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FINANCIAL DISCLOSURE IN NON FINANCIAL REPORTS

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Abstract: *Financial reporting and non financial reporting both have become order of the day. Financial reporting is compulsory for Public companies as per companies Act 2013. Non financial report i.e. sustainability reports can be published by using Global Reporting initiatives' (GRI) guidelines, Carbon disclosure Projects or Dow Jones Sustainability Index, etc. Non financial reporting is yet voluntary. In GRI based triple bottom line reporting there are three pillars i.e. profit - economic prosperity (report about financial aspect), people -social equity (report about social aspect) and planet - environmental stewardship (report about Pollution prevention and natural resource conservation). Now the question arises that companies are publishing financial report annually, then why financial report is published again in sustainability report prepared as per GRI guidelines. In this paper, the authors have focused on special attributes, uniqueness of the financial information disclosed in non financial reports. To understand nature & need of financial disclosure in the Sustainability Reporting i.e. (non financial reporting) apart from Regular Conventional Financial Reports*

Keywords: *Financial Reporting, non financial reporting, GRI G4 guidelines, stakeholders' inclusiveness.*

INTRODUCTION

The reporting of financial aspect in Financial Report and Non-financial Report is to be understood. Therefore first understand the purpose and nature of Financial Report and non-financial report.

❖ Financial Reporting

Finance is life blood for any organization. Without finance the existence of any business organization is not possible. For any business organization finance is provided directly by the shareholders, lenders, Banks and indirectly by the creditors. Therefore reporting about the financial information i.e. from where finance is raised, for what purpose it is used and what is the result i.e. profit earned or loss suffered, etc. become very essential . Financial Report i.e. financial statements report the financial changes at a particular time or during particular period of time. The basic purpose of financial statements is to communicate to external and internal parties' information about financial decisions that have been made in the organization.

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Thus financial report is a source of financial information of the business organization, needed by those who make economic decision about business organization. Financial Reports are prepared as per the guidelines provided in Accounting Standards given by Financial Accounting Standards Board.

❖ Non financial reporting

In the process of development, the world is facing various environmental issues such as global warming, climate change, ozone depletion, acid rains, etc, & various human rights issues such as child labor, discrimination, unfair working hours, forced labor, unequal job opportunities, etc.

Therefore the business organization should take efforts to maintain proper balance between uses of financial resources, environmental resources and human resources to achieve development which will be sustainable.

Business provides information, how it has maintained a proper balance between environmental resources(Planet), human Resources(People) and Financial Resources (Profit), through non financial reports or sustainability reports which are prepared by using guidelines given either by Global Reporting Initiative's guidelines (GRI guidelines) or Carbon disclosure Projects or Dow Jones Sustainability Index, etc.

The researcher had studied GRI guidelines, its contents and indicators to present balanced performance of the organization.

❖ GRI Guidelines

Global Reporting Initiative (GRI) was founded in the US in 1997 by CERES (a united States non-Profit organization) and the United Nations Environment Program (UNEP) and originally based in Boston, Massachusetts. In 2000 first guideline called G1 is published and latter on in 2002 G2, in 2006 G3, in 2011 G 3.1 and 2011 G4 versions of guidelines are published. G4 is latest and currently used version of GRI guidelines.

For the balanced presentation of the organisation's performance as per GRI G4 guidelines in sustainability report, the content of the report must be finalised by applying reporting guidance. It includes the principles to be followed for deciding content to be disclosed, i.e. materiality, stakeholders' inclusiveness, sustainability context and completeness. Out of these four principal's sustainability context and stakeholders' inclusiveness are related with financial disclosure in GRI reporting

Sustainability context – the content of the report of the organisations performance should be in the context of sustainability. The organisation should disclose and report, how the organisation contributes currently and in future to improve economic, environmental and social performance of the organisation.

Stakeholders inclusiveness - the organisation should identify their stakeholders and should explain in the report how they have responded to the reasonable interest and expectations of the stakeholders.

❖ Stakeholders

Stakeholders are defined broadly as those groups or individuals

- That can reasonably be expected to be significantly affected by the organization's activities, product and or services and OR
- Whose actions are reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives.

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- This also include entities or individuals whose rights under the law or international conventions provide them with claims backed by law.

Any business can have number of stakeholders like investors, employees, customers, suppliers, local community, competitors, media & academics, trade associations, labour unions, NGOs, government, etc.

