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Disclosure of non-financial information in corporate social reporting as a strategy for improving management effectiveness

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Abstract. With the economic relationships being, as evolved, as they are today, the need for further development of the concept of intellectual capital is gaining particular relevance as it is the key factor that determines the difference between companies' market and book values, and corporate social responsibility levels. The objective of the research is to find the key gaps and shortcomings in the existing approach to intellectual capital accounting and reporting, and to propose appropriate solutions relevant to fully meet the information needs of stakeholders regarding the capitalization of costs associated with the creation of internally generated intangible assets, maintaining records of personnel-related costs. The authors propose a technique for data completeness analysis, which allows evaluating the quality of non-financial report (on the scale from 1 to 268, were the 268 is the most informative report) by taking in consideration the contents of information provided in the companies' reports under each of 32 disclosure items grouped into eigth content elements. Disclosure items developed are based on the assessment of possible information wich can be provided in non-financial reports. Ten Ukrainian businesses operating across different sectors of the economy which published their corporate social responsibility reports have been evaluated by using the proposed technique and the received total rate is from 24 to 150 points.

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INTRODUCTION

Over the past three decades, the focus on maximizing short-term profits has shifted to the informed need to increase companies' long-term market value. This can be achieved through leveraging a variety of resources comprising both tangible, financial, and intangible assets, such as intellectual capital, brand value, natural and human capital, as well as finding their optimal combination and ensuring their efficient management.

The key objective of accounting is to provide stakeholders with financial reporting information that is accurate, complete, truthful, relevant, and also material for subsequent managerial decision-making. However, starting from the 1990s, there has been a significant gap between the fair value and the book value of companies' assets. This shows that current accounting systems are unable to fully reflect all the factors that account for this substantial discrepancy between the fair value and the book value of companies' assets through financial reporting.

This imbalance is caused by the fact that companies have intellectual capital resources at their disposal (Chen et *al.*, 2005; Ticha, 2008,) which cannot be fully captured and recorded in financial statements. The key reasons for this situation are:

– ambiguities associated with the essence and the structure of intellectual capital in economics and accounting;
– the inability to meet the basic asset recognition requirements of the IFRS (accurate valuation of assets at their historical cost, determination of future economic benefits that can be derived from the use of the asset, and exercising control over the asset) (Derun, 2013; Derun & Skliaruk, 2015.)

In all the countries, in accordance with national regulations, which are brought into alignment with IFRS or US GAAP, there is a mandatory requirement to publish information pertaining to the financial status and performance of business companies, their profit and loss and cash flow statements. However, despite the growing impact of social responsibility of business in a knowledge-based economy, in most countries, intellectual capital disclosure is essentially voluntary, which creates information asymmetry problems for stakeholders (Kateb, 2014.) Still though, it is worth pointing out that disclosure of such information as part of financial statements is of great importance.

The disclosure of intellectual capital as a supplement to financial statements is essential due to a number of threats emerging through the rapid growth of the financial market. Specifically, one of the key threats is the inability to access sufficient information by shareholders with minor stakes, since only public financial statements serve as their principal source of information. In addition, the failure to report intellectual capital elements might threaten to give rise to the situation where a large stake in a business is sold to competitors or other investors through insider trading, based on the knowledge of company's intellectual capital strengths. Also, the lack of necessary information about a business is fraught with investment risks, thus leading to higher cost of debt (Mouritsen *et al.*, 2004; Kateb, 2014.) This can be accounted for by the fact that intellectual capital disclosures are largely made by big companies, which are planning to have their shares traded on international stock exchanges in the future. Hence, public disclosure of such information is a common practice among companies preparing for or alreade engaged in IPO (Branswijck & Everaert, 2012; Cordazzo & Vergauwen, 2012.)

The already available studies didn't provide any methodology or technique to evaluate the quality of non-financial reports published by companies. This article aims to explore the concept of intellectual capital in a bid to refine and add further specification to the existing classifications of intellectual capital elements, thus creating a foundation for the disclosure of intellectual capital information in corporate reporting; organization of existing approaches to companies' non-financial reporting; analysis of the quality of non-financial reporting by Ukrainian businesses for their completeness, based on the developed here technique. The article includes introduction, four key parts – The Key Challenge of Financial Reporting Disclosures, Alternative Strategies for Meeting Stakeholders' Information Needs, Modern-Day Approaches to Corporate Social Reporting, Assessment of Corporate Social Reporting Practices – and conclusions.

1. THE KEY CHALLENGE OF FINANCIAL REPORTING DISCLOSURES

The importance of intallactual capital studies is in his essence and accounting that confirmed by many scholars (Mitchell van der Zahn *et. al.,* 2007; Sriukova *et. al.,* 2008; Brannstrom & Giuliani, 2009; Guthrie *et. al,* 2012.) In particular, there are no eatablished approach to terminology, classification and definition of intellectual capital in economics (Edvinsson & Maloun, 1997; Alcaniz & Roslender, 2011; Guthrie *et. al,* 2012; Molodchik *et. al.,* 2012; Derun 2013; Kateb, 2014.) In accounting there are the problems of value of intellectual capital, its reflection in corporate reporting, reflection of nonfinancial data about elements of intellectual capital in corporate social reporting (Ticha, 2008; Cordazzo & Vergauwen, 2012; Hrebidek *et. al.,* 2012; Derun, 2013; Christensen, 2015; Derun, 2015; Joshy & Li, 2016.) Also very important issue is the use of fair value in accounting system (Muller III *et. al.,* 2012; Goh *et. al.*, 2015), including elements of intellectual capital using financial and non-financial data (Derun, 2013, Christensen, 2015.)

