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Full Length Research paper

Relevance of financial reporting systems: Single-bottom line or triple-bottom line

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Traditional financial reporting systems have geared towards the single-bottom line reporting in the form of profitability. However, there are arguments that corporate reporting systems should not just dwell on a single-bottom line but should be reported upon on three elements comprising economic/financial, social and environmental elements that constitute the triple-bottom line. This study aimed at empirically researching on what current practices corporate business executives and financial managers deploy in their corporate financial reporting systems. The focus of the study was on the assessment of the relevance of either the single-bottom line or triple-bottom line reporting systems within an African framework. Data was collected using the structured questionnaire that was administered across different countries from Southern Africa. The study results reveal that a sustainability (triple-bottom line) reporting system has been embraced by many organisations in Africa. The study findings suggest that there is a need to review and redesign accounting and financial principles and policies so that they are aligned with the emerging triple-bottom line reporting system requirements. The study findings will be of much relevance to academics, researchers and industry practitioners.

Key words: Africa, financial reporting, Malawi, profitability, stakeholders, sustainability, triple-bottom line.

INTRODUCTION

Traditionally, corporate performance has been assessed on the basis of financial reporting systems that are based on the maxim of “maximisation of shareholders’ wealth” as the ultimate goal of corporations (McNamee, 1993). Corporate performance has been assessed mainly in terms of the degree of an entity’s achievement of its overall financial goals and the quality of its financial performance relative to the needs of different stakeholders. Thus, the overall financial reporting systems have geared towards the single-bottom line reporting in the form of profitability. It is the profitability that determines how much shareholders take home in the form of dividends.

There are also arguments that the corporate reporting systems should not just dwell on a single-bottom line that gives undue preferences to shareholders and sidelines other equally critical stakeholders. Under this paradigm, corporate performance is expected to be reported based on all three elements (economic, social and environmental elements) that constitute the premise for the triple-bottom line reporting system (Institute of Directors in Southern Africa, 2009).

Research problem and objectives

There has been much debate as to how corporations should report their performance through financial reporting systems. On one hand, in some regimes especially the Western society, corporations are encouraged to focus their corporate performance reporting on the “maximisation of shareholders” through targeting the single-bottom line (profitability) reporting system (Kocakular and Austill, 2007; MacNamee, 1993). On the other hand, there have also been arguments regarding corporate sustainability where business executives have a duty to sustain their operations and that focus has to be given to the social and environmental elements, apart

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from their economic objectives (triple-bottom line reporting systems).

Therefore, this study aimed at empirically researching on what current attitudes and practices that contemporary corporate managers deploy in reporting performance of their operations. The focus of the study is on the assessment of the relevance on the single-bottom line or triple-bottom line reporting systems within an African framework. The research findings have been analysed in a scientific manner by using the Statistical Package for Social Sciences (SPSS) version 16.0.

Subsequently, this paper discusses literature analysis on financial reporting systems, highlights research design and methodologies that have been employed in this study, details analysis and discussion of research findings and finally conclude and make relevant recommendations.

TRADITIONAL FINANCIAL REPORTING SYSTEMS (SINGLE-BOTTOM LINE)

The fundamentals of organizational systems have changed considerably in that they are more complex and have become multidimensional. Practically, traditional financial reporting systems fail to reflect multiple dimensions of corporate performance by concentrating almost exclusively on financial measures and profitability (Kocakular and Austill, 2007; Laitinen, 2004; Rich, 2007; Thomas, 2007).

Scholars and business practitioners have been challenged in coming up with the best and most effective way of measuring corporate performance. As Tinker (1985) observes, financial measures and their reporting systems should provide a means of resolving social conflict, a device for appraising the terms of exchange between social constituencies, and an institutional mechanism for arbitrating, evaluating, and adjusting social choices. Therefore, to understand the character of social disciplines such as financial accounting, the financial measures and reporting systems should be contextualised in the social circumstances that gave rise to them (Gouws, 1996). What is important in this argument is how a society is organised to produce what is necessary for its stakeholders and how the wealth that is created is shared or distributed to the participants in that value creation process.

