Copernican Journal of Finance & Accounting

2014, volume 3, issue 2

e-ISSN 2300-3065
p-ISSN 2300-1240

Karmańska A. (2014). The imperative of sustainable growth and reporting integration. The fourth era in the corporate reporting development. Copernican Journal of Finance & Accounting, 3(2), 49–66. http://dx.doi.org/10.12775/CJFA.2014.017

Anna Karmańska*
Warsaw School of Economics

# The imperative of sustainable growth and reporting integration. The fourth era in the corporate reporting development

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

**J E L 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. This text, which is the second part of a two-part analysis, refers to the problem of a new trend of corporate reporting primarily for two reasons: (1) to point to the legitimacy of the joint determination by economic sciences of the axis around which reporting on corporate (organisation) performance should revolve, (2) in view of the variety of perceptions of *value*, to make everybody aware that different elements of corporate reporting should be compatible and that its usefulness for a wide range of stakeholders is predetermined by the explicitness of perception of the categories which are present in these elements. The present article is also aimed at the presentation of a qualitative surge of corporate performance reporting which is being made as a result of the focus on these corporate aspects thanks to which – with the simultaneous imperative of sustainable growth – *value* is created. This is the reason for the emergence of the fourth era.

*Translated by Mirosław Szymański*

Date of submission: March 19, 2014; date of acceptance: September 17, 2014.

* Contact information: kr@sgh.waw.pl, Departament of Accounting, Warsaw School of Economics, Al. Niepodległości 128, 02-554 Warszawa, Poland, phone: 22 564 68 45.

**Imperatyw zrównoważonego rozwoju i integracji sprawozdań. Czwarta era 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. W tym tekście, który jest drugą (z dwóch) częścią powiązanych rozważań, problem nowego trendu w sprawozdawczości przedsiębiorstw podejmuje się przede wszystkim z dwóch powodów, aby: (1) wskazać na zasadność wspólnego określania przez nauki ekonomiczne osi, wokół której powinno następować raportowanie dokonań przedsiębiorstw (organizacji), (2) wobec obserwowanej różnorodności rozumienia kategorii *wartość* uzmysłowić, że o kompatybilności różnych elementów sprawozdawczości przedsiębiorstwa i o jego przydatności dla szerokiego grona interesariuszy przesądza jednoznaczność rozumienia kategorii w tych elementach występujących. Celem tekstu jest także pokazanie jakościowego skoku w obszarze raportowania dokonań przedsiębiorstwa, który to skok następuje wobec skoncentrowania uwagi na tych ogniwach przedsiębiorstwa, dzięki którym – przy jednoczesnym imperatywie zrównoważonego rozwoju – następuje tworzenie *wartości*. To stanowi grunt dla krystalizowania się ery czwartej.

## Introduction[1]

Identifying the directions of further development of corporate (organisation) reporting, one should carefully watch new concepts born incessantly in the area of management. The following trends are crucial to reporting: (1) varying determinants of changes in corporate management, (2) turn to the corporate value governance, (3) verification of the commonly applied financial measures of corporate performance, (4) organisation of value management in practice and (5) changes in the corporate internal and external stakeholders' information needs (Karmańska 2010, 107–131).

Gaining a competitive advantage in the modern conditions of management is an extremely difficult task. Presently, the performance financial measures based of the value of profit are insufficient and that is why the last decades of the 20s century brought essential changes which clearly reflect the transfor-

[1] This text continues the analysis presented in: (Karmańska, 2014).

mation of companies towards activities based on intangible assets[2]. A particular significance is given now to the so-called key corporate competencies (Kay 1996, 29), which, as it is emphasized by management experts, allow a company to transfer the competitive advantage between sectors and markets as well as to build the markets of the future (Roszyk-Kowalska 2006, 45–48). Simultaneously, in the search of new ways to run business, the focus is becoming clearer on higher requirements connected with the use of all the levers of the so-called integrated development of value (Leśniowska-Łebkowska 2006, 132). The integrated development of value is conducted through management concentrated on the factors of corporate *value* creation and requires an appropriate measurement, which is possible thanks to the relevant reporting[3].