There are various approaches to defining intellectual capital. The first one is based on the assumption that intellectual capital is a part of intangible asset (Joia, 2000; Petty & Guthria, 2000.) The second approach assumes the opposite, i.e. that intangible assets are part of the intellectual capital items (Alcaniz & Roslender, 2011; Molodchik *et. al.,* 2012.) The third approach relies on the assumption that intellectual capital is closely synonymous with intangible assets (Sanchez, 2000.)

Another common approach does not distinguish between intellectual capital and goodwill (Joia, 2000.) However, it should be pointed out that, in accounting, goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized (IFRS 3 Business Combination, 2011.) Under IFRS, goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition and the net assets acquired. In this case, it would not be well-advised to treat intellectual capital and goodwill as assets that cannot be individually identified and separately recognized, because, from this perspective, goodwill is a synthetic value, which is defined not only by intangible assets, but also by long-term tangible assets, which is not logical. In contrast, from the standpoint of the general theory of economics, goodwill represents the entire value of a company's reputation.

According to the traditional classification, intellectual capital can be divided into three key categories:

- human capital, which is generally defined as the knowledge, professional skills, formal and informal networking capabilities of employees, etc.;
- structural capital, which consists of patents, know-how, prototypes, copyright and related rights, corporate culture, enterprise information system, etc.;
- relational capital, which comprises a client base, customer loyalty, supply chains, profitable contracts, etc. (Edvinsson & Maloun, 1997; Molodchik *et. al.,* 2012.).

For accounting purposes, this classification should be expanded. Specifically, all intangible assets should be aggregated into one group, as they are listed as a separate item in the balance sheet. In addition, to avoid ambiguity and vagueness, goodwill, which arises only from an acquisition of a business, also needs to be recorded as a separate item, as it can also be reported as a separate financial item in the balance sheet.

In order to avoid confusion between the terms "capital" and "assets," it is necessary to designate another component as "intellectual assets." This requirement is due to the fact that intellectual capital is inherently a resource belonging to the company, rather than the source of their generation (a liability) as its use results in future economic benefits. All expenses associated with personnel development and training, staff recruitment costs, employee professional knowledge and skills expressed in value terms, which can be defined in employment contracts, such as salary, etc., should preferably be recorded in this category. This classification of intellectual assets will facilitate the accounting process and assist the accountant in recognizing these items as assets. It is worth noting that expenses linked to company employees are intrinsically a capital investment. Notwithstanding the fact that they do not belong to the business, the company management may exert influence on their management through the terms and conditions of the employment contracts. It follows from this that intellectual assets are a long-term resource belonging to the company, which is consistent with the basic asset recognition requirements.

Market-based assets are also recommended to be recorded as a separate group of assets, including the business's client base, organizational structure, corporate culture, etc.

To facilitate processing requests for information from users of financial reporting data, internally generated intangible assets are recommended to be reported as a separate item of intellectual capital. The reason behind this need is that internally generated goodwill is not recognized as an asset pursuant to IFRS (IAS 38 "Intangible assets," 2010.) The same is required by US GAAP, too. Specifically, research and development costs are required to be reported as expenses incurred in the reporting period, even though, as such, they must be recognized as an investment. This in turn leads to a decrease in the business's total value being shown in the balance sheet.

Table 1 shows the values of internally generated brands (*Br*) for companies ranking within the Brand Finance Global Top 500. Even though the ratio (*R*) of the value of these brand names in proportion to the companies' total asset values (*TA*) is significantly high, they are not reported in the balance sheets of these companies.

Table 1

Values of internally generated brands (Br) and their ratios (R) within the total book value of assets (TA) for Brand Finance Global TOP 500

Company Name	2013			2014			2015		
	Br, bn $	*TA*, bn $	*R*, %	*Br*, bn $	*TA*, bn $	*R*, %	*Br*, bn $	*TA*, bn $	*R*, %
Apple	87.3	207.0	42.2	104.7	231.8	45.2	128.3	290.5	44.2
Google (Alphabet)	52.1	110.9	47.0	68.6	131.1	52.3	76.7	X	X
Microsoft	45.5	143.5	31.7	62.8	172.4	36.4	67.1	176.2	38.1
Nike	14.9	17.9	83.2	20.8	18.9	110.1	24.1	21.6	111.6
Oracle	16.0	81.8	19.6	20.6	90.3	22.8	22.9	110.9	20.6
HP	16.1	105.7	15.2	19.8	103.2	19.2	18.1	106.9	16.9
Target	17.5	48.2	36.3	18.1	44.6	40.6	15.4	41.4	37.2
Walgreen	12.3	35.5	34.6	15.4	37.2	41.4	16.2	68.8	23.5
FOX	8.3	50.9	16.3	13.2	54.8	24.1	14.5	50.1	28.9
Accenture	9.1	16.9	53.8	11.0	17.9	61.5	11.1	18.3	60.7

Source: own.

To address this problem, the previous paper proposed that IAS 38 be amended to include the requirement for the capitalization of research and development costs, i.e. costs associated with the creation of internally generated intangible assets (Derun, 2013.) To reduce the possibility of error and fraud from taking place, it is proposed that such expenses be capitalized and disclosed in financial statements, provided that the business has source documents supporting the claim of expenditure for the creation of an intangible asset in the future. In addition, these documents must state that the results obtained during the research and development phase will be employed to create the intangible asset in question, thus enabling the business to derive future economic benefits through its use for the purposes intended. However, if the said asset is created for resale, then all expenses incurred for the creation of the asset must be reflected in accounting records as a period cost.

