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FINANCIAL DISCLOSURE ANALYSIS OF INDIAN CORPORATE: A STUDY VIS-À-VIS 20 BSE COMPANIES

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ABSTRACT

Financial statements are assumed to be the most important measure of providing general information regarding operational results and financial position of business. Which do not reveal any significant conclusions such as efficiency of the management, strength and weakness of the firm, index of future progress etc. and merely contain financial data about business events? The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. Therefore it is important to identify that the financial disclosure done by top Indian companies are just for the purpose of providing information or they provides the real means of financial information. For this purpose 20 companies from top 30 companies included in BSE SENSEX were selected as a healthy sample. The data of disclosure were collected from their annual report and analyzed with the help of Mann-Whitney U test. The paper revealed that significant difference exists in the disclosure of Sun Pharma, ICICI Bank, Dabur Limited and Britainia Limited while in the other companies gap in disclosure were insignificant.

Keyword: financial statement, Financial Disclosure, Indian corporate, Indian companies

Introduction

Financial statements are only the means of providing general information regarding operational results and financial position of business. These statements merely contain financial data about business events which do not reveal any significant conclusions such as efficiency of the management, strength and weakness of the firm, index of future progress etc. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. The first task of financial analysis to determine the information contained in the financial statement. The second step is to arrange information in a way to highlights significant relationship. The final steps interpretation and drawing of inferences and conclusions. Thus financial analysis is the process of selection, reviewing and evaluation of the accounting information. Financial analysis is a multipurpose and multidimensional technique which involves a systematic and careful examination of information contained in financial statements for a certain period. The use of this technique is an art which requires pertinent knowledge experience and intuition for its development. That is why it has been said that the science of financial analysis is assuming an increasingly important role worth of ageing concern. It helps in drawing out the implications which are contained in the statement themselves.

The analysis of such statements provides valuable information. Analysis of financial statement is the systematic numerical calculation of the relationship between one fact with the other to measure the profitability, operational efficiency and the growth potential of the business. Thus the analysis of financial statement is basically a study of the relationship among various financial facts and figures as given in these of statement in the words of Metcaff and Titard, “Analyzing financial statement is a process of evaluating the relationships between component parts of financial statements to obtain a better understanding of a firms position and performance “Financial analysis is the evaluation of a firm’s past present and anticipated future financial performance and financial condition.

OBJECTIVES

The objectives of this study were as follows:

1. To measure the Sector-wise Disclosure practices in the Selected BSE-30 Indian Companies.
2. To measure the differences in the disclosure of the selected companies.

REVIEW OF LITERATURE

Kohier (1957) defined the concept of disclosure as 'a clear showing of a fact or condition on a balance sheet or other financial statement, in footnotes thereto, or in the audit report.' On the other hand, Parker (1992) defined disclosure as 'the reporting of information (both financial and non-financial) to users of accounting reports, especially to investors.' He further added that 'disclosure can be made in accordance with legislation or accounting standards or can be voluntary.' Cooke (1992) defined disclosure as consisting of 'both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information.' On the other hand, Gibbins et al. (1990) defined financial disclosure as 'any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels.' Choi (1973) provided a more extensive definition of disclosure as 'the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions.' He refers economic data to include facts which reduce the uncertainty concerning the outcomes of future economic events. He further pointed out that any improvement in disclosure can be thought of as the manifestation of an increase in both the quantity and quality of economic data disclosed by the enterprise to the investor (as users) via its published financial reports.

As the definition above suggests, corporate disclosure is a wide ranging term which goes beyond the annual report. As such, there is a need to narrow down the definition of 'disclosure' for the purpose of this research. The focus of this research is on those items of information provided in the corporate annual reports of Malaysian companies. As such, disclosure is defined here as the publication of any types of information through the corporate annual reports that are necessary, relevant and material to the various user groups in making their judgements and decisions about a company. These corporate annual reports are issued annually (albeit of different year ending), especially to the shareholders and other interested parties who would like to know the activities of a company over the past year. The annual reports contain financial and non-financial information (in figures and words) which are considered useful for various users of such reports. Such reports may include narrative sections such as the Chairman's Address or the Directors' Report and unaudited section such as the graphical presentation of previous year's profit.

