The Need to Build Sustainable Value-Added Reports: Seeking out Ways to Enhance the Report's Managerial Accounting Information

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Abstract

Accounting's fundamental purpose is to provide information that is useful in making rational investment, credit and overall good business decisions. The issue at hand is financial reporting, its usefulness and its relevance. As such, calls have been made for companies to become more responsive to users, and to move away from the culture of secrecy. In so doing, it provides a lens through which users can perceive and understand the wealth generating activities of a company and the results of those activities. The American Institute of Certified Public Accountants' Special Committee on Financial Reporting (known as the Jenkins Committee), the CFA report and the ACCA have recommended that companies enhance the utility of financial reporting by using a business model that provides investors and creditors with more information than what is currently being reported. It is believed that creditors and investors will be better served in making informed decisions if they are given access to the companies' database that contains operating data, performance measures and forward looking information (Eaton and Roth 1998; CFA 2007; ACCA 2012). This paper addresses some of the above issues and highlights the Jenkins' Ten Elements of the Comprehensive Model of Business Reporting with the aim of focusing on two key areas that are not currently disclosed by management. It also examines the need for sustainable reporting and identifies the "must-haves" of sustainability business reports as recommended by the Waikato Management School (New Zealand). The paper evaluates whether the existing financial reporting requirements of firms within the private sector of Trinidad and Tobago should be more responsive to the needs of creditors and investors given the articulation in the Jenkins Report, which was developed, based on the United States situation. An analysis of financial statements of firms in four sectors was done with a view to determine the extent to which recommended disclosures are currently provided in Trinidad and Tobago. Recommendations were made with a view of changing the prevailing culture of secrecy, followed by concluding remarks.

Keywords: Managerial accounting; business reporting model; Jenkins recommendations; CFA business report; ACCA study on corporate reports; sustainability business reports; Waikato Management School's sustainability report "must-haves", high level operating data and performance measures; accounting culture; need for change.

Introduction

Managerial accounting is the process of developing and reporting financial information for managers to facilitate effective decision-making and evaluation (Jagels and Coltman 2004; Balakrishnan, Sivaramakrishnan, and Sprinkle 2009; and Roos 2008). In this respect, Roos (2008) further assert that financial information can serve the purpose in formulating business strategy; planning and controlling activities; efficient resource usage; performance improvement and value enhancement. Investors and creditors, like managers, must also make important decisions but they suffer from information asymmetry[1] and as a result rely on the information contained in published financial statements and other public sources.

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[1] Information asymmetry exists because investors and creditors do not usually have access to the same information as managers.

In the aftermath of recent financial crises and ponzi schemes, outcries from the public, regulators and legislators have put companies under pressure by forcing them to move away from the culture of secrecy and to supply real-time, value-added disclosures in their reported statements (CFA 2007; Williams and Seaman 2001). Investors and creditors require much more information such as operating data and up-to-date performance results which is not readily disclosed by public companies. According to Rohan (1996), in an independent survey conducted by public accounting firms, 80% of the respondents, mainly C.E.O.s (Chief Executive Officers) and controllers indicated that they were dissatisfied with their current financial reporting tools. The reason advanced for non-disclosure relates to the confidentiality and proprietary nature of the information to the company (Emery, Finnerty and Stowe 2004). Hence, the information provided is geared towards stakeholders in general and not to any specific group of users.

Corporate annual reports have been criticized because they do not add any real value for the investors, who according to the ACCA study (Guardian Newspaper 7th March 2012) "*should be positioned as the most important audience for the report*". A total of five hundred (500) users in the United Kingdom, United States and Canada were surveyed including investors, capital providers, customers, and suppliers. The findings revealed that corporate reports still hold value as it remains the primary source of corporate information even though they were described as too general purpose, long, backward looking and complex. Survey respondents were also questioned on stakeholders' needs that were not thoroughly addressed in corporate reports and the findings were as follows:

- Stakeholders require information on all potential risks that the company faces, how it will affect their financial performance, and how the company plans to mitigate or manage these risks,
- The provision of an integrated report that includes social and environmental data, and
- The provision of real time reporting.

In an attempt to reach out to the niche players (investors and creditors), address the inadequacies and respond to criticisms, the Jenkins Committee of the American Institute of Certified Public Accountants (AICPA) articulated a business reporting model. The goal of the Committee is to enhance the utility of financial reporting by changing current disclosure practices and making additional data available about a company's operations and performance to outsiders. Recently there was another call from the CFA (2007) supporting the need for a business reporting model. According to the CFA (2007: 01) report "*The business reporting model is the lens through which investors perceive and understand the wealth-generating activities of a company and the results of those activities.*" As such, the survival of a company depends on its capacity to communicate these activities clearly and completely.