At a time when there is a strong focus on the importance of social responsibility in business, there arises the need for companies' environmental resources to be allocated, thereby enhancing their business reputation and economic performance. This in turn contributes to an increase in the total fair value of the entire company. These resources have to be allocated out of the pool of intangible assets, which must be reported in financial statements, as required by IFRS. Specifically, these resources should include investments into research and development, innovative green technologies that the company uses to reduce harmful emissions into the atmosphere, as well as product quality assurance systems.

Overall, for the purposes of accounting, it is proposed that intellectual capital items be classified as shown in Table 2 below.

Table 2

Classification of intellectual capital items for users of financial reporting information

Group of Intellectual Capital Items	Component
Intangible assets	Intangible assets associated with the rights of ownership and use of natural resources
	Intangible assets associated with the rights of ownership and use of property
	Iintangible assets associated with the rights of ownership and use of trade names
	Intangible assets associated with the rights of ownership and use of industrial property
	Intangible assets associated with the rights of ownership and use of copyright and related rights
	Other items of intellectual property
Goodwill	Arises only from an acquisition of a business, and is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, and the net assets acquired.
Internally generated intangible assets	Intangible assets internally generated by the company
Intellectual assets	Employees' professional knowledge and skills (may be reflected in employees' salaries, defined in employment contracts)
	Staff recruitment and hiring costs
	Personnel training and professional development costs
Environmental resources	Investment in innovation, research and development
	Innovative green technologies
	Quality assurance systems

Source: own.

It should be borne in mind that the value of a company's intellectual capital is often affected by different factors. Specifically, such factors can include the bankruptcy of a competitor due to a lack of working capital or legal claims, political crises resulting in competitors sustaining losses (such contingencies are especially likely to occur in the oligopolistic markets of developing countries,) emergence of cheaper substitute products that have an effect on consumers' preferences, favorable natural conditions in which a business operates, etc. An interaction of these factors may give a company an additional competitive advantage. However, such advantages should not be defined in terms of intellectual capital elements, since they are not controlled by the company.

Following the suggestions set forth above with regard to disclosure of intellectual capital in companies' public financial statements and notes to the financial statements will facilitate stakeholders' access to appropriate information. However, the key problem relevant to all financial reports filed by companies lies in their having a retrospective design, thus not being able to fully meet the information needs for managerial decision-making in the future. In addition, financial reporting is based only on a money measurement concept and subject to a range of constraints related to the definition of cost objects in accounting. As a result, not all necessary information can be measured and expressed in terms of money: business reputation, exposure to business risks, representation of the company's control systems, human rights performance, corporate environmental performance evaluation and environmental costs of business operations, etc. (Eccles *et al.*, 2011; Jensen & Berg, 2012; Wild & van Staden, 2013.) In contrast, this approach is future-oriented, and this information acts as an incentive for company management to seek alternative solutions through the use of non-financial reporting data to additionally inform the stakeholders' decisions.

2. ALTERNATIVE STRATEGIES FOR MEETING STAKEHOLDERS' INFORMATION NEEDS

Disclosure of intellectual capital information for stakeholders in company reports is a kind of a social contract, which facilitates a business in achieving its own goals through the creation of tangible and intangible assets for stakeholders. The firm's goals in this case may vary. Specifically, the goals pursued by most businesses would cover: the need to clearly define and explain the company's strategy for stakeholders (internal and external customers); the need to monitor the company's performance and efficiency at different levels; inability to present information in the form of financial reports; the need to reduce the time to access information; the intent to show that the company's most valuable asset is its staff (intellectual assets); the intent to showcase an innovative component; attract new clients; provide information as a supplement to the financial statements to enhance the business image and win the attention of potential investors for business expansion projects, and that of potential creditors to ensure credit facility opportunities, etc.

At the current stage of development of the intellectual capital theory, there is no international standard that would regulate the procedure for intellectual capital disclosure. Table 3 below outlines different approaches to the representation of intellectual capital information in financial statements.

Taking into consideration different approaches to reporting intellectual capital, it should be pointed out that the Guidelines of Danish Agency for Trade and Industry for Danish Companies appear more effective and on target compared to the MERITUM Statement, since, in addition to general organizational aspects related to reporting intellectual capital, the former provides a variety of indicators representing human and structural capital information for stakeholders. The approach adopted by Scandia Navigator is based on a Balanced Scorecard concept.

The concepts of intellectual capital and the Balanced Scorecard (BSC) are mutually complementary. Specifically, the financial perspective of the BSC provides information on intellectual property management, in terms of its efficiency and effectiveness; the Customer Perspective provides information on the company's client base, customer loyalty, product quality; the Learning & Growth Perspective provides human capital information. In addition, the strategy maps would also have a potentially positive effect on the strategy implementation process, which can act as a helpful resource when preparing Intellectual Capital Report (Wu, 2005; Radomska 2015.)

Table 3

Approaches to the disclousure of intellectual capital information in financial statements based on non-financial criteria

