

Corporate Reporting in Globalised India

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The wave of liberalisation and globalisation sweeping across the world has opened many national markets for international business. The twin forces of liberalisation and globalisation have led to a remarkable surge in the volume of business in the last couple of decades, highlighting the need for greater vigilance, scrutiny and transparency in the working of business organisations. These forces have also led to unprecedented changes in the corporate world and have been instrumental in creating innovative means for communicating financial information to the market place. The field of information technology too has witnessed remarkable advance resulting in dramatic changes in the way business is being transacted all over the world. The wide expansion of global markets has greatly influenced the movement of funds. Innovative financial instruments have been evolved to deal with new global economic realities and a more complex business environment. When the international business environment is undergoing rapid transformation and new linkages are sought to be enforced through multilateral trade negotiations, there is a need for restructuring the industry, agriculture and other sectors of economy to meet new challenges in the changing global business scenario. As a result, corporate reporting has also undergone a sea change, presenting newer challenges and further opportunities.

For a company manager, globalisation is the process of managers assessing the impact of international activities on the future of their company. Globalisation is a continuous process; at the most basic level, a purely domestic company's ability to compete is influenced by changes in foreign exchange rates, technological advances, cultural diversity, and international political and economic issues. An example of a high level globalisation is a multinational enterprise whose production and sales locations span multiple foreign locations from raw materials extraction to final product assembly and sales.

The system of financial reporting is a function of the economic, legal and political institutions in a country. The changes taking place in the commercial world due to globalisation have resulted in accountancy profession critically reviewing its role and relevance of its curriculum. In early times accounting was merely concerned with ascertainment of results of business enterprises. But, financial reporting has a new orientation these days owing to the increased needs of users accounting information. New accounting principles are constantly evolving and are influenced by changes in social, legal and economic environment and professional bodies like ICAI, the AICPA, IASB and the needs of users financial information.

Corporate Reporting and Globalisation

The economic systems under which business operate significantly affect the form and availability of accounting information. Companies formerly operating in a planned economy can encounter significant difficulties when attempting to operate in a market economy. Today's dynamic business environment is heralding a revolution for, and the way in which, accounting data is utilised. This has resulted in talk of 'an accounting revolution' (Beaver, 1998) and the possible 'redefinition of accountancy' (Elliott, 1998).

The fast pace of globalisation in the late 80's and 90's led to certain complications of accounting issues related to transactions involving different countries and difference in their perception of accounting issues. Over the last few years, it has been observed that there is an increasing convergence of accounting practices around the world due to various factors. First, large multinationals have begun to apply their home country standards, which may permit more

than one approach to an accounting issue, in a manner consistent with other bodies of standards such as IASC standards or US GAAP. Second IASC has been encouraged to develop standards that provide transparent reporting and can be applied in a consistent and comparable fashion world. Finally, securities regulators and national accounting standard setters are increasingly seeking approaches in their standard-setting processes that are consistent with those of other standard setters.

The global trend is to move towards uniform accounting principles in view of opening up of the world trade. The set of accounting principles and standards not only guides appropriate accounting treatment of complex business transactions but also provide, new concepts, which may be applied to different business situations. The global standardisation of accounting issues is of vital importance in this era of cross-border movement of capital.

The process of globalisation and the consequential accounting standards changes have not left Indian scenario untouched. The issue of corporate reporting for greater transparency has come up in the wake of globalisation and deregulation of industry and business. In the light of corporate failures, financial irregularities and lack of adequate management accountability, it is looked upon as a distinctive brand and benchmark in the profile of corporate excellence.

There have been major changes in financial reporting in India since the economic reforms and globalisation began in the early 1990s. The major driving forces behind these changes are:

- (i) Capital, product and labour market pressures
- (ii) Company law and securities law changes in India
- (iii) International accounting and securities regulations

Capital, product and labour Market pressures

One major driving force is the market pressures which can be capital, product or labour. Capital market pressures came into scene as Indian Companies have depended to a greater extent on the capital market for raising resources since the year 1991. Further, financial reporting has been influenced by foreign institutional investment, foreign direct investment, disinvestment and privatisation, and listing in overseas stock exchanges. Product market pressures arises from the greater interactions of Indian firms with overseas market in the form of exports and imports of goods and services since the commencement of economic reforms. The overseas customers, dealing with Indian firms, are concerned with the firm's financial performance, and they demand high quality financial reports to monitor the firm's performance.

Labour market pressures is another important factor for the recent changes. Indian firms need talent to stay ahead of the competition in their product and capital markets. Superior financial reporting could be useful in convincing a firm's present and potential employees of its financial soundness, so that the key users of a firm's accounting information they can trust the firm as a dependable employer offering good long term prospects of growth.

