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THE IMPERATIVE OF SUSTAINABLE GROWTH AND REPORTING INTEGRATION THREE ERAS IN THE CORPORATE REPORTING DEVELOPMENT

Keywords: sustainable growth, integrated reporting, financial reporting, social responsibility reporting, value.

JEL Classification: G39, M14, M41, O34, O49.

Abstract: This article is aimed at the presentation of an opinion in the important discussion about the further development of corporate performance reporting standards, which go far beyond the standards of financial reporting. The current guidelines on social responsibility reporting and the conceptual frameworks of the so-called integrated reporting may give rise to questions on the costs and benefits with regard to corporate reporting within the trend of sustainable growth. The present article, which is the first part of a two-part analysis, discusses synthetically three eras in the corporate development reporting. Their context should determine the perception of the current trend of development corporate reporting made in compliance with the imperative of sustainable growth. The review indicates the premises which appeared to be the driving force of a quality surge in the area corporate performance reporting. There is a conviction expressed in the text that the presently emerging fourth era in the development of corporate reporting will significantly change the conceptual model of this kind of reporting.

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IMPERATYW ZRÓWNOWAŻONEGO ROZWOJU I INTEGRACJI SPRAWOZDAŃ. TRZY ERY W ROZWOJU SPRAWOZDAWCZOŚCI PRZEDSIĘBIORSTW

Słowa kluczowe: zrównoważony rozwój, sprawozdawczość zintegrowana, sprawozdawczość finansowa, raportowanie ze społecznej odpowiedzialności, wartość.

Klasyfikacja J E L: G39, M14, M41, O34, O49.

Abstrakt: Celem artykułu jest przedstawienie głosu w ważnej dyskusji na temat dalszego rozwoju standardów raportowania dokonań przedsiębiorstw, które to standardy daleko wykraczają poza standardy sprawozdawczości finansowej. Pojawiające się obecnie wytyczne dotyczące sprawozdania ze społecznej odpowiedzialności i ramy koncepcyjne odnoszące się do tak zwanej sprawozdawczości zintegrowanej skłaniają do pytania nie tylko o koszty i korzyści związane z raportowaniem dokonań przedsiębiorstwa w nurcie zrównoważonego rozwoju. W tym artykule, który jest pierwszą z dwóch części rozważań, przedstawia się syntetycznie trzy ery w rozwoju sprawozdawczości przedsiębiorstw. W ich kontekście należy bowiem widzieć obserwowany obecnie kierunek rozwoju sprawozdawczości przedsiębiorstw przygotowywanej w zgodzie z imperatywem zrównoważonego rozwoju. Przegląd ten wskazuje na przesłanki, które były siłami napędowymi jakościowych skoków w obszarze raportowania dokonań przedsiębiorstwa. W tekście wyraża się przekonanie, iż krystalizująca się współcześnie czwarta era w rozwoju sprawozdawczości przedsiębiorstw, zmieni istotnie koncepcyjny model tejże sprawozdawczości.

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■■■ INTRODUCTION

Corporate performance reporting is becoming increasingly important at present. It is determined by a commonly exposed need for sustainable growth practically with regard to every single human activity. It is a particularly vital issue in the area of corporate activities as the result of these activities refers to a wide range of external stakeholders. In this context, the report information structure is crucial for corporate performance reporting; and it is significantly expanding as it should become an information consensus satisfying the needs of numerous stakeholders.

Corporate reporting may be seen in a different – holistic – light due to frequent negative assessments of its decision making usefulness. These assessments do not instil optimism in relation to opinions like (Noria 2010) "we are living at the time in which the politicians are trusted more than business people." From this perspective, it seems that the emphasis on the qualitative features of reporting like sufficiency, reliability, objectivity and credibility is not strong enough to argue the case of its usefulness.

Thus, it may be assumed that the trend of sustainable growth and the fact that companies operate within the knowledge based economy as well as a peculiar crisis of trust in business financial reporting make the world of business look for a solution to the situation which questions the usefulness of the current ways of communicating important information in this business¹.

Finding solutions which could be an antidote for the current situation is not easy. There are heated debates within the business related scientific environment on: (1) the need to extend the financial reporting information scope by sets of non-financial information and (2) the need to make reports separately describing the effects of corporate activities on environmental and social planes. Each of these solutions, as a matter of principle, should serve the purpose of informing all the stakeholders that the managements are aware of multidimensionality of the corporate impact and that their business decisions are made on the basis of this very awareness.

Irrespective of the adopted solution, companies reporting on their performance incur substantial costs. Moreover, when creating a set of information going far beyond the information presented in the form of financial reporting (even if it is particularly expensive and made in compliance with the International Financial Reporting Standards), the companies have to provide a reliable description of the issues which are hardly measurable and difficult to communicate easily, but always subjectively assessed by different stakeholders.

