THE CORPORATE REPORTING PRACTICES IN INDIAN: AN ANALYSIS

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ABSTRACT

Corporate reporting is the process of communicating both financial and non financial information relating to resources and performance of a company. In present times, the increased economic, market and regulatory pressures are forcing companies to accumulate and publish information regarding financial performance, social and environmental issues, corporate governance, and marketing as well as other information with more frequency, detail and a variety of formats. This paper presents the review of regulatory reforms, management commentary, guiding principles to prepare the report, elements in the report, future outlook, forward looking information and integrated reporting.

Historically, corporate houses never felt the need for disclosing their different practices to the world. However, mandatory disclosure of financial information through annual reports was started as a requirement of Acts and Regulations in the corporate sector. In India, this is regulated by the Companies Act 1956, the Securities Contracts Act 1956, the Capital Issues Act 1947, the Income Tax Act 1961 etc. With the passage of time there is a growing urge for disclosure of non-financial information which gives valuable guidance to stakeholders as well as others. While complying with mandatory requirements, a company may disseminate information voluntarily as well and the degree of openness is defined as corporate transparency. There has been a paradigm shift in handling corporate transparency this is no longer a destination but a journey that is evolving over the passage of time.

Keywords: Regulatory Reform; Guiding Principles; Future Outlook

INTRODUCTION

In this globalization system the companies have a competitive edge, hence, which can operate from anywhere in the world under the new international trade regime. The governments across the globe are unanimous about the fact that there need to be uniform reporting standards for the corporate world. Initially the companies were asked to submit only financial reports for its investors and later after the incorporation of Corporate Governance norms as a standard practice annual reports became a mandatory requirement. These assisted investors to know more about the company like about the Directors and the steps taken by the Board to ensure that Corporate Governance norms were being adhered to properly and timely. Now even after all these measures the world has seen many corporate frauds the countries are trying to bring in more transparency in the system and increase the faith of the investors in the principles of Corporate Governance.
Global Reporting Initiative (GRI) guidelines are one such indicators under which corporate around the world are giving solicited relevant information. These guidelines are basically asking companies to publish a sustainability report which takes into account the Economic, Social and Governance (ESG) factors. Hence, various initiatives are taken by certain countries in maintaining a Sustainability Index of companies which are at the forefront of abiding by these disclosures. Similarly, as companies go global it will be crucial to gain investor confidence not just of the investors of the home country but also of the other countries where the company wants to be listed in. Integrated Report is a combination of the finances from an Annual Report and the factors of ESG. Thus making the report comprehensive in helping to create investor confidence and promote a robust culture of the organization. This research paper attempts to bring the current corporate reporting practices across the globe and hence analysis whether these measures are adequate for the fairness, transparency and accountability being sought from the corporate under the new corporate governance regime.

Corporate reporting is an essential activity in the modern-day corporate landscape. In a business environment replete with bankruptcy news, lenders and investors pay attention to reports to distinguish companies experiencing economic distress from those that are profitable. These are also help corporate leadership prevent losses resulting from litigation in case of inaccurate reporting. Corporate reporting has never been easy or simple especially these days, with the seemingly endless stream of new regulations and requirements. On top of that, investors are becoming increasingly vocal about reporting that passes regulatory muster but fails to provide a fully transparent view of a company’s health and prospects. The pressure is on for companies to report on a broad set of non-financial measures that can help investors’ better judge corporate performance. Corporate reporting is a good place to start and which provides with the resources to stay ahead of the competition and anticipate the needs of your stakeholders.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To develop a conceptual model of corporate reporting;
2. To aware the need for regulatory reform in the corporate reporting;
3. To know the most guiding principles in the corporate reporting preparation;
4. To find out the important elements in the report

Regulatory Reform

The regulations concerning corporate reporting emanate principally from statute and accounting standards, with the Stock Exchange listing requirements being a further consideration for listed companies. Currently, the information contained in a company’s annual report and accounts is a mixture of mandated information (contained principally in the audited financial statements and the directors’ report) and voluntary information (disclosed mainly in the unaudited sections of the annual report). Indeed, over the years, the amount of voluntary information has been rising at a faster rate than the amount of mandated information. The auditors’ responsibility with respect to other information in documents containing audited financial statements is limited to a review for material inconsistencies.