In a report entitled, "Improving Business Reporting- A Customer Focus: Meeting the information needs of Investors and Creditors" the Committee recommended that companies use a comprehensive model of "business reporting." Implementing the business reporting model will improve the accountability and enhance the relevance, reliability, and cost effectiveness of reporting entities in the new age of information, given developments globally. This recommendation was also supported by Sisaye (2001), CFA (2007) and Che Ruhana (2009). The authors agreed that implementing a business reporting model will add more benefits to the firm notwithstanding the changes in the business environment. Although the environment is very competitive and dynamic, and firms target the same clique of customers, one way of gaining a competitive edge over rivals is to report relevant information to customers in an accurate and comprehensive manner. In this regard, the business reporting model is a possible reporting mechanism that can be used to tailor information for various stakeholders.

The Jenkins Recommendations

The annual financial report is the main mechanism through which companies attempt to convey information to users (CFA 2007; Roos 2008). Despite a lack of understanding, some users are comfortable with what is reported and are willing to make investment decisions due to tremendous growth in corporate earnings and a corresponding increase in share prices. Notwithstanding this, creditors and investors need additional information to make more informed decisions given the current level of risk exposures. The Jenkins Committee responded with a number of recommendations giving companies the opportunity to modify and improve on their current disclosures. The disclosure format recommended includes not just financial statement data but some form of managerial information such as forward looking statements and performance measures. Eaton and Roth (1998) set out The Ten Elements of the comprehensive model of business reporting. These Ten Elements are grouped under four main headings as detailed in Exhibit 1.

Some of the elements described in Exhibit 1 are already disclosed in the company's annual report but others are not. Currently the disclosure requirements do not include high-level operating data, performance measures and forward-looking information. This discussion will mainly focus on the nature and extent of additional information that should be disclosed by management to enhance the usefulness of the business reporting model.

EXHIBIT 1

The Ten Elements of the Comprehensive Model of Business Reporting

1. Financial and non-financial data

- Financial statements and related disclosures.
- High level operating data and performance measures that management uses to manage the business.
- Management's analysis of the financial and non-financial data including reasons for changes in the financial, operating and performance related data and the identity and past effects of key trends.

2. Forward looking information

- Opportunities and risks, including those resulting from key trends.
- Management's plans including critical success factors.
- Comparisons of actual business performance to previously disclosed opportunities, risks and management's plans.

3. Information about management and shareholders

- Directors, management, major shareholders, transaction, and relationships among parties as well as their compensation.

4. Background about the company

- Broad objectives and strategies.
- Scope and description of business and properties.
- Impact of industry structure on the company.

SOURCE: Eaton, Tim V. and Roth, Harold P. January/February 1998. Trends and New Developments Disclosing Managerial Information: The Jenkins Committee Recommendations. Journal of Cost Management: 38.

High Level Operating Data and Performance Measures

As shown in Exhibit 1, high level operating data and performance measures are used to strategically manage a business to enhance its bottom line. When published, the database can help outsiders see the company from management's perspective and allow investors and creditors to better understand the financial impact of risk and uncertainties implicit in the various events and transactions that affect the company (CFA 2007).

The data includes statistics about a company's activities beyond those traditionally reported in financial statements. These are used to strategically manage the company. The type of information to be disclosed in the "business reporting" model under these two categories are presented in Exhibit 2.

It is believed that a paradigm shift is required from the current 20th century business reporting model to one that can fully and clearly communicate the operations of a 21st century company to its users and better serve their needs. A new set of revised financial statements and disclosures can do the trick.

EXHIBIT 2

Operating Data and Performance Measures

- Statistics related to activities that produce revenues, market acceptance, and quality, including:
  - Units and prices of product or services being sold
  - Growth or shrinkage in market share
  - Measures of customer satisfaction
  - Percentage of defects or rejections
  - Backlogs
- Statistics related to activities that result in costs including:
  - Number of employees
  - Average compensation per employee
  - Measures of customer satisfaction
  - Volume and prices of materials consumed
- Statistics related to the amount and quality of key resources including:
  - Human resources
  - Average age of key assets
  - Quality of proven reserves of natural resources
- Innovation measures including:
  - Percentage of units produced in the current year that were designed in the last three years
  - Number of suggestions to improve business processes received from employees in the last year
- Measures of employee involvement and fulfillment including:
  - Employee satisfaction
  - Rate of change in employee satisfaction
- Measures of strength in vendor relationship including vendor satisfaction.

SOURCE: Eaton, Tim V. and Roth, Harold P. January/February 1998. Trends and New Developments Disclosing Managerial Information: The Jenkins Committee Recommendations. Journal of Cost Management: 39.