Any business or industry has to undertake various projects for expansion and business continuity. These projects will always affect one or many stakeholders in different ways and in different proportions. The business should take proper care of the stakeholders for long term success and for that purpose business should identify and prioritize the stakeholders and include them in the process of development.

❖ Stakeholders' inclusiveness

Stakeholders are inseparable part of any business. The stakeholders' inclusiveness is expected at two levels. One in the process of development and second its disclosure in the sustainability Reports.

The business can flourish with the development of the stakeholders. The company should take efforts for the development of stakeholders. Stakeholders' should be included in the progress of the company. The financial upliftment of stakeholders will ultimately result into strong financial position and profit to the company. And the company should also disclose their efforts to the stakeholders through Sustainability Reports

The sustainability report should respond to the reasonable expectations and interest of the stakeholders. In deciding the content of the report, the contents giving clarity about the functions of the report should also be considered by the company.

The financial aspect in sustainability reports is decided and disclosed on the basis of principles of sustainability context and stakeholders' inclusiveness

❖ Financial Aspect in Sustainability Report

The financial aspect related with the stakeholders are disclosed in the economic aspect of non financial report i.e. sustainability report. The disclosure in this economic aspect of sustainability report is different from financial report published in financial statements of the company.

Economic dimension of sustainability Reports: The economic dimension of sustainability is important. It considers the impact of the organisations activity on the economic conditions of the stakeholders' of the organisations and on the economic system at local, national and global levels.

In financial aspect of the sustainability reporting the companies provides information about their contribution in the flow of fund or capital or money among different stakeholders and on the society as a whole. Importance of financial aspect for better environmental & social sustainability is stressed upon in this report.

Financial soundness of the organisation is very essential for the very existence e of any organisation. Therefore companies have to focus on profitability and turnover. But companies should not become financially strong at the cost of other stakeholders. The companies should simultaneously contribute towards financial inclusion of the stakeholders. Therefore the economic aspect in the sustainability reporting is important.

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The financial strength of stakeholders will ultimately result into strong financial position and profit to the company. And the company should also disclose their efforts to the stakeholders through Sustainability Reports as one aspect of triple bottom line reporting.

- **Indicators of financial performance from sustainability point of view in sustainability report**

In sustainability reports the companies should report about the economic performance of the organisation, market presence and indirect economic impacts of the organisation. The economic aspect of the sustainability report includes disclosure of following 9 areas or indicators

GRI G4 Economic Indicator 1: Direct economic value generated and distributed,

GRI G4 Economic Indicator 2: Financial implications and other risks and opportunities for the organization's activities due to climate change.

GRI G4 Economic Indicator 3: Coverage of the organizations defined benefit plan obligations

GRI G4 Economic Indicator 4: Significant financial assistance received from government

GRI G4 Economic Indicator 5: Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation

GRI G4 Economic Indicator 6: Proportion of senior Management hired from the Local community at significant Locations of operations

GRI G4 Economic Indicator 7: Development and impact of infrastructure investments and services supported

GRI G4 Economic Indicator 8: Significant indirect economic impact, including the extent of impacts

GRI G4 Economic Indicator 9: Proportion of spending on local suppliers at significant location of operation

Each indicator is explained here from following view points.

1. Indicator heading
2. Information to be disclosed in the sustainability report
3. Indicators relation with stakeholders' inclusiveness / usefulness to stakeholders
4. Position in financial report
5. Example from sustainability Report.

- **Economic performance**

The base for the presentation of information about the economic performance of the organisation is audited financial statement of the company.

- **GRI G4 Economic Indicator 1: Direct economic value generated and distributed,**

Direct economic value Generated - The organisation is asked to report about the revenue generated from net sales, from financial investments and from sale of tangible and intangible assets

Economic value Distributed –

operating cost, Employee wages and benefits – this should include employees salaries, amt paid to government institutions on behalf of employees, contribution to pension, insurance , private health of the employees, support provided such as interest free loans, transport assistance provided, educational grants given to employees. Thus all amounts spend for the employees are recorded here.

Payment to provide of capital - it includes returns given to equity and preference shareholders and loan provider.

Payment to government- amt of taxes and related penalties paid (and not deferred) is included here. For organisation operating in more than one country, the amt paid in each county has to be separately mentioned.

Community Investments – investment of funds for the beneficiaries outside the organisations has to be mentioned here. Contribution to charities, NGO's and research institutes, fund spent for community infrastructure and social programmes must be explained here. Any investment for business need should not be included here.