Apart from information on an organisation's financial performance, which tends to satisfy shareholders only, there are multiple performance measures that have to be taken on board. Organisations have a duty to satisfy stakeholders, other than just shareholders, such as customers, employees, creditors, government, the community and the natural environment, to ensure the organisations' long-term sustainability. For instance, when employee, customer and community variables are incorporated, allowing corporate performance to be viewed more holistically, many financial measures tend to become less important (Kocakular and Austill, 2007).

In addition, Gouws (1996) observes that accounting practices are based on a Western orientation that is generally capitalist and cannot be fully understood within an African framework. A good financial reporting system should take cognisance of the interconnectedness of functioning constituents and should note that financial measures are supposed to assess and reflect the interdependence of different stakeholders to create a working entity where each stakeholder can get a sense of participation because each is aware of the social goals and objectives of the organisation, as well as of other stakeholders and their goals and objectives.

Modern organisations manage by dealing with increasing levels of business complexity, mobility and uncertainty about the future endeavours. Due to the high level of volatility, modern organisations are operating amidst a great deal of risk and uncertainty (Busi and Bititci, 2006; Neely and Najjar, 2006; Voelpel et al., 2006). For example, the ability to manage knowledge-based intellectual capital is critical in modern organisational settings (Drucker, 1999; Kamath, 2008). Apart from managing intellectual capital, socio-cultural aspects are also vital in modern corporate settings. Such an analysis reveals the significance of having a multidimensional approach within the financial reporting systems rather than just dwelling on a single-bottom line reporting system.

Furthermore, studies show that there is no or only a small but positive correlation between corporate social performance and corporate financial performance (Aras et al., 2010; Peloza, 2009). This suggests that there is also little guidance on how managers should measure the financial impact of their corporate social responsibility strategies. Commonly used performance measures such as share price or any other financial measures such as return on capital employed (ROCE) are affected by many variables within and outside an organisation. Thus, traditional financial measures and the accompanying reporting systems would not provide the necessary level of detail for managers to establish an optimal level of corporate social responsibility investment.

SUSTAINABILITY REPORTING SYSTEMS (TRIPLE-BOTTOM LINE)

Quite recently, modern organisations have started embracing a stakeholder-centred approach towards corporate governance, where stakeholder value, rather than just shareholder value, is supposed to be maximised (Du Plessis and Prinsloo, 2010; Epstein, 2007; Janson, 2005). Senior executives have begun to realise the importance of sustainability variables, thus they have started integrating sustainability variables into their management decisions for them to better understand