The documentation of an effort made in order to implement the idea of sustainable growth seems to be as difficult as the implementation of the idea of sustainable growth itself. Putting the decision emphasis on one plane may distort the efforts made on the other, and likewise: putting the informative (presentation) emphasis on one plane may do harm to the other. In view of this, there is still some risk related to the information structure, quality and usefulness of reports on corporate performance made by companies operating within the trend of sustainable growth. It may be noticed that its factors are multiplying geometrically in relation to the degree of extension of corporate reporting informative structure.

¹ See more on the role of accounting and the of science accounting in face of these determinants: (Karmańska 2013).

THE RESEARCH METHODOLOGY AND THE COURSE OF THE RESEARCH PROCESS

The article identifies and discusses synthetically three eras in the corporate development reporting. The basic method used in the process of writing was a critical analysis of literature concerning the standards of financial reporting and the development of corporate reporting standards as well as own over the time observations based on different case studies analysis.

THREE ERAS OF CORPORATE REPORTING DEVELOPMENT PRECEDING THE ERA OF IMPERATIVE OF REPORTING WITHIN THE TREND OF SUSTAINABLE GROWTH

Historically, corporate performance reporting has been changing at a different pace, but always in one and the same direction set by the group of external stakeholders. Reporting looked different in the period when it virtually served at first only one owner of the company, it changed when there were many owners and was still different when the owners were unknown and could change practically every day. Corporate performance reporting was different when the owners expected some retrospective information and they made the analyses of determinants and prospects on their own, applying them when making decisions. That period is, to a large extent, over now. A broadly perceived owner or investor does not want any longer to focus on analyses, which require much time and a thorough knowledge of the area of reporting: construction principles, information capacity and evaluation of items included in the reports. Following the rule: "time is money", a present stakeholder-cum-investor is awaiting the information which has already been processed and meets his information needs. This, probably most important and thinking in this way, group of external stakeholders was joined by other groups of stakeholders after some time (creditors, partners, workers, different institutions and even the whole community in which the company operates). Each of these groups has become equally important for the corporate business, but each of them expects the company to report the performance adequately to their utilitarian information needs. This results in the changes in reporting of companies (organisations) and the information capacity is in no way being reduced, on the contrary – it is being extended. The size of the information scope extension of corporate reporting is becoming so significant that the very fact of extension may be perceived as a threat with the "triumph of form over content" and "a lower quality of infor-

mation transmission”, which is based on increasingly large scope of “subjective selection” and increasingly high level of “source information processing.”

On the basis of the observation of the changes in reporting on corporate (organisation) performance, one can indicate a few eras (stages) of corporate reporting development which clearly show the direction of its further evolution:

- the first era – integrated financial statement,
- the second era –integrated financial statement oriented for risk factors identification,
- the third era – integrated financial statement oriented for the risk factors identification extended by the information on resources, competences and attributes not revealed in the financial statement,
- the fourth era – integrated financial statement and other reports in the trend of sustainable growth.

THE FIRST ERA

The changes in corporate reporting throughout centuries have been different in nature. The balance statement was the first to appear, followed by the profit and loss account a few centuries later. Another century later came the cash flow account, followed soon by the statement of changes in equity. As the elements of financial statements have been extended, their arrangements have been verified and at the same time extended by the range of information to complete the data presented in the financial statements. Then the commentary on financial VALUES appeared, known as a management board report (later report on corporate activity). Discussions began about a possibility of including some facultative elements to complete the financial statements, e.g. data resulting from the financial analysis or other information which the management board may regard important and worth communicating to the stakeholders. Let us call this period in the development of corporate reporting, which lasted many centuries, symbolically as the first era (the creation of the integrated financial statement). From the institutional perspective, primarily domestic legislative institutions and vocational organisations were involved. Depending on the country, they made use of the achievements of international institutions which were being established as the global dimension of the problem of financial reporting was becoming increasingly apparent.

THE SECOND ERA

Then, in the epoch of heated debates about the necessity for risk management, financial reporting offered to the stakeholders an extended range of complementary information, changes in requirements for example in the area of segment reporting, serious changes in the methods of balance evaluation of financial instruments and other assets, including the introduction of the category of fair VALUE². Accounting, trying to raise the prognostic quality of the financial reporting created in the system, began to commonly apply complex methodologies of measurement of the loss of ability to generate future economic benefits by the corporate assets. In order to meet the needs of external stakeholders, the method of evaluation of the acquired goodwill was changed. At first it was based on the price of acquisition of another company and the book VALUE of its assets, then on their market VALUE and at present on the fair VALUE. The principles of disclosing other intangible VALUES in the balance were reorganised. Incomes and costs recognition was standardised. The layouts of reports were being changed. These are examples of adjustment changes in the area of financial reporting. They have been made and are still being made in many areas of corporate operations. It all results in the reformed principles of disclosure, recognition and evaluation of corporate assets, the need for discussion about professionalism and the reminders of the principles of professional ethics³. This stage is in progress and may be described as the second era (with regard to the improvement of the integrated financial statement and reporting on the corporate risk within the framework of it). The problem is dealt with by many institutions of international scope of impact, to mention for instance: the International Accounting Standards Board (IASB), the European Financial Reporting Advisory Group (EFRAG), the Securities and Exchange Commission-SEC, the Organisation for Economic Co-operation and Development-OECD, the European Federation of Financial Analysts Societies-EFFAS, the Financial Accounting Standards Board-FASB, the International Federation of Accountants (IFAC) or the European Commission (EC).