Approach	Content Summary
Guidelines of Danish Agency for Trade and Industry for Danish Companies (A Guideline for Intellectual Capital Statements: A Key to Knowledge management, 2001)	The recommendations are developed by the Danish Agency for Trade and Industry. Based on these guidelines, the report must comprise the four blocks: – Knowledge Narrative – outlines the key strategic goals of the company, and the resources required for goal achievement; – Management Challenges – defines the company's business model with a joint focus on the key goals and the resources needed to attain them; – Initiatives – definition of specific actions needed to achieve the company's strategic goals; – Indicators – definition of key performance indicators for evaluation of economic benefits and outcomes (R&D costs, patent claims, complaint rates, service efficiency, product innovation rate, etc. The guidelines contain a variety of evaluation indicators representing intellectual capital information.
MERITUM statement (Guidelines for Managing and Reporting on Intangibles (Intellectual Capital Report, 2001)	The guidelines for managing and reporting on intangibles are an outcome of the Meritum Project, in which researchers from nine research institutions based in Norway, Denmark, Sweden, Spain, France, and Finland have been involved. They contain information on the structure and contents of intellectual capital statements, define the difference between intangible resources (that can be measured,) and intangible activities (to acquire or internally produce intangible resources, to measure and monitor them, etc.) However, the guidelines do not provide a list of specific indicators for reporting intellectual capital.
Skandia navigator (Ticha, 2008; Alkaniz *et al.*, 2011)	The report was developed by Skandia Navigator, an insurance company from Sweden, and covers the five aspects: – The Financial Perspective – focused on achieving planned financial outcomes; – The Customer Perspective – offering the ability to determine how effective the company is in serving customer needs for basic services (percentage of sales from new customers, percentage of sales from current customers, customer loyalty, etc.; – The Business-Process Perspective – developing a business model that enables the company to evaluate its performance in terms of overall efficiency and effectiveness, whether the company is headed in the right direction, whether the performance indicators are linked to the company's goals and objectives; – The Human Capital Perspective – the key driver for the entire model used to evaluate staff qualifications, loyalty, and motivation, etc.
Balanced Scorecard (Kaplan & Norton, 1998; Kaplan & Norton 2004, Wu, 2005; Ticha, 2008; Lawson *et al.* 2015; Radomska, 2015)	This management system is primarily designed to provide a robust structure for companies to express and achieve their strategic objectives with a representation of causal linkages between them. The system is based on four perspectives: – Financial Perspective – Financial performance indicators that evaluate how the company's strategy affects the financial outcomes; – Customer Perspective – A set of indicators to determine the company's target customers, and define the customer value proposition; – Internal Process Perspective – A set of indicators to assess the effectiveness of internal business processes, and their impact on economic value added; – Learning & Growth Perspective – A set of indicators to measure staff capability, access to information, and organizational climate. The strategy maps are used to link vision and strategy to strategic outcomes.

Source: own.

In addition to Intellectual Capital Report, there exist some other approaches to developing non-financial reports, intended for purposes other than those described here. Specifically, Added Value Report presents information on the value generated by company employees. Normally, the added value is calculated as the difference between sales revenues and the cost of materials and services purchased. This report shows how the total added value is distributed between employees, creditors, and investors, the government, etc. In addition, it shows the amount the business retains for re-investment. Also, the added value reports enable investors and shareholders to see how effective the company is in managing its resources when it comes to product manufacturing and sales. There are also other types of non-financial reports, e.g., an Environmental Report, a Corporate Governance Report, an Employment Report (Derun, 2015.) However, on the whole, they represent the concept of intellectual capital in its different aspects. Substantially, such reports act as a supplement to the financial statements, which are not regulated by any national accounting standard, IAS/IFRS, or US GAAP. However, there is another approach to reporting non-financial information, which encompasses the entire scope of financial and non-financial information, i.e. integrated reporting or corporate social reporting.

3. MODERN-DAY APPROACHES TO CORPORATE SOCIAL REPORTING

Social reporting is defined as reporting data representing a company's strategy and business operations, staff information, environmental performance, and their mutual linkages, reflecting the impacts of the company and its business operations on society.

There are different reasons why companies decide to prepare social or integrated reports. We propose to use Lawrence Kohlberg's theory of moral development as a basis for the classification of company's reasons to prepare corporate social reporting (Barger, 2000.) According to this theory, there are three levels of moral development – Preconventional Morality, Conventional Morality and Postconventional Morality. Each of the levels can be further divided into two stages.

Based on Lawrence Kohlberg's theory, at the first level, people live and act in accordance with the established social norms, the breach of which is punishable. Thus, in the first level (preconventional) companies decide to use the corporate social reports because they are obligated to do so by laws. For example, corporate social reports are required by national laws or if publishing of the reports are required by stock exchange. This requirement has been effective in the South African Republic since 2010 (Eccles *et al.*, 2011.) Starting from 2016, in accordance with Directive 2014/95/EU, a similar requirement is in place in the EC, based on which all companies with an average of total employees numbering more than 500 during the financial year are recognized as socially significant business entities (Directive 2014/95/EU, 2014.) However, in most countries, corporate social reporting is voluntary, while the applicable standards differ between themselves. This in turn leads to the poor quality of social reporting information, which may significantly affect the effectiveness of stakeholders' decision-making processes (Marx & van Dyk, 2011; Barone *et al.*, 2013.)

The second level according to Kohlberg's theory is based on the assumption that people seek approval from others through their behavior, while not breaking the basic rules and obligations in the process. If the company is at this level, the main reason for preparing the social reports is to meet the expectations of stakeholders in order to get some benefits in the future. Specifically, the disclosure of corporate social reporting data meets stakeholders' information needs, as well as reinforces and enhances the company's image and brand (Markova *et al.*, 2015.)

At the third level is an understanding of universal principle and developing of autonomous decision making which is based on internal perspectives of right/wrong ethics, etc. rather than based on any external influences. For example, a food manufacturer makes full disclosure of the ingredients in its products, although there is no statutory requirement and pressure groups have not requested the information.

