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CONCEPT OF CATEGORIZING AN ORGANIZATION'S CAPITAL AS A BASIS FOR THE FORMATION OF INTEGRATED REPORTING

КОНЦЕПЦИЯ КАТЕГОРИЗАЦИИ КАПИТАЛА ОРГАНИЗАЦИИ КАК ОСНОВА ФОРМИРОВАНИЯ ИНТЕГРИРОВАННОЙ ОТЧЕТНОСТИ

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In recent decades, the practice of presenting not only financial data but also non-financial information in corporate reporting of organizations has become particularly relevant. This applies to companies of all sectors of the economy, including enterprises of the textile industry. The preparation of the innovative reporting model is based on the fundamental concepts presented in the international document regulating the procedure for its formation – the International Integrated Reporting Framework (January 2021). This article analyzes the concept of categorizing an organization's capital, according to which such types of capital as financial, manufactured, intellectual, human, social and reputational as well as natural are distinguished. This classification is recommended. The author suggests her own classifications of a company's capital by the criteria of its nature and the possibility of control over it by the organization. The article provides the detailed description of different types of capital and considers their role in the functioning of an enterprise. The conducted research has allowed to formulate the conclusion that following the concept of categorizing an organization's capital makes it possible not only to form high-quality integrated reporting but also plays a crucial role in the effective management of a company.

В последние десятилетия особую актуальность приобретает практика представления в корпоративной отчетности организаций не только финансовых данных, но и информации нефинансового характера. Это касается компаний всех отраслей экономики, в том числе предприятий текстильной промышленности. В основе подготовки инновационной модели отчетности лежат фундаментальные концепции, представленные в международном документе, регламентирующем порядок ее формирования, – Международных

основах интегрированной отчетности (январь 2021). В данной статье проведен анализ концепции категоризации капитала организации, согласно которой выделяют такие виды капитала, как финансовый, производственный, интеллектуальный, человеческий, социально-репутационный и природный. Данная классификация носит рекомендательный характер. Автором предложены собственные классификации капитала компании по критериям его природы и возможности контроля над ним со стороны организации. В статье приведена подробная характеристика разных видов капитала и рассмотрена их роль в функционировании предприятия. Проведенное исследование позволило сформулировать вывод о том, что следование концепции категоризации капитала организации не только позволяет формировать качественную интегрированную отчетность, но и играет важную роль в эффективном управлении компанией.

Keywords: integrated reporting, financial data, non-financial information, organization value, stakeholders, economic decisions, concept of categorizing a company's capital, market capitalization, enterprise competitiveness, an organization's growth and development.

Ключевые слова: интегрированная отчетность, финансовые данные, нефинансовая информация, стоимость организации, стейкхолдеры, экономические решения, концепция категоризации капитала компании, рыночная капитализация, конкурентоспособность предприятия, рост и развитие организации.

In the contemporary world, integrated reporting, which combines financial and non-financial data on the enterprise's activities giving an idea of its ability to create and maintain value in both the short and long term, is getting increasingly widespread in Russian and foreign accounting practices year after year [1; 2]. This is due to the fact that stakeholders are interested in companies disclosing not only financial information in their corporate reporting but also extensive non-financial data so that interested parties could make informed economic decisions [3].

Currently, integrated reporting is prepared by organizations of various sectors of the economy. For instance, the innovative reporting model is being formed by such foreign enterprises of light industry as GHCL Textiles Limited, an Indian buckle manufacturer; ASICS Corporation, a Japanese company engaged in the production of sports clothing and footwear; Marks & Spencer, the largest British clothing manufacturer; LPP SA, a Polish clothing manufacturer.

In Russia, integrated reporting has not yet become widespread in the accounting practice of light industry enterprises. This is largely due to the fact that these organizations do not have a wide presence in foreign markets. As to Russian textile enterprises, fabrics they produce are exported primarily to the Commonwealth of Independent States and Eastern Europe, although sales markets in Asia and Europe are gradually expanding. Other characteristic features of the textile industry of the Russian Federation include the dependence on imported raw materials and the regional concentration of production. Despite the presence of domestic raw material potential (for instance, flax), a significant share of materials is imported from abroad, which increases the dependence on external factors. The main production sites are concentrated in the Central Federal District (the Ivanovo Region, the Moscow Region) and the Volga Federal District (the Republic of Tatarstan).

