

Ethical Dimensions Of Corporate Disclosures In The Globalised Environment

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INTRODUCTION

Corporate entities establish accounting systems for generation of information which is generally of financial nature. The information so generated is directed by accounting principles, mandatory requirements, decisional needs, and the standards laid-down at national as well as the international level. A well laid out system of accounting facilitates the measurement of performance, planning and control. The financial and quantitative information generated need to be communicated to the stakeholders in an effective manner, and through appropriate medium, ensuring transparency as well as timeliness. The essence of accounting is in communication.

The complexity of business operations and decisional needs of the users have led to the necessity of having a disclosure system which ensures the dissemination of financial, quantitative and qualitative information, not only in respect of what has happened, but also relating to future plans, prospects and actions.

THE CONCEPT AND SIGNIFICANCE OF DISCLOSURE

Corporate disclosure or reporting is a total communication system through which a company satisfies the informational needs of its constituents. Disclosure can be defined as a process through which a business enterprise communicates with the external parties. The American Accounting Association defines it as “the movement of information from the private (i.e. inside information) into the public domain.” Simply stating, corporate disclosure is the communication system through which quantitative and qualitative information of financial and non-financial nature regarding the business entity's affairs is made available to the stakeholders for the purpose of decision-making.

The emerging globalized, privatized and liberalized business environment makes it inevitable to supply varied type of information so that resource allocation is done efficiently and effectively. The compelling factors, such as: the growth and expansion of corporate form of organization; emphasis on the concept of stakeholders instead of only shareholders; increase in informational needs due to competitive and complex situations demanding solutions through quantitative analysis; modern communication systems and their relevance in decision making; the legal disclosure environment in the various countries and changes thereof; management professionalization; accounting and reporting standards laid down by the accounting bodies at international and national levels; and stock regulatory agencies in specific countries are responsible for increased importance of disclosure. The changing shareholding pattern, public interest issues and shareholder activism have also compelled the companies to improve disclosure practices. Similarly, the needs of global fund sourcing have made disclosure significant for the companies.

OBJECTIVE OF DISCLOSURE AND MAJOR ISSUES

The objective of disclosure is to supply relevant, reliable, truthful, adequate, consistent, unbiased, comparable, understandable, transparent, and timely information through proper media to the various stakeholders: investors, customers, creditors, employees, suppliers, business partners and government agencies to help them in making right decisions, and forming informed judgments and opinions regarding business entities they are associated with. Thus, it can be stated that the basic purpose of disclosures is to serve the informational needs of the stakeholders, including the shareholders, to facilitate the decisions by them. The concept of full disclosure of material information of financial and non-financial nature has come to gain importance in present times. This calls for disclosure of all pertinent information that has the potential to influence the decisions and judgments of the users.

Thus, major issues in effective and efficient disclosure are *reliability, relevance, adequacy, consistency, materiality, understandability, freedom from bias, timeliness* and *appropriate format* of the information sought to be

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communicated. The *media for communication* also play a very important role in dissemination of intended information. Even the frequency of disclosure between two balance sheet dates has become important legally and otherwise.

DISCLOSURE MEDIA AND SCOPE

The companies communicate through prospectuses, financial press releases, annual reports, quarterly reports, interviews, bulletins and brochures, and also use modern communication system i.e. internet for the purpose. The major source of disclosure has been and is the annual report which gives comprehensive details of the operations, financial position, and future plans and prospects. Traditionally, the corporate stance on annual reports has been to publish as little information as possible, lest it gives competitors an advantage, and this has been supported by the various 'Companies Acts' in stipulating a legal minimum.¹ As Sir Brian Jenkins, Chairman of Woolwich plc says, *"There will undoubtedly be challenges to be faced in the new era, such as how to strike the balance between transparency and not giving away too much competitively sensitive information... These issues must be addressed, but they are not reasons for staying where we are."*² Several factors like need for building community trust; financial information serving as a marketing tool; developments of communication systems and the need to use them to the fullest advantage; time value of information and reassessment of the value of information itself have given extra impetus to the vexed question of how much, to whom and how often the information should be disseminated. It can be expected that the future will witness many innovations in reporting, and virtual disclosure may become reality whereby daily information may be fed into the web system of the company. The issue of disclosure of information not statutorily required to be made out is also important from the point of view of long-term strategy for disclosure. Harmonization of disclosure practices and upgrading to contemporary global standards for comparative analysis purposes are other important aspects that have to be taken care of.