## The research methodology and the course of the research process

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

## Our Common Future as the first cause of corporate sustainability reporting development

The idea of sustainable growth was raised by the *World Commission on Environment and Development (WCED)*, which was established by the UNO in 1983 (People and the Planet 2014). In 1987 this commission published a report *Our Common Future*, in which the concept of sustainable growth was first presented in a comprehensive way (WCED Report 1987). This 300-page report contains a great deal of socially and economically important content, including a key

[2] According to the research done by Blair (1995), the book value of corporate tangible assets accounted for 62% of the market value of companies in 1982. This value declined down to 38% ten years later. However, at the turn of the 20th and 21st century, tangible assets amounted to less than 20% of the average corporate market value. See: (Kaplan, Norton 2001, 87).

[3] More of the measures of integrated building of value and also corporate management *value* efficiency, whose setting belongs to the function of accounting and financial reporting: (Karmańska 2009, 102-136).

statement about sustainable growth that *at the present stage of the development of civilisation sustainable development is possible, i.e. the development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs* (Report WCED 1987, 41). It also indicates the problem of information gap, which existed then, with regard to the "State of the World". This state should be analysed on many planes important for the future. It must have been the lack of such diagnosis which was the underlying reason for the lack of attempts to publicize the need for sustainable growth. The *Report* observed that this communication gap hindered the awareness of the necessity for common activity in the common interest: "*Now we know that what connects us is more important than what divides us*" and sustainable growth is a challenge for all entities (Report WCED 1987, 42–43).

The attention paid to the necessity for sustainable growth by the aforementioned Commission gave rise to the adoption during the Earth Summit in 1992[4] of the so called *Rio Declaration on Environment and Development* (The Rio Declaration 1992).

*The Rio Declaration* consists of 27 principles explicitly revealing the holistic dimension of sustainable growth in which an individual company has to find its place irrespective of the industry and scale of activity. A careful analysis of the content of the principles leads to a conclusion that nearly all of them have a postulative and prescriptive dimension possible to pursue exclusively at the governmental levels within domestic or foreign policy. As a matter of fact, principle 10 may be perceived as an important reason for corporate performance reporting, as this principle claims that practically every entity is a stakeholder of environmentally non-indifferent activity of other entities. Additionally, principle 10 says that:

[4] "The goal of the Summit was to make the world decision makers aware that the economic growth caused an enormous environmental pollution and the depletion of natural resources; it also deepened the economic differences between countries and if appropriate actions are not undertaken, it will lead to the complete degradation of the natural environment and also the extension of the zones of poverty, hunger, diseases and illiteracy. During the Earth Summit in Rio de Janeiro country leaders came to the common conclusion that it is necessary to change the attitude to the problems of environment and that they should be taken into account when making economic and political decisions. The so-called sustainable growth began to be promoted (…)." See web side: (Biomasa.org 2014).

*Rio Declaration on Environment and Development*

The United Nations Conference on Environment and Development,
Having met at Rio de Janeiro from 3 to 14 June 1992
Proclaims that:

(...)
Principle 10

Environmental issues are best handled with the participation of all concerned citizens, at the relevant level. At the national level, each individual shall have appropriate access to information concerning the environment that is held by public authorities, including information on hazardous materials and activities in their communities, and the opportunity to participate in decision-making processes. States shall facilitate and encourage public awareness and participation by making information widely available. Effective access to judicial and administrative proceedings, including redress and remedy, shall be provided.

(...)

every stakeholder should have a right to participate in decision making with regard to environmental related activities, and the state should create corporate governance ensuring access to the adequate information.

In the aforementioned context of corporate performance reporting it should be observed that sustainable growth means conducting activities, including business, in such a way as to ensure a harmonious development on all the planes which are important for people, the natural environment and more comprehensively – the fate of the world. The idea of this concept is, no doubt, noble. In the operation of an individual company (organisation), however, it may be difficult to pursue as the reconciliation of various interests of many parties is not simple. These entities which manage in order to implement favourable solutions on various fronts achieve success, in which the financial result is one of the components but also a compromise. Then, it may be assumed that such a multidimensional (not only with regard to the financial result) positive result gives them a competitive advantage. They become a benchmark in the implementation of the idea of sustainable growth. It is natural for other companies to try to find the way the success and competitive advantage have been achieved. Shortcut imitations may cause a hardly recognisable risk by external stakeholders that sustainability reporting will become an element of the management policy or that it will be treated as a trendy tool of achieving a competitive advantage[5].