Companies voluntarily disclose information to facilitate “clarity and understanding” to investors. Executives believe that lack of clarity, or a reputation for not consistently providing precise and accurate information, can lead to under-pricing of a firm’s stock. In short, disclosing reliable and precise information can reduce “information risk” about a company’s stock, which in turn reduces the required return. Managerial concerns about revealing sensitive information to competitors and worries about starting disclosure precedents that are difficult to maintain (such as manager-provided earnings forecasts) constrain voluntary disclosure. In some cases, managers say that they release bad news earlier than good news in order to build credibility with the capital market and avoid potential lawsuits.
The nature and scope of regulatory reform required to accommodate the proposed changes in corporate reporting depend largely upon whether the changes are made mandatory or not. If, it becomes mandatory to provide information relating to strategy, risk, non-financial performance indicators, and background, then new financial reporting and assurance standards will clearly need to be developed.

Companies would go a long way toward reporting effectively if they thought of reporting as a management tool rather than a communications vehicle. Whether and how a company reports should be less about what competitors are doing and more about how information gathered through the reporting process helps the company achieve its strategic business objectives which should include well-defined strategic ESG objectives. In far too many cases, the reporting company has few strategic, quantitative ESG objectives in place. A strategically managed reporting process can help the company identify and prioritize issues and determine appropriate goals and targets, supported by metrics that will enable it to track and improve performance.

Management Commentary

Many large companies provide some kind of management commentary, which is published alongside the financial statements. The commentary could be known as an Operating and Financial Review (OFR), Business Review, Management’s Discussion and Analysis (MD&A) or Management’s Report. Management commentary is therefore already an important means by which companies communicate with capital markets and with their stakeholders. In some jurisdictions there is already a framework to be used by companies in preparing management commentary, and indeed in some countries there are specific legal requirements regarding its content.

Management Commentary which proposes a framework for the preparation and presentation of management commentary to accompany financial statements. The intention is that the final document would have the status of a best practice framework. Following the framework would not be compulsory, and the framework could be adapted to the legal and economic circumstances of individual jurisdictions. The Exposure Draft states that the purpose of management commentary is to provide existing and potential capital providers with information that helps them place the related financial statements in context. Management commentary should explain management’s view on not only what has happened, but also why management believes it has happened and what management believes the implications are for the entity’s future. It should explain the main trends and factors that are likely to affect the entity’s future performance, position and development. Consequently, management commentary looks not only at the present, but also at the past and the future.

Guiding Principles to Prepare the Report

The several Guiding Principles in the framework that are used to shape and influence the content of an integrated report. They include the following:

- **Strategic focus and future orientation**: insight into a company’s strategy and how that relates or connects to its ability to create value over the short, medium and long term; it also examines the company’s use of the capitals and how they are affected by the company business model.

- **Connectivity of information**: demonstration of the company’s ‘comprehensive value creation story,’ the relationships and dependencies between factors that are material to the organization’s ability to build value over time.

- **Stakeholder responsiveness**: insight into the quality of the company’s relationships with its key stakeholders (e.g., analysts, investors, NGOs, community groups, employees, media) and how well it understands and incorporates their needs, interests and expectations.

- **Responsible Investment**: a set of global best practice principles for responsible investment. It provides a framework for achieving better long term investment returns and more sustainable markets.
Materiality and conciseness: focus on concise, relevant information that is material to assessing a company’s ability to create value over time; reflects what material to management and stakeholders is.

Equator: this is a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally.

Reliability and completeness: balanced, honest assessment and presentation of material issues, both positive and negative.

Consistency and comparability: presentation of company information over time that is consistent and that enables comparison with other companies to the extent it is material to the presenter’s own value creation story.

