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THE DISCLOSURE OF FINANCIAL AND NON-FINANCIAL INFORMATION IN THE CORPORATE WORLD

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ABSTRACT

Provision of information is an important subject matter in the corporate world, particularly on financial matters, although nowadays there is also emphasis and pressure on companies to provide non-financial information in addition to financial information.

The information in article is entirely collected through secondary research, specifically from scholarly articles finance and management, various text books in finance, management journals from professional bodies and magazines such as the financial time, the economists and Forbes magazine. This article is about the disclosure of financial and non-financial information with citations of examples being given from the Zambian perspective as well as the global perspective.

KEYWORDS: Financial Information, The Basic Financial Statements, Ratio Analysis, The Agency Relationship, Corporate Scandals, Corporate Governance, Non-Financial Information, Balanced Scorecard.

INTRODUCTION

This article focuses on the disclosure of financial information and no-financial information in the corporate world. The article makes general commentaries on financial information, non-financial information, corporate governance and the balanced score card. Additionally examples of corporate scandals are cited emphasizing sufficient disclosure of information and reducing on the abuse of power. The article ends with the conclusion and recommendation citing the need for sufficient disclosure of information and the best way of presenting information in the current dynamic environment.

FINANCIAL INFORMATION

One essential function of managers in institutions is to offer financial information to the users of financial statements to the users of financial statements. The users of financial statements are the various groups that have an interest in the company. The financial statements present and summarize the economic and financial situation of an entity.

SOURCES OF FINANCIAL INFORMATION

The following are the major sources financial information.

THE BASIC FINANCIAL STATEMENTS

1. The Trading, profit and loss account (also referred to as the Income statement) this is the type of financial statement that summarizes the results of an entity.

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2. The statement of financial position (also known as the Balance sheet) this is the type of financial statement that summarizes the financial position of the business.
3. Although the basic financial statements are the essential sources of financial information the other sources of financial information are as follows:
   - The cash flow statement is the financial statement that summarizes the cash position of the entity for the period covered by the financial statements.
   - The statement of changes in equity is the financial statement that summaries the movements in capital and reserves for the period covered by financial statements from the time the company was incorporated.
   - The note to the financial statements is another financial statement that offers explanatory note and the disclosures to support the basic financial statements.

RATIO ANALYSIS

In the company may use the interpretation of final accounts also known as ratio analysis as the basis of performance measure of the company as the financial statements may not be adequate as a performance measure for the users to deduce financial performance of the entity. The ratios are broadly categories in the following categories.

- Profitability ratios
- Liquidity ratios
- Efficiency ratios
- Gearing ratios
- Shareholder’s ratios (or Investor’s ratios)

THE AGENCY RELATIONSHIP

Agency relationship is the description of the relationships of different groups with an interest in the company. The various groups are commonly referred to as the stakeholders, although the most prime relationship is between the shareholders and directors.

The shareholders hire the directors to run the affairs of the company on their behalf. The shareholders are referred to as the principal and the directors are the agents. The directors thus assume the primary role of maximizing the wealth of the shareholders.

Another essential relationship is that of the shareholders and the auditors. The shareholders hire the auditors to examine and express an independent opinion on the annual accounts of the entity to offer reasonable assurance that the information in the annual accounts is credible.

CORPORATE SCANDAL

The focus of corporate scandals in this article ison the institution scandals that occurred in countries such as the USA, the UK and Zambia.

THE USA

The Enron scandal in the USA is good example of how company officials abuse their authority of not disclosing information that is material to the shareholders and other stakeholders with an interest in the company. The Enron scandal involved a series of events whose outcomes led to bankruptcy of the Enron Corporation in the USA. This not only generated a lot of debates in the US and world over, but also necessitated the formulation of legislation to improve transparency in companies, particularly in the disclosure of financial information in the United States “www.economist.com”. Research shows that the senior company officers happened to have misled the board of director on undesirable and risk accounting practices leading the shareholder filing a legal and eventually led to the winding of the company. Arthur Andersen the auditors of Enron Corporation were also found guilty in the courts of law.