[5] In this context it is necessary to comment on responsibility for sustainability reports. Certainly, it is not the company that holds the responsibility. Likewise, a com-

At present in the world the directions and standards in corporate performance sustainability reporting are led by two institutionalised initiatives:

*a)* *the Global Reporting Initiative* (*GRI*) – established in Boston 1997, with the roots dating back to the early1990s (Global Reporting Initiative 2014),

*b)* *the International Integrated Reporting Council* (*IIRC*) – established on the initiative of the Prince of Wales in 2009 (Integrated Reporting <IR> 2014).

The *GRI* publishes framework Sustainability Reporting Guidelines, known as guidelines *G* together with a consecutive edition number. The first version of guidelines (*G1)* comes from 2000, the second (*G2*) from 2002, and the third (*G3*) from 2006. The creation of this version of guidelines involves over 3,000 business experts from all over the world as well as different representatives of social interest. This version in comparison with the formers ones was enlarged with the so-called sector guidelines worked out for different industries, and in 2011 it was updated with the issues concerning gender, society and human rights, known as *G3.1.* The latest version of the Sustainability Reporting Guidelines is *G4* issued by the *GRI* in May 2013. The *GRI* explains that the guidelines are necessary because (Sustainability Reporting Guidelines G4 2013):

- an increasing number of companies and other organizations want to make their operations sustainable and profitable but in compliance with the social justice and without doing any harm to the protection of the natural environment,
- social responsibility management reporting helps organisations to set goals, measure performance, and manage changes in order to make their operations more sustainable,

pany cannot be socially responsible. A company, as an organisation of human business activity, is not capable, unlike a human being, of assessing anything in terms of responsibility or ethics. The responsibility in business should be associated only with the people active within this business. Thus, within sustainable growth the responsibility for business activity rests with the management board and it is the board members that are held accountable on the plane determined by the interest of the company owners, governmental institutions, customers and employees, and other stakeholders from the general and social environment in which the company operates. Charging with responsibility, in particular by the stakeholders from the general and social environment requires possessing strong arguments based on reliable and frequently non-financial information. In this context, it may be said that Principle 10 is a global ultimate cause of undertaking global initiatives in the area of financial reporting development in the direction of sustainability reporting.

- such a report discloses factors which are important for the organisation's permanent impacts, positive or negative, on the natural environment, the society and the whole economy,
- internationally agreed disclosures contained within sustainability reports should be made accessible and comparable, providing stakeholders with comprehensive information about the causes and effects of the decisions made.

The immediate goal the fourth update is to help reporters prepare sustainability reports, identify the organization's most critical sustainability-related issues as well as make such sustainability reporting a standard practice.

Sustainability Reporting Guidelines G4 were created as a set of universal recommendations to be applied irrespective of the kind of company (organisation), its size and place of operation. *G4* also includes guidelines with regard to corporate (organisation) sustainability growth disclosures. For example, companies (organisations) may choose a format: (a) a separate sustainability report or (b) the so-called integrated report (Sustainability Reporting Guidelines G4 2013).

*The IIRC*, the initiative which is 20 nearly years younger than the *GRI* was established to support the idea of integrated corporate performance reporting and, as a matter of fact, to create the international framework of the so-called integrated reporting. In December 2013 the Council released the first important document *The International <IR> Framework* (The International <IR> Framework 2013).

As stated by *the IIRC*, the International Integrated Reporting Council (IIRC) this initiative is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The IIRC expresses the view that communication of corporate value creation should be the next step in the evolution of corporate reporting. The IIRC also states that the *International Framework <IR> Framework* was developed to meet these expectations of corporate stakeholders and provide the basis for comprehensive implementation of this kind of integrated financial reporting in the future.

Combining the ideas of both organisations it may be said that a contemporary company within corporate activity reporting should:

- focus on a chain of activities and processes thanks to which it creates *value*; this is what the idea of integrated reporting should serve, and at the same time

- it should present appropriate information about how the *value* creation goes hand in hand with the idea of sustainable growth, with the idea of social responsibility reporting serving this purpose.