At present, there is no theory of corporate financial disclosure available in the accounting literature. This is due to the abstract concept of the 'disclosure' itself which may mean several things to several people Therefore; it is not surprising to find that some researchers view the concept from different perspectives. For example, Buzby (1974a and 1975b) and Wallace (1987) use the term 'adequate disclosure', Singhvi and Desai (1971), Moore and Buzby (1972), and

Forker (1992) use the term 'disclosure quality'. It is also too broad because one set of operational definitions may produce different results with those produced in another set. The characteristics of 'good disclosure' or 'adequate disclosure' or 'quality of disclosure' may also change with time and place. Moonitz (1961) in Accounting Research Study No. 1 stated that 'the concept of disclosure should be conceived of in the broadest possible terms.' It can be discussed in terms of (a) what should be disclosed, (b) to whom and (c) how disclosure should be made.' The following discussion wifi seek to expand upon the above definitions by examining the rationale behind them as well as their implications with respect to the disclosure of information. The various notions of the concept of disclosure can be analysed into nine features or dimensions as depicted in Figure 2.1.

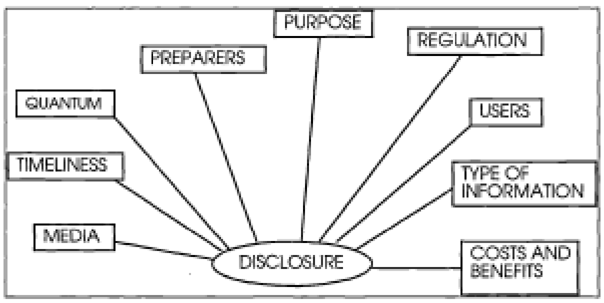

Figure 1: Disclosure Dimensions

Sanan (2008) discusses role of segmental disclosures and its impact on corporate governance. Good corporate governance engenders good financial reporting, which results in the production of efficient segmental reports. This, in turn, facilitates good governance. Segmental disclosures are regarded as one of the most useful revelations of financial reporting. Quality segment reporting inculcates confidence in the company’s performance by overseeing and assessing management’s stewardship.

Sehgal et.al, (2008) emphasizes the increased role of sound disclosure practices in current era of competition and globalization. The authors studied disclosure practices of the firms in each of the following ten sectors: FMCG, IT, banking, capital goods, power, metal products, and pharmaceuticals, oil, automobile and telecommunications. The extent of disclosures made by the firms and relationship between disclosure index and age, RONW and sales is also examined. The study indicates that there is a notable difference in the quantum of disclosures of the different sectors.

Lundholm and Van (2008) talked about a theoretical model that describes how some firms make disclosure choices and how other players (analysts, investors, etc) respond to these choices.

Primary goal of voluntary disclosure is reduction of information asymmetry (between managers and investors) and thereby cost of capital. Even for non-financial information, it is unreasonable to assume that management can bury significant information forever. The authors organize the disclosure findings around three categories viz. management 1) does not know of any information to disclose, 2) cannot tell information without incurring a cost or 3) does not care about their firm's current stock price.

Kim and Verrecchia (1994) argue that the profit making ability of sophisticated investors lies in their superior ability to interpret the implications of public signals. Thus, the effect of disclosure quality on the profit opportunities of an institution likely depends on its information gathering and processing capabilities.

Healy P., A. Hutton, and K. Palepu, (1999) revealed that Institutional investors could be sensitive to a firm's disclosure quality for a number of reasons. First, institutional investors could be attracted to firms with better disclosure if it reduces the price impacts of trades

Diamond and Verrecchia (1991) show that a high level of disclosure reduces the information asymmetry between the firm and investors, which lessens potential price impacts of trades by reducing both bid-ask spreads and the amount of information potentially revealed by large trades.

Mahajan and Chander (2008) written by The authors empirically examine the quantum of corporate disclosure in Indian software industry and its association with corporate attributes such as age, size, profitability, leverage, listing status, shareholding pattern, audit firm, and residential status of a company. This study is based on a sample of 50 companies from Indian software industry on the basis of market capitalization. Research concluded that significant association exists among size, profitability and audit firm and disclosure level.

Khan, Shagufta, Chouhan, V., Chandra,B., Goswami, S. (2012) examined whether Economic Value Added of the companies listed in BSE securities market creating value for shareholders the paper has also analysed the factors includes the corporate disclosure. The statistical test will be done with multiple correlation and multivariable linear regression model. The paper concludes with the negative relation of EVA and Corporate disclosure and authors have revealed to increase EVA in order to increase the company's economic value.

Lang and Lundholm (1993), Healy, Hutton, and Palepu (1999) revealed that One commonly cited benefit of high disclosure quality is that, by mitigating information asymmetry, it reduces the magnitude of periodic surprises and makes a firm's stock price less volatile.

