Challenges and Willingness of Corporates in adoption of Reporting Standards and Compliance Policies

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Abstract

Currently, all the international/national accounting /regulatory bodies are focusing on fair corporate reporting and best compliance practices. But corporate now-a-days are not able to adapt the changing demand of reporting practices easily. The objective of financial reporting to reveal the rules steadily, the basic aim of preparing this research is to prompt corporate entities so they cope up with the new challenges and acquire the development of reporting information and promote the knowledge driven process of business activities.

Keywords: Reporting, Corporate entity, corporate information disclosure.

Introduction

It's surprising to most business people that corporate scandal pre-dates the Enron and WorldCom misconduct of the early 21st century. In fact, tensions between regulators and businesses define American corporate governance, starting slowly in the 19th century and picking up considerable momentum in the 20th century. Corporate regulation began as a response to business scandals, seeking to redress underlying causes but each time adding to its increasing complexity. Even today, as regulators continue to deter massive scandals, businesses increasingly resist regulation that stymies their innovation.

In a rapid-changing, globalizing world, information materials for investors in decision-making are becoming progressively more diverse and dynamic. For investors, recent corporate reporting does not provide all necessary information. Information about managerial quality, brands and reputation, risks and opportunities, governance, social and environmental issues have yet to appear in a regular and reliable fashion in the corporate annual reports.

Review of Literature Survey

Corporate reporting is the process of communicating information of an entity to the external users. Measurement and disclosure are two aspects of corporate reporting procedure and these two are interconnected. Compliance significance for companies is continuously rising. Various stakeholders closely monitor a company's adherence to in- and external rules and regulations (**Menzies, 2006**).

An enterprise needs to demonstrate this conformance to meet stakeholder expectations. Through making compliance efforts transparent, organizations can communicate their values and policies as well as their translation into action to stakeholders and the public. Transparency sets a tone of openness, accessibility and accountability and it builds confidence among stakeholders (**Transparency International and UN Global Compact, 2009**).

Modelling and Data Analysis

Measurement symbolizes business activities in order to understand inter association among the perceived activities. Disclosure is the communication of description of such association to the users of information for the purpose of demonstrating corporate business position and the environment in which it operates. Together, these two aspects provide corporate annual reporting its essence.

Diverse Corporate Reporting:-

The modern corporate report is the product of gradual evolution of and addition to financial accounting for corporate reporting purpose. The former was concerned almost exclusively with the financial statements and related notes, while the latter refers to a great deal of narrative materials.

Different phases of corporate reporting evolved time to time are briefly discussed below:-

Stewardship reporting:-Until the last quarter of the 20th century, corporate reporting was limited to stewardship financial reporting i.e. reporting corporate assets and returns of the shareholders. Stewardship conventionally means the safekeeping of economic resources and the implementation of plans for preserving and employing them. With the increase in size, corporations need huge funds to finance widespread activities of production and distribution. For internal fund crisis, many companies depend deeply on outside capital markets to meet their capital needs. Investors are rarely able to examine on a regular basis, whether their funds invested to the companies are being utilized effectively and efficiently. Therefore, investors want and are supplied with an accounting for the stewardship of economic resources entrusted to the corporation.

Decision-oriented reporting:- Idea of management accountability expanded outside the components of stewardship and includes performance based affairs. Through the expansion of capital market, the inner focus on corporate reporting has already been moved from the earlier stewardship reporting to the current decisionoriented corporate reporting. Competition among companies in the capital markets to obtain capital at a relatively lower cost is the major motivating force to disclose decision-oriented information by the corporation to the investors. emergence in properly drafted assurance statements (O'Dwyer& Owen, 2005, p. 212).

The Global Reporting Initiative [GRI] (2006, p. 3) conceptualizes stand-alone reporting as a practice of determining, disclosing, and being liable to stakeholders, both internal and external, for corporate performance towards an aim at sustainable development. It also states that a stand-alone report should supply a balanced and rational demonstration of sustainable performance of a reporting corporation. Therefore, it is expected that contents of a stand-alone report would provide more information about different aspects of the nonfinancial information also.