A survey covering 579 of the world's largest global companies, conducted by E&Y and the Carroll School of Management Center for Corporate Citizenship, found that business reputation improvement was the greatest benefit of integrated reporting according to the respondents, while tax benefits had the lowest ranking, as shown in Figure 1 below. However, it is worth noting that nearly 90% of the respondents polled were among the TOP 250 companies (ranked by Fortune magazine) (Ernst&Young, & Carroll School of Management Center for Corporate Citizenship, 2013.) In contrast, there are currently roughly 40 companies in Ukraine that file corporate reports, out of which only 10% are ranked within the top 100 largest corporations of Ukraine in terms of net profits. This shows that the country is lagging behind in terms of transparency and social responsibility in business. A study was conducted across a pool of 38 respondent companies based in Ukraine to identify the key benefits of corporate reporting among businesses operating inside and outside of Ukraine, as shown in Figure 2 (Vorobey & Zhurovska, 2010.) Specifically, the opportunity to demonstrate to the market the company's interest in the issues of the environment, social responsibility, and economic viability through the financial reporting process was identified as the greatest benefit. In contrast, the ability to access additional sources of funding and generate increased confidence of shareholders was cited by Ukrainian top managers as the least important benefit. It should be noted that, based on expert opinion, integrated reporting overseas contributed to improving companies' management system, assisting in more clearly defining their strategic goals and ways to achieve them, thereby ultimately increasing companies' profit-earning capacity. However, no such correlation is observable in the case of Ukrainian businesses, which can be accounted for by companies' lack of interest in openness and transparency in business, and a lack of government regulation in the field of social responsibility, macroeconomic problems in the economy, etc. This tendency is identifiable in almost all developing countries.

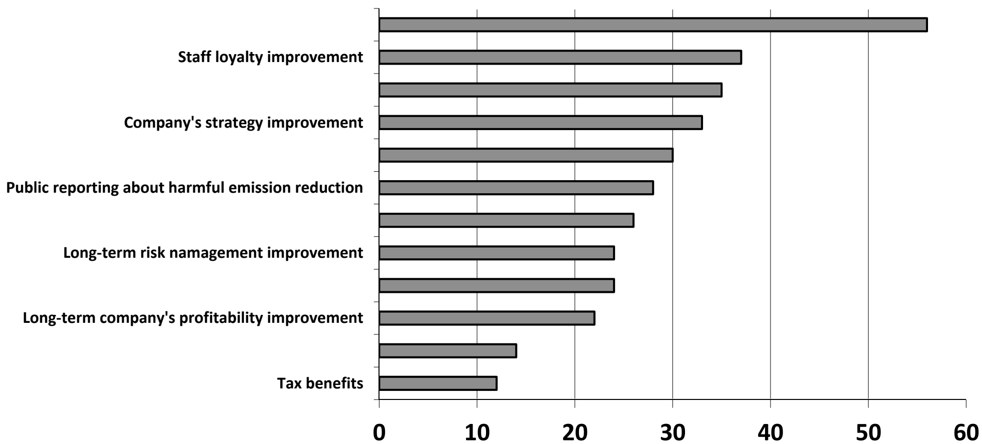

Figure 1. Benefits of Integrated Reporting in the World
Source: (Ernst&Young, & Carroll School of Management Center for Corporate Citizenship, 2013).

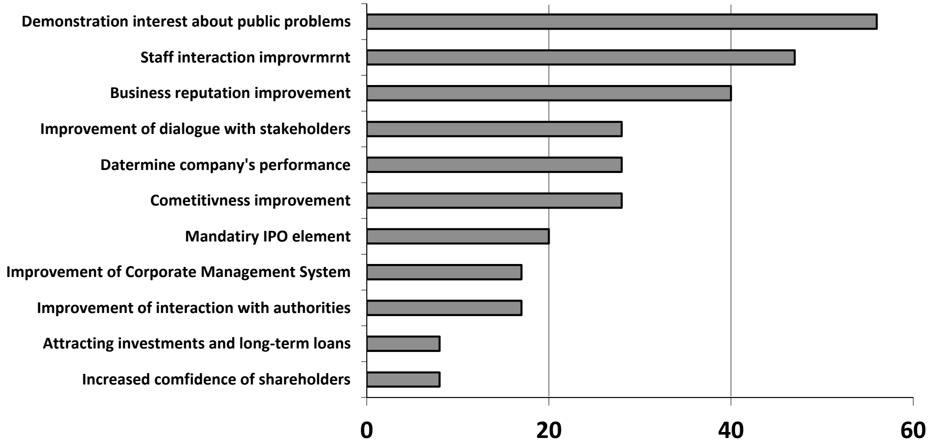

Figure 2. Benefits of Integrated Reporting in the World (a) and Ukraine (b), %
Source: (Vorobey, & Zhurovska, 2010).

In corporate financial reporting, non-financial information related to a company's business performance may be reported in different formats, depending on the standard applied (Hrebichek *et al.*, 2012; Marakova, 2015.) The most common reporting frameworks related to non-financial reporting are outlined below:

- Corporate Social Responsibility Report, which contains information on key social and environmental aspects of the company's performance, and is prepared based on the indicators determined by the company itself;
- Communication on Progress which should be prepared by the members of the UN Global Compact (UNGC, 2000). Companies have to provide the report on ongoing efforts towards ten sustainability principles in the following areas: human rights (2 principles), labor (4 principles), the environment (3 principles) and anti-corruption (1 principle). The UN Global Compact does not define requirements for the performance indicators to be met by the company within the parameters of each principle, or the manner of submission and representation of performance information within the parameters of these principles;
- Report according to the Account Ability 1000 Standard (AA1000), developed by the Institute of Social and Ethical Account Ability with the aim of "improving the quality of social and ethical accounting, auditing and reporting" (Account Ability 1000, 2008). This standard contains a set of principles, which can be used for the non-financial information provision in the different areas: planning; accounting, auditing and reporting, embedding, shareholders engagement. The wider scope of application of the principles contained therein is the key distinction that makes this standard different.
- Sustainable Development Report, which is prepared in accordance with the guidelines of G4 Global Reporting initiative (GRI, 2013) and requires the disclosure of the corporate governance approach and of the economic, environmental, and social performance and impacts of the business. There are clear indicators to be disclosed in the report, based on the five components: Vision and strategy of the organization; Brief profile of the organization; Governance structure and management systems; GRI content index; Social, environmental, and economic performance indicators (GRI, 2013.) This report relies on a combination of quantitative and qualitative information, thus offering a comprehensive picture

of how financial and non-financial factors interact and impact the valuation of companies in the long-term. The GRI guidelines are closely aligned to AA1000, but focus on a reporting. It should be noted that the G4 GRI framework represents the most commonly used guidelines in the field of integrated reporting (Marakova *et al.*, 2015);

