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Disclosing Non-Financial Information as a Part of Corporate Ethics - A Road Map for Implementation

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ABSTRACT

Disclosing non-financial information is a tool to help organizations communicate corporate, environmental, and social performance. The corporate ethics of disclosing non-financial information is a belief for building pleasure by ensuring reputation of the corporate organization to the stakeholders. This paper explores a possibility of greater conceptual integration of corporate ethics and disclosing non-financial information reporting for the advancement of disclosures. The authors scrutinized the prior research papers for pointing out disclosing non-financial information from corporate ethical point of view. A model is proposed in this paper for suggesting improvement in communication through supply push and demand pull approach with stakeholders, followed by a mechanism for advancement of disclosing non-financial information by the corporation. Endeavour has been made to evolve strategies for pushing corporate organizations to provide positive as well as negative non-financial information along with correctives inputs given while on the other hand it is proposed that investors need to be educated regarding interpreting the given non-financial information and hence to enable them to demand more and classified non-financial information.

Keywords: Non-financial information, voluntary disclosures, corporate ethics, stakeholders.

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INTRODUCTION

Over the last few years, non-financial information reporting has attracted a great deal of public interest because of its apparent importance for corporate reputation and society. In recent past some of the top most media news are sad stories of corporate ethics i.e. WorldCom, Enron, Anderson, Computer Associates, Xerox, and many others that undermined their investor's confidence. It seems as if the checks and balances that should protect shareholder interests were pushed to one side. In such corporate failures of retaining the stakeholders' confidence, there has been a renewed emphasis on corporate non-financial disclosures along with financial reporting.

Disclosing relevant non-financial information can ensure fairness, transparency, accountability and maintain relationship of a company to its stakeholders. There's some occasional focus on disclosing non-financial information by some corporations. At least the corporation should do their practice in disclosing the information that can carry their reputation. Perhaps, they are not aware of opportunities for building reputation by disclosing more non-financial information. Most importantly, they should disclose the matter ethically.

What type of non-financial information is crucial to disclose is the key question to the corporation now-a-days. The corporation should consider the interest of the stakeholders in disclosing non-financial information in their annual reports. The information about stakeholders' demanding issues should be disclosed with foremost priority. Here, diversity, innovation or any positive change within the organization could be prioritized.

Right now, annual corporate reporting largely does not cover transparency, public accountability, confessing to gray (i.e. depressing) activity publicly, and apologizing for mistakes. Corporations are engaged in mostly reporting the right things. The inability to perform (if any) and the risk factors should also be incorporated in non-financial information reporting. Almost all the big companies produce some sort of non-financial information materials related to their impact on society. But the quality, as in different sectors, varies hugely.

NON-FINANCIAL INFORMATION DISCLOSURE

Non-financial information belonging to the narrative part of any annual report are an addition to the financial information and disclosed voluntarily for serving better interests of the stakeholders of a company. Since financial information is treated as a cake, non-financial information is the cream smearing upon the cake. So, providing non-financial information can venerate the annual report along with financial information.

Disclosing non-financial information should be given value to meet corporate ethics. In addition, if profit is concerned, various issues should be incorporated as non-financial information that can enhance corporate reputation. However, there are pieces of information a corporation must report such as product recalls information to regain missing confidence of the stakeholders.

In this study, the authors emphasize on disclosing non-financial information including unenthusiastic issue as important value that should be embedded in corporate ethics. Here, the authors point out that it is necessary to recognize the value of disclosing risks associated with the corporation. In addition, the study discusses the gray activity information with the prerequisite that in the near future the society would request a corporation to advance in disclosing non-financial information from ethical point of view. The insight of unenthusiastic issues as non-financial information disclosure can be of the following:

- Information regarding loss of potential customers' satisfaction or of brand image
- Risks associated with corporation like future inability of paying debt obligation
- Corporate gray activity that are immoral for human development issues
- Unethical corporate steps that make customers prone to its products

Corporate activities those are vulnerable for environment pollution

Information about any noncompliance issues

The corporation should disclose these items of non-financial information along with proper cause, justification, improvement, or remedial step to be taken in future by the corporation to get rid of it. For example, according to the news of the Times, February 1, 2010 the Toyota experienced a defect in their accelerator's pedal between 2009 and 2010. Immediately, Toyota said through New York CNN that it had developed a fix for gas pedals in millions of recalled vehicles and was already shipping the new parts to the dealers. This type of gray information with corrective measures should have been disclosed by Toyota in its annual report of 2010. The corporate ethical disclosure would enhance the corporate image ultimately. At the core of the current debate over information disclosure is the issue whether corporations serve the interests of all stakeholders. Here, authors define the stakeholder of corporation as customer, shareholder, employees, suppliers, creditors, and community.

