SECTION 3. FINANCE, BANKING AND INSURANCE: APPLICATION OF DIGITAL TECHNOLOGIES

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CRETATING THE METHODOLOGICAL BASIS OF A COMPANY'S INTEGRATED REPORTING THROUGH EVALUATION OF CHANGES IN SIX TYPES OF CAPITAL

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In this study, the authors describe the relevance of transforming the traditional financial report system to an integrated reporting that encompasses the ability to assess not only financial but also non-financial indicators, definition of a financial report, the six capitals and the method of their evaluation in Integrated reporting, scheme for the development of Integrated reporting and results of companies that have already implemented integrated reporting. This article is correlated with Goal 17 "Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development" [1].

The issues of productivity and transformation of labour in an era of expanding influence of digital technologies and how to measure labour productivity in financial reports are among the most relevant contemporary topics for research, as scientific and technological progress does not stand still and change becomes the norm of today's life. The increasing pace of change, increasing complexity of processes generates increased demands on the competences of workers and the general population. At the same time, the demand for integrated reporting becomes higher, as integrated reporting shows reporting in six capitals such as: Natural, Social, Intellectual, Human, Financial and Manufactural capitals. Each of these six capitals can be measured in the report, giving the potential to see trends to predict the situation of the company as a whole.

However, it is now in the period of detailing of all processes due to the growth of innovative technologies that it becomes vital as technologies replace people and make them unemployed. Timely and correct forecasting of when and which capital will become irrelevant due to the growth of detailing and technology will become irrelevant can help to avoid potential crises and unemployment by retraining or transforming irrelevant resources of six capitals.

An integrated reporting is a summary of how an organization’s strategy, governance, performance and prospects in the context of the external environment lead to value creation in the short, medium and long term. Integrated reporting (further <IR>) is a synthetic tool to present the system of financial and non-financial indicators of a company. Reading an integrated report, a company’s stakeholders can make an overview on how strategy, governance and organization create a corporate value using its capital in different periods of time.

The purpose of the Value Reporting or Integrated Reporting is “to provide investors and corporates with a comprehensive corporate reporting across the full range of company value drivers and standards to drive global sustainability performance” [2].

The idea of corporate reporting has changed dramatically over the years. For example, if we go back to the 60s, as shown in the figure above, corporate reports were mainly concerned with basic financial indicators (balance sheet, income statement, cash flow statement).

However, over time, corporate reports have become increasingly content orientated, including management commentary, as well as management reports, and remuneration reports. The reason for this was that investors and other external users wanted detailed information about what was happening in the company.

Gradually, by the early 2000s, sustainable growth reports, social responsibility reports were included in annual reports along with financial information because integrated reports are more forward-looking than other types of reporting. Integrated reports include both financial and environmental, social and governance information. Let's dig deeper into the concept of Integrated Reporting.

The six capitals defined by the International Integrated Reporting Council; IIRC are:

- Natural;
- Social;

- Intellectual;
- Human;
- Financial;
- Manufactured [3].

Money is of course an important factor, but a company is only able to build and sustain value if it manages the available capital.

Of the six categories noted earlier, a company should use and influence all forms of capital in its operations. In the following, we elaborate on each category of capital.

1. Natural capital Reproducible, non-reproducible natural and environmental resources such as air, water, soil, forests, minerals that provide for the past, present and future prosperity of an organization. Natural capital also includes the health, biodiversity of an ecosystem.
2. Social capital grows out of a company's relationship with the community from which it has received its license to operate. It is also the institutions and relationships within and between communities, shareholder groups, and the ability to share information to improve individual, social well-being.
3. Intellectual capital is the result of the efforts of an organisation's employees to create intangible assets. It refers to intellectual property, namely patents, publishing rights, software, rights, licenses. It is also the 'capital of the organisation', namely knowledge of the system, procedures, protocols.
4. Human capital is the skills, abilities, capabilities, and experience of employees.
5. Financial capital is the pool of funds held by an organisation to produce products or provide services. These funds are acquired through financial activity, namely loans, reinvestment, equity or grants.
6. Manufactured capital is the physical assets held by an organisation for use in the production of goods or services. This includes buildings, equipment, all infrastructure (roads, ports, bridges, sewage treatment plants, water supply, security) This includes assets produced by the reporting organisation for sale or, when held for its own use.

When accounting for a company's capitals, it is worth bearing in mind that not all capitals are equally important to the company. When developing an integrated report, determine which capitals are the most material to your company and then report on them.