It seems that according to both these initiatives the future of corporate reporting is predetermined. It may be summed up in the phrase: *integrated reporting on the value created within sustainable growth*.

## The fourth era in the development of corporate reporting

In the era of the imperative of sustainable growth, corporate performance reporting standards are developed in the world by the two aforementioned initiatives-cum-institutions: *the Global Reporting Initiative* (*GRI*) and *the International Integrated Reporting Council* (*IIRC*). The former focuses its efforts on the creation of reporting standards in relation to the social responsibility of management board, the latter on integrated reporting. The *GRI* defines the relation between these standards as follows: "Sustainability reporting is a process that assists organizations in goal setting, measuring performance and management change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care." (Sustainability Reporting Guidelines 2013, 85) The principles and information structure of this report are presented in table 1 according to the GRI-G4 guidelines.

According to the *GRI*, social responsibility reporting – focused primarily, if not exclusively, on sustainable growth – is a platform of communication of both positive and negative effects of important aspects (i.e. material for the stakeholders) of corporate activity in the economic, social, environmental and management areas. The stakeholders of these reports may be investors as well as other entities to which the company activities are not indifferent. And integrated reporting is a new emerging trend in corporate reporting, whose major stakeholders are, according to the *GRI*, the providers of financial capital to this company. Integrated reporting is aimed primarily at the integrated (comprehensive) presentation of the key factors essential for the present and future creation of *value* in a given company (organisation). Integrated reports are built on the basis of idea of sustainability related reporting and disclosures. In an integrated report a business organisation provides concise information about the way it pursues its strategy, management, performance and goals thanks to which it creates *value* over time. Thus, an integrated report is not a traditional annual report abstract. Neither is it a combination of a financial report

**Table 1**. Preparation principles and information structure framework of CSR and sustainability reporting according to the *GRI-G4* (May 2013)

<table>
<tr><th colspan="2">CSR and sustainability reporting according to the GRI-G4 (May 2013)[1]</th></tr>
<tr><th>preparation principles</th><th>information structure</th></tr>
<tr><td rowspan="10">Referring to content:<br>**Z1**: Stakeholders inclusiveness<br>**Z2**: Sustainability context<br>**Z3**: Materiality of organization’s significant economic, environmental and social impacts<br>**Z4**: Completeness<br><br>Referring to quality:<br>**Z5**: Balance of positive and negative aspects<br>**Z6**: Comparability<br>**Z7**: Accuracy<br>**Z8**: Timeliness<br>**Z9**: Clarity<br>**Z10**: Reliability</td><td>General standard disclosures<br>**E1**: Strategy and analysis</td></tr>
<tr><td>**E2**: Organisational profile</td></tr>
<tr><td>**E3**: Identified Material Aspects and Boundaries</td></tr>
<tr><td>**E4**: Shareholder engagement</td></tr>
<tr><td>**E5**: Report Profile</td></tr>
<tr><td>**E6**: Governance</td></tr>
<tr><td>**E7**: Ethics and integrity</td></tr>
<tr><td>Specific standard disclosures</td></tr>
<tr><td>**E8**: Management approach</td></tr>
<tr><td>**E9**: Indicators<br>1. economic<br>2. environmental<br>3. social<br>– labour practices and decent work,<br>– human rights,<br>– society<br>– product responsibilty</td></tr>
</table>

[1] The first part of the CSR report prepared according to the GRI-G4 guidelines includes 58 groups of standard disclosures, the second one – 92 groups.

The information structure of the report to be prepared according to the GRI-G4 substantially differs from the version presented in the G3 guidelines. Compare: for example with the structure of social responsibility report made according to G3 by KGHM Polska Miedź S.A. for 2012 and the report made by BHP Billiton (also from the extractive industry) for 2013. See also Grupa LOTOS S.A. Integrated Annual Report 2012 (prepared according to the GRI-G3 guidelines). And although the last one is called integrated annual report, it is not integrated from the IIRC perspective. In contains, besides the information connected with presentation of LOTOS S.A. management board social responsibility, classic consolidated financial reports. Thus, this report is actually a combination of financial reporting and corporate social responsibility reporting.