CORPORATE ETHICS

Kleining (1999) observes that ethics is concerned with what we are and not just what we do. Kidder (1995) defines ethics as obedience to the unenforceable. This could result from corporate responsibility. Corporate ethics are the moralities that involve defending incorrect and recommending the right of doing conducts by the corporation. In case of disclosing information from the ethical point of view, the corporations should disclose all the courses of action as non-financial information in their annual report. Though disclosing non-financial information is not mandatory rather voluntary, it has a lot of merits. The corporation should realize that disclosing non-financial information can create much pleasure by developing corporate image in the mind of stakeholders. This realization can create corporate ethics.

Corporate ethics is generally addressed as ethical behaviors (De George, 1993; Solomon, 1993; Paine, 2004). Like corporate ethics embed ethical behavior of a corporation in withholding all facets of accountability to the stakeholders. What we need to discuss with the conventional theory of corporate ethics in principle is ethical judgment on a corporate practice of disclosing relevant information. For instance, it has been a serious issue for a corporation how it sufficiently manages non-financial information to meet the requirements of the stakeholders. Information disclosure has been regarded as ethical behavior (Taka, 1999). As disclosing non-financial information is voluntary rather mandatory, this type of information disclosure should be an act of transparency that symbolizes fairness in corporate ethics. For instance, if stakeholders deserve to know about corporate risks and gray activity information, the corporation must be willing to disclose that.

The behavior of disclosing non-financial information is considered as a practice of corporate responsibility which is related to corporate ethics. The corporations have disclosed financial information in annual report and covered the non-financial information in CSR report for recent years (Ohkubo, 2006, p.1 1). Many companies in the US have adopted legal compliance mechanisms which address ethics or conduct issues in formal documents (Weaver et al 1999). From an ethical dimension, at a fundamental level, the key issues of disclosing information involve questions concerning relationships and building trust both within and outside the organization.

OBJECTIVES AND METHODOLOGY

The purpose of this paper is to review the literature in order to find out research problem regarding corporate practice of disclosing non-financial information. The methodology part of this paper covers exploratory research by carefully reviewing the relevant literatures, which includes search in mostly journals, websites and corporate annual reports. Examining prior researches is to point out the lack of reporting non-financial information by the corporation. The investigation of previous studies is also to extrapolate the utility of disclosing non-financial information. The study summarizes the key under general research themes. This paper is also to build up a model to solve the research problem. The outcome of this research is erected in putting a road map for implementation of the proposed model.

LITERATURE REVIEW

Prior literature suggests that there are benefits to capital markets from firms voluntarily disclosing information. For example, increased disclosure reduces the cost of capital (Barry & Brown, 1984, 1985, 1986; Easley & O'Hara, 2000), increases liquidity (Diamond & Verrecchia, 1991; Kim & Verrecchia, 1994), and increases information intermediation (Diamond, 1985; Bhushan, 1989; Lang & Lundhom, 1996). In general, the empirical literature supports the existence of these benefits (see Healy & Palepu, 2001). In the absence of disclosure costs or uncertainty about the existence of information, the theoretical literature suggests that firms should follow a full disclosure policy (Jovanovic, 1982; Verrecchia, 1983). The theory essentially is that when a price-maximizing manager withholds information from the market, investors become suspicious about the quality of the investment and they discount its quality to the point where the manager is always better off with a full disclosure policy.

