

# Non-financial reporting as a basis for the sustainable development of a company

T V Zhukova<sup>1\*</sup>

<sup>1</sup> Novosibirsk State Technical University, 20 Karl Marx prosp., Novosibirsk 630073  
Russia

E-mail: t.zhukova@corp.nstu.ru

**Abstract.** The aim of the study is to assess the current trends associated with the formation of non-financial reporting and aimed at disclosing information about the sustainable development of the company. The article examines such key principles used in the preparation of non-financial reporting as a dialogue with the interested parties, which is aimed at disclosing information specific to a particular industry of a company and influencing the decision-making process.

**Keywords:** reporting, non-financial reporting, company, sustainable development, industry

## 1. Introduction

Informational openness of companies is an effective dialogue with their stakeholders. Therefore, reports published by companies are the only resource for satisfying the information needs of investors, shareholders, creditors, and the public. In recent years, in Russia, the transition to consolidated financial statements has occurred. It is prepared according to the IFRS (International Financial Reporting Standard), which allows Russian companies to be more competitive in the domestic and international markets. However, it is important to recognize that current reporting trends are driving new approaches to the presentation and use of information disclosed in it. Active interest in non-financial indicators that form the potential for sustainable development of companies is also clear [10], [11].

Of course, this forces us to discuss the need for such disclosures in the reporting as environmental and social reports. This requires a certain approach to the disclosure of the necessary information based on relevant principles and characteristics. The development of non-financial reporting in Russia has a positive trend. Thus, according to the National Register of Corporate Non-Financial Reports, published by the Russian Union of Industrialists and Entrepreneurs (RUIE), as of April 10, 2019, a total of 922 non-financial reports are registered, which included 313 sustainable development reports, 355 social reports, 172 integrated reports, and 82 environmental reports [1].

## 2. Materials and Methods

Analyzing financial and non-financial reports of public companies, we can note that there is no single approach to presenting information in non-financial statements. However, at present, in the international and Russian practice, standards that are the basis for presenting non-financial reporting have been formed. These standards include the following: Guidance on Sustainable Development Reporting, G4 version of the Global Reporting Initiative (GRI), AA1000, ISO 26000 series standards, IIRC Integrated

Reporting Guidelines, Social Charter and Basic Indicators of RSPP Performance, and Corporate Public Reporting Standards [2].

The “Sustainable Development Reporting,” a KPMG study conducted every two years, focuses on the fact that the methodology for assessing the quality of non-financial reporting is based on seven criteria that form the best industry practice of disclosure:

- a. Stakeholder engagement;
- b. Materiality;
- c. Risks, opportunities, and strategy;
- d. Goals and indicators;
- e. Transparency and balance of information;
- f. Supply chain and value creation;
- g. Management of corporate reporting [3].

According to the author, the key parameters are the materiality of information and interaction with stakeholders. This is due to the fact that the materiality of information disclosure will directly depend on the interests of users to certain indicators, as well as on the characteristics of the industry to which the company belongs.

Professional organizations pay enough attention to the materiality of the information being disclosed in the financial and non-financial reporting, both according to Russian and international standards. So, in September 2017, the IFRS published the 2nd Practical Guideline “Accepting judgments of materiality” [4]. This manual reveals the sequence of actions that companies must follow when making statements of materiality in the preparation of statements. As one of the stages, the algorithm of actions involves conducting an analysis of the dependence of the materiality of information on its nature, as well as specific facts and circumstances relating to the activities of the organization.

Until recently, there was no approach to determining the materiality level of information contained exclusively in the financial statements in the Russian accounting practice. However, on November 30, 2018, the Accounting, Financial Reporting and Audit Department of the Ministry of Finance of the Russian Federation published the Methodical Materials “Materiality in Accounting” on its website. These Materials reveal the concept of materiality and the procedure for its determination in the preparation of financial statements. The approach of the Ministry of Finance of the Russian Federation to materiality suggests highlighting quantitative and qualitative factors for determining materiality. In these Methodological Materials, the nature of the organization’s activities (or its industry affiliation) is considered as a qualitative factor in determining the materiality of financial statements indicators. At the same time, the relevance and usefulness of information for making economic decisions by users is given as part of qualitative factors.

In our opinion, the following qualitative factors will have real significance in the formation of non-financial reporting indicators: the decision-making process by users; relevance and usefulness of information; as well as the nature of the company’s activities and size.

### 3. Results

As a result of the assessment of the existing key parameters for the preparation of non-financial reporting, which is the basis of information on the sustainability of the company’s activities, a number of key observations are made.

First, the nature of the organization’s activities is proposed to be considered as a key factor in disclosing information in non-financial reporting. The nature of the organization’s activities is due to the competitive advantages and the leading role of certain companies in the economy of the country and region.