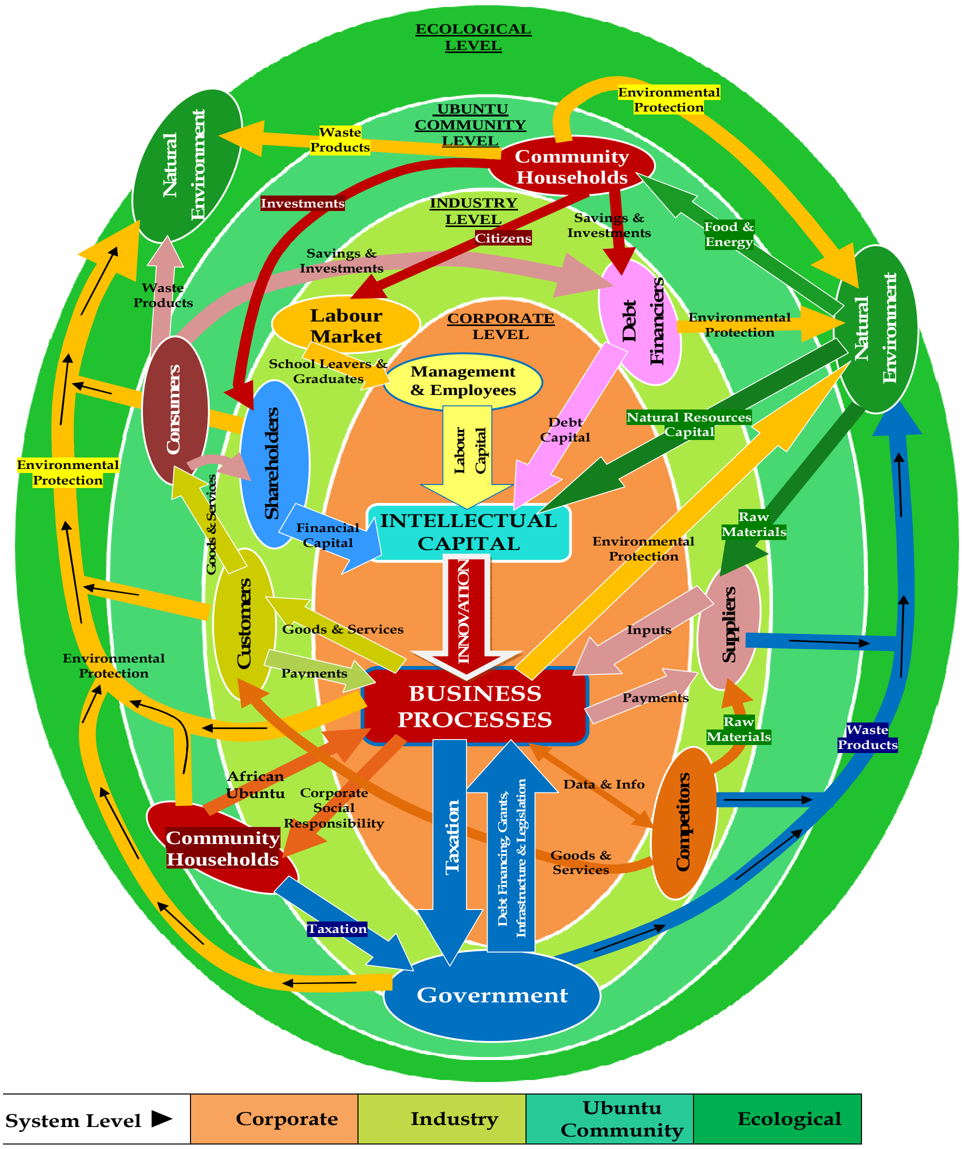

Figure 1. A conceptual framework of stakeholder relationships and networks. Source: Khomba (2011).

issues such as corporate social responsibility and corporate performance.

In pursuit of financial achievements, it is regarded as a noble course of action for an organisation to achieve both environmental and societal performance targets apart from the financial or economic targets. The reporting systems must reflect these three elements comprising economic, social and environmental collectively referred to as the triple-bottom line reporting system (Institute of Directors in Southern Africa, 2009). Thus, corporate managers have to determine corporate performance measures effectively; furthermore, they must always understand the causal actions that create organisational capabilities, and the impact of those actions on operational performance, customer value, sustainability performance and financial performance (Epstein and Wisner, 2001). The financial bottom line of internal operations must be linked with social and environmental sustainability measures and must be reflected in corporate reports.

On corporate sustainability paradigm and for better understanding of the same, Khomba (2011) developed a conceptual framework of stakeholder relationships and networks as depicted in Figure 1. The conceptual framework recognises that every business engages in a series of complex activities involving different constituents that are interlinked and work together for organisational success. Thus, the conceptual framework recognises the interconnectedness and relationships of corporate activities with those of other stakeholders, and also of the relationships and interdependence of the stakeholders themselves.

In summary, the conceptual framework depicts four system layers representing different levels of stakeholder involvement in organisational activities. The first is the corporate level, representing internal activities, including those of management and employees. The second is the industry level, representing the boundary within which similar businesses run by different companies operate. At the industry level, there are customers, shareholders, government, suppliers, regulatory bodies and competitors. The third level of the conceptual framework of stakeholder relationships and networks is the community, which represents a larger grouping of all industries and where different final consumers reside. The fourth is the ecological (natural environmental) level for the largest ecosystems, where natural resources that are used as inputs during production are sourced from.

On a daily basis, and in a very complex manner, different stakeholders interact with an organisation during the value/wealth creation processes. Based on this organisational premise, it is expected that business executives and financial managers should report corporate performance to all stakeholders that have diversified interests in and contribute substantially towards the day-to-day operations of an organisation.