Corporations should become aware of disclosing non-financial information as part of corporate ethics. However, as addressed earlier, they have not disclosed much of corporate gray activities. Here, the authors review the analysis developed in prior research and found that most of them are based on either corporate governance or on corporate social responsibility reports issued by corporations. For instance, Scott Lynn (2006), was a MBA student and submitted the evaluation of Intel CSR report based on AccountAbility, reported that the company has not sufficiently disclosed all relevant non-financial information and carried positive success stories only. It has come to our attention that a company which employs international Guideline for CSR report as ethical value may not easily be ready to disclose all relevant non-financial information.

From ethical point of view, no company has been considered to accompany all of relevant non-financial disclosures in the behavior of disclosing information even though the available pieces of information are consistent. Today, corporate governance and CSR-based activities in corporation have been advanced and they are used to compile these in their annual reports on regular basis. Many corporations have devoted their resources to the production of CSR report and concentrated on abiding by corporate governance guidelines. In CSR reports in general, information disclosure on corporate initiative is one of the subjects most highlighted. Therefore, the reports are being good media for a layperson to review policies and activities within a corporation. But this type of non-financial information can be regarded as enthusiastic information. The corporations are mostly eager to disclose this information that is in the sense of positive contribution by the corporation. Apart from this the unenthusiastic non-financial information that is in the sense of negative contribution by the corporation is softly avoided from disclosing in the annual reports.

Some of the issues of non-financial information reporting like reasons for depressing growth in sales, risks associated by the corporation, and corporate gray activities are mostly ignored to disclose in the annual reports. The prior researches did not clearly suggest for unenthusiastic issues of non-financial information that should also be disclosed by the corporation with proper justifications or reasons. Also, what we need to pay attention to the results of the prior surveys is that most of them are the summary of aggregated inputs by member companies. The report compiled by Japan Association of Corporate Executives (2006) shows that 95% out of the number of the companies which issued sustainability report and 69% out of the number of the companies which issued environment report disclosed information. What the survey conducted by Japan Federation of Economic Organizations (2005) regarding CSR mainly shows the status and internal system of CSR, therefore, it is difficult to find whether its member companies deal with unenthusiastic information in regard to disclosure. In relation to the untouched perspective of information disclosure, Hashimoto (2006, p.59) pointed out that corporations have just ended up disclosure with notification basis and not responded to the public attention to accountability. Eventually it may lead to a point that the issue of advancing disclosure of unenthusiastic information is not being observed in non-financial information reporting by the corporation.

From the previous discussion, it was found that the items of non-financial information index set by any of the authors of previous researches were not disclosed fully by a single corporation. So, this paper address the issue of disclosing not all relevant non-financial informational as research problem. Reviewing prior literature, it can also be stated that disclosing non-financial information excluding unenthusiastic items is somewhat common practice for a corporation. The authors have examined non-financial information disclosures pointed out in the prior researches and found that a very few number of unenthusiastic issues are being disclosed by companies as non-financial information in the annual reports. The current issue is how a corporation would reinforce all the relevant of non-financial information to put in their practice, be it positive or negative. Hence, the authors try to find out a conceptual integration between disclosing that information to the corporate ethics as to solve the research problem. Accordingly, they suggest a road map for implementing the matter of disclosing more relevant non-financial information disclosers.

CONCEPTUAL INTEGRATION

For many firms, it's obvious that their current non-financial corporate reporting merely focus on environment, diversity, health, safety and community issues as sustainability is short sighted. Real sustainability links growth and survival issues into business. The corporations having practice of revealing entire relevant non-financial information materials of responsible business can gain a long lasting of stakeholders' trust. And it is how much trusts the stakeholders have on the corporation that will determine which one survive and prosper, and which fail, in the current business turmoil.

Byrne (2002) noted that in the post-Enron, post-Bubble world, the realization that many companies played fast and ignored accounting rules and ethical standards. It allowed performance to be disconnected from meaningful corporate values, leading to a re-evaluation of corporate goals, values and purpose. Corporate leaders and entrepreneurs somehow forgot that business is all about values and are now paying the price in a downward market with a loss of investor confidence due to not disclosing sufficient information demanded by the stakeholders. Byrne (2002) also pointed out that following the abuses of recent times, executives are learning that trust, integrity, and fairness do matter and are crucial to the bottom line. What's emerging is a new model of the corporation in which corporate cultures will change in a way that puts greater emphasis on corporate ethics leading to integrity and trust. Corporation can achieve integrity by disclosing all relevant information that is demanded by the stakeholders. By achieving integrity in disclosing relevant information the corporation can gain trust of the stakeholders also. Such changes would include the diminishing of single-minded focus on shareholder value which measures performance on the sole basis of stock price.

