Abstract

An integrated approach to the enterprise value-based management (VBM) provides a precise assessment of all accounting entities. The implementation of such an approach allows determining the value of objects that do not have a material form (intangible assets), but have a significant impact on the enterprise value. The growing role of accounting data in enterprise value formation and management determines the necessity of the research. Thus, the article aims to investigate the effect of integrated reporting implementation on the VBM at the Ukrainian enterprises. Based on recent scientific researches, the study substantiates that the VBM approach should be based on an integrated reporting concept and proves the necessity of transition from the traditional accounting model to sustainability accounting in Ukraine. The findings reveal the approach of integrated reporting incorporation into the enterprise VBM system. The authors offer the concept of creating an integrated reporting model in Ukraine that considers economic and legal criteria, basic and qualitative principles, and production, human, financial, social, natural, and intellectual capital.

Keywords
sustainable development, assessment, integrated reporting, VBM, stages, elements, indicators

JEL Classification
L25, M10, M41

INTRODUCTION

Sustainable development of business entities, as a complex and dynamic system, requires relevant and reliable information, including enterprise value. For Ukrainian enterprises, the main factors of their value assessment are financial indicators (financial and property state, level of technical equipment, market share, etc.). Their impact can be quantified. However, it is necessary to pay attention to non-financial (qualitative) factors that are poorly formalized. Their influence on the enterprise VBM can be estimated using integrated reporting.

The world’s biggest companies are actively involved in reporting according to integrated format. According to the data published in the report of the International Integrated Reporting Council (IIRC) in 2017, about 1,600 organizations from 64 countries have implemented integrated reporting: in Japan – 279 companies, in Australia – more than 50, in the UK – about 130, in Malaysia – 35, etc. It should also be noted that in 2020, a significant increase in the number of such companies is expected due to the adoption of the EU Non-financial Reporting Directive (2014), which requires the companies with more than 500 employees to disclose additional information on several things, including the composition of the board of directors, environmental impact, protection of human rights, corporate social policy, anti-corruption policy, etc.
Ukraine remains aloof from these processes and trends, although corporate reporting of the largest domestic companies to some extent can be considered integrated. However, the majority of Ukrainian enterprises, due to incomplete understanding of the benefits of sustainable development, are paying insufficient attention to the process of drawing up integrated reporting; only a small percentage of companies are preparing non-financial reporting. According to the data presented in the companies’ transparency index websites (2018) for the period 2012–2017, there was a growth in the number of companies from 9 to 16.

The majority of prepared non-financial reports formed based on the vision of owners, senior management, and employees, have different content, format, and structure of the presentation of their results. This is due to the lack of the unified concept of integrated reporting, deliberate slowness of implementation riskiness disclosure of sensitive information, difficulties in obtaining and systematizing the data, etc. Thus, the study of international standards of integrated reporting, the feasibility of their possible implementation in Ukraine is a vital problem, which requires an in-depth study.

1. LITERATURE REVIEW

This section profoundly studies recent scientific publications concerning two concepts: enterprise value-based management and integrated reporting, as well as their mutual influence and interconnection.

The concept of VBM was initially applied in the research “The Value Imperative: Managing for Superior Shareholder Returns” written by McTaggart, Mankins, and Kontes (1994). They systematized the approaches based on value-based management to increase the company’s profitability and assess its potential. Rappaport (1998) substantiated key aspects for creating VBM and introduced the idea of shareholder value added (SVA).

Stewart (1991) disclosed the main aspects of increasing the enterprise value for shareholders. Copeland, Koller, and Murrin (1995) investigated the essence of the concept “value-based management” by using value thinking for effective management. Arnold and Davis (2000) identified and investigated the key elements of value-based management.

D’yakonova, Nikitina, Sukhonos, and Zhuravka (2018) analyzed the interconnection between the VBM and the economic security management at an enterprise.

All the abovementioned approaches to the concept of value-based management are based on various fundamental principles of value creation (strategy, organizational structure, measuring instruments), use of various measuring instruments (economic value added, market value added, shareholder value added, etc.) and information base, and intend generally to define the real enterprise value.

At the same time, certain studies were conducted in the field of accounting in connection with expanding its information capacity for the needs of different users in terms of determining the company’s value.

DiPiazza and Eccles (2003) proved that financial statements do not often meet the requirements of users (primarily the external ones). The authors argue that to meet the growing demands of stock market participants, the financial statements should disclose information about factors affecting the enterprise value, that is, its investment value (from the market participants’ perspective). They have developed a concept of value reporting.

Stewart (1997) pointed out a systemic defect in the available methodological framework for determining the company’s value. He proved that the information in the balance sheet does not correspond to the enterprises’ real value.