RESEARCH METHODOLOGY

Under this study, a quantitative research method has been used to analyse the data statistically and objectively. The researchers followed basic procedures that are employed when developing the Likert scale questionnaire to measure different perceptions of managers. The main steps that were followed when formulating the questionnaire includes the identification and generation of perspectives surrounding the relevance of financial reporting systems, careful review of literature on the topical area and a review of similar questionnaires that were used in prior surveys as recommended by Saunders et al. (2003). All these culminated in the formulation of the attitudinal statements that represented main variables of the study.

Data collection

During this study, empirical data were collected by means of a survey. The results were used for an empirical analysis of the research findings. The questionnaire focused on variables that related to financial measures and financial reporting systems.

Questionnaire structure (Likert scale style)

A five-point scale was used to assess validity as to the extent of agreement on each statement. In Likert scales, it is assumed that all participants will perceive ‘Strongly Agree’ as expressing greatest favour or agreement towards the attitude statements than ‘Somehow Agree’ and ‘Strongly Disagree’ (Babbie and Mouton, 2007; Saunders et al., 2003; Welman et al., 2005). The same order of response categories was maintained so as not to confuse respondents, as recommended by Dillman (2000). Managers were asked to rate their responses on the continuum scale that they were given. The questionnaire also assisted in the formulation of an objective and scientific report of the study findings.

Pretesting and questionnaire administration

After the questionnaire had been designed, it was pre-tested by means of several personal interviews with senior managers to ascertain the validity of the content of measures. After the questionnaire had been validated, the pre-testing interviews allowed for the clarification and redefinition of survey items and for the rectification of any potential deficiencies where necessary. The structured questionnaire was administered in both hard copy and in an electronic format. Electronic questionnaires were e-mailed to potential respondents and the hard copy versions were posted to the respondents and then these were followed up for feedback. Reminder telephone calls were made and e-mails were sent after every two weeks for the three months of the questionnaire survey.

Sampling

Large corporations were randomly selected from those that are registered with the Registrar of Companies or Malawi Stock Exchange in Malawi and those companies that are registered with the Johannesburg Stock Exchange or the Johannesburg Chamber of Commerce in South Africa. Though not in the majority, some companies from other countries were reached through their diplomatic missions that are resident in either in Malawi or South Africa. The natural choice of Malawi and South Africa was necessitated by the fact that the two researchers on this study, Dr JK Khomba and Prof FNS Vermaak, come from and are resident in these two respective countries.

During data collection, a total of 620 questionnaires were dispatched to various organisations from the commercial sector in Malawi, South Africa and other African countries. Out of the 620 questionnaires, 387 responded to the questionnaire giving a final response rate of 62.4%. The sampling statistics show that the Kaiser-Meyer-Oklin measure of sampling adequacy is 0.876 which is a ‘great’ value for verification of sampling adequacy for the analysis (Field, 2009). Thus, the above analysis confirms the adequacy of the sample for conclusive results (according to Chenhall, 2005; Field, 2009; Hanafizadeh and Sorousha, 2008). Demographics of participating organisations (total = 387) indicate that 168 respondents (43.4%) were from South Africa, 187 respondents (48.3%) were from Malawi, and 32 (8.3%) respondents were from other African countries that include Zimbabwe, Mozambique, Lesotho, Botswana and Zambia. As reflected in the statistics, the majority (94.7%) of respondents came from Malawi and South Africa combined with 5.3% from other African countries.

Data reliability and validity

Data reliability as a measure of the internal consistency of the data constructs was determined by means of the Cronbach alpha (α), α coefficient above 0.7 is considered reliable (Bryman and Bell, 2007; Costello and Osborne 2005; Field, 2009). In this study, the overall α coefficient was 0.873, which suggests that the internal consistency of the data constructs was excellent.

In terms of data validity, researchers were careful in sampling the targeted population. Though randomly done, the questionnaire was targeted at large corporations by focusing on business executives at senior management (60.7% of respondents) and middle management (37.0% of respondents), and other business executives including the board members (2.3%). Such business executives include the chief executive officers (CEOs), chief financial officers (CFOs), financial managers, management accountants, and company secretaries who are conversant with issues raised under the study; hence maintaining homogeneity of the sample. Furthermore, a total of 71.3% of the respondents have industrial work experience of more than six years.