Thus the purpose of this financial disclosure is to clearly understand the contribution of the company for the stakeholders. To understand the profit earned by the business for shareholder s is not the purpose of this indicator. How the organisation has created wealth for the stakeholders and monetary value added by the company to local economies is expected to be disclosed in this indicator.

- All this information is not available under one head in financial statement. But some of the information is available at different places in financial report.

Eg. **. ITC Sustainability Report 2016**

Direct Economic Impact

₹ Crores

Key Economic Indicators*	2011-12	2012-13	2013-14	2014-15	2015-16	CAGR
Gross Revenue	34872	41810	46713	49965	51582	10%
Net Revenue	24798	29606	32883	36083	36475	10%
Exports	2315	3474	4046	4511	3279	9%
Contribution to Government/Exchequer	18006	22343	25669	27546	30750	14%
Cost of Bought out Goods and Services	14255	17031	18391	19764	18955	7%
Employee Benefits Expense	1258	1387	1608	1780	1884	11%
Payments to Providers of Capital	5669	6800	7977	8645	8501	11%
- Interest and Dividend	3596	4235	4775	5067	6889	
- Retained Profits	2073	2565	3202	3578	1612	

** Detailed Financial Performance available at www.itcportal.com*

The above example illustrates how the specific financial information related to sustainability is given in a consolidated manner in GRI report. This facilitates easy understanding for common stake holders.

- **GRI G4 Economic Indicator 2: Financial implications and other risks and opportunities for the organization's activities due to climate change.**

The world is facing the problem of climate change. Business organisation should also look into it and estimate the risk the business may have to suffer and face and be ready to mitigate it. The government may regulate activities that contribute to climate change and businesses may have to face regulatory risks and opportunities affecting financial position and competitiveness of the business. Therefore this indicator expects organisation to report risks and opportunities posed by climate change by explaining description of risk or opportunity and classification like physical or regulatory or other type, etc.; its impact and financial implications, methods adopted for managing risk or opportunity and its cost.

Thus this indicator tries to make companies ready to face risk and get benefits of opportunities which would be available due to climate change. Business would be ready for unforeseen events in the future.

Example of Risk due to climate change: Sudden cyclones, heavy rains, droughts, climate variations affecting crop productivity, etc will have adverse effects on business and its supply chain.

Example of benefit from climate change: New business opportunities in meteorological research, agricultural research, insurance, emergency management, etc.

- This matter related with financial aspect of the business but not dealt in financial report.

Eg. ITC sustainability Report 2016

Risks and Opportunities: Sustainability Challenges

Sustainability Risk Portfolio

As a diversified enterprise, ITC continues to focus on a system-based approach to business risk management. The Corporate Risk Management Cell, through focused interactions with Businesses, facilitates the identification and prioritisation of strategic and operational risks, development of appropriate mitigation strategies and conducts periodic reviews of the progress on the management of identified risks. The annual planning exercise requires all Businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountability. The senior management of the Company also periodically review the risk management framework to keep it contemporary and relevant so as to effectively address the emerging challenges in a dynamic business environment.

The above example illustrates how the specific information about financial implications, risk and opportunities business have to take care due to climate change and how they have dealt with this, is given in GRI report. This facilitates easy understanding about companies efforts to manage climate change for common stake holders.

- **GRI G4 Economic Indicator 3: Coverage of the organization's defined benefit plan obligations**

The organisation has to meet the obligation of defined benefit plan either from general sources or they have to create separate fund to pay these liabilities. Whatever may be the case, the organisation has to give details like estimated value of those liabilities, assets if any have been set aside to meet the liability and if fund set up to pay the liabilities is not fully covered, explain the strategy to be followed by employer to pay the amount, percentage of salary contributed by employee or employer, etc.

The long term economic well-being of employees can be achieved when organisations provide for retirement plan for its employees. Properly funded pension plan can prove to be helpful to attract and maintain a stable workforce.

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Thus this indicator will disclose the organisation's preparedness to meet liability towards employees and will indicate that the provisions for employee benefits are made and assurance is given by the employer for payment of obligations towards employees. This is useful for retaining the talent.

- Even though the conventional financial statements do mention some provisions for such requirements, mention in the non financial disclosures about this reassures the relevant stakeholders.

Eg. ITC sustainability report 2016

The employees are also entitled to retirement benefit schemes which include employee pension, provident fund and gratuity. All statutory payments, as applicable, e.g., Provident Fund and Family Pension contributions, are deposited with the Government in a timely manner.

