organizations form social and partnership capital. In particular, supporting the solution of various social problems of employees, acquiring reliable partners among suppliers, buyers, lenders, organizations strengthen their social capital in external and internal partnership, which plays a decisive role in the process of successful implementation of sustainable development programs. With all this in mind, the continuous expansion of social and partnership capital in the combined reports is viewed by the public as the result of the organization's creation of added value.

Finally, the "International Framework for Integrated Reporting" considers natural use to be a primary factor in sustainable business development. When organizations manage to gradually reduce the water used in the course of business, reduce the exploitation of raw and mining resources, mitigate the risks of air pollution, then they receive their comments in the published combined reports and are evaluated as being created by the organization and pursuing public interest.

Thus, the value system of sustainable development is based on those six pillars (financial, production, human, intellectual, social, natural),

which are also called resource capitals. At the same time, the observation of the combined reports on a long-term basis shows the trends of value creation over time of the listed resources, which are entered in business processes with one value and are output from there with another transformed result value. And if the resource capital transformed as a result of business over time exceeds the resource capital involved, then the management of sustainable development in the organization is considered efficient, and vice versa. Therefore, in combined reports, organizations aim to clearly present the risks that hinder sustainable development during operations and the managerial opportunities aimed at mitigating them.

International standards aimed at combining financial information and sustainable development represent the scope of the relevant disclosures that must be published in the annual reports of companies. However, along with that, the methodological approaches that would allow to quantitatively compare the financial and non-financial indicators are not presented (Alodat et al., 2021).

If in traditional published financial reports all indicators are presented in a dram form and become comparable (expenditure, income, profit, etc.), the non-financial indicators appear in different measures (kg, centimeter, liter, cubic)/meter, etc.), thereby creating difficulties for the measurement of the value arising from the activity of the organization aimed at sustainable development and the presentation of compatibility with financial results in one field (Adams & Larinaga, 2019).

Perhaps, in the professional literature, the results of the use of resource capital used for the purpose of sustainable development are suggested to be measured by key performance indicators (KPI), but all the same, in the combined reports, these indicators are not simply integrated with traditional financial indicators in terms of their values. However, on the other hand, combined reports are prepared within the framework of accounting and are regulated by the international standards of financial reports - the IFRS-S (sustainability) series, which in turn implies a unified financial and non-financial information. and system accounting.

In this case, a question arises (Amoako & Amoako, 2022). Should accounting through key

indicators (KPIs) just be satisfied with monitoring reports of changes in capital components aimed at sustainable development, or should efforts be made to change this non-financial trend into a financial one and to present indicators of sustainable development and financial results of business with dram metrics in an integrated manner? We propose to move forward onto the second path, which will allow for double registration of non-financial information transformed into the financial and to show a systematic approach to the analysis of combined accounts with an integrated approach. But, how to evaluate non-financial information in monetary terms and then subject it to double-entry accounting?

In order to solve the above-mentioned problem, we suggest, first of all, giving a value measure to the components of business value-creating capital to be included in the report on the financial condition of the organization (accounting balance sheet), renaming it “Comprehensive Report on the Financial Condition”. In this case, in

addition to the financial and operational capital, the proposed form of the report will also include human, social, intellectual and natural capitals, with the resources of their formation. Therefore, the resources involved in the sustainable development of the business will be recorded in the accounting balance, and the capital managed due to them will be recorded in the passive.

Forming a balance sheet interconnection of assets and sources of their formation for the purpose of sustainable development (see Fig. 1), it will be possible to double register their changes and build an information system in published combined reports. As a result, when presenting the combined reports, integrated philosophical thinking will be used and, thereby, the cause-and-effect relationships of the organization’s value creation results and the changes in the involved resources contributing to it will be revealed, which in turn will be an opportunity to comment on the risks of sustainable development and the possibilities of their management.