Forward-Looking Information

The Business Reporting Model classifies three elements under the category, "forward-looking information". These are:

1. Opportunities and risks- Opportunities and risks include known trends, commitments, events and uncertainties that are reasonably expected to have a material impact on the company's business, financial condition or results of operations (Che Ruhana 2009; Sisaye 2001; CFA 2007; and Roos 2008). To disclose an opportunity or risk, a determination must be made whether the trend is likely to occur, and secondly, whether the event would have a material effect on the issuer's financial condition or results of operations.
2. Management plans- The disclosure of management plans should be a key resource document for investors and creditors who are considering analyzing the reasonableness/viability of the plans (CFA 2007).
3. A comparison of actual business performance to previously discussed opportunities, risks and plans.

Whilst auditors disagreed on the culture of secrecy and supported openness (Williams and Seaman 2001; CFA 2007; and Sisaye 2001), some managers are still reluctant to support the openness philosophy because they perceive that openness would provide too much intelligence to competitors, a risk they are unwilling to take. With regards to the Caribbean, the region is seen as narrow and competitive given the limited product range offered in this market place.

As such, companies in the Caribbean should give due consideration to providing additional information to users, but not without first conducting an economic feasibility study (cost-benefit analysis). Also, by providing a comparison of actual results with previously discussed plans, this will aid the users in; (i) critically assessing whether the forward-looking information provided in the past materializes (i.e. to what extent this information matches the results currently being reported) (Eaton and Roth, 1998); and (ii) determining the reliability of any new forward-looking information that is offered.

Moreover, because there has not been a groundswell of complaints from investors and creditors about poor disclosures, managers concentrated less on providing relevant reports and spent most of their energies on establishing a sound profit-base (which is the 20th century business model) to satisfy the following aims:

- Paying sufficient dividends to maintain the capital or share value while concurrently not placing the institution in a position of having to raise more capital;
- Putting aside ample capital to replace existing assets; and
- Putting aside sufficient cash or reserves (institutional capital) to be able to grow organically.

Given the mixed reactions, companies should not be reactive and wait for legislative intervention, agitation and criticism from users. Instead, they should be proactive, responsive and willing to disseminate information to investors and creditors which can give them a competitive edge over their rivals (Sisaye 2001; Roos 2008; and Che Ruhana 2009). Balakrishnan, Sivaramakrishnan and Sprinkle (2009); Emery Finnerty and Stowe (2004); and Brooks and Dunn (2010) support this view by stating that ethically the firm has a duty to inform their stakeholders by providing information that is accurate, forward looking and timely.

Other Elements of the Model

The other elements of the "business reporting" model as shown in Exhibit 1 generally relate to information that is already provided under the current reporting model in the United States and is not significantly different from Trinidad and Tobago. It has been suggested though, that the company's annual report be expanded to incorporate a discussion of changes occurring in the operating data and performance measures as well as in the financial information. Given technological advancements in the last decade, more companies have been placing their financial statements on their webpage where interested parties can also access additional data such as the company's social responsibility and corporate governance reports. This shift not only contributes to cost savings for the firm but also reduces the firm's environmental damage.

The 2007 CFA Business Reporting Model

Following the Jenkins recommendations, the CFA Institute published in 2007 a comprehensive business reporting model for investors. This model takes into account some of the recommendations made by the Jenkins Committee but went further by focusing on other key issues that were not adequately addressed. The issues are recognizing the crucial importance of standard setting, distinguishing events that affect the company's economic position, simplifying disaggregated financial statements, and the revealing of adequate disclosures so that investors can minimize the risk exposures. According to the CFA Institute (2007), the following four key issues would enhance investors' decision making ability:

- In financial reporting standard-setting as well as statement preparation, the company must be viewed from the perspective of an existing investor. This means that a current common shareholder must have complete and accurate information about all other claims—including potential risk exposures, contingencies, any off-balance–sheet obligations and possible returns- to evaluate his or her own investment.
- Transactions and events that affect the company's economic position must be recognized as they occur in the financial statements.
- Changes affecting each of the financial statements should be reported and explained on a disaggregated basis. This is important because the aggregation of accounting information with different economic attributes, measurement bases and trends and from different operations results in substantial loss of information which the investor is unaware of.
- Disclosures must provide all the additional information investors require to understand the items recognized in the financial statements, their measurement properties, and risk exposures. These would include: financial reporting methods used; models used for estimation and measurement; assumptions made; sensitivity analyses of point estimates; information about risk exposures; and information explaining why changes in important items have occurred.