The pension plans and other applicable employee benefits obligations are determined and funded in accordance with independent actuarial valuation. The assets of these trust funds are managed in accordance with the prescribed statutory pattern. The assets of the trust funds are well diversified and investments are made with the objective of protecting capital and optimising returns within acceptable risk parameters. The funds are consistently sustained to meet requisite superannuation commitments.

The above example illustrates how the organization has managed its benefit plan obligations, disclosed in GRI report.

➢ **GRI G4 Economic Indicator 4: Significant financial assistance received from government**

The organisation has to give details of monetary value of assistance provided by government. The benefit received in the form of tax relief and tax credits, subsidies, investment grants received, grants received for research and development and other grants received from government. Awards, Royalty holidays, financial incentives received from government, financial assistance from Export Credit Agencies and other financial benefits received or receivable from any government for any operation.

This indicator will help reader to understand government's contribution to the organisation, related taxes paid by the organisation and any likely changes in the business profitability due the discontinuation of Govt assistance. This can help the stake holder to take sound and informed investment decisions.

- This information is not clearly visible in financial report.

Eg. ITC Sustainability Report 2016

Financial Assistance from Government: The Company had availed the incentives offered by the States of Andhra Pradesh and Tamil Nadu, by way of deferment of Sales Tax, which are repayable over a period ranging from 10 to 14 years.

The above example illustrates how the information related to financial assistance recd from govt is given in GRI report.

- **GRI G4 Economic Indicator 5: Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation**.

As maximum workforce is compensated based on minimum wage rules, this indicator expect to report about ratio of entry level wages to the minimum wages at significant locations of operations. This information should be disclosed gender wise.

Human resource is most important resource for any business and investment in economic wellbeing of the employees is essential for organisation. By paying wages above minimum wages company can build community relation, employee loyalty and strengthen the social bond. This can also give competitive advantage to the Company. Through this indicator the company can disclose transparently its approach towards the employees and create goodwill in society. Thus company can demonstrate its contribution to the economic well-being of employees.

- This information is not available in the financial report.

Eg. 3M Sustainability Report 2016

3M sets and administers compensation based on external market competitiveness without regard to gender

Tata Motors Sustainability Report 2015

We abide by all national regulations of wage payments and pay equal to or above minimum wage requirements at all our plants. The entry level wage for males and females is equal

The above example illustrates policy of the company about standard entry level wages

- **GRI G4 Economic Indicator 6 : Proportion of senior Management hired from the Local community at significant Locations of operations**

Local community is the key stakeholder of any business organisation human resource, consent / social license to operate, local services like waste disposal administrative services housekeeping services securities, local community support become essential.

therefore this indicator instruct to disclose the percentage of senior management at significant locations hired from local community with the details of definition of local community, senior management and significant locations of operation.

The involvement of local persons in the decision making process will lead to the decisions favourable and beneficial to local community also. Inclusion of local community member can enhance the human capital and economic benefit to local community and at the same time it will be helpful to understand local needs, local work culture, political situation etc. The decisions taken with these considerations will be more correct and will be helpful for long term sustainability.

- This information is not available in financial statement.

Eg. TCS sustainability Report 2016

TCS is a multinational company with operations in 55 countries. Local recruitment is an integral part of our staffing strategy in each of these countries, spanning every level in the local organization. In FY 2016, TCS recruited 16,173 employees outside India. At the TCS group level, the percentage of senior-level employees among local recruits was 8% (compared with 5% for FY15).

The above example illustrates the company's initiatives for promoting local people at senior level depending upon their capabilities, given in GRI report. This facilitates easy understanding about company's efforts to promote local economy.

- **GRI G4 Economic Indicator 7: Development and impact of infrastructure investments and services supported**

Infrastructure investment may boost the economy of the area. The investment may be transport link, utilities, community social facilities, sports centres or health and welfare centres. These type of infrastructure will help to improve the economic and social environment of the community. Thus with disclosure of this indicator organisation can communicate their capital contribution to the economy.

- Although such information about spending for infrastructure is available in the normal financial statements, impact of investment is not presented in financial report. Thus subtle sustainability aspects are brought out in the GRI based sustainability reports.

Eg. ***L&T Sustainability Report 2016***

Social Intervention Propellers

Corporate Social Responsibility (CSR Team)
This dedicated team, driving social interventions across the L&T Group, deploys the most effective levers of change to bring about long-term solutions for critical social problems.

Ladies Clubs
A unique intervention, the Ladies Clubs comprise employee's wives who initiate and implement developmental programmes in the communities near our campuses.