Traditional vs. Current Corporate Reporting:-

Given the far-accomplishing changes in the business environment and information technology, it is not amazing that the relevance of the traditional corporate reporting being called into question. Five key features of the traditional corporate reporting are now coming under attack.

Firstly, the fundamentals of entity and goingconcern concept upon which the current corporate reporting is based are diluted by short-term strategic alliances.

Second, the periodic nature of current reporting meets unpleasantly with the real-time environment of modern information flows.

Third, the high extent of information combination is no longer desirable, since large amount of relevant information is inevitable to be disclosed.

Forth, the historical or backward-looking perspective of the traditional corporate reporting is not fully consistent with the survival and success of a company. As the pace of change accelerates, the past becomes a less valuable predictor of the future. This indicates the need for more forward-looking, strategic information.

Lastly, the traditional reporting consisting of only financial information is shown to be shortened so the reporting including both financial and nonfinancial information items are now widely accepted as useful indicators of corporate success.

Changes in Corporate Reporting Environment :-

In recent years, a fundamental review of the content of corporate reporting has occurred outside the academic community. Perhaps amazingly, the debate surrounding corporate reporting has occurred without significant remark by the academic community. However, the relationship between research and practice is multifaceted and not well understood (Lee, 1989). Throughout the history, corporate reporting has evolved continuously. Related significant influences include the emergence of the separation of corporate entity from its ownership control, the development of active share markets, the formation of professional accounting bodies, and the regulation of accounting and auditing practices (Ryan, Scapens, & Theobald, 1992). A recent document has pointed out a keenness to introduce any legal adjustment necessary to facilitate desirable changes in company reporting (Department of Trade and Industry [DTI] London, 1999). In current times, the professional bodies have raised their voice to observe the environment, recognize key changes, and develop strategies to accommodate these changes. However, the tempos of changes have not been uniform. It is possible that the technological rebellion may mark a further period of severe change in the course of expansion of corporate reporting practices. The quick developments in information technology have led to the alteration of the global communication. We now have worldwide capital markets, extensive electronic commerce, and strategic corporate alliance usually for short term. Business is increasingly supple and influenced by stakeholders, rather than only by producer.

Content of Corporate Reporting Items :-

The summary of prior influential reports gives an indication for widespread information disclosures that have been recommended as impartial part of corporate reporting. The American Institute of Certified Public Accountants [AICPA] (1994), DTI (1999), Foundation for Performance Measurement [FPM] (1999a;b), ICAEW (1997; 1999a;b), ICAS (1999), RSA (1995), and Wallman (1996) all address clearly the content of the corporate reporting items. Their proposals expose two aspects that are used in practice to decide the content of corporate reporting, i.e., what users should know and want to know. In common terms, there is a call for additional information. This is because moving forward of information technology means that large quantities of data can be hunted and evaluated based on the user's individual need. Moreover, there is a call for information that is exclusively forward-looking and/or nonfinancial in nature. This information may be quantitative or qualitativeExpanded disclosure reporting: Further the contest among corporations to obtain exterior financing from capital market at a comparatively lower rate has an impact on voluntarily corporate additional disclosure. Companies are now disclosing extended information to attract funds from domestic and/or international capital market and to minimize the firm's cost of capital. There are different research investigations that assert that enhanced disclosure has vital impact on corporate overall cost of capital (for example Barry & Brown, 1984, 1985, 1986; Easley & O'Hara, 2000). Expanded disclosure in annual reports increases the probability of anticipated future proceeds of a corporate share in the mind of an investor by decreasing the uncertainty associated with future proceeds amount. The purpose of decision usefulness has initially been integrated into the theoretical frameworks for the production and arrangement of financial statements developed by different local and international standard setting bodies or committees. Different from accountability to shareholders only, there is a rising global movement of the companies accountable to the public at a large scale. Such trend is in charge with shifting the corporate disclosure practice to a significant level. This movement is also creating corporate awareness about the needs for disclosing nonfinancial information to the stakeholders. Corporate stand-alone reporting: Stand-alone is concerned for reporting on completeness and on the responsiveness of the organization to its stakeholders.