S o u r c e : on the basis of: Sustainability Reporting Guidelines G4 2013, https://www.globalreporting.org/reporting/g4/Pages/default.aspx (accessed: 21.01.2014), 20–83.

and a social responsibility report. However, an integrated report interacts with other reports and communiques through the reference to the detailed information presented by the company separately in different sets of information (Sustainability Reporting Guidelines G4 2013, 85).

Although the goals of social responsibility reporting and integrated reporting are different, sustainability reporting is an inseparable element of integrated reporting. It means that for the company management it is the social responsibility reporting that is the basis of thinking in terms of integrated reporting, identifying important issues in setting strategic goals as well as assessing the corporate potential to achieve these goals and create *value* (Sustainability reporting Guidelines G4 2013, 85).

Focusing now on integrated reporting, the basis of which, as suggested above, is sustainable way of thinking and decision making as well as the attention paid to *value*, which I am willing to refer later on, and around which the issues of information capacity and report construction are concentrated, let me emphasize a few questions[6]:

First, a peculiar mission of integrated reporting is providing information which could be used, according to the *IIRC* by the *suppliers of working capital* to be effectively allocated. In the *IIRC* guidelines the *working capital* has not been precisely defined. This fact poses a threat of at least threefold perception of this notion, different on different grounds: management or finance or accounting. This remark is not to be ignored in view of the prediction that the construction of integrated reporting will require a multicompetence team work.

Second, integrated reporting is aimed at the explanation of the way a company (organisation) creates *value* in the short, medium and long-term. In the IIRC guidelines the explanation of the term *value* is missing. A well justified question may be asked: If something has not been described, how should it be known that it is supposed to be created or how should it be known that it is being created at all?

Third, the *IIFC* claims that such a report brings benefits to all the entities interested in how a company creates *value*. Among such stakeholders, according to the *IIRC,* there may be employees, customers, partners, local communities, legislators, regulators and decision makers (The International <IR> Framework 2013, 4). It should be remarked that the group of stakeholders is more numerous than mentioned at the beginning. There are some stakeholders here

[6] On the basis of: (The International <IR> Framework 2013, 4).

who, it must not be excluded, have not been and will never be providers any elements of working capital for the company, whichever way it could be interpreted. Each of these groups of stakeholders understands *value* in a different way. Thus, in axiological terms, it is not known again what actually *value*, which appears to be as an object of creation in this report, is.

Fourth, the standard of making this report (December 2013) is based on the principles thanks to which, according to the *IIRC,* the balance between elasticity and prescription adopted in advance will be maintained. Such an approach ensures some space for an organisation of any specificity in this conceptual framework, even if it differs much from others, with a simultaneous maintenance of a certain degree of their comparability. No objections can be raised here.

Fifth, integrated reporting may be created as an autonomic (managerial) statement or it may be a clearly isolated part of another report or communique. In either case the report should be certified by the people responsible for the management of the organisation and responsible for the report. And no objections can be raised here either.

Sixth, integrated reporting should ensure insight into the applied resources and relations within the organisation. These, in my opinion, *resources* are defined by the *IIRC* as *capital*. At this moment a terminological duality is born: different terms are used in financial reporting and managerial reporting, which may not be indifferent for the practical application of the conceptual framework of this report proposed by the *IIRC*. It seems well justified to use the term *resources*, which is definitely less controversial in the area of both management and finance as well as accounting. Integration within the area of business, irrespective of the way it may be perceived, should be based on the explicitness of the language used in business communication. It is not the case here.

Seventh, the aforementioned *capital* is also defined by the *IIRC* as *stocks* of *value* to be increased, decreased or changed as a result of the company (organisation) activity and its effects. It is another proof of a hardly recognisable relation: working capital-capital-*value* – stocks of *value* – financial capital.

Eighth, the *stocks of value* (in my opinion – resources whose value one may try to determine) are presented in the conceptual *IIRC* framework in a few categories: financial, manufacturing, intellectual, human, social, relationship and natural capital. (A company (organisation) may use a different categorisation. The conceptual framework allows for this. A company is not obliged to create the structure of this report with regard to the categories of *stocks of value*). The freedom in this area does not cause my objections, however there is a threat that the comparability of reports prepared by different companies (organisations) may be hindered.