If, applying the principles of value management, where one seeks to maximize functionality at a given cost, the purpose of annual reports could be defined as 'demonstrating present and future performance.'³ The present trends are to make annual reports attractive, and include varied information not only relating to what has already happened, but what is going to be the likely future, notwithstanding the uncertainties involved. The management report; business analysis; corporate governance; intellectual capital, brand valuation, economic value added (EVA) and market value added (MVA); environmental, energy and social issues; globalization of accounts; segmental reporting; consolidation of accounts and financial ratios are the areas with respect to which the contents of annual reports have started changing. Few companies have already pioneered in this direction. This all shows that the disclosure is going to be very live issue in the future and will definitely help in value enhancement to the users. Financial reporting provides the most widely available data on public corporations' economic activities; therefore serving a critical function in the corporate governance process.⁴ This highlights the importance of disclosure in the governance of a company. Most of the frauds are committed in accounts keeping and reporting. The corporate failures and misadventures in recent times that have shaken the financial system in the world, particularly in advanced countries, is the result of the crisis of corporate character. This has happened despite the existence of very stringent disclosure norms prevailing in these countries. The decisions based on information generated and presented in a manipulative and creative manner are bound to result in such types of situations. When an ethical dimension is missing in disclosures, the decisions based on them will be disastrous to all those associated with the corporate entities.

ETHICAL DIMENSIONS OF CORPORATE DISCLOSURES

Accounting system in a business corporation generates information that forms a basis for corporate decisions by the management, and decisions by the other stakeholders. It is of much importance that the right information in right format reaches the right person at right time with the right meaning attached to it to facilitate the process of decision making in a manner that leads to success in the long run by enhancing the overall stakeholder value. What and how much information is disclosed and in what manner by the people who are responsible for the disclosures in an organization will depend upon the corporate character, culture, values and philosophy. Corporate character is determined by the value system and ethics of those involved in the governance of the corporations.

The US Corporations: Enron, WorldCom and Tyco in the near past brought the issue of violation of ethics to the global centre stage. A number of corporate scandals in the US led to the passage of Sarbanes-Oxley Corporate Reform

Act (SOX) in the year 2002. This Act mandates that CEOs and CFOs personally review each of a corporation's quarterly annual financial reports and certify that financial figures stated thereof are not misleading on account of any material omissions, and that all results of the corporation's operations and financials have been reported truly and fairly. Despite this stringent legislation, the unfortunate developments in the case of US corporations such as: Bear Stearns, Fannie Mae, Freddie Mac, AIG, Lehman Brothers and Merrill Lynch, have led to providing a bail-out package of \$700 billion, the biggest so far in business history by the Government.

In the present times, despite there being very elaborated and stringent disclosure requirements in the form of laws, accounting, audit and reporting standards, the developments in the corporate sector the world over, particularly in the financial sector, have propped up the governance and disclosure issues to be looked into from a different perspective based on ethical dimensions. *“Business ethics are now, more than ever, becoming an important requirement for doing business in the global market place. In a global business scenario that is fast becoming very sensitive to ethical practices and conduct, a company can ignore business ethics only at its own peril.”*⁵ This evolving environment calls for giving due attention to the ethical dimensions of the disclosures to gain trust of all the stakeholders on a long-term sustainable basis. Ethical dimensions of disclosures are: **Truth** (*Satya*: to tell it like it is); **Honesty** (to disclose what you really believe in); **Integrity** (clear intention, no ulterior motive); **Transparency** (doing and disclosing to synchronise); **Fairness** (as it should be); **Timeliness** (disclosing when it should be); **Objectivity** (free from bias); **Empathy** (disclosing; putting oneself in the shoes of the others); **Full Disclosure** (to disclose the whole truth and not a partial one); **Compassion** (to look for good of all); **Clean Figures** (no manipulation); and **Simplicity** (to disclose in a simple understandable form). The most important dimension is *Satya*- the truth, and that should form the basic foundation of a disclosure mechanism. *Satya* (truth) calls for telling it like it is i.e. truthfulness in thought, word and deed. It should form the basis for disclosures by the corporate entities to build trust among all the stakeholders for developing healthy relationships with them to get commitment that will lead to continued support, and thus to long-run survival and success of the corporate venture. Transparency, timeliness, accuracy, completeness, clarity, usefulness, conciseness, honesty and empathy are the cornerstones of a good disclosure system in corporate sector, and all these are the manifestations of *SATYA* being the foundation of the system. *Satya*, in its highest manifestation, requires the innocence of a child who states what he/ she sees without thinking for a second about the consequences involved. But in real world situations, one must keep the consequences of stating *Satya* on others, but the principle is to keep the self-interest at bay. If *Satya* is having damaging implications for others, it must be stated gently and calmly in a manner that minimizes the same.