Elements in the Report
Elements in the framework indicate what the report should contain. They are linked to each other and are not mutually exclusive. Elements should be presented in a way that demonstrates their interconnectivity as opposed to stand-alone treatments in the narrative or sections of the report. The Elements include the following each must answer a question about the company:

Organizational overview and external environment: What does the organization do and what are the circumstances under which it operates?

Governance: How does the organization’s governance structure support its ability to create value in the short, medium and long term?

Opportunities and risks: What are the specific opportunities and risks that affect the organization’s ability to create value over the short, medium and long term?

Strategy and resource allocation: Where does the organization want to go and how does it intend to get there?

Business model: What is the organization’s business model and to what extent is it resilient?

Performance: To what extent has the organization achieved its strategic objectives and what are its outcomes in terms of effects on the capitals?

Future outlook: 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?

Future Outlook
This topic seems to raise concern among legal counsel, risk officers and senior executives because there is an apparent misperception that discussion around future outlook discloses trade secrets, future business plans and other highly sensitive information in granular detail. As the IIRC defines it in the framework, Future Outlook highlights anticipated changes over time. It provides information, built on sound and transparent analysis about;

- The expectations of senior management and those charged with governance about the external environment the organization is likely to face in the short, medium and long term;
- How that will affect the organization; and
- How the organization is currently equipped to respond to the critical challenges and uncertainties that may arise.

Although the company needs to exercise caution in what it discloses about future outlook, including taking into account the company’s ability to deliver on future opportunities, this forward view is not
intended to put a company at any kind of competitive disadvantage through such disclosure. It should analyse impact of external factors and key risks on the company’s ability to seize future opportunities without giving competitors access to its trade secrets. Stakeholders want to understand future prospects – they need to feel comfortable that the company understands them and the risks resulting from or impacting them.

Some aspects of the corporate reporting debate are causing concern among preparers of annual reports. The provision of a ‘forward-looking orientation’ is a real challenge for many companies. Reporting forward-looking information is critical if you want to communicate effectively to the market. Progressive companies worldwide are already adopting a forward-looking orientation in their narrative reporting.

**Integrated Reporting**

Earlier only Financial Reports were published by organizations for the investors on a yearly, half-yearly or quarterly basis all around the world. Later, Annual Reports were inculcated which did not only contain information regarding the financial side of a company’s decision making but also included information about valuation of company’s asset, changing in accounting methods and disclosure about Corporate Governance which talks about the Board’s composition and Independent Directors etc. This makes it a more comprehensive report and gives a lot of insights to the investors about the company’s objectives and its principles and moral acceptance. Integrated Reporting can be a successful attempt to encourage good Corporate Governance practices but this will be possible only if certain standardisation is brought into the type of disclosures that organizations and companies make. Since financial reporting is already more or less standardised all around the world by Generally Accepted Accounting Principles and other guidelines.

Integrated Reporting can be very useful at the time of Mergers & Acquisitions (M&A) too specially when it takes place between companies from different countries. Since all countries follow Corporate Governance norms laid down by their respective country norms under set committees having an integrated report will only help assist in tasks like M&A. It gives a clear understanding of a company’s vision and mission not only in terms of where it wants to be but also how it will reach its objectives. In a competitive world every company tries to have a competitive edge over the other and gaining investor confidence by revealing information like the amount of green house gas a company uses or its carbon footprint or the kinds of efforts that it undertakes to fulfil its corporate social responsibility only helps reflect the values of an organization.

**CONCLUSION**

Corporate reporting is not a panacea. Transparency can help a lot for all its external stakeholders but this may hurt the organization as well. Any organization would think twice before providing information that can magnify its failure. By disclosing market and product strategies, innovative initiatives etc, an organization can throw up a challenge to its competitors but it should be ready for a counter-challenge from them. Corporate governance can act as a brand differentiator. High standards of corporate governance and transparency can be very effective in attracting global investment. For emerging economies, this is even more significant since only a few core companies contribute heavily. In future, corporate transparency and disclosure are going to be a necessity rather than a desirable attribute.

**REFERENCES**