In Ukraine, a business entity value assessment is regulated by the National Assessment Standards, whereby methodological regulation of property evaluation, property rights, and professional evaluation activities are provided. The assessment of some individual objects and accounting results are based on Ukrainian Accounting Standards and IFRS. At the same time, a reliable assessment of the enterprise value and its components is necessary for enterprises that offer their corporate rights for offi-
cial sale, change ownership, attract foreign financial investments, etc.

The process of global integrated reporting implementation indicates significant progress in supporting and adopting this concept.

Zhuravka, Kravchenko, and Ovcharova (2018) substantiated the sufficient role of integrated reporting in the process of enterprise value-based management.

Drager (2017) states that integrated reporting is an alternative guide for investors, which aims to give a comprehensive and objective vision of what is happening in the company, and also the surest way to tell investors how the company creates its values, in what direction it is moving, and where it will be in 5, 10, and even 50 years.

Eccles, Krzus, and Solano (2019) conducted a detailed analysis of the preparation of integrated reporting in different countries. They studied the companies from different countries using a special scale to evaluate some areas of disclosure: materiality, risks and opportunities, strategy and resource allocation, performance, and outlook. The authors found that countries could be grouped into three categories according to the quality of disclosure: high, medium, and low.

The need and importance of integrated reporting are supported by Adams and Simnett (2011). They substantiated that in Australia, integrated reporting is comparatively a new reporting paradigm.

Chairman of the IIRC Council, King (2018), profoundly analyzed the outcomes-based approach of integrated reporting, which is now recognized in the Sustainable Development Goals of the United Nations Organization. Tilley (2019) paid special attention to the disclosure of the environmental risks.

Mishra (2020) approves that Indian companies need the adoption of integrated reporting, which demonstrates the relationships between governance, performance, and strategy.

Okwuosa (2020) said that integrated reporting is the future of corporate reporting. However, the way of its adoption into the local practice will vary from jurisdiction to jurisdiction.

The preparation of integrated reporting requires improved accounting information, including the use of IFRS. The impact of IFRS on the significance of accounting information was studied by Do Hoon Ki, Wook Bin Leem, and Jee Hoon Yuk (2019). This study particularly analyzed the change in value assessment by comparing the explanatory power of different research models before and after the IFRS adoption.

The use of international standards should improve the quality of information and increase the effectiveness of audits of the integrated reports. These issues are covered in detail in the research of Hinke, Gezo, Smutka, and Strielkowski (2020). The results showed the essential variety in management approaches to integrated and financial reporting.

Also, several studies on integrated reporting were carried out by large audit companies (Deloitte, EY, PWC, KPMG) and professional associations (CIMA, IFA, PPC), specialized organizations (IIRC, WBCSD), etc. The most important issues were connected with the quantity and quality of published integrated reports, global consultations on their implementation, compilation and analysis of such reports, identification and systematization of problems associated with integrated reporting, standardization of this process and development prospects, etc.

For instance, the International Integrated Reporting Council (2020) is a specialized entity that unites regulators, investors, companies, standard setters, accounting professionals, etc. It aims to assist with the integrated reporting implementation globally both in the public and private sectors.

Also, the World Business Council for Sustainable Development (WBCSD) (2013) is considered a global organization, which provides integrated reporting for different businesses all over the world.

Audit companies Deloitte (2019) and PWC (2014) provide survey analysis and reporting services on sustainable development, conduct research on corporate responsibility reporting. For instance, according to the Corporate Register (global online catalog of corporate responsibility) (2019), based on the results of the reporting competition, Australia Post received an annual award for the best integrated report for 2018.
2. GENERALIZATION OF THE MAIN STATEMENTS

The formation of an integrated reporting process started in the 70-ties of the XX century. Considering the international experience, researchers define the main stages of integrated reporting that coordinate and streamline the process of its drawing up: preliminary, main, and final.

Thus, the decision concerning the need to incorporate an integrated reporting into the enterprise value management system requires the development of an appropriate scientific and methodological basis (Figure 1).

The strategy of enterprise development requires the necessary data in terms of various aspects of its operations that can be obtained with integrated reporting to reduce the existing risks using the existing facilities.

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Figure 1. Incorporation of integrated reporting into the enterprise VBM system

The effective relationship with stakeholders is a key factor in the preparation of integrated reporting. To identify stakeholders aimed to identify the following characteristics: the interests of certain groups, the definition of the most influential and the most important among them, setting priorities for various stakeholder groups, their possible impact on the entity and its resources in the context of strategic development. Further detailed analysis of the information expectations of major stakeholders will formulate the effective strategic management plan, set the desired direction of the entity with the maximum satisfaction of their interests. Stakeholders (investors, creditors, managers, employees, community, government organizations, etc.) are the most important participants of the integrated reporting forming. The technology of integrated reporting should consider the specifics of each legal entity. Moreover, it should be connected with other forms of reporting, which reveal additional information concerning the key indicators.

