

# Integrated Report as a New Reporting Model



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**Abstract** The integrated report is a fairly new type of reporting for Russian companies, so the purpose of the research was to determine the main characteristics of the integrated report as a new reporting model demonstrating the sustainable development of the company, which is recommended to be compiled by consumer societies and unions. The research methodology is based on the use of the historical method, analysis of scientific and literary sources, synthesis, formalization, generalization and abstraction, systematization. The research examined the views of various authors on the features of integrated reporting, from which it follows that this is a new reporting model for business and government companies, focused on meeting the information needs of various stakeholders. When preparing this report, it should be taken into account that it should reflect: financial and non-financial information about the history of the company, about the strategy in the short and long term, confirming the sustainability of development. Sustainability should encompass economic responsibility to investors and consumers, legal responsibility to the State and the law, and ethical responsibility to society. An important component of the report is the demonstration of the integration of all aspects of the company's activities: production, social, environmental. The voluntary presentation of the integrated report contributes to the positive image of the company and makes it more attractive to all stakeholders, which today is important for consumer societies and unions. Harmonizing the work and information flows of individual company services is necessary to create and effectively operate the information support of the integrated reporting process.

**Keywords** Integrated report · Sustainable development · Interested users · Reporting

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## **1 Introduction**

Any reporting is a set of indicators that characterize a particular aspect disclosed therein. Based on the needs of the persons for whom it is prepared, the presentation format and the rules for assessing indicators depend. All business entities compile financial statements, which are presented to external users and allow you to assess the performance of the entity, as well as characterize its financial condition. The problem is that the current user no longer has enough of this information to make a decision not only about investing in this organization, but also about the opportunity to cooperate with it. It should also be borne in mind that there has been a shift of emphasis from the material sphere to the intangible. Therefore, based on the information needs of stakeholders, the requirements for an integrated report were formulated. This type of reporting is quite new for Russian companies and raises many questions, some of which are related to differences in interpretations, terminology, translation of foreign words. Therefore, the aim of the study was to define the main characteristics of the integrated report as a new reporting model that demonstrates the sustainable development of the company and recommend that it be compiled by consumer societies and unions.

## **2 Methodology**

In the process of preparing materials, general scientific and special methods of theoretical research were used. At the preliminary stage, a survey was conducted of managers and representatives of the accounting services of organizations wishing to prepare an integrated report. The survey showed that differences in terminology, translation of foreign words, the lack of a clear recommendation to compile this report, the need to independently determine the indicators disclosed create problems in understanding the essence and significance of this report.

Based on the fact that reporting, as a form of presenting information about a subject, is focused on constantly changing needs, the research was based on the historical method, analysis of scientific and literary sources, synthesis, formalization, generalization, abstraction, systematization.

The emergence of an integrated report can be attributed to the period of formation of requirements for reporting on sustainable development (Zimakova and Mussipova 2019). The next stage of evolutionary development is preparatory. At this stage, the International Integrated Reporting Council (IIRC) was established and the International Standard ISO 26000:2010 Manual on Social Responsibility (2010) was published. Its peculiarity is that it was prepared with the involvement of expert representatives of various stakeholders.

The third stage (2013) is characterized by formalization of requirements for integrated reporting in the form of a standard. Until 2013, the reporting format was quite diverse, some reports lacked the relationship between non-financial and financial indicators, and this raised a lot of questions. The International Integrated Reporting Committee (IIRC) has published the International Integrated Reporting Framework standard, which has been used in 25 States to inform financial capital providers.

Fourth stage (2014 to date) can be described as a stage of reporting in different countries. In 2014 At the XIX World Congress of Accountants in Rome, the International Council for Integrated Reporting announced its strategy to achieve global adoption of the International Framework for Integrated Reporting over the next three years.

The annual review of KPMG corporate responsibility shows a constant increase in the number of companies that make up social reports and the expansion of the scope of activities that they implement.

In 2015 65% of all companies in the 250 largest companies by revenue published information on the social aspect in the annual report and only a little more than half (52 percent) of large automotive companies did this. In Africa and the Middle East, only 30% of retailers accounted for social reporting. In 2017, 63% of the 100 largest companies (N100) and 75% of the Global Fortune 250 reported the application of the Global Reporting Initiative (GRI) reporting structure (The KMG Survey of Corporate Responsibility Reporting 2015).

There is also an increase in the number of companies that make up integrated reporting in Russia. In particular, according to the website of the Russian Union of Industrialists and Entrepreneurs as of November 2020. The national register includes non-financial reports of 195 companies, including 397 sustainable development reports, 370 social reports, 97 environmental reports and 264 integrated reports (National Register of Corporate Non-financial Reports 2020). It should be noted that the companies of the energy complex occupy the largest share among all Russian companies that make up integrated reporting, and oil and gas producers lead in the preparation of reports in the field of sustainable development and environmental reports.

The consideration of this type of reporting in most authors is associated with a clear distinction between the definitions of “integrated report” and “integrated reporting.” The analysis of references and regulations, allows to define that the term “the integrated reporting” belongs to drawing up process, that is action for formation of indicators and data, and respectively the focus of a research is shifted towards the principles, methods, approaches and thinking, and “the integrated report” is a result, the result including information and it is necessary will focus on the concrete indicators, indicators opened in the report and forms of their representation.