Larsen & Toubro Public Charitable Trust
Complementing the CSR team's activities, the Larsen & Toubro Public Charitable Trust undertakes a wide spectrum of community development work.

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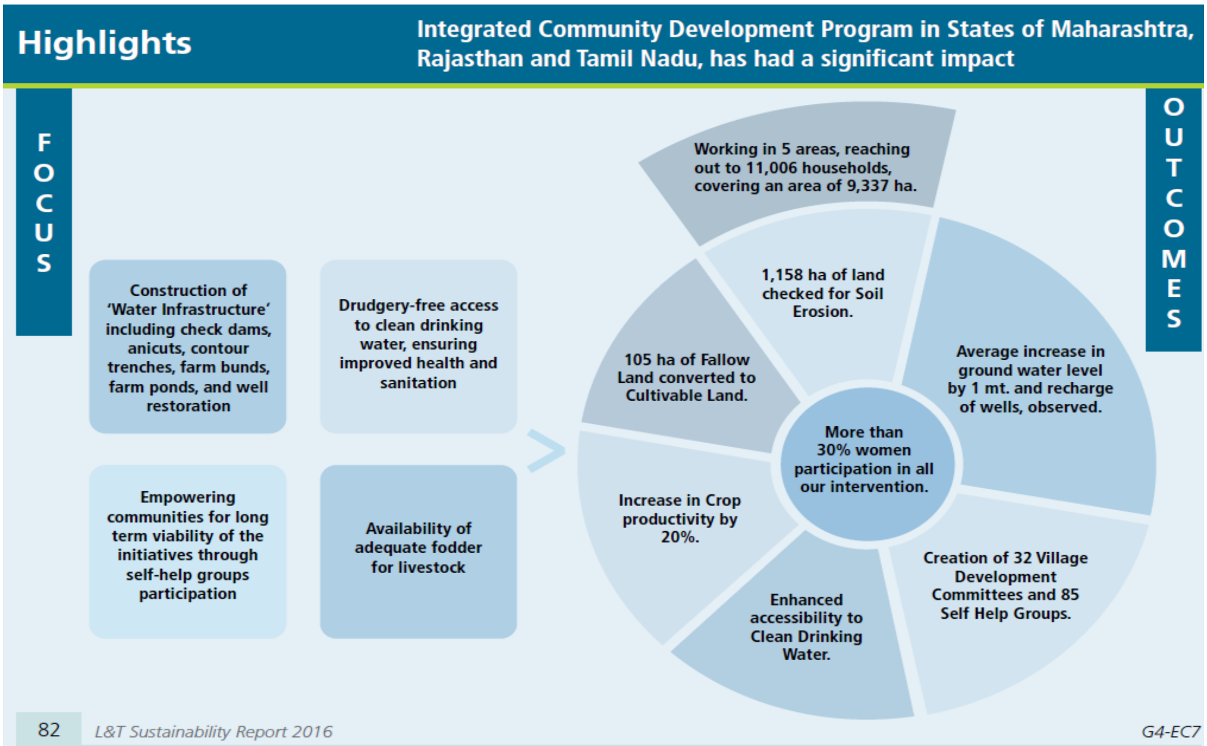


The above example illustrates efforts taken by the company for development and investments in infrastructure & services and its impact on society, given in GRI report. This facilitates easy understanding about company's efforts for development of infrastructure for common stake holders.

- **GRI G4 Economic Indicator 8 Significant indirect economic impact, including the extent of impacts**

In this the company is expected to report the significant positive and negative impact the company has on economy like economic development in High poverty areas (through total number of dependents supported through income of one job), economic impact of improving or deteriorating social or environmental conditions, economic impact of change in location of operation, economic impact of use of product and services, availability of products and services for those on low incomes, jobs supported by the company in supply chain or distribution chain (assessing the impact of growth or contraction of the organisation on its suppliers), etc.

Direct economic impact of the company's activities is immediate consequences of monetary flows to stakeholders but indirect economic impact includes additional impacts generated due to activities of the company as money circulates through the economy. Indirect impacts are important as it will display company's contribution in socio-economic change. To assess indirect economic impact is also beneficial to the organisation as it will highlight the risk or opportunity to the company.

- In financial reporting this factor is missing.

E.g. ITC Sustainability Report 2016

The Farm and Social Forestry programmes have greened nearly 225,293 hectares of area that generated over 101 million person-days of employment

L&T Sustainability Report 2016

Transforming Lives – 1Step at a Time

L&T Infotech's aptly-named 1Step CSR programme invests efforts in community support and skill development. A major initiative of 1Step this year was organising two free skill development courses in association with the Chamber of Small Industry Association (COSIA) for underprivileged educated youth viz. Computer Hardware & Networking and Accounts Assistance & Tally Operating.