Emergence of Sustainability Reports

In recent years, demand from external users has led to the emergence of sustainable business reports. Basically, this report allows corporations to reveal and measure what impact their business activities have not only on the environment but also on the society in terms of cultural development and ethical behavior (Corporate Social Responsibility). In a sense, it builds on the Jenkins report, as this report provides a medium for companies to keep stakeholders abreast of the organization's sustainable business practices.

The key to this type of reporting is determining what issues to address in the report. Recognized bodies such as the Global Reporting Initiative (GRI) and Accounting for Sustainability (A4S) have supplied listings of comprehensive issues that should be presented in these sustainable reports. However, the Waikato Management School (New Zealand) has identified "*what minimum essential information should appear in a basic sustainability report*" (ACCA Accounting and Business International Issue: 02/2012). The School recognizes the following "must-have" issues that should be addressed in sustainable business reports:

1. The purpose of the organization in society
2. The organization's definition of sustainability
3. The reporting system adopted by the organization
4. The individual in the organization who is primarily responsible for sustainability and their full contact details
5. The stakeholder groups recognized by the organization
6. How the organization balances stakeholder interests and complies with legal and voluntary codes
7. The identification of adequate Key Performance Indicators with evidence of forward planning
8. The evidence of external benchmarking
9. The integration of sustainability aspirations into the corporate culture
10. Verification of the published information

Source: Waikato Management School (New Zealand) as reported in ACCA Accounting and Business International Issue: 02/2012

Analysis and Findings – Trinidad and Tobago

Research was concentrated on the published annual reports (1996 to 2010) of all the firms listed on the Trinidad and Tobago Stock Exchange. The firms were categorized into four broad sectors and were analyzed with an emphasis on the ten elements of the Jenkins report. The objective was to determine whether Trinidad and Tobago companies are in conformity with the Jenkins recommendations and the CFA (2007 report) and if so, to what extent. Table 1 presents a summary of the findings.

Inter-company comparative analysis indicated that over 90% of the firms operating in each sector were following a standard reporting format for the presentation of accounts. It appears that these companies' reports were consistent with the requirements of the Trinidad and Tobago Stock Exchange Commission (TTSEC).

Essentially, all the reports examined had standard financial information: an auditor's report and audited financial statements namely: income statements, balance sheets, cash flow statements and the notes to the financial statements. With the bankruptcy of high profile firms in the United States such as Enron and Lehman Brothers, the auditing profession took a beating. As a result, the auditor's report drastically changed to emphasize the role of auditors versus the role of management in relation to the preparation and fair presentation of financial statements. The language in the audit opinion also changed from "*the company's financial statements exhibits a true and correct view*" to "*the financial statements presents fairly in all material respects*" to accentuate that auditors engage in sample testing to obtain reasonable assurance that the financial statements are free from material misstatement.

Criticisms have also been levied on the "big three" financial statements that is, Income Statement, Balance Sheet and Statement of Cash Flow. According to Howell (2001), these statements provide little information that is meaningful to its users. Their very logic is outmoded. The income statement is no longer informative given that technology has radically changed the direct cost component, which was at one time the highlight for management accountants.

As far as the balance sheet is concerned, there is no correlation between the value of a business and the net assets figure shown. Allen (2001) advocated the inclusion of Intangible Assets, which are supposed to be a major determinant of value. The cash flow statement while illuminating a company’s liquidity and showing how management uses financial resources, does not provide key information needed by investors. The cash flow statement itself should focus only on cash flows and not have its utility and relevance diluted by unwarranted injection of accrual accounting concepts (CFA 2007). What investors need to know is how much cash a business produces over and above what is needed to operate it (free cash flow). It is this free cash flow that creates long-term wealth by allowing the firm to take advantage of opportunities as they arise. Overall, these statements seem not to reflect the economic reality of a company’s progress and position hence the contents of financial reports do not appear to be user driven. These criticisms are consistent with the findings of the study conducted by ACCA where 26% of the respondents perceived that the corporate report provides insufficient information to properly assess the performance of a company.

Another component of the annual report that is used by investors is the Chairman's report. Investors generally rely upon this report to learn about historical and recent results, the company's financial condition and future prospects, its quality of earnings, its plans and opportunities, its exposure to risks and uncertainties, as well as whether known trends in the past are indicative of prospects in the future. Unfortunately, the Chairman’s report on corporate disclosures seems to be far from meeting these objectives. Most of the reports examined (over 90%) focused on general macro economic forecasts and trends that influence the companies’ activities. This information was vague and generic rather than firm-specific. It was therefore almost meaningless. Similarly, the ACCA reported from its study that 40% of respondents noted that the corporate reports were too general purpose.