Areas of Development of the Corporate Reporting :-

The reporting on financial data has been continuing for 500 years (United Nations Environment Programme [UNEP], 1999) and it has always been marked as high concern to the companies and their stakeholders, who use economic and financial data to evaluate companies' financial performance. The standards have been placed for content and presentation of information, accounting, auditing, and communication with stakeholders. Financial information is generally stated in companies' annual reports. Current tendencies particularly in the IAS and IFRS (International Financial Reporting Standards) stress the rising inclusion of present and future-oriented information, which means that data reliability is reduced continuously. Future-oriented data can rarely be determined unambiguously, and therefore are not regarded as reliable in principle. The conflict between relevance and reliability in accounting (Altenburger&Schaffhauser-Linzatti, 2007) can never be solved due to the uncertainty of the future. Nevertheless, openness and transparency in annual reporting on an exceptional scale may be inevitable with the adoption of widely accepted accounting standards.

Corporate Social Reporting :-

The history of social reporting started at the beginning of 1970s, when some US and European companies, started publishing social income statements and balance sheets, statements of compliance with standards and legislation, performance indicator reports, etc. In 1978 some kind of a benchmark survey was conducted, which underlined the positive growth in both the quantity and quality of corporate social reporting (US Department of Commerce, 1979). However, just two years afterward the trend had entirely overturned, with a failure of corporate social reporting. It resumed its journey in the late 1990s when conventional companies began to publish social reports (White, 1999). Some of them are large companies that have significant impacts on social life in particular countries or regions, for example, Shell and Nike. The guidelines for social reporting have been developed by organizations, such as the Council on Economic Priorities Accreditation Agency (CEPAA), the Institute of Social and Ethical Accountability (ISEA) and the London Benchmarking Group. There is no such thing as perfectly appropriate for social reporting as the character of each depends upon the claim of stakeholders and the aptitude of reporting organization to disclose. This resulted in different approaches to social reporting such as capital valuation, community involvement, ethical and social auditing (Gonella, Pilling, Zadek, & Terry, 1998). While some companies construct totally comprehensive reports of all their social and environmental impacts, others are struggling to execute environmental management systems initially (Line, Hawley, &Krut, 2002).

Corporate Environmental Reporting :-

Environmental reporting started in the early 1990s, when some companies, like Norsk Hydro in Norway and Monsanto in the USA, started reporting their activities, impact on the environment and actions taken for alleviating the impact. The trend has extended quickly to hold most sectors. Environmental reporting can be defined as the provision of information about the environmental impact and performance of an entity that is useful to stakeholders in assessing their relationship with the reporting entity (FEE, 1999). It refers to the environmental features and the impacts of company operation, as well as to the environmental policies and actions taken to mitigate those impacts. Many organizations including UNEP have issued more than 30 standards and guidelines for corporate reporting during the last decade. Although there is a remarkable increase in quality, most of the disclosures nowadays fail to meet the need for consistent, comparable and timely fashion.