The integrated report describes the company’s performance. On the one hand, it contains information about the history of the company, on the other hand, about the strategy. It should be seen as a comprehensive presentation of information on the management of industrial, human, intellectual, natural and social capital, strategic goals and value creation, long-term vision, in the format of transparent and trustworthy, flexible, simple and expanded reports (Farrar 2011). At the same time, the

company's strategy, results and prospects should be presented in the context of the external environment (Kogdenko and Melnik 2014).

Malinovskaya N. V. in her definition of integrated reporting made, in our opinion, a very correct emphasis on systematized actual and forecast financial and non-financial information (Malinovskaya 2013).

Non-financial reporting is voluntary, but in some countries, such as France, Sweden, Norway, Denmark, Netherlands, Finland, certain categories of companies, such as government, must report on their performance in certain CSR areas and indicators.

An important issue in the consideration of the conceptual apparatus, in our opinion, is the term "integration," which in the context of an integrated report describes activities related to environmental and social sustainability, including current processes of acquiring, managing, making decisions, measuring and reporting related to the company's resources and ability to create values.

The philosophical encyclopedia defines that integration, from Latin integration—restoration, replenishment, from integer—whole, denotes the side of the development process associated with the unification of previously heterogeneous parts and elements into a whole (Philosophical Encyclopedia 2020).

According to Sroufe R., the term integration, in the context of integrated reporting, is the basis for vertical and horizontal harmonization of sustainable development activities (Sroufe 2017). Therefore, the report should disclose the internal factors of the company's sustainability determined by the management policy, while noting that all actions committed and planned do not harm the environment, corporate culture, etc. Thus, sustainable development should be consistent with all other aspects of the activity.

Using the term integration involves highlighting several related indicators that are disclosed in the report.

For example, environmental and human health, process safety and human health. Michael P. Krzus draws attention to the fact that the term "comprehensive reporting" does not fully convey the entity that integrated strategic thinking into integrated reporting. Modern companies work in a multidimensional world, in the world economy, the environment and society, in which they are important for the functioning of business. Corporate reporting that should reflect the real environment in the interaction of economic, environmental and social factors (Krzus 2011).

Developing this idea U. Yu. Roshchektaev very correctly noted that in order to compile this type of report it is necessary to proceed from integrated thinking, focusing on the relationship of the presented indicators (Roshchektaeva 2016).

N. Yu. Razuvaev emphasizes the importance of using not traditional "isolated thinking" when compiling integrated reporting, but a wider view of events and facts, which allows determining their impact on the ability to generate value in the future (Razuvaev 2017).

Integrated thinking is an active consideration of the relationship between different business units and functional units, which allows you to erase the departmental framework and consider the whole case. The addressees of this report, that is, the

persons to whom this report is intended, play an important role in the formation of integrated thinking.

The report should therefore be based on an integrated approach to the interrelationship of the diverse indicators reported.

The next important concept considered in the context of integrated reporting is sustainable development.

This requires managers to use new methods of organization and management. Sustainable growth is perceived as linked to innovation in sustainable development and value creation, which includes social value. Sustainability also entails a long history and alignment of the integration of sustainable development with strategic initiatives and long-term objectives. It should be understood that the term "sustainability" has clear relationships with the term "effectiveness".

Sustainable development in an integrated report is based on three principles: meeting human needs, ensuring social justice and complying with environmental restrictions.

The term "sustainability" covers four main factors of company behavior: economic responsibility to investors and consumers, legal responsibility to the state and the law, ethical responsibility to society, voluntary responsibility to society.

Effective management of the company involves social and public responsibility, reduction of harmful impact on the environment, steady growth of the organization and reduction of risks. At the same time, it is necessary to understand the industry specifics of the company, geographical location and national priorities. While, for example, for companies in Africa and Latin America, child protection policies are an important social aspect in relation to the possible exploitation of child labor, this issue is not relevant for European companies. In this case, the interests of clients, as stakeholders, are determined by the environmental and social component. Integration, in integrated reporting, should be seen as the basis for sustainable development and the ability to manage change, within the framework of value creation. That is, on the one hand, integration, this is the created basis, on the other hand, is the driving force for development and achievement of the goals set, within the framework of the formed strategy. When considering integration as an estimated factor, you need to change the attitude to the valuation indicators.

The prospect of growth is provided by integration, this is of fundamental importance for any company, because it connects the need for both vertical and horizontal harmonization of sustainable development initiatives. Organizations can use sustainability as a better criterion for balancing different aspects of business and society.

According to de Villiers C., Maroun W., the inconsistent use of terms suggests that the consideration of "sustainability" is often associated not with increased sustainability, but with the disclosure of information related to social and environmental sustainability and reflecting, for example, efficiency gains. "(Villiers and Maroun 2017).

Eccles R. G., Serafeim G. view sustainable development as a normative system of values, along with human rights, democracy and freedom, and call it a moral imperative (Eccles and Serafeim 2014). The need to report periodically to society on

sustainable development creates obstacles in disregarding compliance with certain rules by companies and individuals leading these companies.