– Report based on the ISO 26000 (ISO 26000, 2010). This standard, developed and published by the International Organization for Standardization known as ISO, provides clear guidelines on how to apply the basic principles of social responsibility, as well as recommendations on how to integrate social responsibility into business operations.
– Integrate report (<IR>) published by The International Integrated Reporting Council (The International Integrated Reporting Framework, 2013), relies on a combination of quantitative and qualitative information, thus offering a comprehensive picture of how financial and non-financial factors interact and impact the valuation of companies in the long-term.

The entire scope of information presented in an integrated report is based on the theory of capital. It can be split into six categories (Kamordganova, 2015):

– financial capital – all cash funds available including those borrowed;
– industrial capital – long-term and short-term assets intended for manufacturing and marketing purposes;
– human capital – the skills and professional knowledge of employees, their motivation, etc.;
– intellectual capital – intangible assets;
– social capital – institutions and their relationships, including the norms, values, behaviors, etc.;
– natural capital – renewable and non-renewable natural resources.

Thus, the concept of intellectual capital (human capital, structural capital, relational capital) is embedded into the concept of capital, which is used in integrated reporting.

There are a significant overlap and confluence in the terms, principles and topics provided in ISO 26000:2010 and GRI G4 Guidelines. The International Organization for Standardization (ISO) and the Global Reporting Initiative (GRI) even have developed a document in which provided linkages between GRI G4 Guidelines and ISO 26000:2010 (GRI G4 Guidelines and ISO 26000:2010, 2014). This document was prepared with the aim that companies can use ISO 26000:2010 for the integration of social responsibility principles into the company strategy, structure and day-to-day activities and then use GRI G4 Guidelines for the assessment of the company's performance and report providing. At the same time, company may decide to use International Integrated Reporting Framework for comprehensive repot in such case ISO 26000 can be a complement to the international integrated reporting framework as the ISO 26000 provides guidance that is more detailed.

It is also worth noting that the main problem that businesses may face when it comes to corporate social reporting is how to determine the materiality of events or information. According to ISO 26000, materiality of information is determined not only based on its impact on users' decision-making outcomes, but also by how it affects sustainable performance. The G4 GRI guidelines provide guidance on how to assess materiality and represent information that is of different value to internal and external users. Furthermore, the potential impact of negative and positive events requires additional analysis, taking into consideration both risks and opportunities in the context of value creation. In view of the need to serve the interests of different groups of users, some reports might be extremely overloaded with information that is not critically important and can be of help only for a small number of appropriate information users. For this reason, we believe that such content should be provided as supplementary information so that the main text is not overburdened with detail, in accordance with the requirements set forth in the G4 GRI guidelines.

4. ASSESSMENT OF CORPORATE SOCIAL REPORTING PRACTICES

The corporate social reports were examined with a focus on the key content elements. The disclosure of each content element in reporting is assigned a rating value, depending on the availability and relevance of appropriate information in the report presented (See Table 4.) The choice of content elements and disclosure items within the parameters of each element was based on professional judgment. The content elements are primarily based on the principles appropriate to the Integrated Report (The International Integrated Reporting Framework, 2013), whereas the disclosure items are based on the guidelines of GRI G4 and ISO 26000 (ISO 26000, 2010).

Table 4

Assessment criteria for non-financial information reported by Ukrainian companies

Content Element	No.	Disclosure Items	Scale
1	2	3	4
Corporate governance and organization structure	1.1.	Laws, rules and principal which are essential for business operating and controlling	3
	1.2.	Composition of governance bodies and its diversification	2
	1.3.	Decision marking and relationship between directors (top management) remuneration and company's value creation	2
	1.4.	Building social responsibility into the corporate governance	3
Strategy	2.1.	Strategic objectives identification	2
	2.2.	Assessment of objectives achievement	1
Stakeholder	3.1.	Stakeholders identification	2
	3.2.	Relationships with stakeholders. General principles of disclosure and communication with shareholders	2
Risks and opportunities	4.1.	Risks identification	2
	4.2.	Assessment of the risk probability and influence	2
	4.3.	Opportunities identification	1
Finance and manufactured capital	5.1.	Description of the available resources and their usage	2
	5.2.	Wealth and income creation	2
Social and relationship capital	6.1.	Description of the direction of social responsibility and enterprise performance	3
	6.2.	Voluntary initiatives of social responsibility	1
	6.3.	Social investment	1
	6.4.	Human rights	2
	6.5.	Labor practices	2
	6.6.	Ethical behavior	2
	6.7.	Anti-corruption	2
	6.8.	Community involvement and development	2
	6.9.	Consumer service, support, their health and data protection, etc.	3

1	2	3	4
Human and Intellectual capital	7.1.	Principles and rights at work	2
	7.2.	Employment	1 – manufacturing; 3 – service
	7.3.	Conditions of work and social protection (benefits, retention rates, etc.)	1 – manufacturing; 3 – service
	7.4.	Health and safety at work	2
	7.5.	Employees' professional development	1 – manufacturing; 3 – service
	7.6.	Intellectual property	2
	7.7.	Innovations, research and new products development	2
Natural capital	8.1.	Impact on biodiversity	3 – manufacturing; 1 – service
	8.2.	Energy, gas, water and other resource consumption	3 – manufacturing; 1 – service
	8.3.	Prevention on pollution and climate change	3 – manufacturing; 1 – service

Source: own.