For the consolidated statements, it was observed that corporate management information, the Board of Directors and the Director’s report were featured prominently. From the users’ point of view, the more departments/units, the more complex and difficult it is to comprehend the financial statements and the more key information is buried because of aggregation. More so, there was no information on high level operating data and up to date performance measures. For example, statistics related to activities that incurred costs, productivity analysis, customer satisfaction, market share, brand awareness, “intellect” indices to gauge employees’ skills and average compensation per employee were not seen. The strength of vendor relationship also was not disclosed and probably not tracked by the firms that were examined.

Directors’ holdings in the company were a normal part of the annual reports and in some cases companies highlighted their management teams for various sectors by inserting photographs. Unfortunately, there were no reported information in the notes to the financial statements concerning transactions and relationships among the directors as well as the total structure of their compensation.

Generally, management plans were not discussed. However, the future outlook of the company as reported by management tended to suggest/ predict improved performance and enhanced efficiency in core businesses. No evidence, such as the assumptions made, was provided to support these predictions. A notable exception to this situation was found in the 1997 Annual Report of one company in the Services sector which contained broad objectives and strategies. There was no discussion on trends, commitments, events and uncertainties that are reasonably expected to have a material impact on the company’s business and hence no comparison could have been made. Thus, little or no forward looking information was disclosed.

Another common feature in these annual reports from companies with subsidiaries was a laundry list of explanations for historical performance, accomplishments and optimistic prospects. This finding is comparable to that of the ACCA study where approximately half of the respondents reported of excessive promotional material and highlights in annual reports. There were also cases where some companies included the qualifications of their directors and highlighted controlling directorships in other companies. Generally, reports were consolidated and it would have been more useful to see the segment reports with related contributions and expenses. According to Sandford (1999); CFA (2007); Dahyaa (2000); and Baines and Langfield (2003), companies should be alert to provide forward-looking information on a segmented basis if the risks, uncertainties and future outlook differ for certain business segments.

However, in the Manufacturing sector, one company’s reporting format was somewhat different. The reported activities were broken down into manufacturing and trading respectively and a segmented report was presented.

In another report, the company presented the statement of financial position, statement of comprehensive income and statement of changes in accumulated fund. The statement of financial position showed assets, liabilities and accumulated fund; the statement of comprehensive income showed revenue and expenditure, while the statement of changes in accumulated fund showed a reconciliation and comparative analysis of the previous year in relation to the current year's performance.

Pie charts and graphs were often used to give a comparative and pictorial view of financial performance in terms of return on stockholders' equity and return on capital employed. Some companies reported on their assets growth, provided explanations for their increased provision for loan losses, and assured shareholders of their high liquidity position by indicating that their increased investment in relatively safe short-term securities such as Treasury Bills. More so, they did not miss out on the opportunity to explain any slowdown in business activity due to unsettled politics and the global impact of economic events. All the financial statements reported on the dividends approved by the Board of Directors, Earnings Per Share (EPS) and the Price Earnings Ratio (P/E ratio). Many more pages were taken up with explanations of board composition and governance arrangements.

As some companies become increasingly conscious of external regulatory scrutiny and fear of losing their "license to operate", one can now read a discussion in annual reports of environmental and ethical issues. Emery, Finnerty and Stowe (2004) made the point that firms are also bound by a Code of Ethics for Chartered Financial Analysts; and part *five (V)* of that stated code addresses Relationships and Responsibilities to the investing public. Banks and a number of the larger companies are also beginning to publish their internal codes of business practice and ethics. Take for example, RBC Bank's website (http://www.rbc.com/investorrelations/index.html) provides a link which directs its audience-investors, customers, the general public and the media -to web pages that display up to date stock market information, investor reports, company analysis reports, acquisitions and many other reports.

Information technology is also used by other businesses in a number of ways. Websites such as Amazon.com is used by many customers to shop for gift items such as books. Also booking a ticket to travel abroad can be done at the click of a button online. Buying and selling shares are also taking place virtually over the web. Investments and online banking are other such business activities which can be done at the click of a button. In other words, advancements in information technology offer convenience to the customer or investor so they can do business from their office or home. With I-pads and other applications such as the I-phone, the trading of shares, reviewing stock market updates, among other things can now be done from a cellular phone with the appropriate software.

While several organizations have been using the technology, the researchers were unable to determine from the reports examined the number of individuals/shareholders that were trained to utilize the existing technology; and to understand how to read, interpret and analyze the financials of companies. According to the CFA (2007) report; the ability to make high-quality, independent, objective, and reliable investment decisions depends not only on one's expertise in the use of analytical and valuation techniques but also on the quality of the information available to collect, analyze, and incorporate into the valuation models. Another point which should be noted is that firms did not indicate an allocation of revenue for the aforementioned.