E. A. Petrova emphasizes that the integrated report is intended for “interested parties,” not just “users of reporting” (Petrova 2014). Prior to this, the most common term was precisely “reporting user.”

Most often, the user is considered as a legal or natural person interested in information about the organization. The list of terms and definitions used in the rules (standards) of audit activity gives a similar definition, the user of accounting is a legal or natural person interested in information about an economic entity. Users of reporting can be classified according to various characteristics, depending on the tasks they solve, they identify the most significant indicators for themselves.

Today, even at the level of medium and small enterprises, there is interest in assessing the prospects for relations between counterparties. Of course, in some cases this is due to the desire to protect yourself in terms of reimbursing value added tax, but there is an increasing desire to work with one partner for a long time on understandable terms. Therefore, in integrated reporting, the first task is put forward not just to show dry numbers, but to disclose their content to persons using reporting data according to a certain algorithm.

Reports submitted on the website of the Russian Union of Industrialists and Entrepreneurs indicate disclosure of information to clearly defined stakeholders (whose interests prevail over others), for example, the presentation of social reports has an impact not so much on investors, partners and other business participants, but on the formation of the opinion of buyers (increasing its competitiveness) and the ability to attract employees, so the largest number of companies (311 companies) are social reports. The 64 companies that make up social reports are financial and insurance organizations, health and education organizations that also make up only this report, that is, they are organizations that are directly related to the population. The analysis of the submitted reports showed that the integrated reports contain digital information, which is represented by natural, value absolute and relative indicators. The format of its presentation allows you to understand it not only by a specialist, which cannot be said about financial statements.

Each of the earlier reports produced by companies characterized a separate direction and was directed to a certain group of users, which led to a certain subjectivity and infringement of the interests of other groups of users. Integrated reporting is designed to meet the interests of all stakeholders and provide competitive advantages both in personnel selection and in obtaining credit resources. And since the indicators are presented in interconnection, they allow you to give a comprehensive assessment and make the social, environmental business profitable.

Brown J., Dillard J. notes that business should not ignore climate change, resource depletion by disclosing additional information in integrated reporting related to technology improvements and business processes, the company gets the opportunity to benefit from environmental and social activities, which will make it more socially attractive (Brown and Dillard 2014).

Almost all authors are similar in opinion that an integrated report should reflect the value of the company taking into account the requirements of the century, that is, meet various information needs.

One of the most important tasks of integrated reporting is the reflection of retrospective and promising indicators of the activity of the business entity, which ensure the formation of a stable global economic model. This reporting is intended to make company information more transparent. Although no regulation governing reporting defines transparency as a principle.

Wild S., van Staden C. presented an empirical analysis of the content and structure of corporate summary reports compiled according to the requirements of integrated reporting published as of January 2013. They noted that not all reporting principles were clearly followed, there were difficulties in disclosing information on all types of capital (especially intellectual), as well as with an objective and reasonable assessment of the prospective nature (Wild and Staden 2013).

Russian groups of companies, holding associations represented at regional levels, are limited to compiling corporate reports, but it should be noted that on their websites today they disclose certain indicators of social and environmental activities, and some provide data indicating sustainability and development prospects. The conducted study, which involved business entities belonging to the Renna, EFCO, Capital-Agro groups of companies, showed that the lack of detailed information in in-kind (sometimes value) meters makes it difficult to form many indicators that characterize their activities on the positive side, and do not allow to objectively determine the market value of companies and as a result assess the real financial results expressed through increment The main provisions of integrated reporting can form the basis of disclosed information on the websites of large business entities and groups of companies, which will make them more attractive to various stakeholders. All this will create the possibility of obtaining a synergistic effect (Zimakova et al. 2016).

### 3 Results

The study of the historical aspect showed that the integrated report appeared as a result of the evolutionary development of the interests of interested users, the composition of the indicators included in it is constantly supplemented, the number of companies that make up this report increases every year. The voluntary presentation of the integrated report contributes to the positive image of the company and makes it more attractive to all stakeholders, which is now important for consumer societies and unions.

When preparing an integrated report, it should take into account that it should reflect: financial and non-financial information about the history of the company, about the strategy in the short and long term, confirming the sustainability of development. Sustainability characterizes economic responsibility to investors and consumers, legal responsibility to the state and the law, ethical responsibility to



society. An important component of the report is the demonstration of the integration of all aspects of the company's activities: production, social, environmental.

## 4 Conclusion

The research examined the views of various authors on the features of the integrated report, from which it follows that this is a new reporting model for business and government companies, focused on meeting the information needs of various stakeholders.

An integral part of reporting is the information management system, an important issue for the creation and effective functioning of which is the harmonization of the work and information flows of individual services. Lack of consistency leads to loss of information or misinterpretation and, accordingly, to incorrect conclusions and decisions.

It is important to draw more attention of all user groups to the disclosure of not only production, but also social, environmental components of the activities of companies. Given the importance and relevance of the information accumulated in the integrated report, consumer societies and unions should be encouraged to compile similar reports and post them on their websites.

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