Social and Environmental Reporting :-

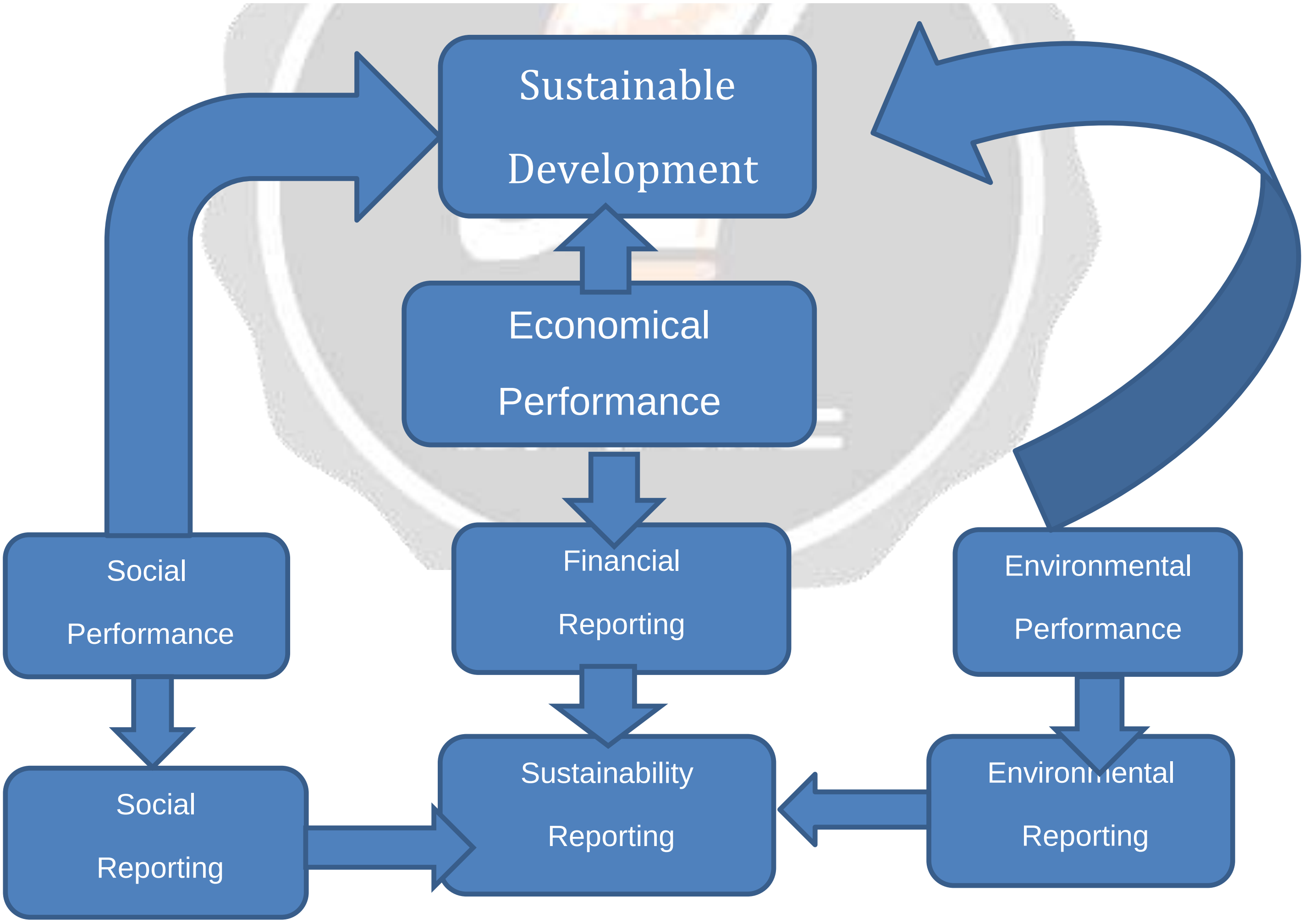
Professor Marc Epstein of Rice University (Epstein &Birchard, 1999) examined both the state of the art and best practices of how corporations are incorporating social and environmental impacts into stakeholder reporting. An investigation of some of the prior works, in social and environmental reporting, found social balance sheets, social income statements, social environmental audits, social scorecards, and pollution audits. Epstein mentioned these reports as far more inclusive in terms of both measurement and reporting. Epstein's analysis is that the improvements in measurement and reporting for social and environmental impacts were never institutionalized in the organizations.

Economic, Social and Environmental Reporting :-

Relevant information reporting is seen to gain investors more by reducing risk than by increasing return. This was the main premise in much of the early literature on economic, social and environmental accounting (Bebbington& Thompson 1996; Gray, Owen, & Adams, 1996) and has become mainly responsible for prompting many companies to disclose corporate economic, social and environmental issues (Gray, Kouhy, & Lavers, 1995; Klynveld, Peat, Marwick, &Goerdeler [KPMG], 1999; Lober, Bynum, Campbell, & Jacques, 1997). Though reporting of corporate economic, social and environmental information has matured, there still remained a lack of sufficient standardization. Equally important is the rising movement by the major accounting organizations to become concerned in the development of standards for corporate social reporting, auditing and verification. Accounting societies around the world have evaluated on the issue, including the FEE (1999), and International Federation of Accountants [IFAC] (2005). Their members observe this type of disclosures as a prospective area of corporate development. Accounting consulting companies have been extensively involved in writing comments on the GRI assurance about the credibility of sustainable reporting. The GRI Guidelines are the only standard for sustainability reporting.