Ninth, integrated reporting presents information only about the *value* created by the organisation which refers to the issues essential (material) for the implementation of this process. The recognition of these issues is – the *IIRC* underlines – important as the ability of the organisation to create *value* allows the providers of financial capital to realise profit[7]. This guideline is important because of for instance the costs of report preparation. However, there is a threat of a biased selection of information to be presented in the integrated report. In this context there is a need for its attestation. I have no doubt that the opinion of a chartered accountant will be insufficient here. It is possible that with regard to this report it will not be necessary at all. But I have some doubt if because of the managerial character and specific know-how in the area of *value* creation, it will be sufficient to make use of the*, International Standard on Assurance Engagements – Assurance Engagements other than Audits or Reviews of Historical Financial Information (International Standard on Assurance Engagements 3000, ISAE 3000)*[8]*.*

The basis for the preparation of integrated reports is seven guiding principles, and its formal information structure contains seven elements, which may be presented in brief as follows (table 2).

[7] Thus, the IIRC sows doubt about the intentions of integrated reporting and the primary goal: it seems that the major addressees of this report are investors, as observed by the GRI, and not all providers of working capital as suggested elsewhere by the IIRC.

[8] Full text, see: (International Standard on Assurance Engagements 3000, ISAE 3000 2012).

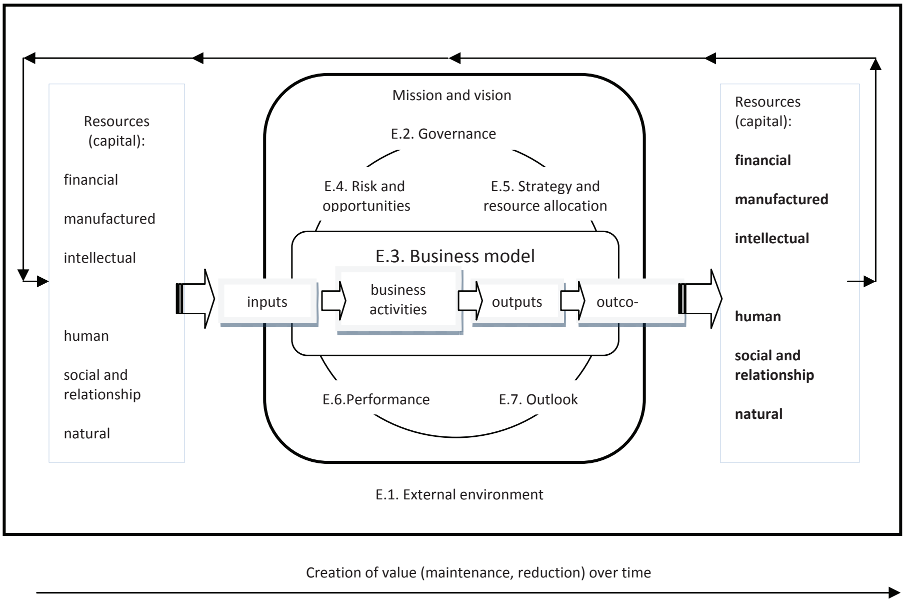
**Table 2**. Preparation principles and information framework of an integrated report according to *The International<IR> Framework* (December 2013)

| **Integrated report according to the IR Framework (December 2013)** | |
|---|---|
| guiding principles | information structure |
| **Z1**: Strategic focus and future orientation<br>**Z2**: Connectivity of information<br>**Z3**: Stakeholder relationship<br>**Z4**: Materiality<br>**Z5**: Conciseness<br>**Z6**: Reliability and completeness<br>**Z7**: Consistency and comparability | **E1**: Organisational overview and external environment |
| | **E2**: Governance |
| | **E3**: Business model |
| | **E4**: Risk and opportunities |
| | **E5**: Strategy and resource allocation |
| | **E6**: Performance |
| | **E7**:Outlook |
| | **E8**: Presentation principles |

Source: on the basis of: The International <IR> Framework, December 2013, http://www.theiirc.org/international-ir-framework/ (accessed: 21.01.2014), 5, 16–24.

The key question in integrated reporting is reporting on the way corporate (organisation) *value* is created. It seems that this approach may offer an explanation of the term *integrated* report. The creation of *value*, which is in the centre of interest within all the aspects presented in this report, is possible thanks to the determination of a business model in which the mission and vision of the organisation are implemented – in order to create *value* – through a competent application resources of different character. This way of thinking requires perceiving the organisation from the perspective of the goal oriented cooperation of many of its elements and the integration of its attributes around a clearly defined goal which they should serve. Figure 1 shows the process of *value* creation together with the integrated report information structure.