Generally, from the literature reviewed and the summary findings in Table 1, it would suggest that the current reporting format which provides financial information on companies' performance can be described as passive financial reporting. Poor performance was rarely discussed or significantly downplayed, positive matters were overemphasized, liquidity and capital resources were described as static elements, and the future was scantily discussed. Comparing current information disclosure to the recommendations made in the Jenkins Report and the CFA (2007) report would suggest that the annual reports of firms in Trinidad and Tobago are limited in the provision of managerial information. It is noteworthy to point out that it is not only firms in Trinidad and Tobago that do not provide valuable information to key stakeholders. The ACCA study suggests that this deficiency also exists in the United Kingdom, the United States and Canada. As a result, Levitt (Cited by Sandford, 1999) recommended that issuers would be well advised to voluntarily improve the quality of their Management's Discussion and Analysis areas of reports before regulators intervene.

The recommendations of the CFA (2007) report should not go unheeded. In addition to the financial statements, companies should provide: a reconciliation of balance sheet, cash flows, and other changes in net assets; reconciliation of receivables and revenues by major revenue source; a report disclosing all of balance sheet assets, liabilities and other financial arrangements and commitments; complete information about intangible assets held by a company; clear and complete information about a company's contingencies and commitments. Such statements once done on a timely basis would allow users to evaluate the potential risk and return properties of securities and to determine appropriate valuation for them.

Based on our analysis and findings, the evidence supports that the Business Reporting Model is indeed comprehensive, far-reaching and theoretically sound. Real time value added disclosure would enhance the utility of financial reporting for users and remove any doubt about transparency and good governance.

Although external parties to a company may call for a culture of openness, many managers and chairmen are unlikely to support this philosophy. It is perceived that such openness can also provide intelligence to competitors and may be perceived as too risky. It is believed that this is a sure sighted way in looking at financial reporting given the changing culture- from secrecy to openness.

Changing Culture: **From Secrecy to Openness**

Traditionally, firms operated within a realm of secrecy and the culture of doing business at that time facilitated this practice because competition was not as fierce as it is today, neither was there rampant usage of information technology. With the changing business environment, the enlightened business processes and emergence of best practice models- cultural changes were also required. These innovative techniques supported by good governance have radically transformed the way how businesses are being conducted. From the literature reviewed (Che Ruhana (2009); Smith (2005); Sisaye (2001); Roos (2008); and CFA Institute (2007)), the public is clamoring for openness, transparency, accountability, and fairness. These authors claim that the aforementioned attributes help to build trust, advocate ethical behavior, convey the notion of where the company is positioned in terms of goals/achievements, and the direction it is heading. It also allows the management accountant to convey information to the top management without compromising fairness and transparency in decision making (Williams and Seaman 2001).

In this regard, firms must modify their management style and reexamine the way they conduct business. Change management is the order of the day and progressive management is the way forward. Many firms who oppose change will be left behind in this progressive business world and if they are to be sustainable they must step up to the changing conditions. Baines and Langfield-Smith (2003) supported the change management process because a changing environment demands change in organizational processes if firms are to be more competitive. As such, companies are now taking advantage of information technology and communications, something which they never took full advantage of in the past probably due to the high cost of implementing those changes (Che Ruhana 2009).

However, notwithstanding the high initial investment of implementation, one should not discount that information technology adds to timeliness, openness, transparency, and instills confidence in investors (Smith 2005). Given the rapid development of new technologies and the strong tidal wave of globalization, this progression has acted as a catalyst in minimizing secrecy as well as permitted other benefits such as: allowing for a lower cost of implementing changes, and taking advantage of the emergence of expertise and facilities to cater for organizational change. Indicative in this change management process firms gain an edge over rivals without compromising transparency and fairness. If the best practice of being transparent works, then more companies should follow suit.

However, management styles of business reporting vary from country to country mainly through their value systems and their business practices. Finch (2007) claimed that the accountants' value systems are influenced by societal values and the extent of secrecy appears to vary across countries. For example disclosures vary radically among countries. It was reported that there are lower levels of disclosures of secret reserves in countries such as Japan, France, Germany and Switzerland as against open disclosures by countries like the United States and United Kingdom. Additionally, a comparison of these countries reveals that they have differential development in their capital markets and the public ownership of shares where disclosures are voluntarily influenced rather than being mandated.

As such, secrecy versus transparency will continue to be a battle of ideologies, notwithstanding, the culture of countries when engaging in disclosure and the reporting of business activities (Finch 2007; Sisaye 2001; and Smith 2005).