Source: Developed by the authors.
Each legal entity has its own processing technology for submission and display requirements concerning accuracy, reliability, and efficiency. It should be focused on the use of relevant information using modern hardware and software tools.

Integrated reporting is a management tool that, by considering a system of financial and non-financial ratios, implements a strategy of maximizing business value for the benefit of all stakeholders and substantiates the decisions on complex value creation in the short and long term. It also provides comprehensive management information needed for day-to-day management. The preparation of integrated reporting affects the quality of the company’s strategic management, considering the tasks of social responsibility or sustainable development.

In the world practice, there are two approaches for making the models of integrated reporting: free and standardized. The first one (free format) has a free structure, based on booklets (list of environmental, social, and other projects) and thorough reports compiled on the own system and indicators. The second one is more efficient, allows organizing certain financial and non-financial performance indicators, provides comparability, and increases the efficiency of their use by the users in making the management decisions.

The integrated reporting requirement for Ukrainian business entities, rules for preparation and presentation are not regulated by national legislation.

In world practice, the first integrated reports appeared in the mid-2000-ties. Nowadays, the issue is under the influence of several different legislative acts, such as GRI, EU Directive, and the international standard on integrated reporting, AA1000, SA8000, ISO 14000, ISO-26000, and others.

Based on these documents, the entities can determine their own internal regulations based on integrated reporting.

The integrated reporting on the second stage of the formation allows realizing its conceptual basis through complex organizational and methodological measures. Organizational measures include the implementation of the following measures: 1) forming of a competent working group involving the major stakeholders to consider their needs, interests, and expectations – the working group may vary depending on the organizational and administrative structure of the entity and include: board members, accountants, planning department employees, information technology department employees, etc.; 2) determination of the frequency of compilation of the integrated reporting – in accordance with the international and national experience the integrated reporting is primarily formed by the entity on the annual basis; 3) selection of main subdivisions and their functions on forming the necessary accounting and analytical support mechanisms of interaction and communication, for instance, through the formation of organizational and functional integrated circuit assembly statements; 4) approval of the working schedule with the definition of terms of processing and presenting information that will allow to promptly receive all necessary information and improve its quality, quantity and value performance and efficiency of reporting in general.

The formation of organizational principles is closely related to the methodological issues concerning the structure of an integrated system of reporting and key performance indicators and then making appropriate adjustments to the accounting policies. Structural elements of the integrated reporting primarily depend on the chosen form of reporting (voluntary or standardized) and the basic standard.

If the enterprise intends to apply the voluntary approach, it forms a system of performance indicators in terms of selected structural elements. The use of this system is advisable in the early stages of transition to integrated reporting. This report does not require an external audit, which significantly reduces its information value. Therefore, preference should be given to a standardized form of reporting with a clearly defined list of key structural elements.

At the same time, the structure of the standardized reporting depends on the chosen system of its forming. Nowadays, it is based on the following approaches.

The first one is based on the Global Agreement, and is commonly widespread, due to ease of its forming. It provides a report on the progress of
implementation of the principles of the Global Agreement. This system includes about 800 entities in 140 countries.

The second approach is based on a system of Global Reporting Initiative (GRI), which provides the formation of the Sustainable Development Report to reveal information about business entities in the economic, environmental, and social sphere. It includes 600 organizations from 60 countries.

Taking into account the requirements of GRI 4.0, the integrated reporting should disclose relevant aspects in terms of the following components: economic, environmental, and social.

This standard provides two sustainability report options: basic and advanced, which considers significant aspects (insignificant aspects are not reflected in the report).

Regardless of the form, the report should include the following elements:

a) standard elements:

2) strategy and analysis – reveal the common strategic issues of sustainable development of the subject; its impact, risks, and opportunities are specified in other sections;

3) activities subject – contains name and address, major products and services, details of ownership, scope of activities, main markets, etc.;

4) identified significant aspects and their limits – specified procedures, principles, and methods used when forming a report and identifying significant issues;

5) interaction with stakeholders – provides a list of stakeholders, principles of their choice, methods of interaction, risks, etc.;

6) general information about the report – the reporting period is specified, the date of the publication, the cycle of reporting, report verification, etc.;

7) corporate governance – reveals the role of corporate governance, senior management on the subject of sustainable development and its economic, social, and environmental performance, risk management capabilities, etc.;

8) ethics and integrity – specify values, principles, standards, and rules of the entity, its internal and external mechanisms to ensure ethical and legal development;

b) specific elements:

1) information on the approaches in the management – management of the economic, social, and environmental impact in terms of basic essential aspects;

2) indicators associated with the identification of significant issues in terms of economic, social, and environmental categories.