Sustainability Reporting :-

Sustainable development has become an internationally accepted policy goal as a result of the United Nations Conference on Environment and Development held in 1992. Sustainable development is not an even position, an area we reach and say, "we have made it, now we can turn to something else" (Schrecker, 1997, p.75). Sustainable Corporation can be a powerful entity for more static in doing its business. In this situation, the strategy challenges large companies to report their performance in a transparent and meaningful way. Attaining this requires the bringing together of economic, social and environment essentials. The following figure 1 exhibits the concept of corporate sustainability reporting :-



Good Governance in Corporate Reporting :-

Corporate governance is about "Finding ways to ensure effective decision making" (Oman, 2001). The World Bank (2003) argues that the framework of corporate governance should be based on four "pillars" of Responsibility, Accountability, Fairness and Transparency (RAFT). Corporate governance principles, codes of conduct, and disclosure policies are moving companies to higher values of nonfinancial reporting, including expanded coverage in their financial statements. Some of the nonfinancial items are appearing with growing frequency, providing insights into the vision and efficacy of management in predicting new risks and opportunities in the marketplace. Furthermore, the increasing importance on the reporting of nonfinancial information refers a direct connection between the value of a company and its governance. In America, Australia, Japan Taiwan and European Union countries such as UK, France, Denmark, and the Netherlands, motivations and requirements to expand the scope of conventional corporate financial reporting through including nonfinancial information are rapidly unfolding. Some actions are aggravated by national environmental and social policy, others by investors' pressures to acquire a clear view of corporate performance via regulatory process of Securities and Exchange Commission. All indications point to continuing expansion of corporate reporting initiatives over the next few years. Corporate entity drives for new style of reporting nonfinancial information in order to converse about employees, build up good will, communicate critical messages to the stakeholders, overcome past negative publicity, continue past reporting activities, maintain standard or expected practice for the industry and establish a product marketing vehicle.

Corporate Reporting Audience:-

In the beginning of 1970s, much interest was given to the purposes of financial statements. It became generally acknowledged that the primary purpose of financial accounting should be to aid information users in their decision making. In the UK, The Corporate Report (London: Accounting Standards Steering Committee [ASSC], 1975) identified user groups, such as customers, employees, creditors and suppliers. In spite of this, investors are currently observed as the vital class of user (Accounting Standards Board [ASB] London, 1999) However, the discussion document issued by the Company Law Review Steering Group (DTI, 1999) revives the argument regarding the member groups in whose interests a company should be run. It distinguishes between enlightened shareholders, for whom a corporation run with the objective of wealth maximization, and the other stakeholders (consumers, suppliers, creditors), for whom a wider range of interests need to be balanced. In suggesting a comprehensive motive toward corporate reporting, earlier the London Royal Society for the Encouragement of Arts [RSA], Manufacturers and Commerce (1998) raised a voice in support of the interest of all stakeholders including shareholders.

Way to Report Corporate Information :-

Wallman (1997), Financial Accounting Standards Board [FASB] (1998a), Institute of Chartered Accountants in England and Wales [ICAEW] (1998a,b), Institute of Chartered Accountants of Scotland [ICAS] (1999), and DTI (1999) all address clearly the blow of information on corporate reporting. The annual report is generally viewed as the primary means of information dissemination to the users. Again, company websites are progressively being used as a reporting medium, with financial and other corporate information. A study (Hussey &Sowinska, 1999) showed that 63 of 100 sample companies had websites and included their corporate information disclosures. However, the Auditing Practices Board (APB) has confirmed that auditors do not currently have any liability to the disclosures on the Web. Some corporate information can also be communicated through conducting Annual General Meeting (AGM). The ICAS (1999) mentioned the functions of AGM including dissemination of information through answering the questions of ordinary shareholders.