For example, if your company develops software, industrial and natural capitals are likely to be less significant, while intellectual and human capitals will be. On the other hand, a mining company that has invested heavily in land, buildings, equipment (industrial) will be very concerned about pollution and waste production (natural). The recycling process itself may be very simple, so intellectual capital may not be so essential to the company.

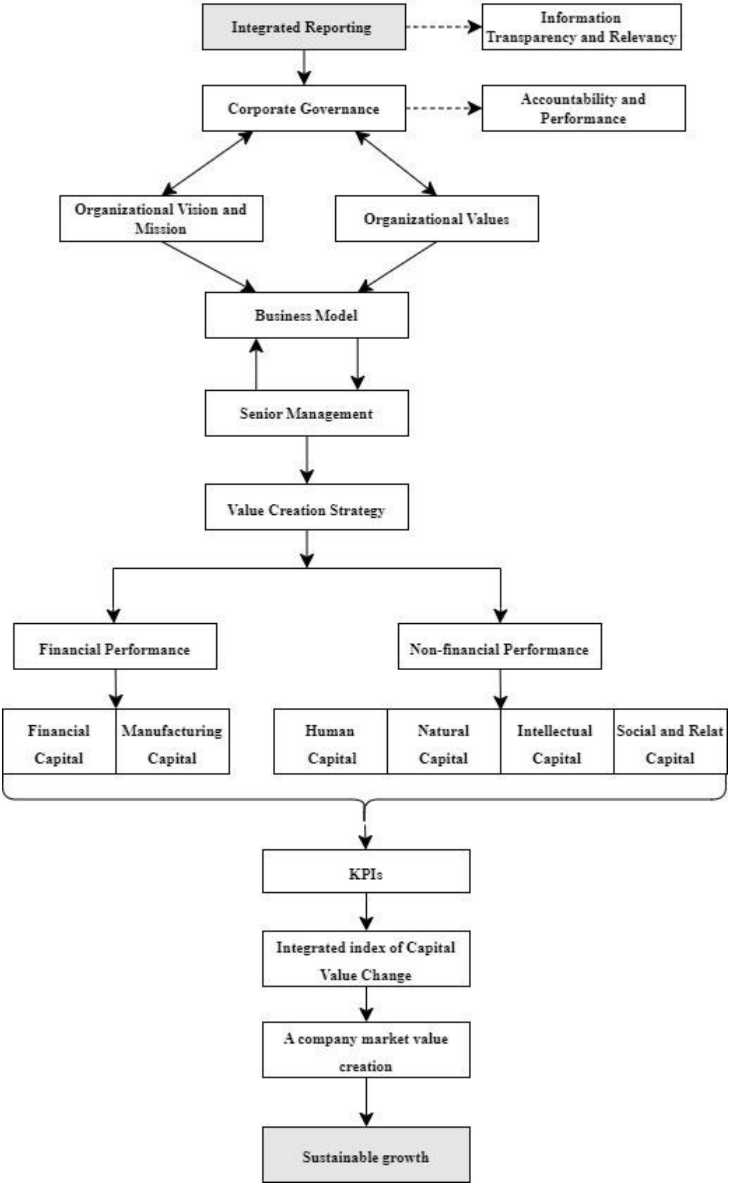

Figure 1. The conceptual content of IR (developed by the authors)

Moreover, the possible way how to measure six capitals in Integrated reporting might be described in formula (1)

The formula of l_c – the integrated index of value change effect is described below. (1):

$$l_c = \sqrt[n]{K_{natural} * K_{social} * K_{intelect} * K_{human} * K_{finan} * K_{manuf}}\ , \qquad (1)$$

where six capitals are: $K_{natural}$ – natural capital, K_{social} – social or relationship capital, $K_{intelect}$ – intellectual capital, K_{human} – human capital, K_{finan} – financial capital and K_{manuf} – manufacturing capital, Ki – the value of the growth rate of indicators characterizing the i-th category of capital; *i* – private indicators.

Conceptual model for building the content of the IR is shown in the Figure 1. The content of IR is developed by the authors in accordance with a company's organizational goals and values.

Within the framework of the existing business model, it is necessary to develop a value creation strategy, where to determine the value of all types of capital (financial, natural, human, social and relationship, intellectual, and manufactural) used and their weight in the process of creating a corporate value. Using the formula 1, the integrated index of capital value created can be defined. The determination of this index would allow the company to analyze periodically changes in the value of various types of capital based on the relevant KPI indicators, and assess the impact of these changes on the market value of the company, and make conclusion about sustainability of its businesses.

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