The third approach involves using the Integrated Reporting (IR) with supporters from more than 100 international companies. It includes 6 varieties of capital, i.e., industrial, human, financial, social, natural, and intellectual. It also identifies the following components: review of the company (organization) and its environment, management, strategy and resource allocation, business model, current activities, and development prospects.

Legal entities considering the recommendations as mentioned earlier in the formation of an integrated report must disclose financial and non-financial information so that users can comprehensively assess their activities in terms of the following aspects:

- strategic vision development (basic analytical performance indicators considering the impact of the system of legal, commercial, social, environmental, political, and economic factors on the ability of the entity to realize the strategic objectives);

- governance structure (methods and processes of management, corporate culture, management responsibility, etc.);

- the basic risks that affect the company’s ability to generate cash flows from the use of different types of capital and mechanisms to minimize them;
• short-, medium-, and long-term goals, plans, and activities aimed at achieving the overall strategic mission, given the effect of several environmental factors, opportunities and risks, social and environmental components, etc.;

• business model of the entity (general information about the assets and liabilities, activities, products, services, performance);

• targets by main types of capital;

• development prospects and existing threats.

Thus, each legal entity must choose its own system of structural elements and parameters depending on the particular activity, stage of development, etc. However, the integrated report should meet certain criteria concerning quantity, quality, value, and utility. According to the International Integrated Reporting Standard, the preparation and forming of the integrated report information provision consider the following principles: strategic focus and orientation for the future; materiality and conciseness; completeness and reliability; constancy and comparability; response and involvement of stakeholders.

Quite interesting seems the list of principles according to the GRI 4.0 requirements: principles of content (interaction with stakeholders, strategic development context, materiality and completeness) and Quality Assurance Report (balance, comparability, accuracy, timeliness, quality, reliability).

Some of these principles are more appropriate to refer to the qualitative characteristics of information (brevity and materiality, completeness and reliability, consistency and comparability). At the same time, approval only of those principles and requirements will not fully ensure the formation of a high-quality information base. Therefore, it is considered appropriate to apply a system of additional (strengthening) properties (criteria) information. A full-fledged integrated reporting is impossible without including in its composition qualitatively prevailing financial statements. So, it should include qualitative characteristics of financial information: understandability, relevance, reliability, comparability, timeliness, possibility of verification.

Distinguishing some additional quality criteria of information provided in the integrated reporting one should consider the fact that they can relate to the content and quality of the report, generate economic and legal aspects, and ensure its quantitative, qualitative, and value orientation. Based on the research, the concept of integrated reporting is generalized (Figure 2).

It is not only a set of separate elements, but also coordinated and coherent presentation of information on the entity’s strategy from disclosing it to ensure all the necessary resources in terms of production, human, financial, social, natural, and intellectual capital.

In the context of each item, the essential information should be highlighted in the context of its sustainable development.

The descriptive nature has such elements of the integrated reporting as the description of the subject of strategy, a comprehensive strategic plan, an overview of the economic situation, brand, business model, a description of the regional network diagrams Corporate Governance Code of Conduct, subject contribution to society, a description of the risks and its key factors, a description of the priorities in the field of energy, the description of the general principles of environmental and social policies, etc. In terms of financial and non-financial indicators, it is important to determine their composition and correlation. If the financial situation is quite clear, the formation of a non-financial system for most entities is problematic due to the lack of experience, inadequate regulatory and methodological support.

Based on the nature of forms of capital specified in the International Standard for Integrated Reporting and GRI 4.0, subjects, for example, can use the following indicators:

• financial capital – indicators that reflect available financial resources, as well as those coming from debt, equity financing, grants or created as a result of the investment and operational activities;
Figure 2. The concept of creating an integrated reporting model in Ukraine

- **Industrial capital** – indicators of status and dynamics of fixed assets, equipment, buildings and infrastructure (roads, ports, bridges, waste treatment plants and water treatment plants), etc.;
- **Human capital** – by age, turnover, gender balance, the number of employees who have training hours, training and other indicators that reflect the competence of employees, their skills, experience, motivation;
• intellectual capital – the number of patents, copyrights, software, licenses, and indicators that reflect the “organizational capital” (knowledge, systems, procedures, and protocols);

• natural (environmental) capital – consumption of natural resources (air, water, land, minerals, and forests), the cost of environmental safety, environmental costs and liabilities, information on emissions and other pollution etc.;

• social capital – the amount of charitable donations, the number of social programs, corporate social responsibility, social, and other licenses.