In view of the above, the following tasks for the development of the textile industry are

set in a number of adopted regulatory documents of the Russian Federation:

• increasing the competitiveness of Russian products through the introduction of innovations and the modernization of production capacities;

• enhancing infrastructure by creating logistics centers, improving the transport accessibility of regions, creating conditions for attracting investments;

• increasing energy efficiency through enhancing production technologies, reducing energy costs and environmental impact.

The preparation of integrated reporting is based on the fundamental concepts specified in the International Integrated Reporting Framework (January 2021) [4]. One of them is the concept of categorizing a company's capital.

The success of an organization and the amount of its market capitalization depend on the capital possessed by the company. This postulate fully applies to enterprises of the textile industry. In accordance with the International Integrated Reporting Framework (January 2021), the following six types of capital are distinguished in the composition of an organization's capital: 'financial, manufactured, intellectual, human, social and relationship, and natural'. This classification of a company's capital is recommended. An organization can categorize its capital in a different way. The main thing is that the integrated reporting, which is being generated, covers all types of capital that the company uses in its activities and that it influences.

An organization's capital constitutes a stock of value which, depending on the company's performance, could either increase or decrease. For example, profit leads to a rise in financial capital and personnel training contribute to an increase in human capital.

In the author's opinion, globally, an enterprise's capital can be divided into financial and non-financial. This classification underlies the idea of integrated reporting which discloses information related to both types of capital. Non-financial capital, in turn, is divided into tangible (manufactured and natural capitals) and intangible (intellectual, human as well as social and relationship capitals) (Fig. 1).

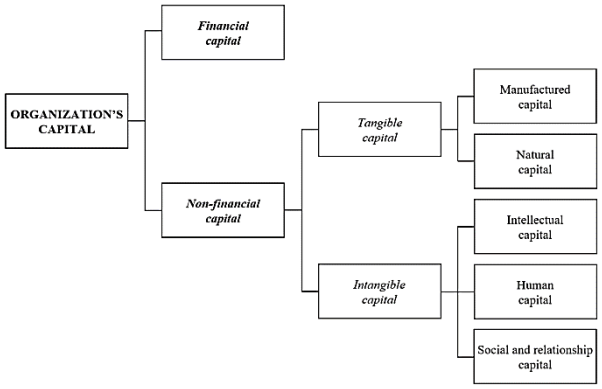

Fig. 1

Not all types of capital are fully controlled by an organization. A company could directly influence the amount and structure of financial and manufactured capitals, but it can manage intangible (intellectual, human, social and relationship) and natural capitals only to a certain extent. The author proposes a classification of an organization's capital by the criterion of the possibility of control over it by a company (Fig. 2).

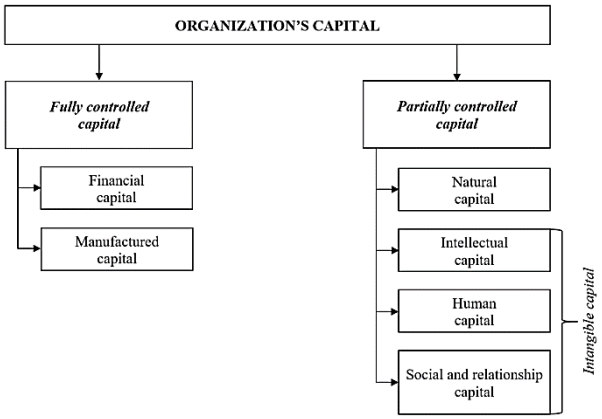

Fig. 2

Each type of capital has its own peculiarities. Financial capital is a resource for creating other types of capital [5]. The part of financial capital that is not used to form tangible and intangible capitals is converted into financial assets. According to the International Integrated Reporting Framework (January 2021), financial capital is 'the pool of funds that is available to an organization for use in the production of goods or the provision of services'. These funds come to an enterprise as a result of receiving grants, attracting debt or equity financing and as a result of conducting business and making investments.