**Figure 1**. Value creation process presented in an integrated report according to the *International <IR> Framework*




Legend:

Integrated statement should answer the following questions:

**E.1.** *What does the organisation do and what are the circumstances under which it operates?*
**E.2.** *How does the organization's governance structure support its ability to create value in the short, medium and long term?*
**E.3.** *What is the organization's business model? Does the organisation apply more than one model?*
**E.4.** *What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how does the organization manage them?*
**E.5.** *Where does the organization want to go and how does it intend to get there?*
**E.6.** *To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the resources (capitals)?*
**E.7.** *What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*

Source: on the basis of Fig. 2 [in:] The International <IR> Framework, December 2013, http://www.theiirc.org/international-ir-framework/ (accessed: 21.01.2014), 13, 16–32.

The main reporting areas which CSR and sustainability reporting concentrates on include problems relating to people, communities, environment and governance. The last area deals with different aspects than those assumed in the integrated reporting prepared according to *IIRC* conceptual framework. The *GRI-G4* indicates the following important areas: governance structure, top managers' role in determination of corporate goals, value and strategy, the competence and appraisal of top managers' achievements, their role in risk management, preparation of CSR reports, appraisal of economic, environmental and social performance in favour of the community as well as the system of remuneration and monitoring. The reports prepared according to the *GRI-G4* guidelines do not focus on the business model so strongly as integrated reports prepared according to the *IIRC* conceptual framework.

## Conclusions

The analysis of corporate reporting trends provides interesting observations. First, it is impossible not to notice the dynamic changes in this area. Not so long ago integrated financial reports with a little complementary information were sufficient. Over time, the volume of this information grew and included new aspects of corporate (organisation) operation. From the perspective of the financial reporting, the first signal indicating the necessary changes in corporate reporting was the fact of filtering management accounting tools and concepts into the construction principles of these reports. A good example to be quoted is the evaluation of finished goods which has to be made on the basis of a "special" calculation of costs of manufacturing, i.e. the calculation during which the identification and disclosure of unused production capacities take place. Another example is a new definition of detailed report segments in a financial report made according to the International Financial Reporting Standards, which provides basis for managerially distinguished operational segments of a company (organisation). Second, there is a strong need to monitor and assess the business activity effects on a global scale. Sustainable growth, as a matter of principle, expresses care about the world the present and future resources. This results in – so far – not obligatory, but recommended in business, guidelines and standards thanks to which different groups of stakeholders have access to the economic, environmental and social effects of business activities of different companies (organisations). Third, sustainable growth requires a compromise, which is not indifferent for the profitability of the conducted business activity. This means that a special group of stakeholders, i.e. providers of capital to the company expect still different kind of information, not only the information about its results in terms of finance but information about social and environmental effects of activity. The desired information should actually disclose the business model pursued in a given organisation, i.e. its management know-how. Thanks to it, these stakeholders are expected to be able to even more consciously made decisions about the allocation of their resources.

In view of the above it may be stated that we are witnessing at present the birth of a new corporate (organisation) activity reporting model. This causes initiatives which have been presented above briefly. They undertake a problem of enriching annual corporate financial reports with new elements intending to give their guidelines or conceptual frames the character of global standards. However, some of these elements are so specific and problem focused that they begin to function independently as the so-called social responsibility reports and integrated reports. This is the fourth era in the history of corporate reporting. It began relatively recently but it is developing extremely dynamically.

How will financial reporting behave in this era? I think that a financial report should be an axis with legitimate narration revolving around it, i.e. processed and contextually presented information (in the spirit of social responsibility and sustainable growth). I do not think the world will expect the category of profit, i.e. the crucial business category, to be subdued by descriptive and illustrative commentaries. Business should be presented explicitly and transparently. It is the achieved financial results that should be placed at the top of the reporting pyramid, not other corporate activity attributes or effects. However, in the corporate reporting pyramid there should be, as absolutely indispensable components, all the disclosures concerning the way their financial result has been pursued (i.e. the model of business and value creation) as well as social and environmental consequences of the conducted activity. It is unimaginable for non-financial reporting to obscure, within the corporate (organisation) reporting, what is actually the very essence of business and although its necessity is beyond discussion, it must not obscure the key knowledge in business, i.e. the knowledge of its financial results.