Corporate ethics is the principle which embodies corporate belief in doing right and preventing form treading on the wrong path. In terms of disclosing information, corporations pursue it by participating in it partly but not wholly (Kawamura 2006). Disclosing not all of non-financial information that is demanded by the stakeholders can be regarded as not doing right by the corporation. If disclosing non-financial information is regarded as corporate ethics, the corporation might not proactively take an attempt to discard any item of non-financial information that is imperative to meet the interest of the stakeholders. Moreover, disclosing unenthusiastic item of non-financial information is not totally harmful rather it can reflect on the ethical position of the corporation that can lead corporate reputation ultimately. If this matter of corporate reputation had been realized by the corporate body, the more relevant no-financial information might have been be disclosed by the corporation earlier.

Non-financial Information disclosure has a significant value in which a corporation demonstrates its current business performance, risks associated with the company, expected trends in future, polices and strategies towards its commitment to the stakeholders. Corporate ethics, on the other side, should be eventually fulfilled by meeting commitment made by the corporation. To the evidence of integration between commitment and the ethics, the corporation can take advantage of creating corporate value by providing more relevant non-financial information to the stakeholders. The discrepancy between the presented data and the data relevant to the interests of the stakeholders is considered as unethical in meeting commitment of a corporation. In this sense, the quality of non-financial information disclosure including gray activities by the corporation with defense may be regarded as key component of corporate ethics. When disclosing non-financial information is viewed as an utmost value to the corporation, the disclosure of any gray activity may be worth publicly addressing ethical representation by the corporation.

ROAD MAP FOR IMPLEMENTATION

Here, the authors developed a model that leads to provide road map for disclosing relevant non-financial information by the corporation. This model is the synthesis of corporate internal and external participation to substantiate the road map in actual fact. Any attempt of making commitment for disclosing non-financial information as well as controlling, monitoring, and arranging that information can be regarded as corporate internal participation. Alongside putting demand for any non-financial information item by the stakeholders indicates corporate external participation. After reviewing prior relevant research thoroughly and observing recent corporate world carefully, the authors point out five important steps under the suggested model. These five challenges should be met by an organization for implementing the process of disclosing relevant non-financial information.

The first step of developing a corporate commitment can answer the question of what is the fundamental reason to disclose all relevant non-financial information by the corporation (i.e. to build up corporate reputation). Corporate commitment should take account of providing pertinent non-financial information along with financial information in the annual reports on regular basis. Relevant information must be derived to the stakeholders who need it in a form that enables them to make effective decisions.

The second step of corporate communication can answer the questions of to whom the company is accountable (i.e. stakeholders) and what items should be disclosed as non-financial information (i.e. derived from the stakeholders' opinions). This is the foremost part of the process as it is to build corporate communication with the stakeholders for selecting relevant non-financial information reporting to be disclosed in annual report. Trevino et al (1999) study found that what helped the most for a corporation is to build corporate values to the stakeholders though open discussion toward ethical aspirations. Open external communication channels enable a corporation to address stakeholders' demand for non-financial information issues.

The third step of corporate controlling has the capacity for answering the question of what set of information can be disclosed by the corporation ultimately (i.e. pertinent information adjusted with corporate capacity). Under this step of corporate controlling the role of internal auditor is required to bring an attention of top level management regarding disclose of non-financial information that is material according to the stockholders' comments and also valid for meeting corporate capacity to disclose. The controlling involves considering the appropriateness of information to the corporate needs.