For example, a certain contribution to the sustainable development of the regions and Russia as a whole is made by the companies of the metallurgical industry, the significance of which is confirmed by the *Strategy for the Development of the Ferrous and Non-Ferrous Metallurgy of Russia for 2014–2020 and the perspective until 2030* (hereinafter referred to as the Strategy) developed in 2014. This

Strategy is aimed at ensuring a balanced development of the metallurgy industry, taking into account improving the quality of life of the population, GDP growth, as well as reducing the harmful impact of the industry on the environment.

Among the largest domestic metallurgical companies, we can note six vertically and horizontally integrated holdings. Based on the data of the RAEX-600 rating for 2016-2017, the sales volume of their products is presented in Table 1.

**Table 1.** Sales volume of products made by the leading Russian metallurgical companies and their place in the RAEX-600 for 2016-2017 [5].

Indicators	Sales volume, million rubles		Place in "RAEX-600"	
	2016	2017	2016	2017
EVRAZ LLC	515459.8	631214.1	21	18
Novolipetsk Metallurgical Combine PJSC	510313.9	586789.5	22	19
Severstal PJSC	392144.0	457521.0	27	24
Magnitogorsk Metallurgical Combine PJSC	373699.0	439972.0	29	27
UK "Metalloinvest" LLC	284744.5	363254.1	42	32
Mechel PJSC	276009.0	299113.0	44	40

The competitive advantages of the metallurgical industry are prescribed in the Strategy. Also they are the basis for the formation of non-financial information for interested users, namely: (a) presence of vertically and horizontally integrated companies; (b) availability of a bank ready to introduce world-class technologies; (c) emissions of harmful substances into the atmosphere; (d) a developed enterprise infrastructure; innovation; (e) interactions with metal consuming industries; (f) improving the environmental performance of existing industries. The allocation of these factors as the key ones for the industry is confirmed by the relevant disclosures in the reporting of metallurgical companies.

Second, the strategically defined goals and objectives of the company aimed at its sustainable development are the basis for disclosing information in non-financial reporting to interested users.

For example, for metallurgical companies, information on environmental protection is part of information that is important to a wide range of interested users. The results of the environmental responsibility rating of mining and steel companies in Russia, published by the "National Rating Agency" Analytical Center, serve as a proof of this. It notes that its development contributes not only to increasing the corporate responsibility of enterprises, but also to creating effective feedback mechanisms for the industry with stakeholders. According to the results of the assessment in 2017, such metallurgical companies as Norilsk Nickel (7th place), Magnitogorsk Metallurgical Combine (8th), Metalloinvest (14th), as well as Severstal and Evraz (16-17th) occupy high places in this rating [6].

Another industry feature of ferrous and non-ferrous metallurgy is the high social responsibility of companies. Many enterprises are city-forming; therefore, they are responsible not only to the employees, but also to the population of the regions. The main objectives of the companies are to create a favorable socio-economic environment, creating the necessary conditions for high-performance labor of their employees, etc. In September 2015, the Agency for Political and Economic Communication (APEC) published a social responsibility rating of Russian companies. The metallurgical companies (Severstal is 5th place, Metalloinvest is 6th place) are among 20 companies with a very high level of social responsibility [7].

Third, it is important that a number of obligations that metallurgical companies fulfill to the parties concerned are not fixed by the existing law. However, enterprises of the metallurgical industry, disclosing the necessary information in the financial statements due to the specifics of their activities, consciously agree to this in order to preserve social and environmental responsibility.

Focused on satisfying the interests of users, companies independently determine the circle of interested parties in their reports. For example, the Novolipetsk Metallurgical Combine PJSC in the annual report identifies interested parties and their interests. The Metalloinvest company identifies scientific and engineering centers with which enterprises cooperate on the introduction of advanced

technologies as an interested party. This fact confirms such a direction of development as the active introduction of innovations, determined by the Development Strategy for Ferrous and Non-ferrous Metallurgy.

In this context, the business model of “Severstal” is of great interest. In the business model of this company, the following key factors influencing the direction of the enterprise’s development are highlighted: stakeholders (investors, business partners, employees, society), unique production capacities, and an advantageous geographical position, as well as efficient and innovative business processes. It is worth noting that, the 2017 annual report of the Severstal company “Growth through Innovation” discloses information about the innovation program aimed at ensuring business growth. Such programs are aimed not only at the development of innovations but also at improving the environmental characteristics of production, which is also a factor in the influence of industry specifics on the disclosure of information in non-financial reporting.

Fourth, the PricewaterhouseCoopers (PwC) firm conducted a survey of the leaders of metallurgical enterprises. It revealed that, in the opinion of the managers themselves, customers (92%) and supply chain partners (81%) had the greatest impact on companies [8]. The results of this survey confirm the significant impact of such a direction of development of the industry as a wide interaction with companies-consumers of metallurgical products on non-financial reporting indicators.