National Regulations

In the last decade, there has been significant changes in Indian Laws and regulatory requirements relating to accounting and governance. In 1999, the Companies Act 1956 was amended to provide for setting up of NACAS (National Advisory Committee on Accounting Standards) to advise government on formulation of accounting standards. Also SEBI has, over the years and more so since 1990s played an active role in requiring compliance with accounting standards, made cash flow reporting mandatory through listing agreement, further required segment reporting in listed companies' quarterly results. Another significant reforms has been in the area of corporate governance. The recommendations of various committees on corporate governance like the Narayana Murthy Committee, Naresh Chandra Committee, the Kumar Mangalam Birla Committee etc. contributed substantially to the monitoring of quality of financial statements.

International Accounting and Securities Regulation

The restructuring of the International Accounting Standards Board (IASB) and the International Organisation of Securities Commissions (IOSCO) acceptance of the IASB's "core set of standards" for the purpose of cross border listing have improved the acceptability of IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) within India. SEBI is a member of IOSCO and so it would be difficult for SEBI to defend Indian accounting that are not in accordance with international standards and practices.

How India Inc. Responds?

The impact of globalisation of the Indian Economy on reporting practices are already becoming visible. The Indian Scenario in the matter of evolution and adoption of accounting standards, of late, is rapid. Though the Institute of Chartered Accountants of India (ICAI) had formed the Accounting Standards Board (ASB) in April, 1974, the standards issued by ASB were not mandated on its members while discharging the attest function till the late 1980s and early 90s. They were not recognized by the company law, which means they were optional from the point of view of the corporate management. Efforts were made by the ICAI to give wide publicity to standards among the users of the financial statements and educate the members about their utility and the need for complying with them. Companies Act was amended with necessary provisions to ensure adequate disclosure and quality in annual reports. Also certain companies also responded quickly by reporting on the contemporary and emerging areas of financial reporting. The important developments in Indian financial reporting to cope with the globalisation are:

(i) Introduction of new Indian Accounting Standards

ICAI has issued 13 accounting standards between 2000 and 2004, as compared to 16 standards between 1977 to 1999. Keeping up with the pace of recent development in the business world, the ICAI has issued 13 accounting standards relating to disclosure requirements, these are:

- AS 17 : Segment Reporting
- AS 18 : Related Party disclosure
- AS 19 : Lease Accounting
- AS 20 : Earnings per share
- AS 21 : Consolidated Financial statements
- AS 22 : Accounting for taxes on Income
- AS 23 : Accounting for investments in associates in consolidated financial statements.
- AS 24 : Discontinuing operations
- AS 25 : Interim financial reporting
- AS 26 : Financial reporting of interests in joint ventures
- As 27 : Intangible assets
- As 28 : Impairment of assets
- As 29 : Provisions, contingent liabilities and contingent assets

This era of corporate reporting has added additional load of responsibilities on the professional bodies on account of the fast pace of globalisation of trade and corporation. The accountants have the responsibility of formulating statutory accounting standards and harmonizing them with the global trend. The differences between Indian Accounting standards and IAS/IFRS have been narrowing, especially in the case of standards issued since the late 1990s. Some of the differences are attributable to the need for conformity with the Companies Act and due to there is no corresponding Indian standard on the subject. If accounting reports are to become a universal means of communication, action must be taken to harmonise worldwide efforts to meet the international users' needs.

(ii) Amendments in Companies Act 1956

The Companies Act 1956, has been amended extensively through the Companies (Amendment) Act, 2000. The amendment to section 210 of the Companies Act, 1956 gave statutory sanction to Accounting Standards in India.

(iii) New provisions in Listing Agreement

SEBI tightened the stock exchange listing agreement so as to implement better corporate governance practices and disclosure. Also cash flow statement, as requirement in the listing Agreement, has been made effective for the accounts prepared by the Companies and listed entities from the financial year 1994-95.

(iv) New Trends in Corporate reporting

The companies responded to the new economic realities by adding more information to its annual reports. Certain new dimensions of financial reporting, which were hitherto ignored by the accountants and the managements, have been added to its domain. Such new dimensions of financial reporting include : value added statement, HRA, social reporting, and certain emerging areas like value reporting, corporate sustainability reporting, governance reporting etc. These reports form part of certain corporate reports of Indian companies like Infosys, BPCL, MIRC. etc.

Conclusion

In the present era of globalisation, the basic contours of reporting business performance have been changing at a fast pace. The dramatic changes in the Indian economy have been influencing the different aspects of the corporate sector. True success of a business entity is in the truthful expression of the performance when it is measured. A general perception is that financial reporting practices have improved over the past 5 years; however, significantly strengthened enforcement mechanisms are needed to further improve the quality of corporate financial reporting. The fast pace of globalisation resulted in Indian accounting standards and corporate governance requirements are in line with international practices. But India is still in the early stages of its involvement in the globalisation of accounting standards. Mere adoption of superior accounting and disclosure standards will not raise the quality of Indian financial reporting. Creating a complementary institutional framework that, among others facilities cost effective private litigation by shareholders is critical. With the global economy changing rapidly, more and more Indian companies need to march towards attaining global standards.

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