Most of the indicators are displayed by the entities in various forms of financial and statistical reporting. From 2018, together with the financial statements of the enterprise (medium and large), prepare and submit a management report. The report contains financial and non-financial information that characterizes the status and prospects of the enterprise’s development and reveals the major risks and uncertainties of its operations. There is no officially approved report form.

As mentioned earlier, not all types of capital can be described by the existing accounting category; therefore, they are not reflected in the financial and statistical reports and captured only as off-balance sheet growth factors of value. Thus, the existing forms of reporting information on environmental, social, intellectual performance indicators; implementation of environmental and social obligations to the community contain only indicators in other reports or not disclosed at all, which complicates the process of assembling the integrated report.

For Ukrainian enterprises, the main factors of value are financial indicators (financial and economic and property status of the enterprise, the level of technical equipment, market share, etc.). Their impact can be quantified. However, it is necessary to consider the need to use non-financial (qualitative) factors (use of intellectual and social capital), which are poorly formalized. The level of their influence on the formation of enterprise value is estimated by using expert methods (analysts’ assessments, ratings, etc.).

An integrated approach to business value modeling provides an assessment of all entities.

3. DISCUSSION

Considering the necessity of integrated reporting implementation into the enterprise value-based management system the following modifications to the existing accounting policy in Ukraine were offered: 1) accounts within the 8th-grade sub highlights for accumulating costs on environmental protection, material, labor and social insurance; depreciation, environmental fees and charges, other environmental costs – to account for the performance of environmental capital; transactions that provide both internal and external socially responsible activities in terms of cost – accounting for indicators of social capital, etc.; 2) accounts within the 44th to select subclass for accumulation operations, providing both internal and external socially responsible activities of profit used.

Quite problematic regarding the formation of information security, in the authors’ opinion, is intellectual capital, which almost did not appear in the current accounting system, since in most cases only evaluated by determining the value of intangible assets. Given the complexity of creating an integrated reporting in the early stages of an entity’s accounting policy, it is advisable to fix a list of additional non-financial indicators to be disclosed in the notes to the financial statements, which will allow stakeholders to obtain necessary information concerning the types of capital.

Assessment and control form the final stage, which ensures steady progress between the goals and the objectives. It should systematize the information received in the context of certain aspects to influence the accuracy and usefulness of decisions, identify and eliminate inconsistencies and contradictions. Constantly monitoring the previous stages will provide an opportunity to obtain data that can be the generalized basis for evaluating the effectiveness of reporting. In assessing the overall impact, statements define and analyze its
conformance with standards and regulations, balance and validity of indicators, and verification of information.

Compiled statements are subject to approval by the authorized persons and should be published in the media. An entity should use monitoring tools to minimize the risks of material misstatement. For this purpose, it is necessary to develop managerial and supervisory plans for integrated reporting, monitoring the quality of information and completing the report. Implementation and support of an effective system of internal controls at all stages of preparation will improve the reliability of the report should cause quality of decisions. Weaknesses in the controls can lead to the use of inaccurate or false information. Particular attention should be paid to the control of the information previously disclosed in the public accounts. The instrument of this control can be an internal audit, which can reduce the cost of external verification. Generally, systematic and quality control helps to identify existing problems, timely adjust strategic objectives, and increase the information value of the report to stakeholders.

CONCLUSION

The further development of the integrated reporting implementation in the context of enterprise value-based management should increase the financial performance, reduce risks in management decisions, raise the trust level to the information quality, identify internal reserves, and ensure competitiveness in the context of sustainable development. Moreover, all business entities and institutions of state regulation should understand that integrated reporting should not only become an instrument of transparency of activity and control of environmental and social activities but one in front, a means of inducing changes in the main objective and purpose of entrepreneurship – to achieve the maximization of economic profit – at the same time, a progressive increase in environmental and social capital. Thus, the preparation of integrated national reporting entities will comprehensively reveal different aspects of the business and provide greater use of domestic capacity. Preparation of reports for the proposed method will help unify the process of drafting an impact on reducing information risk, shift the focus of indicators to measure results from short-term to long-term, reveal a larger amount of information needed for decision-making. The effectiveness of this process has affected the settlement of legal and regulatory support and creating the necessary infrastructure to support integrated reporting in Ukraine. The possibility for further research is driven by the need to deepen the theoretical and methodological principles of audit reliability compiling of integrated reporting for domestic entities.

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