Against this background, reporting practices can either succeed or fail as "*Businesses continue to evolve, entering or leaving markets, developing new products and services, and finding new ways to attract and retain customers. These changing business practices require that the business reporting model evolve as well so that it can always meet investors' needs for the information required to evaluate investments and make financial decisions*" in an open manner (The CFA report 2007: 01).

Recommendations

Table 1 indicates that high level operating data and up to date performance measures as well as forward looking information is lacking in the reporting process when compared to the Jenkins Report. Companies should be alert to the need to provide forward-looking information on a segmented basis if the risks, uncertainties and future outlook differ for certain business segments (CFA 2007 & ACCA 2012). Segmented disclosure should be presented as it enables the user to understand the business as a whole. It must also separately describe any disproportionate impact segments have on revenues, profitability or cash needs. Lumping segments with different profit profiles together to avoid highlighting weak financial reporting can be described as misleading.

The Business Reporting Models as recommended by Jenkins (1998) and the CFA (2007) should be implemented instead of a new financial reporting model. These reports see the need for flexible reporting and disclosures which can be tailored to best satisfy the needs of investors and creditors. The business reporting model of sustainability reporting represents an integrated approach to reporting covering key aspects of the business including financial performance, environmental impact, societal and cultural development, and ethical behavior. These are all significant variables that provide investors with information that is forward-looking and risk conscious. Therefore, this model, which is an extension of the Jenkins (1998) and CFA (2007) models, is suitable given the pressing need and call for improved reporting by various stakeholder groups.

The form of reporting and the internet reporting technology will also need to be reconsidered. Some companies may want to restrict the printed annual report to current requirements and provide the operating data and performance measures using some other medium. One option would be for companies to use the Internet reporting technology and the World Wide Web to provide the data. Innovations in web-based reporting provide unparallel opportunities for the reporting of disaggregated data. According to Petravick and Gillett (p. 28, 1996) "*The Web can deliver real-time information, audio and animated messages, and information in formats other than the hypertext that is viewed through the Web browser*". The rapid advancement of computer technology as against manual effort has increased operating speed, reduced the need for over-time, data storage, and increased reliability in a cost competitive way. Some organizations have taken advantage of the rapid advancements of computer technology allowing managers to strategically evaluate the operations, disseminate information in a timely manner, and permit real-time decision making (Boockholdt 1996; Jagels and Coltman 2004; Davies 2005).

It is recommended that organizations reexamine the current relationship with auditors given the rapid advancement and changes in the current reporting format. With flexible reporting/association, auditors and companies must reach an agreement on how involved auditors will be in the disclosures of the new information. These changes demand that auditors develop fresh auditing skills and the need for new auditing standards to guide the practice.

It is recommended that the current Director's report be more informative rather than making vague statements to the effect that cash resources are sufficient to meet a company's need (CFA 2007; Smith 2005). What should be provided is a discussion of liquidity on both a historical and prospective basis, including short-term liquidity needs for the next twelve months. Known trends or expected fluctuations in liquidity and capital resources, both favorable and unfavorable, should be discussed.

Again companies must act ethically, be transparent and communicate clearly. A clear and consistent message must be delivered to all users on a timely basis, and the firm should not engage in selective disclosures. At no time should it appear that information provided is misleading. Companies should not downplay bad news by selectively disclosing a few positive events about an otherwise unprofitable business.

Companies can communicate balanced information by honestly divulging what is under the company's control and what is not, and providing a forthright explanation of its contingency plans to deal with uncertainties. Such transparency prepares the market for the strategy that the company may be forced to employ, adds to credibility and builds confidence in management (Smith 2005).

To ensure accountability and reliability in the information gathering process, a senior executive officer that is strategically positioned should be appointed. If no one oversees the information gathering process, the Director's report can be of poor quality, with unfortunate compromises. The senior executive officer is there to ensure that such reports be submitted on a timely basis if it is to maintain relevancy. The CFA (2007: 10) report claimed that timeliness is an important attribute and states that, *"... information that is not timely may no longer be relevant.*" Accountability should not be a "Cinderella" activity for there could be real danger in reckless and misleading disclosure.

The recommendations of the committee are not yet mandatory. However, organizations having observed the agitation and criticisms should not wait for legislative intervention. Instead, companies, as responsible corporate citizens, should voluntarily act and be responsive to the Committee's recommendations if they are truly concerned about the information needs of investors and creditors.