Lang and Lundholm (1993) find mixed evidence of whether total disclosure quality measured over a longer period is positively or negatively associated with stock return volatility. They conjecture that a positive association could result if stock return volatility proxies for information asymmetry and managers are improving disclosure to reduce this asymmetry

Srivastava and Giridharan (2008) describes limitations of traditional financial reporting viz. lower level of transparency, inability to cater variety of stakeholders, exceptional focus on numerical figures etc. There is lot of 'information gap' between the manager's information about business and information available to investors and other stakeholders. Information on non-financial components is increasingly becoming important in financial reporting. Across the globe various reporting models are used namely: 1) The Balanced Scorecard, 2) The Jenkins Report, 3) Value Dynamics, 4) Global Reporting Initiative, 5) Brookings Institution, 6) Strategic Scorecard, and 7) FASBs (The Financial Accounting Standards Board) Working Model for the Statement of Comprehensive Income.

II. SAMPLE COMPANIES

For the purpose of this paper the sample characteristics are shown in table-1

Table-1: Sample Characteristics

Sector	Company Name with sort names in brackets	Year of incorp - oration	Market capital-isation	NOPAT	Share Capital	Capital Employed
Information Technology	Infosys Limited (IL)	1981	169290	6,835	286	25,976
	Tata Consultancy Limited (TCS)	1968	232	7,569.99	295.72	24,504.81
Telecomm unication	Bharti Airtel (BA)	1995	6826186	7,716.90	1,898.8	48,766.80
Pharmac - eutical	Cipla Limited (CL)	1935	29700	960.39	160.58	6,666.13
	Lupin Limited (LL)	1968	4273.31	809.98	89.24	3,281.08
	Sun Pharma (SL)	1983	10037.88	1,907.37	103.56	9,483.32
	Dr Reddy's Laboratory (DRL)	1984	542445	893.4	84.6	4,031.80
Banking	HDFC Bank (HDFC)	1977	44745.29	8,640.27	465.23	25,586.06
	ICICI Bank (ICICI)	1994	61661.69	8,004.66	1,151.8	55,302.49
	Kotak Mahindra Bank (KMBL)	1985	16204.1	1,569.24	368.44	10,999.87
FMCG Sector	Dabur Limited (DL)	1884	8697.55	568.89	174.07	1,391.1
	Marico Industries Ltd. (MI)	1987	7330.19	291.94	61.44	915.48
	Britainia Limited (BL)	1892	979.49	134.2	23.89	326.03
	Hindustan Uniliver Ltd	1933	54324.97	2,153.00	215.95	2,633.92

	(HUL)					
Oil-minerals	IOC (IOC)	1959	83278.75	8,085.62	2,427.9	57,575.21
	HPCL (HPCL)	1976	13252.16	1,700.48	339.01	13,281.68
	ONGC (ONGC)	1955	276641.8	22,824.9	4,277.7	115,327.25
Auto-mobile	Hero Motor Corporation (HM)	1984	31739	1,927.90	39.94	3989
	Kinetic Limited (KL)	1972	70.88	1.48	83.4	25.37
	TVS Limited (TV)	1978	1678.24	194.58	47.51	999.41

RESEARCH METHODOLOGY AND HYPOTHESIS

5.1 Collection of Data:

The data for this research is collected from secondary source mainly by the annual report of the companies. For these purpose annual reports of companies, articles, Database Such AS CMIE, Stock Markets, Securities Companies and journals etc., have also been used as. A healthy sample of 20 companies of 7 industries and 5 year period has been taken. Thus, the study is largely empirical in approach.

5.2 Data analysis Tool:

To identify the dependence of financial performance measures on Profitability and Leverage with modern measure as EVA, testing of hypotheses were done with SPSS-19 software, by applying correlation, multiple regressions and ANOVA. Variables were selected as measurement of Profitability and leverage while EVA is taken as modern measure of performance.

5.3 Hypothesis

To analyse the intercompany difference between disclosure the following hypothesis were developed:

H_0= No significant difference exists between companies for disclosing the selected disclosure points

H_1= A significant difference exists between companies for disclosing the selected disclosure points

DISCLOSURE PRACTICES OF SAMPLE UNITS

The above 20 companies were selected for the purpose of the current Study and before comparative study of the above companies it is required to know their disclosure and types of disclosure. Hence, it is shown in table 1. For the purpose of scores of disclosure the category of disclosure is being prepared as under:

Disclosure in Financial records=1

Disclosure in directors report=2

Disclosure in Additional information=3

Non-financial disclosure=4

For Non-Disclosure=5

DISCLOSURE OF VARIOUS ITEMS BY COMPANIES:

Table 3.1 shows the disclosure of the various items and the place of disclosure of those items. Further to analyse the disclosure statistically there are three important points to be considered; whether all the items required for disclosure are disclosed by all the companies? (Or there is any inter-company difference) Whether all the items are being disclosed by the companies at the same place? (Or difference in place of disclosure) And whether disclosure of selected disclosure points by all the companies remains equal in all the companies? (Or there is an item wise difference)

Since the data were non-parametric to test the above hypothesis the Mann-Whitney U test is being used. The result of the Mann-Whitney U test is being shown under table 2.