A combination of quantitative and qualitative information in terms of its key content elements reported by a company offers insight into the implications of its business operations, the impact of operational managerial decisions on achieving strategic goals, business growth and development, value creation, etc. Since there is no hard-and-fast format to follow in non-financial reporting, the reports of this type might primarily take the form of a narrative description, or give too much quantitative detail. As pointed out in The International Integrated Reporting framework (The International Integrated Reporting Framework, 2013,) the use of financial performance outcomes as a starting reference point is the most content-rich and appropriate approach to adopt here, i.e. as a base, to clarify how the company is able to increase the value of its assets in the long term, minimizing the environmental risks and costs that might arise and maximizing the opportunities that exist, once they have been identified. In this context, it was decided that reporting only qualitative data is assigned one point, while another point is awarded for the disclosure of quantitative data, as established targets, and comparing the results obtained against the established targets. Thus, the maximum score that can be given within each disclosure item is four points.

It was decided to avoid the use of overspecialized characteristics when determining the key disclosure items, thus focusing on those which are relatively universal for companies operating in different sectors of the economy, with the exception of "Natural Capital". The Key Performance Indicators (KPIs), which can be expressed in absolute terms, e.g., the number of persons put through professional development training paid for by their company, number of social initiatives funded during the reporting period, are understood as the established targets.

Even though the element "Natural Capital" is not relevant to all organizations, disclosure of information on environmental impacts, effective management of natural resources, and minimization of environmental impacts related to manufacturing is an important component of the reports prepared by manufacturing businesses. For this reason, this block was included into the list of key content elements to be used for the assessment of non-financial reports. In order to balance out the number of rating points for manufacturing and non-manufacturing companies, we thought it would be well-advised to award more points for disclosing Human and Intellectual Capital information to non-manufacturers, since human capital is the primary resource in the sector of services, and it requires that companies continue to evolve in this area on an ongoing basis in order to retain highly qualified personnel, and create intellectual property, which in turn is bound to result in an increase in the company's value.

The application and implementation of innovations is of greater importance to companies involved in the manufacturing sector, even though innovative practices and cutting-edge technologies in the service sector would be indicative of the ability to survive in a competitive environment, penetrate new markets, and increase the company's value.

In order to make adjustments for different weights of different disclosure items in the reporting process, we propose that the sum of rating points awarded within the parameters of each disclosure item be adjusted for the level of its value – from 1 to 3 (2 – disclosure is of equal importance to all companies involved, 1 – companies may disclose this information if it is relevant to their business, 3 – disclosure of this information is of sufficient importance. Additional five points shall be awarded to the reports containing negative information (legal claims and litigation, environmental contamination, customer complaints, etc.). Another seven points are given for the disclosure of mutual linkages between financial and non-financial outcomes. Thus, the total sum of rating points for assessing and ranking non-financial reports under review is determined based on the following formula:

$$Y = \sum_{i=1}^{n} s_i \times w_i + a + b \,, \tag{1}$$

where Y is total score of non-finance report; n – number of disclosure items; s_i – total score for each disclosure items; w_i – scales of each disclosure items; a – five additional point for the "negative" information; b – seven additional points for the relationship between finance and non-finance performance description. Scales of the disclosure item can be from 0 to 4, one point is given for the each of following type of information: qualitative, quantitative, established targets, comparison versus tagets. Maximum possible rate is 268.

Decisions, especially when it comes to strategic and important operational decisions, are made by company management, and require approval from shareholders. Strategies for decision development and approval can be based on different models. Decision-making and approval processing strategies can be based on different models, depending on the corporate culture. In this context, reporting disclosures are of great importance as they offer insight into company management structure, including the composition and structure of management teams, non-executive directors, decision-making principles and procedures, management's accountability for failure to ensure compliance with social responsibility policies, links between executive remuneration (salaries, bonuses, etc.) and organizational performance outcomes. The diversification of executive ranks is also an important resource for effective management.

Identifying the key stakeholders and defining the strategy for interaction with them are closely linked to the company's organizational strategy as a whole. With this fact in mind, it is essential to respect the interests of key stakeholders. Throughout the strategy development process with a focus on stakeholders, it is advisable to adopt the model designed by Mendelow. This model is focused on the need to define the strategy for each group of stakeholders, after dividing them into four categories according to their stakes and influences. As the report should highlight the most significant information and avoid being overloaded with too much detail, the information of greatest interest to report readers with significant influence and a major stake, and those with significant influence and a minor stake would be most likely to be included in the report.

In order to assess the quality of non-financial reporting by Ukrainian businesses, non-financial or integrated reports prepared and filed by ten companies operating in different sectors were examined, using the methodology outlined above (See the Table 5). The reports for analysis were obtained from the companies' official websites in January 2016.