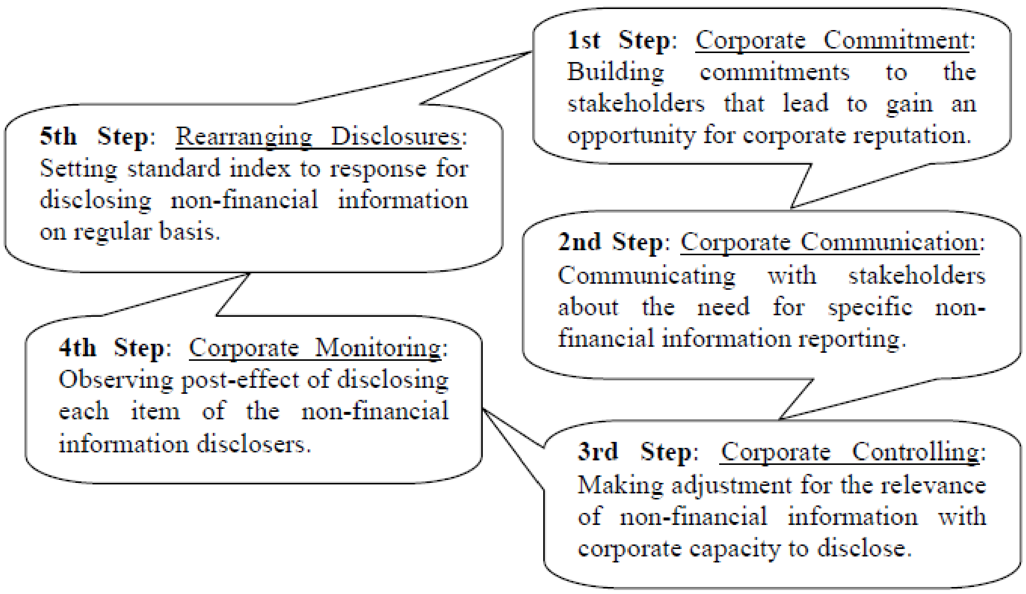

Figure: A corporate ethical process for disclosing relevant non-financial information.

The forth step of corporate monitoring has the capacity to answer the question of what is the ability of disclosed relevant non-financial information (i.e. aftermath of the disclosures). Under this step corporate monitoring may include follow-up satisfaction levels of the stakeholders, any change in share value, or change in product sale due to disclosing certain item of non-financial information. Here, monitoring is necessary to decide for each item that it should be disclosed whether on continuous basis or for a certain period of time.

The last step of rearranging disclosures can answer the question of what should be the ultimate index of non-financial information to disclose on regular basis (i.e. the standard index rearranged after monitoring). Certain item is necessary to disclose at a particular period of time like any step taken by the company at the crisis moment of its product or corporate acquisition/merger issues. Beside this, issues relating to corporate governance and CSR as non-financial information should be disclosed on continuous basis.

All the steps belonging to the process of disclosing relevant non-financial information should be set on a circle for being continuity. The corporate operation within the process can be regarded as corporate ethics for disclosing relevant non-financial information. If the process is practiced at corporate level it would be difficult to the corporation to discard even an unenthusiastic item of non-financial information in connivance with demands of stakeholders.

Non-financial items revealed by most of the corporations in their annual reports largely pertain to the delivery and performance part avoiding the nonperformance part and hence making the report more of advertising nature. In order to combat the short sighting approach of the corporation the market needs to involve a self-sustaining mechanism where there is an awareness of demand from the side of the investors and a simultaneous supply of non-financial information from the corporation covering favorable and unfavorable events having bearing on organizational performance and the corrective measures taken thereon. Hence, the following figure can be vindicated as a mechanism for advancement of disclosing non-financial information.