Table2: Mann-Whitney U Test

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of IL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.311	Retain the null hypothesis.
2	The distribution of TCS is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.118	Retain the null hypothesis.
3	The distribution of BA is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.071	Retain the null hypothesis.
4	The distribution of CL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.129	Retain the null hypothesis.

5	The distribution of LL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.178	Retain the null hypothesis.
6	The distribution of SP is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.004	Reject the null hypothesis.
7	The distribution of DRL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.707	Retain the null hypothesis.
8	The distribution of HD FC is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.460	Retain the null hypothesis.
9	The distribution of ICI CI is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.004	Reject the null hypothesis.
10	The distribution of KM BL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.253	Retain the null hypothesis.
11	The distribution of DL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.016	Reject the null hypothesis.
12	The distribution of MI is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.118	Retain the null hypothesis.
13	The distribution of BL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.007	Reject the null hypothesis.
14	The distribution of HUL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.311	Retain the null hypothesis.

15	The distribution of IOC is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.113	Retain the null hypothesis.
16	The distribution of HP CL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.407	Retain the null hypothesis.
17	The distribution of ON GC is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.090	Retain the null hypothesis.
18	The distribution of HM is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.119	Retain the null hypothesis.
19	The distribution of KL is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.472	Retain the null hypothesis.
20	The distribution of TVS is the same across categories of VAR00021.	Independent-Samples Mann-Whitney U Test	.318	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

CONCLUSION

With the above study it has been proved statistically that significant difference ($p<0.5$)(Table 2) exists in the disclosure of Sun Pharma, ICICI Bank, Dabur Limited and Britainia Limited found whether the alternative hypothesis were accepted and we can conclude that the gap between companies for disclosing the selected disclosure points was found to be in-significant in other companies where null hypothesis were selected.

Annexure-1: Disclosure Scores

Disclosure Points	IL	TCS	BA	CL	LL	SP	DRL	HDFC	ICICI	KMBL	DL	MI	BL	HUL	IOC	HPCL	ONGC	HM	KL	TVS
Net Operating Profit	3	3	5	5	5	3	3	4	2	1	1	3	3	1	2	2	1	1	5	5
EPS	1	1	1	1	1	1	1	3	1	1	1	1	1	3	1	1	1	1	1	1
ROANW	3	5	5	5	5	5	3	2	2	3	3	3	4	5	3	5	3	2	5	5
ROCE	3	5	5	5	5	5	3	2	2	3	3	3	5	3	1	3	2	3	5	3
ROTA	3	5	5	5	5	5	3	3	3	1	3	3	5	3	5	1	2	3	1	3
ROI	3	5	5	5	3	5	1	2	3	5	3	3	5	3	5	5	3	3	5	3
liquidity ratio	3	5	5	5	5	5	3	5	1	5	3	3	5	5	5	5	3	3	5	5
Invested Capital	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Firm Size	3	2	1	3	2	5	3	2	3	4	2	3	5	3	3	1	2	3	3	3
Cost of Equity	3	2	5	5	5	5	3	5	5	5	5	5	5	3	5	5	5	3	5	5
BETA	3	5	5	5	5	5	5	5	5	5	5	5	5	3	5	5	5	3	5	5
listing Status	4	1	1	4	4	3	4	1	2	5	1	3	1	1	2	3	3	3	5	3
Share Prices	1	3	3	2	3	3	3	3	1	3	3	3	3	3	3	3	3	3	3	3
Ratio of Debt to Total Equity	3	5	5	5	5	5	3	5	5	5	5	3	5	5	3	2	5	5	5	5
WACC	3	5	5	5	5	5	3	5	5	5	5	3	5	3	5	5	5	3	5	5
EVA	3	3	5	5	5	5	3	5	5	5	5	3	5	3	5	5	5	3	5	5
MVA (Market Capitalisation)	3	2	5	3	5	5	3	5	5	5	3	4	5	2	5	3	3	3	5	5
CVA	5	5	5	5	5	5	5	5	5	5	5	5	5	5	3	3	5	5	5	5
BSC	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5

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