Successful trainees obtained jobs in the COSIA-developed network of small scale industries. L&T Infotech contributed towards setting up a Training Lab with the relevant software for both courses, and our employee volunteers conducted a session on interview preparation.

84 students underwent the course and many found work afterwards.

In rural Satara, most of the women from the lower socio-economic strata did not work due to illiteracy, lack of opportunity, family restrictions and social conditions. Realising that the women were skillful in papad-making at home, 1Step invested in setting up machinery and a dryer for commercial papad production. Now, the output is up by 50%, and consistent quality is ensured.

The women were trained to sell papads, and health camps and awareness programmes were conducted to impart knowledge on healthy food and living habits. All our efforts have led to a sustained source of income for the women.

The project has transformed the lives of 41 women and 212 direct beneficiaries of the production unit and allied services.

G4-EC8 *L&T Sustainability Report 2016* 87

The above example illustrates significant indirect economic impact, including the extent of impacts of activities of the company, given in GRI report. This facilitates easy understanding about company's efforts for Display Company's contribution in socio-economic change.

- **GRI G4 Economic Indicator 9 : Proportion of spending on local suppliers at significant location of operation**

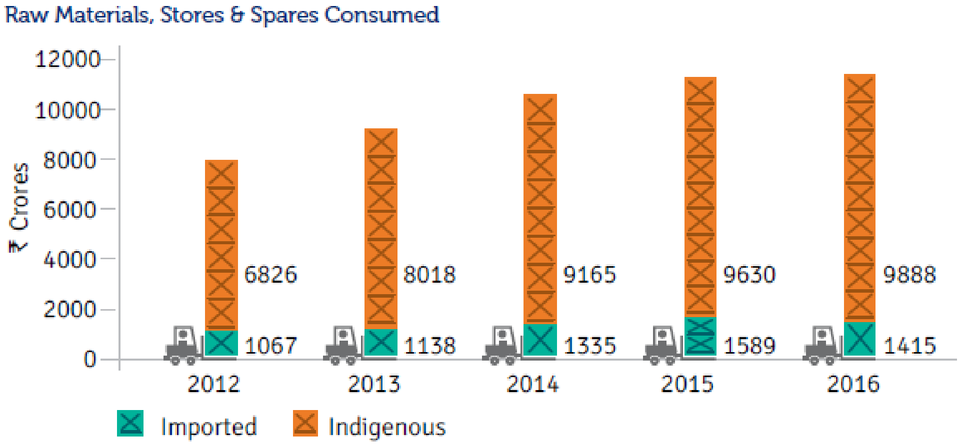
Here the organisation should disclose the percentage of products and services purchased locally. Apart from making job opportunities available to local people, the company can support local organisations in the supply chain. This will definitely result in positive socio-economic impact, because of which company can gain or retain social licence to operate and assured supply. The company can contribute to stabilize local economy maintain community relations. These benefits to local community and even to company is most important for long lasting existence and development.

- This information is not available in financial reporting.

Eg. ITC Sustainability Report 2016

Local Based Suppliers

The Hon'ble Prime Minister's vision to build a dynamic, progressive and self-reliant India through impactful programmes such as Make in India, Skill India, Digital India and



The above example illustrates proportion of spending of the company on local suppliers, given in GRI report. This facilitates easy understanding about company's contribution in socio-economic change.

CONCLUSION:

Reporting about financial aspect in non financial reporting gives different perspective of company's efforts for socio economic development of stakeholders. Reporting about financial aspect in voluntary non financial reporting gives valuable input to stakeholders, apart from input available in compulsory Financial Reports published every year. This helps them to take informed decisions for their investments. To potential employees, it gives an assurance of business ethics and governance practices. To suppliers, it gives assurance for business continuity. To local community it gives hopes and aspirations for their social inclusion. Thus it serves a greater purpose for business continuity and sustainability. Through this economic indicators the company reports about the role played by the company for economic development of stakeholders, directly or indirectly. It gives the true picture of the business transparency and accountability to its stakeholders, as stakeholders' inclusiveness is one of the principles to be followed in the process of GRI reporting.

Thus the reporting about financial aspect in Non-financial report is very useful and needed for the stakeholders to understand companies efforts for socio-economic development.

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