Fifth, as a result of analyzing user groups and their interests on the basis of reports of leading metallurgical companies, it was determined that if a company performs this kind of classification and highlights key interests of shareholders, buyers, suppliers, the public, then the quality of reporting becomes higher.

Thus, the previously defined features of the metallurgical industry relate to the qualitative parameters of materiality and were taken into account when determining the interests of users in order to disclose information in published non-financial statements. These features include the following: innovative development, environmental performance of the production and interaction with supply chain partners.

#### **4. Discussion**

One of the reasons for discussion is the question of what platform companies need to make non-financial reporting. In the context of the existence of standards in the field of sustainable development, social and environmental responsibility, it is important to have certainty, which would allow to achieve comparability of information between the indicators of public accountability of companies in the industry sector [9].

In the second place, the confirmation of non-financial reporting by independent professional communities regarding its reliability is important. For this, certainty regarding the applicable standards for the formation of indicators of non-financial reporting is necessary.

A discussion of the results of the study leads to the following conclusions:

- There is a need to standardize the presentation of information in non-financial reporting, which would solve the problem of its certification by independent professional communities;
- In order to make relevant decisions, as well as in the context of an increasing volume of quality indicators, the parties interested in non-financial reporting should understand that reporting is reliable. Confirmation of this is possible under conditions of independent verification using a single platform for presenting information.

#### **5. Conclusion**

There are certain difficulties in the formation of indicators of non-financial reporting despite the positive trends in its development in Russia. This is primarily due to the fact that non-financial reporting is based on the principle of materiality of disclosed information, which should be aimed at meeting the interests of interested parties and focused on the sectoral specifics of the company and key indicators of its contribution to the development of the economy of the country and region.

A company making up non-financial reporting should clearly define the essential limits of the information disclosed, as well as the main groups of users who are interested in it. At the same time, the

need for a certain standardization of the principles of preparing non-financial reporting would be important, as well as the confirmation of its authenticity by independent professional communities.

## 6. Acknowledgments

The author of the article expresses gratitude to his scientific adviser B. A. Amanzholova for support in scientific research, as well as to the Dean of the NSTU Business Department M. V. Khairullina, for providing financial assistance.

## References

- [1] Official site of the Russian Union of Industrialists and Entrepreneurs (RSPP) n.d. Available at: <https://www.rspp.ru/> (Accessed 02 03 2019)
- [2] Senatorova E A 2018 Non-financial reporting: international context, Russian practice *Journal of Corporate Finance Research* **12**(3) pp 81-92
- [3] KPMG 2015 *Survey on Sustainability Reporting* Available at: <https://assets.kpmg/content/dam/kpmg/ru/pdf/2016/11/ru-ru-currents-of-change-international-survey-of-corporate-responsibility-reporting-2015.pdf/> (Accessed 02 03 2019)
- [4] IFR 2017 The Practice Statement No. 2 “Making Materiality Judgements” Available at: <http://www.ifrs.org/-/media/project/disclosure-initiative/disclosure-initiative-materiality-practice-statement/mps-project-summary-and-practice-statement.pdf/> (Accessed 02 03 2019)
- [5] RAEX Rating Agency Available at: <http://raexpert.ru/> (Accessed 02 03 2019)
- [6] *Environmental responsibility rating of the mining and metallurgical companies of Russia* 2017 Available at: <https://new.wwf.ru/what-we-do/green-economy/mining/> (Accessed 02 03 2019)
- [7] Apecom 2015 *Social responsibility rating of the Russian companies in September 2015* Available at: [http://www.apecom.ru/articles/?ELEMENT\\_ID=2152/](http://www.apecom.ru/articles/?ELEMENT_ID=2152/) (Accessed 02 03 2019)
- [8] PricewaterhouseCoopers 2016 The 19th annual survey of CEOs of the largest companies in the world: Key results of a survey on the top managers of metallurgical companies 2016 Available at: <https://www.pwc.ru/ru/mining-and-metals/publications/assets/19thceo-metals-final-feb8-rus.pdf/> (Accessed 02 03 2019)
- [9] Russian Union of Industrialists and Entrepreneurs 2017 *Analytical review of corporate non-financial reports: 2015-2016* Available at: <https://www.rspp.ru/> (Accessed 02 03 2019)
- [10] Bogoviz A V, Alekseev A N, Ragulina J V 2019 Budget limitations in the process of formation of the digital economy *Lecture Notes in Networks and Systems* **57** pp 578-585
- [11] Ragulina J V, Alekseev A N, Bogoviz A V, Lobova S V 2019 Automatization of the labor resources market in the age of the internet of things: Conceptual substantiation and risk management *Studies in Computational Intelligence* **826** pp 909-915