Though participating organisations came from different countries across Southern Africa as highlighted earlier, study statistics indicate that the Bartlett's test of sphericity χ^2 (64) = 5678.74, $p < 0.001$ was significant for all factors indicating that we can be confident that the sample was homogenous and that multicolinearity does not exist under these survey data according to Field (2009). Thus, the Bartlett's test of sphericity χ^2 (64) = 5678.74, $p < 0.001$ signifies that the study results are valid for any conclusive analysis and discussions.

RESULTS ANALYSIS AND DISCUSSION

Ratings on each statement were done through univariate analysis by using individual rating statistics and frequency tables. Overall, the analysis shows that there were varied responses from participants regarding the extent of their agreement on each of the questionnaire statements. This part of the paper reports on the study results and analysis of ratings on the ten questionnaire statements.

Statement 1: We recognise the interdependence of relationships of our stakeholders

There seems to be a general understanding that an organisation can succeed only if all stakeholders are recognised as members of and contributors towards corporate performance. All respondents agreed with the preceding statement (45.2% "Agree", 46.5% "Strongly Agree" and 8.3% "Somehow Agree"). Generally, the analysis thus indicates that the majority of contemporary managers take cognisance of the stakeholder-centred approach in their operations. The preceding analysis confirms the provisions of the need for organisations to recognise interconnectedness and interdependence of all stakeholders within their operations that should be reflected through their corporate reporting systems.

Statement 2: Our primary goal of external reporting system is to contribute to an ongoing stakeholder dialogue

Apart from open communication and feedback systems, the study also aimed at assessing the extent of the external reporting systems that are intended to meet stakeholders' informational needs. The study results reveal that a majority of 78.1% of the respondents agreed (40.6% "Agree" and 37.5% "Strongly Disagree") that their external reporting systems are primarily meant to maintain stakeholder dialogue with respective corporations. Only 2.8% disagreed, whilst 19.1% "Somehow Agree" with the preceding statement. This analysis indicates that the majority of managers take cognisance of good stakeholder dialogue, which is achieved through external reporting systems.

Statement 3: Our financial reports are constructed towards meeting interests of our external stakeholders

A total of 74.5% of the respondents agreed that their financial reports are focused on meeting interests of their external stakeholders. The study results also show that 7.0% disagree and 18.6% "Somehow Agree" with the preceding statement. This analysis demonstrates that most organisations in Africa target their external stakeholders when producing financial reports. Thus, the research findings demonstrate that most corporations in Africa embrace a stakeholder-centred approach, confirming the inclusive nature of African management systems as is observed by Rossouw (2005) and the provisions of the King III Report (Institute of Directors in Southern Africa, 2009).

Statement 4: Our external financial reporting system takes into account our social obligations towards local communities

Although a majority (60.4%) agreed (32.0% "Agree" and 28.4% "Strongly Agree") that the eternal financial reporting systems incorporate social elements, 11.9% disagreed, and 27.6% were not in total agreement ("Somehow agree") with the statement. The analysis of the responses to this statement reveals that whilst some organisations have embraced social reporting systems, others have not. This trend suggests that the amount of emphasis given to corporate social responsibility issues is still in a transitional stage and that more has to be done to sensitise corporations, as corporate citizens, to their roles in respect of local communities within which their operations take place.

Further analysis indicates that measurement of the social impact of organisational activities is still elusive, in that many organisations are not knowledgeable on that area. Only 48.1% agreed that they are able to objectively measure the social impact of their operations on communities. The analysis demonstrates that many organisations experience problems in measuring the social impact of their activities. Such measurement problems could be a result of the complexity that is involved in such measurement systems, which are largely qualitative. The study revelation confirms earlier findings of Senge et al. (2007) and Vernon et al. (2003). The analysis also demonstrates that more has to be done to ensure that corporations are able to institute social measurement systems that are not provided in the contemporary financial accounting and corporate reporting systems despite the provisions that are set out in the King III Report about the inclusion of social reporting systems in corporate reports.

Statement 5: Our external financial reporting system takes into account our environmental obligations

The study results reveal that 50.9% of the respondents agreed that their financial reporting systems incorporate environmental issues as a corporate obligation. A total of 19.9% of the participants disagreed (17.3% "Disagree" and 2.6% "Strongly Disagree") with the statement, whilst 29.2% "Somehow agreed" with the preceding statement. As is the case with corporate social responsibility issues, this analysis indicates that most organisations do not fully incorporate environmental issues in their financial reporting systems. Further analysis indicates that many corporations are not able to objectively measure the impact of their operations on the natural environment. Only 41.4% agreed that they are able to objectively measure the impact of their operations on the natural environment.