Should companies adopt the Jenkins and the CFA's recommendation they stand to benefit immensely. There will be increased trustworthiness by stakeholders because of the greater transparency of the organization (Smith 2005; CFA 2007). Sharing vital information to assess corporate value would indicate that the company's dealings are honest, reliable and transparent to regulators, customers, employees, creditors, owners and the environment in which the business is operating (CFA 2007; and Emery, Finnerty and Stowe 2004). Overall confidence levels will be boosted leading to more informed decisions. "*The process of maintaining or creating confidence can be as positive for the company's performance as the loss of confidence can be detrimental*" (Allot 2000: 55).

Conclusion

From the literature reviewed, it would seem that there is increasing support for the view that the existing financial reporting package is not adequate to meet the needs of specific users. The balance sheet and income statement have evolved from the limited requirements of reporting in the developing industrial economy of the 19th century, and extensive tinkering has not been sufficient to bring them in line with the requirements of the early 21st century market economy (cited from IBR, 1998)

The key drawback is that organizations may have to provide information that they would not have normally given (CFA 2007). This is at the risk of competitors accessing strategic information that may be vital to the organization's success and leadership in the relevant industry. Notwithstanding this, such information may already be out there, usually inaccurate, or alternatively through industrial espionage which may be worse for the firm.

Although there is a call and a need to provide more informed business reporting information to stakeholders (Finch 2007; Williams and Seaman 2001; Roos 2008; and Baines and Langfield-Smith 2003, the CFA 2007, and the International Integrated Reporting Committee 2011), it was reported that companies can overload investors with useless information. According to Wallman (2001) and CFA (2007), some of the most useful information is not necessarily the most reliable, and some of the most reliable is not necessarily the most useful. Instead companies need to be very selective as to the type of information disseminated to investors.

Additionally, while there are several criticisms levied against the current set of financial statements presented, there is real danger and uncertainty to discard a system that has served business and the public well regardless of all its faults. It is no small thing that GAAP (Generally Accepted Accounting Principles) makes fraud difficult and, in its absence, produces pretty good numbers – even if they are not always useful.

The reality is that there is need for change. The time is now for businesses to shape up and provide the information that investors and creditors need or face the wrath of public humiliation and regulatory scrutiny. Allott (2000) claimed across the world there are increasing pressures from users of every kind – governments, public bodies and commercial organizations – for companies to adapt to the changing environment, become more transparent in their activities and more responsive to those they serve.

While it is much more difficult to provide balanced and relevant disclosures when results and prospects are poor, the Accounting Standards Board (ASB) Operating and Financial Review statement recommends giving a balanced discussion and interpretation of the business (Gilmour, 1998). According to Deane (2001, p 21) "*it's all about leveraging information …what happens is people recreate information when what they should be doing is determining if something has been done before and taking that information and using it or making it better*." What is needed are wholesale cultural change, flexible reporting, performance evaluation systems that reward those who practice greater transparency and punish those who do not.

The increasingly global nature of business and its unrelenting pace underscores the need for a framework that allows information to be shared quickly across great distances. It is important according to Dark (2001) that you share among the appropriate people whatever is going on, as you know it in the organization. Integrate the strategic story with the financial story. After all, why reinvent the wheel? The database exists, why not move away from the culture of secrecy and follow the Jenkins and CFA's recommendations or engage in sustainability reporting.

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Appendix

Table 1: Summary of the Annual Reports of Firms in the In Four Sectors Compared With the Jenkins Recommendations

JENKINS RECOMMENDATIONS	SECTORS			
	BANKING	**INSURANCE**	**SERVICE**	**MANUFACTURING**
1. Financial and non-financial data				
• Financial statements and related disclosures.	✓	✓	✓	✓
• High level operating data and performance measure that management uses to manage the business.	✕	✕	✕	✕
• Management's analysis of the financial and non-financial data including reasons for changes in the financial, operating and performance related data and the identity and past effects of key trends.	Partial	Partial	Partial	Partial
• ***2. Forward looking information***				
• Opportunities and risks, including those resulting from key trends.	✕	✕	✕	✕
• Management's plans including critical success factors.	✕	✕	✕	✕
• Comparisons of actual business performance to previously disclosed opportunities, risks and management's plans.	✕	✕	✕	✕
• ***3. Information about management and shareholders***				
• Directors, management, major shareholders, transaction, and relationships among parties as well as their compensation.	Partial	Partial	Partial	Partial
• ***4. Background about the company***				
• Broad objectives and strategies.	Partial	Partial	Partial	Partial
• Scope and description of business and properties.	✓	✓	✓	✓
• Impact of industry structure on the company.	✓	✓	✓	✓

Key

- The ticks (✓) indicate that the companies reporting meets the requirements of the Business Reporting Model (professed by the Jenkins Committee).
- Partial indicated that some of the information is reported.
- The X's indicate that none of the information is reported.