Table 5

Assessment of non-financial reports prepared by Ukrainian companies

No.	DTEK	Nemiroff Holding	Coca-Cola	Obolon Corporation	Carlsberg Ukraine	Arcelor-Mittal	life:)	„Prykarpattyaoblenergo	Mondelez Ukraine	Kyivstar
1.1.	6	0	3	3	0	3	0	0	0	0
1.2.	2	2	0	2	0	0	0	0	0	0
1.3.	4	2	0	0	0	2	0	0	0	0
1.4.	0	3	0	0	0	3	0	0	0	0
2.1.	2	0	0	2	0	0	0	0	0	0
2.2.	1	0	0	0	0	0	0	0	0	0
3.1.	2	2	2	2	0	2	2	0	0	0
3.2.	6	2	2	2	0	2	4	0	0	0
4.1.	0	0	0	2	0	0	2	0	0	0
4.2.	2	0	0	4	0	0	0	0	0	0
4.3.	0	0	0	0	0	0	0	0	0	0
5.1.	6	0	0	0	0	0	0	0	2	0
5.2.	8	4	0	4	2	0	2	0	0	0
6.1.	3	3	6	3	3	3	3	3	0	3
6.2.	4	2	2	1	1	1	2	2	2	1
6.3.	4	1	1	1	1	2	1	1	2	2
6.4.	0	8	2	2	0	2	2	0	0	0
6.5.	2	0	4	2	2	0	0	0	0	0
6.6.	8	2	4	2	4	2	2	0	0	2
6.7.	2	6	0	0	4	2	0	0	0	0
6.8.	8	4	4	2	4	0	2	4	4	2
6.9.	9	3	6	3	3	6	6	6	3	3
7.1.	4	6	2	2	2	2	2	2	0	0
7.2.	4	2	0	2	0	0	3	3	2	0
7.3.	4	1	2	2	3	2	6	3	2	0
7.4.	8	4	4	2	4	4	0	2	2	0
7.5.	4	2	2	2	3	0	6	6	2	6
7.6.	0	0	0	0	0	0	0	0	0	0
7.7.	6	0	0	2	0	0	2	0	0	2
8.1.	12	6	6	6	3	6	1	2	6	1
8.2.	12	12	12	6	12	6	3	2	6	2
8.3.	12	6	6	6	6	6	0	1	0	0
Negative data	5									
Total	150	83	70	67	57	56	51	37	33	24

Source: own.

Since non-financial information reporting is not regulated by legislation, businesses may use their own discretion to determine reporting periods and deadlines. For the purposes of this article, the information contained in the reports was not assessed in terms of the quality or depth of disclosure, but only checked in terms of availability. This analysis established that the practice of integrated reporting was observed only by one company from among those examined, i.e. DTEK, while the other nine companies submitted Corporate Social Responsibility Reports, in some cases as "Communication on Progress" within the UN Global Compact framework. With respect to completeness of reporting, nine out of ten reports do not contain any negative findings, e.g., those that highlight a breach of ethical principles or facts of corruption. Only DTEK's report provided workplace accident statistics and stated that the goal of zero accidents and injuries on the job is still not achieved. The said company's report also pointed out that when it comes to waste collection and recycling practices where different types of waste products are handled separately, the issue still remains unaddressed.

Half of the companies examined as part of the analysis set non-financial targets and measure their performance outcomes against them. This essentially demonstrates a transition from a simple statement of facts on the ground to a clear recognition of the need to implement social initiatives, developing and integrating them into the company's strategic and operational planning processes.

CONCLUSIONS

Based on the findings obtained from exploring possible interpretations of the concept of intellectual capital and examining different approaches to the classification of intellectual capital elements, it is proposed that they be divided into the following categories: intangible assets, goodwill, internally generated intangible assets, intellectual assets, environmental resources. This strategy would assist in structuring intellectual capital information throughout data collection and generalization processes for subsequent disclosure in the reports. Information relating to a company's performance in terms of resource management efficiency and value creation can be disclosed in a variety of different ways. Among modern approaches should be mantioned Corporate Social Responsibility Report, Communication on Progress, Report according to the Account Ability 1000 Standard, Report based on the ISO 26000, Sustainable Development Report, Integrate report etc. In our opinion this approach to non-financial information disclosure, i.e. preparing an Integrated Report, is the most informative one, since, by providing both financial and non-financial information, it enables report readers to better understand the linkages between the elements reported on.

In terms of data completeness, the analysis of non-financial reports [available to public access] by the ten Ukrainian businesses covered by this research, based on the criteria selected by the authors of the article, shows that essentially all the companies (eight or more) have disclosed information relevant to description of the direction of social responsibility and enterprise performance; voluntary initiatives of social responsibility; social investment; ethical behavior; community involvement and development; consumer service, support, their health and data protection; conditions of work and social protection; health and safety at work; employees' professional development; impact on biodiversity; energy, gas, water and other resource consumption. Information about human rights, labor practices, anti-corruption, principles and rights at work, employment, innovations, research and new products development described in 4-7 reports. All other items disclosed by less than three companies. Alternatively, we can say that 10 items were disclosed by less than 4 companies, 11 items by 4-7 companies and 11 by more than 8 companies. Only one of the reports under review was prepared as an Integrated Report, which points to the fact that this form of reporting is only beginning to become established across Ukraine. Given current economic and political pressures within the country, at this point in time, it is difficult to forecast how long it will take local businesses to realize the importance of a comprehensive approach to meeting stakeholders' information needs. However, providing a theoretical foundation and methodological guidelines in this area is bound to play a positive role in ensuring a better understanding of reporting principles and requirements, as well as enforcing the need to disclose performance indicators that measure the efficiency of capital investment. In order to be more comprehensive report should contain not only descriptive part but also provide quantitative data, information about previously established targets and how they were reached during the reported period. The advanced level is a provision some targets for future periods. Targets allows evaluate the companies' direction and their plans in the field of corporate social responsibilities and other non-financial issues.

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