In corporate disclosures, what is of importance from ethical dimension is the intention of the people making disclosures. If the self-interest is involved in disseminating the information to various stakeholders including shareholders, the information so disseminated will get vitiated. Generally, the greed for money, power and recognition leads to withholding the information that may be crucial for decision making by users. Not disclosing what should be disclosed or disclosing information in a distorted manner is ethically not right.

The core value in disclosures from ethical dimension is the truthfulness i.e. *SATYA*. True and fair information forms the foundation of a good corporate disclosure mechanism. Information is both a power and a resource, and hence needed by all to make decisions in varied situations. The principle of full disclosure implies that no information of substance or of interest to the stakeholders including owners will be omitted or concealed from the entity's financial statements. All relevant information to external users for the purpose of sound economic decisions must be presented with complete focus on its accuracy.

Truthfulness in disclosures creates trust, and trust is the most important thing in relationships. Relationships flourish when trust is high and maintained on a continuous basis.

In the corporate sector, the whole structure is based on relationships among people who are involved directly and indirectly in business ventures. Relationships when healthy, lead to commitments.

SATYA --- Trust (Reliability)--- Relationships--- Commitment----SUCCESS
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The committed relationships in turn ensure long-run success for the enterprise. Truthfulness also leads to building a reputation in the long-run, which ensures the availability of resources: manpower, finance and other resources, and also the committed customers who bring business to the corporation on a sustainable basis. *“In an ethical culture,*

actions are either good or bad, right or wrong, just or unjust, fair or unfair. Ethical questions take us beyond questions of sheer survival. They may even take us to questions of whether something ought to survive.”⁶ Plethora of laws, rules, regulations, Financial Reporting Standards, Accounting standards, listing agreements and other requirements relating to disclosures by corporate entities lead to creative and imaginative compliance with all such prescriptions in letter but not in spirit. This may lead in reality to withholding the truth. A human being by nature is creative in disclosures. One discloses what is in one's interest and withholds what one perceives to be harmful. This ability to filter information keeping in mind self-interest is what comes naturally to a person. This may be considered to be beneficial in the short-run, but in the long-run, the same may prove to be detrimental to his/her interests. Ethics play a very important role in the matter of corporate disclosures. Disclosures devoid of ethics will lead to mistrust and misunderstanding, and thus to relationships devoid of commitments ultimately hampers the success of the enterprise. The higher the level of ethics followed, the better will be the disclosures ensuring full transparency.

The levels of ethics, according to Dr. S.K. Chakraborty, Professor, Management Centre for Human Values, IIM-Calcutta, are:⁷