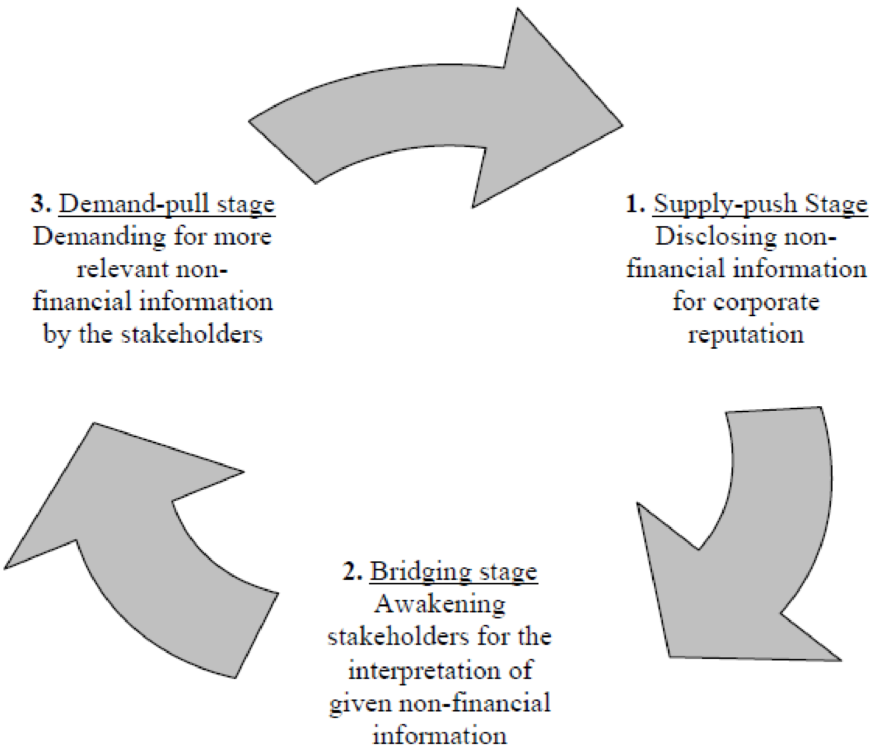

Figure: Mechanism for advancement of disclosing non-financial Information

Presently, the large corporations are disclosing at least some enthusiastic items along with financial information in their annual reports for the sake of corporate reputation. Purpose of building reputation is derived from the corporate expectation of unlocking the door for collecting more investment with low cost of capital. This present scenario reflects a supply-push stage wherein the corporation provides only that much non-financial information which seems conducive to their organizational objectives and images. Investors often do not take such information very seriously and hence the impact of a report is altogether diluted though the vibration in disclosing information initially with corporate good things leads truly to increase in supply of non-financial information.

The increase in supply will ultimately be addressed by the stakeholders to interpret presently disclosed non-financial information. In order to build a self-system mechanism of flowing non-financial information a building stage needs to be involved. This calls for awareness building program for the stakeholders regarding the necessity and interpretation of non-financial information. Here, different agencies like Stock Exchange, Securities and Exchange Commission can play important role through conducting training program for both corporations and stakeholders to build-up awareness and to educate them about the materiality of non-financial information reporting.

After awareness of relevant information the enlightened stakeholders will enter into demand-pull stage where they will call for more relevant and deeper non-financial information along with financial information from the concerned organization. Pushing demand will ultimately make the corporation more committed to the stakeholders in advancement of disclosing non-financial information including even some unenthusiastic items. This will ultimately lead gradual emergence and movement towards self-sustainable demand-pull and supply-push environment for the advancement of disclosing relevant non-financial information.

CONCLUSION

Failure in disclosing all relevant non-financial information is a real threat to the brand of every corporation. The paper discusses the areas that the corporations are involved in disclosing corporate governance and CSR with some policies as non-financial information in their annual reports that are mainly enthusiastic issues. The present issues of reporting non-financial information excel the need for disclosing unenthusiastic information in ethical perspectives. What is needed here to resolve the issue is to set corporate ethics in order to pursue the commitment of disclosing all relevant non-financial information according to the need of the stakeholders. An ethical process for disclosing non-financial information will have competitive advantage in generating positive reactions to the stakeholders. The corporate ethics for the advancement of disclosing relevant non-financial information including unenthusiastic aspects would ultimately lead to corporate value such as reputation. If the corporation has a reputation for taking ethical steps in disclosing relevant non-financial information it will engender stakeholders' loyalty in the long run. Corporate focus on comments of the stakeholders regarding non-financial information materials is noteworthy and important in an open and challenging manner. Stakeholder comments should not just be limited to only one time for any sustainability report. The ongoing communication for more voices from the stakeholders should be impartial for any credible non-financial information reporting. Non-financial item presently revealed by any corporation in its annual report is mainly of good thing seeming as corporate advertisement. Short-sight of the corporation can be inculpated for such culture of disclosing narrow information. To get the corporations apart from this undue culture a self-sustaining mechanism should be appeared where the corporations will be privileged by disclosing more non-financial information side by side they will be undergoing a pressure by the demand of the stakeholders for having pertinent non-financial information.

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