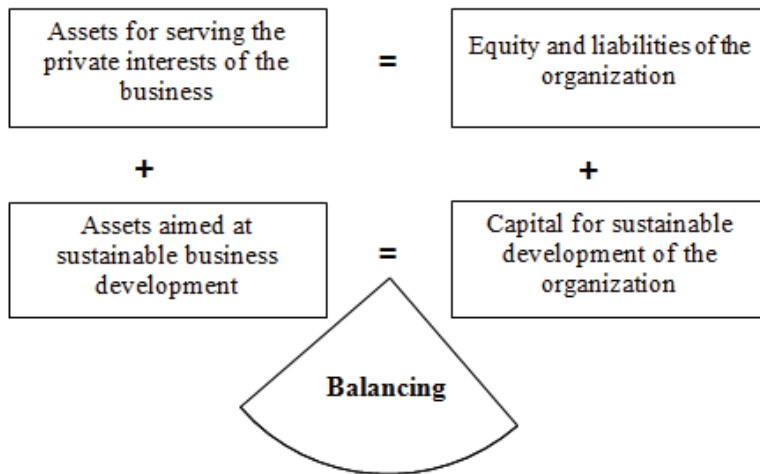


Figure 1. Structure of the Proposed Report on the Comprehensive Financial Condition of the Organization.

When constructing the proposed report on the comprehensive financial condition of the organization, it is necessary to separate the part of the data related to sustainable development from the general business information flows. In the course of economic activity, attracting various resources, the organization uses an incomplete part of them in the directions of sustainable development of interest to the public, but on the contrary, it addresses acquisition of profit for private rea-

sons.

Therefore, when creating reports combined with integrated management, it is a problem to try to separate the information flows related to the involvement of resources directed to the sustainable development of the organization and the results arising from their use to assess the value created by the organization from the point of view of reality.

For this purpose, we suggest using special ac-

counts that will separate and group the information flows related to sustainable development

from the general information of the organization's economic activities (see Fig. 2).

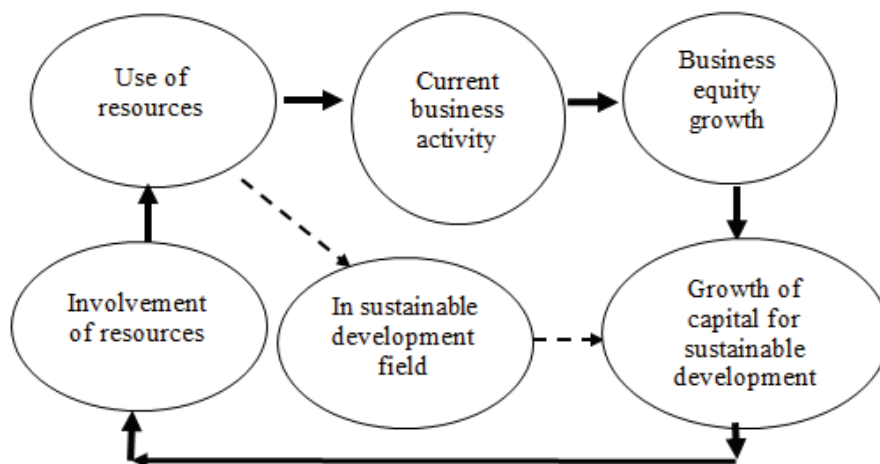


Figure 2. Separation of Information Flows of Sustainable Development from the Business Information on Economic Activity of the Organization.

Conclusion

In the near future, the integrated published reports will be formed and published according to the requirements of international accounting standards (IFRS-S), where it will be clearly presented what findings will be made in the direction of the sustainable development of organizations. Naturally, the problem in this area will be how to measure and account for the results of sustainable development and the resources supporting their formation, which will then be the basis for further reporting findings. Of course, findings related to sustainable development in published reports may be descriptive in nature, without systematic quantitative analysis.

However, we believe that in the end, an international accounting methodology should be formed to combine financial and non-financial business information to present a framework and toolkit of unified approaches to the assessment of sustainable development resources and accountability, not only in terms of disclosures, but also in relation to the ESG concept developed in the course of alternative information-data coordination. It, in turn, will contribute to the systematic analysis of the results of sustainable development based on integrated thinking and the making of effective management decisions aimed at mitigating risks.

For this purpose, it is suggested that the review of the philosophy of presenting the results of the organizations' activities, integrating the financial indicators with the results of sustainable development be conducted. In order to fulfill this requirement, we also propose to separate the results related to sustainable development from the general information flows of economic activity, which will be presented by the findings of the financial and non-financial published integrated reports. Thus, the reports published by the organizations on the results of economic activity will also be shaped by the philosophical interpretations of sustainable development and support for reasonable business strategy making in companies.

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