The assessment of all elements of financial capital is carried out on the basis of financial statements, namely on the basis of the statement of financial position. The structure of the sources of the company's financial capital affects its financial position and stability as well as the weighted average cost of the organization's capital.

Manufactured capital is the most important type of capital for companies operating in the industrial economy. However, in the modern world, where information and knowledge play a major role, the competitive advantages of an enterprise in the long run cannot be ensured solely by manufactured capital.

Manufactured capital is tangible objects owned by the organization and used by it in the process of producing certain goods and services [6]. This capital includes equipment, buildings, various infrastructure facilities such as waste recycling plants, ports, roads, water treatment plants, bridges, etc. In other words, manufactured capital is fixed assets possessed by the company and its unfinished construction.

Integrated reporting might reflect data on the composition, condition and movement of fixed assets (pledging, getting a lease or transferring into lease, transferring to conservation) as well as information on their current market value, production capacity and the level of its use, the operating mode of equipment and its downtime, the amount of investments in manufactured capital. Apart from that, integrated reporting should present coefficients of capital intensity, labor intensity and energy intensity of production, indicators of the degree of labor mechanization and automation.

The condition and efficiency of the use of fixed assets owned by the organization affect its competitiveness, profitability and capital turnover as well as the company's ability to create value. This statement is particularly relevant for enterprises of the textile industry.

Intellectual capital comprises both identifiable and unidentifiable intangible assets that could be controlled by the organization partially or fully. This capital includes intellectual property objects such as patents, copyrights, software, rights and licenses, etc., as well as organizational capital which comprises databases, corporate culture, business mission and strategy, the company's organizational and financial structures, information systems, management processes, internal control and management accounting systems, and so on.

Data on intellectual property is currently presented in financial statements to a limited extent. In particular, the relevant information might be obtained from the enterprise's statement of financial position by analyzing the item called 'Intangible assets'.

Intellectual property has a number of characteristic features. Crucially, it is unique for each individual company, extremely difficult to identify and correctly evaluate (as a result, one of the most serious problems of contemporary financial reporting is the lack of information on internally created intangible assets in organizations' statements of financial position). Thus, data on intellectual property in corporate reporting is not fully disclosed by companies.

Intellectual capital also includes organizational capital which consists of the knowledge of the staff, the enterprise's organizational structure, its system and principles of corporate governance, applied decision-making procedures. The assessment of organizational capital is usually carried out by experts who take into account the impact of organizational capital on the parameters of the riskiness and effectiveness of the company's activities as well as on the process of creating and implementing innovations.

When evaluating intellectual capital, such analytical indicators as the share of intangible assets in the final indicator of the statement of financial position, their increment rate and the qualitative characteristics of the components of organizational capital are used. The main indicator for assessing intellectual capital is the creation of technological, product, organizational and marketing innovations.

Intellectual capital is a source of competitive advantages in the long term. It promotes to the organization's development and growth, the creation and preservation of value in the future [7]. Intellectual capital contributes to enhancing technologies, increasing the enterprise's efficiency, sustainability and growth rates, improving business processes as well as

allows for more economical use of financial, material and labor resources.

Human capital is skills and abilities of employees, their professional experience and desire to implement innovations. This capital includes motivation to perform their work duties, orientation toward the organization's management structure, loyalty to the company, compliance with its ethical standards, the ability to lead and collaborate as well as the ability to act in accordance with the enterprise's strategy and contribute to its development [8].

An organization's human capital might be increased by hiring creative and highly motivated staff, creating and implementing a corporate culture, investing in enhancing professional skills of employees and maintaining their health.