- ✿ Compliance Ethics
- ✿ Cognitive Ethics
- ✿ Consciousness Ethics

The compliance ethics is largely and primarily based on rules, regulations, legal and other infrastructure, institutional regulatory framework outside the corporate system, surveillance mechanism, code of conduct and ethics within the corporate system. It is possible to train people in compliance ethics. One can be law abiding mainly going by the form and missing the spirit. But the ethics is law plus something more, hence one is unethical to the extent of that something extra. The higher level of ethics called Cognitive Ethics is based on intellectual and rational foundations, and is law plus something. But knowing what truth is does not lead to correct behavior and actions. Thus, cognitive ethics remain at rational and intellectual level, and may not get translated into righteous behavior and actions in real life situations. This to happen requires the moral courage, the stamina to speak the truth and that comes from consciousness ethics. The highest level of ethics is based on consciousness and that is what is required in disclosures considering the ethical dimension involved. It requires a lion's courage and selfless approach to follow the path directed by *SATYA*, the truth in all walks of life. Thus, the ethical dimension of disclosure does not mean only complying with legal requirements or knowing what truth is but to disseminate the same to the stakeholders well in time. “*Action indeed is the sole medium of expression for ethics.*” states Jane Addams. The righteous behavior and actions result from the level of consciousness of the soul. The whole issue of business ethics and disclosures is not restricted to moral righteousness;

DISCLOSURES--- Choices--- Decision making --- INTENTION

DISCLOSURES			
Type	Mandatory	Voluntary	Based on Truth
Environment	Laws, Rules, Regulations, Accounting and Reporting standards	Dictated by financial and non-financial considerations	Dictated by Truth - beyond laws and financial and non-financial considerations
Ethical Dimension	Compliance ethics	Cognitive ethics - Based on knowledge	Consciousness ethics
Disclosure Tendencies	Manipulative, imaginative and creative		Courage to reveal the truth in the interest of all concerned
Purpose	To provide information, mainly considering own interests in situations that are neither white nor black		To provide information considering the interests of all stakeholders with clear conscience in all the situations (no ulterior motive)
Time horizon	Short		Long
Intentions	Not always clear		Always clear

instead, it is about enlightened self-interest. It is in the interest of the people who are responsible for disclosures to have disclosure practices geared towards the interests of all the stakeholders rather than solely in their own interest. This will be in their long term interest.

Disclosures involve choices of what, how much, how and in what format, and when to disclose the information required by the stakeholders for decision making purposes. What matters is the intention in making such choices, particularly in situations posing dilemmas.

ETHICAL DIMENSIONS OF DISCLOSURES REQUIRE THE FOLLOWING TO BE CONSIDERED

- ✿ Disclose to others what you would like to be disclosed to yourself.
- ✿ Follow good and transparent communication policies and practices based on truth.
- ✿ State the truth, however disturbing/ harmful it seems to be, but in a gentle and calm way.
- ✿ One can deceive some people by telling lies some of the times, but cannot deceive all of the people, all of the time.
- ✿ Everything has a cost, and truth is no exception.
- ✿ Truth may seem to be detrimental in the short-run, but it is in the interest of all in the long-run.
- ✿ Truth always comes out in the long run.
- ✿ Disclosures based on truth and conscience keep the good of others in mind, and in the good of others lies the good of the person making the same.
- ✿ Truth to reveal calls for courage that comes from pure conscience.

CONCLUSION

Disclosures form the very basis of decision making by stakeholders in the corporate sector. There is a much elaborated framework of disclosure requirements determined by laws, accounting, audit and reporting standards, listing agreements and codes of governance. But despite this, corporate disclosures leave much to be desired. The corporate entities mainly concentrate on compliance disregarding the substance and spirit. Ethical dimensions are given least or no importance; however there may be very few exceptions. When the conscience in disclosures i.e truth gives way to greed, the information disseminated will result in decisions that may not always be in the long-run interest of all the stakeholders and the corporation itself. Disclosures disregarding the ethical dimensions lead to perpetuate the interests of those responsible for making the same, and destroy trust and commitment of the stakeholders. Business conducted in an ethical manner generates information that can only lead to disclosures ethically in the globalized business environment. *“Earlier it was said that-‘business of business is business’- now there is a sudden change in the slogan. In the contemporary scenario, where ethics have got due importance, the slogan has taken the form- ‘business of business is ethical business’.”*⁸ Thus, ethical conduct of business is a pre-requisite condition for disclosures based on ethical dimensions. Disclosures made considering all ethical aspects lead to building relationships based on trust and commitment that ensure the success of a corporate entity on the time horizon.

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