The preceding analysis of study results demonstrate that despite the fact that some organisations have embraced environmental measurement systems, many corporations are still experiencing problems in measuring and reporting environmental impact of their activities; the finding confirms observations by Senge et al. (2007) and Vernon et al. (2003). This could be largely a result of the complexity that is involved in environmental measurement systems. Furthermore, the preceding analysis also indicates that there is a need to redesign current measurement and financial reporting systems so that corporations will be able to measure and report the vital environmental impact of their operations, and meet the requirement for environmental reporting systems as an aspect of good corporate governance as recommended by the King III Report (Institute of Directors in Southern Africa, 2009). Unfortunately, environmental measurement systems are not provided in the contemporary financial accounting and corporate reporting systems.

Statement 6: Our external financial reporting system integrates economic, social and environmental dimensions (triple-bottom line reporting system)

The study results indicate that 59.9% of the respondents think that their organisations adhere to the integration of all three elements (economic, social and natural environmental elements) in their external reporting systems. The results further reveal that 9.1% disagreed with the statement, while 31.0% "Somehow agreed".

The analysis demonstrates that most organisations have started implementing the triple-bottom line reporting system, as recommended by the King III Report (Institute of Directors in Southern Africa, 2009). Furthermore, the analysis indicates that sustainability issues are in a transitional stage, as some have not yet embraced the triple-bottom line reporting system in their financial reports.

Statement 7: Our financial statements are prepared based on the generally accepted accounting principles (GAAP)

The financial reporting systems that are targeted at different stakeholders are supposed to follow GAAP for objectivity and comparability purposes (Needles and Powers, 2010; Wold et al., 1974). The study results reveal that the vast majority (86.3%) agree that they follow GAAP when preparing their financial statements. However, 5.9% disagreed and 7.8% are not in full agreement ("Somehow Agree") with the statement, signifying that there are still some cases where GAAP may not be followed.

Overall, this analysis indicates that most organisations in Africa adhere to GAAP in preparing their financial reports for external consumption. The results confirm the objectivity of corporate financial reports, which can enhance decision-making by users of the financial statements regarding the performance of the organisations concerned.

Statement 8: Our financial statements are verified by the appointed external auditors for external reporting

The study results show that a total of 90.1% agree (27.9% "Agree" and 58.4% "Strongly agree") that their corporate financial statements are verified by the appointed external auditors for the purposes of external reporting systems. However, there are also some departures from the statement, as 5.5% disagreed and 4.4% "Somehow Agreed" with the statement. The analysis establishes that the majority of organisations in Africa let their financial statements be independently verified by external auditors, thereby enhancing credibility and reliability of such financial statements that are supposed to be used by different stakeholders during their decision-making processes.

Statement 9: Our organisation puts more emphasis on maximisation of shareholders' wealth than of other stakeholder's wealth

This statement of the questionnaire was aimed at assessing the application of the popular maxim of "shareholder wealth maximisation", that is the beginning and end of shareholder-centred management theories. The study findings reveal that only 45.5% agree (24.3% "Agree" and 21.2% "Strongly agree") that their organisations put more

Table 1. Summary of rating responeses on questionnaire statements.

Statement	Rating scale (%)					
	Strongly disagree	Disagree	Somehow agree	Agree	Strongly agree	Total
We recognise the interdependence of relationships of our stakeholders	0.0	0.0	8.3	45.2	46.5	100
Our primary goal of external reporting is to contribute to an ongoing stakeholder dialogue	0.0	2.8	19.1	40.6	37.5	100
Our financial reports are constructed towards meeting interests of our external stakeholders	0.3	6.7	18.6	38.8	35.7	100
Our external financial reporting system takes into account our social obligations towards local communities	0.3	11.6	27.6	32.0	28.4	100
Our external financial reporting system takes into account our environmental obligations	2.6	17.3	29.2	30.7	20.2	100
Our external financial reporting system integrates economic, social and environmental dimensions (triple-bottom line reporting system)	1.6	7.5	31.0	31.0	28.9	100
Our financial statements are prepared based on the generally accepted accounting principles (GAAP)	1.0	4.9	7.8	27.9	58.4	100
Our financial statements are verified by the appointed external auditors for external reporting	1.6	3.9	4.4	27.1	63.0	100
Our organisation puts more emphasis on maximisation of shareholders wealth than of other stakeholders wealth	7.5	20.4	26.6	24.3	21.2	100
We are open in disclosing wealth distribution to our stakeholders through financial reporting systems	2.1	1.0	16.0	46.0	34.9	100