² See more: (Karmańska 2010a, 97-107).

³ See more: (Karmańska 2010b, 97-110).

THE THIRD ERA

The business world has identified and is still identifying other information needs on the part of corporate stakeholders parallel to the changes in the financial reporting presented above. Under the impact of the changes in the methods of competition, besides the currently operating capital groups as well as the appearance on a mass scale of strategic alliances, clusters, cooperation or other newest forms of cooperation allowing for further operation on the market and achieving a competitive advantage, external stakeholders' needs, so far not recognised, have been indicated as urgent. The stakeholders' expectation to familiarise themselves with the corporate exchange VALUE become an important issue. In the axiological terms, this value, set in the so-called market value standard, practically suddenly and commonly began to play a more important role than the corporate use VALUE. The satisfaction of this need became another challenge. At first, it has to be faced by the companies themselves and then, due to the scale of needs, the world of science and different international initiatives and institutions.

Because the business world began to rightly perceive assets – essential to create a corporate market value and not disclosed in financial reporting – in the intellectual capital VALUE (in human, structural and organisational or structural and relative capital); reporting on the knowledge of the VALUE of such corporate assets requires finding another reporting consensus. Thus, new proposals in this area appeared, e.g. supplement to a financial statement presented by Scandia (first in 1994) (Mauritsen, Larsen 2001, 399–422), IFAC Study no. 7 (1998) (Dzinkowski 1998), Danish Guidelines (DATI) (2000) (A Guideline for Intellectual Capital Statements 2000), Nordika Project (2001) (A report from the Nordika project 2001), Value Chain Scorecard – VCS (2001) (Baruch 2001), Meritum Guidelines (2001) (Meritum Project 2002), PRISM (2003) (The PRISM Project 2003), Guidelines for Disclosure of Intellectual Assets Based Management (2005) (Guidelines for Disclosure 2005), InCaS-European Intellectual Capital Statements Guideline (2008) (Intellectual Capital Statements 2008). The need for reporting on intellectual capital became an area of important empirical and scientific research, which is costly and conducted extensively on an international large scale. It is so because the identification and measurement of the VALUE of this capital in the conditions of global economy are a challenge for the business practice and the science of both management or finance and

accounting⁴. Certain achievements and a peculiar stability have been achieved in this area. The practice provides evidence to prove that some solutions have been adopted in relation to intellectual capital reporting convention and they may be regarded as a peculiar standard in this field⁵.

■■■ CONCLUSIONS

In conclusion it can be seen that the third era of the development of financial reporting is the era of a substantial qualitative change in corporate reporting. There are attempts to find solutions enriching financial reporting with the information about the asset VALUE not recognised in the reporting so far. As external stakeholders found the financial statement insufficient, a new complementary element appeared to accompany it, informing about the corporate intellectual capital, about the business potential and the power of impact on the corporate VALUE. In view of the above, if in this era, one discusses the issue of communicating the knowledge of the corporate business performance and potential, it is well justified to use the notion of annual corporate report or annual corporate statement but not annual financial statement as the statement is becoming one of the two elements of the annual corporate report, though it is still playing a crucial role in this reporting.

At present we are entering another era – the fourth era. It is an era of a dominating role of the imperative of sustainable growth, an era of birth of reporting integration perceived in a completely different way than before. It cannot be understood in a straightforward manner as the presentation of independent large sets of additional information, in a sense next to the financial statement and with regard to the question of reporting, or in a company managed within

⁴ The review of opinions on the necessity of reporting on intellectual capital and on its measurement see for example: (Kannan, Aulbur 2004, 389–413). This publication reviews over 100 items devoted to the measurement of intellectual capital. Although the review refers to the period 1959–2001, the problems of reporting on intellectual capital are still relevant at present.

⁵ Empirical evidence may already be found to prove that the business environment is closer and closer to the creation of a consensual reporting standard in relation to intellectual capital. It is reflected in the reports on this capital made in particular by the companies listed on securities exchanges. See for example: (Branswijck, Everaert 2012).

the trend of sustainable growth, as the creation of VALUE, which n.b. in a scientific sense requires a serious further clarification⁶.

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⁶ This theme as well as the context and specificity of the fourth era in the development of corporate reporting are presented in: (Karmańska 2014).

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