Integrated reporting should present data on the average number of workers, the number of employees working under civil law contracts, the number of external part-timers and the number of workers engaged under outsourcing agreements. In addition, integrated reporting should reflect information on employee categories (managerial staff, key employees, specialists, support staff), their work experience and age, education level, average salary level at the enterprise and its differentiation as well as employee movement indicators (turnover rates based on the admission and departure of employees). No less important are such indicators as creativity, motivation, satisfaction and professionalism of the staff. The aggregate indicator for assessing human capital is the level of labor productivity.

In the contemporary world, the role of human capital is growing every year. This is due to the instability of the external environment, increased competition, accelerated scientific and technological progress and a decrease in the life cycle of goods. Under these conditions, employees are required not only to have a high level of qualification but also to be loyal to the organization, creative, dynamic and able to adapt quickly to changes.

Social and relationship capital is the business reputation of the company, its relations with stakeholders as well as the willingness to share information in order to improve both individual and collective well-being [9]. The main elements of social and relationship capital are shown in the figure below (Fig. 3).

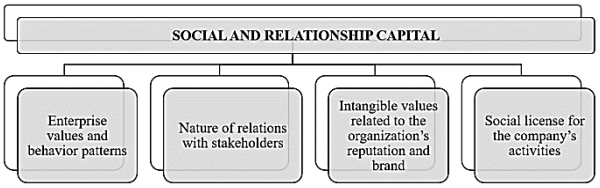

Fig. 3

The presented figure demonstrates that social and relationship capital comprises values recognized at the enterprise and accepted patterns of employee behavior both within the organization and in the external environment. This type of capital includes the nature of relations with various stakeholders, their level of trust in the company and their desire to establish a partnership. Intangible values associated with the organization's reputation and brand as well as a social license for the company's activities is also elements of social and relationship capital.

The key component of social and relationship capital is trust which indicates that the expectations of stakeholders have been met. The trust of interested parties gives the enterprise competitive advantages.

Integrity and responsibility in interaction with suppliers, clients and employees considerably contributes to creating an organization's social and relationship capital. This type of capital increases if the company participates in the implementation of various social projects conducts large-scale advertising campaigns as well as actively works to enhance relations with counterparties, expand and improve its customer base.

Integrated reporting should disclose information on the stability of the staff, the reputation of the enterprise, its key partners and the duration of cooperation with them, social investments (for instance, investments aimed at supporting culture and sports or investments in projects for the construction of social infrastructure facilities) [10].

Currently, the assessment of social and relationship capital takes on particular importance since this type of capital largely determines a company's value and development prospects. Social and relationship capital is

formed due to stable business contacts with stakeholders. It facilitates the transition from control over the production process to managing relations with stakeholders. Social and relationship capital contributes to creating and maintaining the enterprise's value by minimizing the level of uncertainty in matters of cooperation with counterparties, establishing trusting relations, reducing transaction costs when interacting with them and exchanging information with suppliers and customers.

Natural capital has been the object of special attention since the 1970s. This is due to the fact that the overuse of natural resources and environmental pollution has significantly reduced development opportunities for future generations. The pursuit of profit maximization in the short run has led to the depletion of mineral resources and a slowdown in economic growth. The long-term perspective approach considers the accounting of natural capital and its effective use.

According to the International Integrated Reporting Framework (January 2021), natural capital is 'all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes air, water, land, minerals and forests; biodiversity and eco-system health'.

Integrated reporting should disclose data on the enterprise's land resources, information on total, probable and possible reserves of mineral resources (metal, fuel, non-metallic). It is also necessary to provide data on the cost of natural capital and the number of years for which the company's natural resources are expected to last. Analytical indicators might include such metrics as the depth of occurrence of natural resources, the volume of their extraction, location, composition and properties [11].

The importance of natural capital in the modern economy is extremely high as numerous manufacturing enterprises cannot operate without using natural resources. It should be noted that a large number of Russian organizations function and create value precisely due to natural capital.

In the context of implementing the tasks of developing the textile industry of the Russian Federation, the concept of categorizing a company's capital, applied in the formation of integrated reporting, is of particular importance.