N = 387

emphasis on the maximisation of shareholders' wealth than on other stakeholders' wealth. A total of 27.9% disagree, whilst 26.6% "Somehow agree" with the statement.

The analysis of the study findings indicates that there are some companies that are still inclined to focus on the maximisation of the shareholder value rather than look at value for other stakeholders too. However, other companies have embraced the stakeholder-centred approach within their visionary focus.

Statement 10: We are open in disclosing wealth distribution to our stakeholders through financial reporting systems

The statement was aimed at ascertaining whether or not organisations are open in distributing their wealth to different stakeholders through corporate reporting systems, as recommended by Szwajkowski (2000). A vast majority (80.9%) of respondents agree (46.0% "Agree" and 34.9% "Strongly agree") that they deploy open resource allocation disclosure. Only 3.1% disagreed, while 16.0% "Somehow agreed" with the preceding statement. This analysis demonstrates that most organisations prefer open disclosure of resource allocations, which would ultimately encourage participation by different stakeholders in the business activities. Thus, stakeholder knowledge and active participation would influence corporate sustainability in the long term.

Overall, the research findings as analysed provide insights regarding critical issues that govern the financial reporting systems in Africa. Statistical analysis of the ten statements on the structured questionnaire, as discussed thus far, is summarised in Table 1.

CONCLUSION AND RECOMMENDATIONS

Management issues that revolve around corporate performance, as they are reflected through financial reporting systems, are fundamental to all organisational stakeholders. Financial reporting systems are supposed to provide relevant information to different organisational stakeholders for their various decision-making processes. This paper has revealed the extent to which organisations in Africa deal with issues pertaining to financial reporting systems. Through this study, have embraced the sustainability (triple-bottom line) reporting systems where the economic/ financial, it has been established that most organisations in Africa social and environmental elements are reported upon. This is due to the fact that largely, organisations in Africa are premised on an inclusive stakeholder-centred approach of corporate governance rather than on the Western exclusive shareholder-centred approach of corporate governance. Also recently, there have been provisions of good corporate governance where companies, especially large ones, are obliged to report on all the three sustainability areas as is stipulated in King III Report (Institute of Directors in Southern Africa, 2009).

It has also been established that financial reporting systems on social and environmental elements are still elusive in that most organisations are not able to objectively measure and report upon them in their corporate reports. This challenge is experienced due to the fact that current financial accounting and auditing principles and practices are still geared towards meeting the needs of the primary owners of business, the shareholders. The current financial accounting and auditing reporting systems focus on the single-bottom line (profitability). Therefore, there is a need for the accounting and auditing professions to review their guidelines to reflect this new paradigm in order to successfully implement the triple-bottom line reporting system.

The study also has revealed that most companies are open in disclosing the way wealth is allocated to different contributors towards organisational wealth creation. This approach is in line with an observation by Tinker (1985) that financial accounting practice and reporting systems should be a means of resolving social conflict, a device for appraising the terms of exchange between social constituencies, and also an institutional mechanism for arbitrating, evaluating and adjusting social choices. This aspect demands a change in the current financial accounting and corporate reporting systems. As noted earlier, the current reporting systems, which focus on the single-bottom line (profitability), work better with Western shareholder-centred approaches rather than the sustainable stakeholder-centred approaches that organisations in Africa seem to embrace.

It is envisaged that the study findings will facilitate the review and redesign of financial accounting and auditing principles, policies and practices for better and successful implementation of the triple-bottom line reporting systems. The study findings will make significant contributions to the academics, researchers and industry practitioners, especially those from the African continent.

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