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THE UK

Polly Peck International is a textile company in the UK that collapsed in the early1990s. Debts slightly above 1 billion pounds led to the collapse of the company. The Polly Peck scandal together with main other corporate scandals led the reformation of corporate laws in the UK as well as the introduction of UK Corporate Governance Codes.

ZAMBIA

The major corporate scandals in Zambia were the misappropriation of funds as well as lack of disclosure of information goods examples are Ministry of Health and Zambian National Farmers Union.

CORPORATE GOVERNANCE

The corporate scandals such as the one stated above in a number of nations contributed to the emphasis on improvements in governing institutions resulting in term corporate governance becoming more pronounced nowadays than ever. Corporate governance refers to the structures and processes for the direction and control of companies “Cadbury report, 1991”.

Institutions that are properly governed allow institutions to work smoothly clear levels of accountability and communication is enabled. People understanding their role and responsibilities is one signal of good governance. The institution has to be managed in such a way that satisfies the various groups with an interest in the institutions.

As much as the primary objective of the directors is to maximize the wealth of the shareholders, they also have their own objectives such huge bonuses, huge salary and status which will conflict with their primary objective i.e. maximizing the wealth of shareholders. This is worsened by the fact that the only vehicle shareholders have to find out if the directors are running the company in there interest is the general meetings and the annual general meeting which isn’t sufficient. Directors and influential officials in institutions have taken advantage of the limitation shareholders and other stakeholders in accessing information. One common factor of the corporate scandals is the hiding of essential information of the company of its state of affairs and results in order to show that everything is alright when the situation is worse than it seem or fraud has been perpetuated.

NON-FINANCIAL INFORMATION

In the current dynamic environment there has been a lot of emphasis to provide non-financial information especially as performance measures in the company. The focus on corporate managements has a major contributing factor to the growth in the provision of non-financial information. Provision of non-financial information lead to the effective and smooth management of the company the end results being the financial performance measures will improve too.

The main non-financial measures of performance which are commonly applied and used are:

- Innovation
- Flexibility
- Short-lead times
- Quality
- Cost

The importance of these measures or attributes ties in their contribution to the delivery of customer satisfaction, which determines the ability to survive that will be determined by its capacity to provide sufficient satisfaction at a profit. “BPP Learning Media, P112, 2007”

BALANCED SCORECARD

The balanced scorecard is renowned by the provision of non-financial information alongside financial information. As discussed above non-

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financial performance can later be translated into financial performance measures, therefore experts have argued that it's ideal to have non-financial information and financial information in one report.

The balanced scorecard is an approach to the provision of information to management to assist strategic policy formulation and achievement. "BPP Learning Media, P112, 2007"

The aim is to offer users of information a set of information addressing areas of performance measure in a liberalised and objective manner. Provision of non-financial information and financial information in one report enable management assess of particular actions on the company and its activities. Use of the balanced score card enables the company identify the critical success factors, formulation of performance measures which can be used to measure the achievement of the identified success factors and identification of the reforms that must be made to organizational processes to aid in the facilitation the improvement of performance against the critical success factors.

A typical balanced score card may take the following four (4) perspective

- The Financial Perspective
- The Customer Perspective
- The Internal Business Perspective
- Innovation and learning perspective

CONCLUSION AND RECOMMENDATIONS

It is a well-known fact that the corporate scandals that have occurred in the recent past has been the awakening call for institutions and other interested parties to be vigilant on financial matters which have been subject to misappropriation. In addition valuable and essential information is hidden about the state of affairs of the institutions. For instance reports have been produced on how the shareholders and other stakeholders can play active role in reducing the information gap between them and directors e.g. having access to the media, whistle blowing and generally activism. In the recent past there has been a lot of pressure on the directors to present adequate and sufficient information about the institution's state of affairs and results of the company.

Currently experts are arguing that companies needs to move away from only providing financial only as performance measures. They should also be providing non-financial information in addition to financial information. The balanced score card has become common phenomena of presenting financial information alongside on-financial information. This is in recognition of the importance of non-financial information such as quality and customer satisfaction and how they are later translated into enhanced financial performance of an institution.

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