Assurance of Corporate Reporting Information:-

Expectedly, fundamental changes in the corporate reporting information require changes to the way in which those are audited. AICPA (1996) is the influential work relating to this changed set of practices. This report initiates the term of assurance services and provides a detailed inspection of the issues. It is argued that the traditional assurance function provides reliability, with direct assurance on relevance ensuring a new area for the accounting profession. Two types of reliability assurance are renowned: one is assurance of data which relates to particular data items and another is assurance of system which relates to the plan and process of an information system. Given the importance to users of information about nonfinancial information items in corporate reporting, assurance service relating to the items are undoubtedly of direct relevance. ICAS (1999) recognizes, based on its experimental research, assurance in corporate information as one of the important matters relating to the corporate communication process. It offers a move towards the assurance of processes in addition to output

Research Objectives :-

At the time of this research, texts on corporate information reporting were scattered. The purpose of this paper is to review the literatures in order to increase understanding of corporate reporting concept and the emergence of nonfinancial information reporting. It is based on an intensive search for literatures which include search in journals, books, and different websites. The study summarizes the key issues of each study under general research themes. It is believed, however, that such an intuitive clustering would serve as a vital step in helping the researchers capture the essence of the literatures. The goal of this paper is to find out theoretical framework that can comprehensively examine the corporate reporting practice. Learning about corporate reporting is important to understanding the practice of corporate information disclosures.

Research Methodology

The data methodology part of this research limits relevant literatures from secondary source including books, articles, working papers and reports. Theoretical investigation of prior studies is to point out diversified corporate information reporting practice and to deduce any value of disclosing more relevant information in corporate reporting. This research adopts an explanatory approach to answering the research questions. The 'explanatory approach' lends itself to presenting the literature review throughout the report as various issues are tackled, a method suggested by Saunders, M. Lewis, P. &Thornhill, A. (2000). The issues tackled are based around a "conceptual framework" and serves to demonstrate the identification of themes and issues from which further analysis can be conducted. The work of Islam (1994) on analytical procedures, based on conceptual explanations, are methods proposed by Saunders &Thornhill as suitable propositions to qualitative analysis. This research begins with a presentation of current phenomenon of corporate reporting and ends with concluding remarks after reviewing prior literature.

Research Findings :-

Based on prior studies, I attempt to denote the milestones in corporate information reporting development. Furthermore, I have described corporate reporting evolution by analyzing important developments (e.g. corporate governance and nonfinancial information reporting). Finally, I pointed out that it is crucial to include nonfinancial information disclosures in corporate reporting, and that there is a lack of research in this area. Hence, the current study attempts to fill this void. In this paper, corporate reporting, trend of its development and nonfinancial information reporting are examined. Theoretical discussion of Baue, 2004 on the trends of corporate reporting development evidences that disclosing nonfinancial information has already been started through reporting social, environment and forward looking information issues. Again, theory of Schrecker, 1997 describes sustainability reporting embedding nonfinancial information by phasing out economic, social and environmental items. Further, a study of Bruntland, 1987 about investigations of contemporary nonfinancial reporting indicate that the practice is increasing. Within this paper, the term nonfinancial information reporting is used to refer to the nonfinancial aspects of the business activities. This type of reporting is theoretically founded to achieve the goals of transparency and accountability through making organizational life more visible (Gray et al., 1996).

The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, better known as G3, may be the most widely used outline for nonfinancial information. However, G3 provides guidance merely on reporting a corporate entity's economic, environmental, and social performance. The major finding of this paper is the validation that more corporate information disclosure has the merit of decreasing information asymmetries.

Furthermore, prior research (like Oman, 2001) supports that corporate governance principles lead to the value of reporting nonfinancial information initiated by social, environmental and forward looking information. In this paper, I have amased some important corporate reporting information for future conceptual and methodological research study. Future studies should continue to explore the underlying motivations for reporting more nonfinancial information.

Again, research can investigate how to communicate with stakeholders for pertinent information materials in order to achieve a better corporate image (Maignan and Ferrell 2004). In addition, the association between corporate more nonfinancial information reporting and stakeholders' needs for more relevant information in corporate reporting should be validated by the data providing additional research.

Conclusion :-

This research can contribute to the organization of knowledge regarding corporate information reporting. Prior research evidences that the market reinterprets the previously released accounting information and proves that accounting information leads to an increase in the information asymmetry between managers and investors. Both financial and nonfinancial information are required to be disclosed under integrated reporting concept. It can be agreed from the literature that integrated reporting has developed when conventional accounting has failed to serve stakeholders' needs.

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