Bearing in mind the diversity of perceptions of the term *value* which is used in all the elements of the fourth era of corporate reporting ( financial, social responsibility or the one related to the business model), in economic sciences it is advisable to undertake some effort in order to define the category *economic value*. This category should, as one may come to think, be a peculiar conceptual consensus in the world of economic science. It should be defined so that it: (1) could well correspond to all aspects of business operation and (2) could be accepted by the scientific environment dealing with economics, finance, management and accounting – for the purpose of corporate (organisation) reporting as –as a category explicitly defining *value* present in it. *value* defined in this way could become the basis for the real integration of corporate reporting. I believe that the search for the meaning of the term *economic value* will determine the profile of changes in the fifth era in the development of corporate reporting.

## References


Biomasa.org (2014), http://www.biomasa.org/index.php?d=artykul&kat=27&art=19 (accessed: 21.01.2014).

Global Reporting Initiative (2014), http://www.globalreporting.org/Pages/default.aspx (accessed: 21.01.2014).

Integrated Reporting <IR> (2014), http://www.theiirc.org/about/ (accessed: 21.01.2014).

International Standard on Assurance Engagements 3000, ISAE 3000 (2012), http://www.ifac.org/sites/default/files/publications/files/B005%202012%20IAASB%20Handbook%20ISAE%203000.pdf (accessed 25.01.2014).

Kaplan R. S., Norton D. P. (2001). Transforming the Balanced Scorecard from performance measurement to strategic management. Part I. Accounting Horizons, March 2001, vol. 15, no. 1. http://dx.doi.org/10.2308/acch.2001.15.2.147.

Karmańska A. (2009), Wartość ekonomiczna w systemie informacyjnym rachunkowości finansowej (Economic value in the accounting information system), Difin, Warsaw.

Karmańska A. (2010), Rachunkowość a zmiany w zarządzaniu (Accounting and changes in management), [in:] Zagrożenia w działalności gospodarczej a prawo bilansowe (Economic activity threats and balance law), Scientific editor: E. Mączyńska, Z. Messner, PTE, SKwP, Warsaw.

Karmańska A. (2014). The imperative of sustainable growth and reporting integration. Three eras in the corporate reporting development. Copernican Journal of Finance and Accounting, vol. 3, no. 1. http://dx.doi.org/10.12775/CJFA.2014.006.

Kay J. (1996), Podstawy sukcesu firmy (Corporate success basis), PWE, Warsaw.

Leśniowska-Łebkowska G. (2006), Dylematy rozwoju strategicznego i kształtowanie przyszłości firm w duchu społecznej odpowiedzialności biznesu (Strategic growth dilemmas and the development of corporate future in the spirit of CSR), [in:] M. Romanowska, P. Wachowiak (ed.), Koncepcje i narzędzia zarządzania strategicznego (Concepts and tools of strategic management), SGH, Warsaw.

People and the Planet (2014), http://www.peopleandtheplanet.com/index.html@lid=26996&section=49&topic=39.html (accessed: 21.01.2014).

Roszyk-Kowalska G. (2006), Architektura przedsiębiorstwa jako źródło przewagi konkurencyjne (Corporate architecture as a source of competitive advantagej), [in:] M. Romanowska, P. Wachowiak (ed.), Koncepcje i narzędzia zarządzania strategicznego (Concepts and tools of strategic management), SGH, Warsaw.

Sustainability Reporting Guidelines G4 (2013), https://www.globalreporting.org/reporting/g4/Pages/default.aspx (accessed: 21.01.2014).

The International <IR> Framework (2013), http://www.theiirc.org/international-ir-framework/ (accessed: 21.01.2014).

The Rio Declaration on environment and development (1992), http://www.unesco.org/education/nfsunesco/pdf/RIO_E.PDF (accessed: 21.01.2014).

WCED Report (1987), Report of the World Commission on Environment and Development: Our Common Future, http://www.un-documents.net/our-common-future.pdf (accessed: 21.01.2014).