Manufactured capital is used to modernize the production process and introduce new technologies in order to increase the competitiveness of products in domestic and foreign markets.

Intellectual capital is formed as a result of the development of innovative materials and production methods that contribute to the creation of unique products and improve the quality of manufactured products.

Social and reputational capital is manifested in the enhancement of working conditions, personnel training and the support of local communities, which leads to an increase in the enterprise's image among consumers and partners.

The rational management of natural capital involves a responsible attitude towards natural resources and environmental protection, which helps to reduce the negative impact of production on ecosystems.

Financial capital makes it possible to attract investments and receive government subsidies, which ensures the stable financing of modernization and production expansion projects.

Human capital includes qualified specialists who carry out the effective management of the production process, introduce new technologies, improve product quality and reduce costs.

All of the above types of capital have different significance for the company and their importance could change from one reporting period to another. Those types of capital that the organization possesses in very small amounts in a specific reporting period or that have only an indirect impact on its activities may not be reflected in integrated reporting. For instance, for enterprises of the textile industry, such types of capital as manufactured and natural are of priority importance. Manufactured capital provides the basis for the efficient manufacture of products while natural capital guarantees the availability of materials from which products are made (cotton, wool, linen, etc.). Thus, manufactured and natural capitals create conditions for the sustainable and competitive development of a company operating in the textile industry.

Based on the analysis of the practice of the functioning of Russian textile enterprises, we can conclude that their capital structure is about as follows: manufactured capital – 30–40%, natural capital – 20–25%, financial capital – 15–20%, human capital – 10–15%, intellectual capital – 8–12%, social and reputational capital – 5–7%. These estimates are approximate and depend on specific organizations and regional characteristics. It is crucial to take into account that successful enterprises frequently integrate several types of capital at once, achieving a synergistic effect and the stability of their position in the market.

Over time, stocks of certain types of capital might change. There is a relationship between all types of capital. For example, as a result of spending on training, an organization increases human capital and decreases financial capital. In this way, financial capital is transformed into human capital.

A company's center is its business model which is based on different types of capital constituting a set of various resources. In the course of economic activities, these resources are transformed into goods, services or waste [12]. These provisions fully correspond to the realities of enterprises of the textile industry. The relationship between resources and all types of an organization's capital is shown in the figure below (Fig. 4).

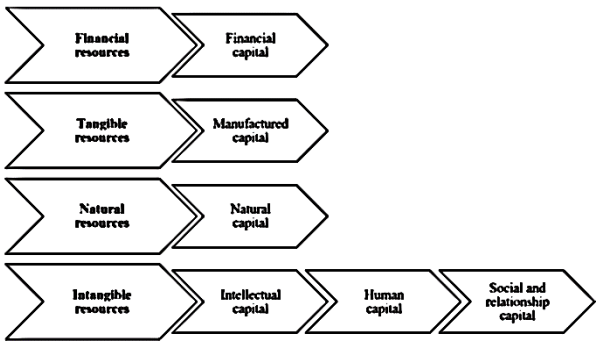

Fig. 4

Using all types of capital in the course of its activities, the company produces particular goods or services and obtains certain results. The ability of the business model to adapt to changes in the quality and availability of resources determines the viability of an enterprise in the long term. The regular monitoring of the external environment, taking into account the mission and strategic vision of the organization, helps to identify the company's opportunities and risks related to its business model [13].

CONCLUSIONS

The concept of categorizing an enterprise's capital, which underlies the preparation of integrated reporting, makes it possible to get a comprehensive view of the organization's activities. The analysis of the state and amount of all types of the enterprise's capital as well as the disclosure of information on them in integrated reporting allow the company to define its strengths and weaknesses as well as take measures aimed at enhancing its performance and market position. The regulation of the amount of different types of capital and the improvement of their qualitative characteristics ensure a company's competitiveness in the long run. Following the concept of categorizing an organization's capital implies a multi-aspect approach to the management of a company, which contributes to its sustainable growth and development. This is fully applicable to enterprises of the textile industry.

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