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VOLUNTARY DISCLOSURE PRACTICES: AN EMPIRICAL ANALYSIS OF FINANCIAL AND NON- FINANCIAL INFORMATION

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ABSTRACT

Investor sentiments have been affected adversely time to time by various corporate scams like Stock Market scam, the CRB Public Deposit Scam, Bofor scam, Urea scam, Ketan Parikh Scam, Satyam scam, UTI Scam and The Enron Fiasco, WorldCom, Adelphia and no end to these, in spite of a strong regulatory framework. Corporate governance has become considerable point of attention to curb these fraudulent practices, where corporate reporting practices play a vital role. This paper has attempted to examine the extent of disclosure of financial and non -financial information. The Study was based on firms listed on S&P CNX Nifty. The final sample consisted Annual Reports of 50 companies which were studied a period of five years, that is 2011-2016. The study concluded that most of the firms were having a practice of disclosing financial information, but non-financial information was disclosed by few firms.

Key words - Corporate governance, disclosure, financial information and non-financial information

Introduction:

Corporate disclosure is considered as a mirror of soul of the firm. How much firm is transparent about its financial health? The answer to this question is given by the firm at its own by providing information disclosure. These days' stakeholders are not only considering the financial health but also activities related to non -financial aspects. As most of the corporate governance failures worldwide have been attributed to poor disclosure practices, many of the reforms at the national and international level have focused on the improvement of corporate disclosure practices. There are number of media channels through which corporate information can be disclosed by the firms. But review of literature provides the view that annual reports are most used source of information in the eyes of the stakeholders. This research work is an attempt to derive a view about the disclosure practices of the corporate world and annual reports were considered as an information source here to analyze the disclosure practices of the firms.

Buzby (1974) concluded that the companies should give due consideration to information needs of the users of financial statements while deciding on the items to be included in the annual reports. The study observed that there existed a case for expansion in the extent of disclosure in the annual reports of small and medium sized companies.

Sarkar (2011) showed that there was 100 percent disclosure for mandatory items but wide diversity in the type and presentation of voluntary disclosure among companies. He suggested a common framework for presentation of information in the annual reports to meet the test of comparability and said that failures should also be reported in the annual reports. **Charumathi and Latha (2015)** explore the factors that determine the voluntary disclosure choices of the non-financial companies listed in the National Stock Exchange (NSE). The study uses a voluntary disclosure index (VDI) constructed by the authors with 81 financial and non-financial items across

different categories such as strategy, forward looking, environment and social, etc. With the VDI, this study measures the voluntary disclosure levels for four financial years from 2009–2010 to 2012–2013 using the content analysis methodology. The study uses a panel data model to analyse the effects of three categories of variables, namely, firm characteristics, profitability and governance and found the fixed effect model to be suitable and leverage, size and institutional ownership emerged as the determinants of voluntary disclosures. The study revealed that the regulators and the capital market are increasingly imposing stringent norms for transparency. It can be observed from the fact that the items, which were voluntary few years back, have become mandatory. The corporate India has the onus of ensuring better compliance and reporting standards to increase the capital market prospects.

Elamagrhi et al (2016) suggested that there is a substantial variation in the levels of compliance with, and disclosure of, good CG practices among the sampled UK firms. The authors also find that firms with larger board size, more independent outside directors and greater director diversity tend to disclose more CG information voluntarily, whereas the level of voluntary CG compliance and disclosure is insignificantly related to the existence of a separate CG committee and institutional ownership. Additionally, the results indicate that block ownership and managerial ownership negatively affect voluntary CG compliance and disclosure practices. The findings are fairly robust across a number of econometric models that sufficiently address various endogeneity problems and alternative CG indices. Overall, the findings are generally consistent with the predictions of neo-institutional theory.

In the context of the idea generated from the literature review, the main objective of the study was to examine the extent of disclosure of financial and non -financial information.

OBJECTIVES OF THE STUDY

The present study is based on the following objectives:

1. To know the Extent of Voluntary Disclosure by the corporates (EVD)
 - a) To know the extent of disclosure of non -financial information.
 - b) To know the extent of disclosure of financial information.

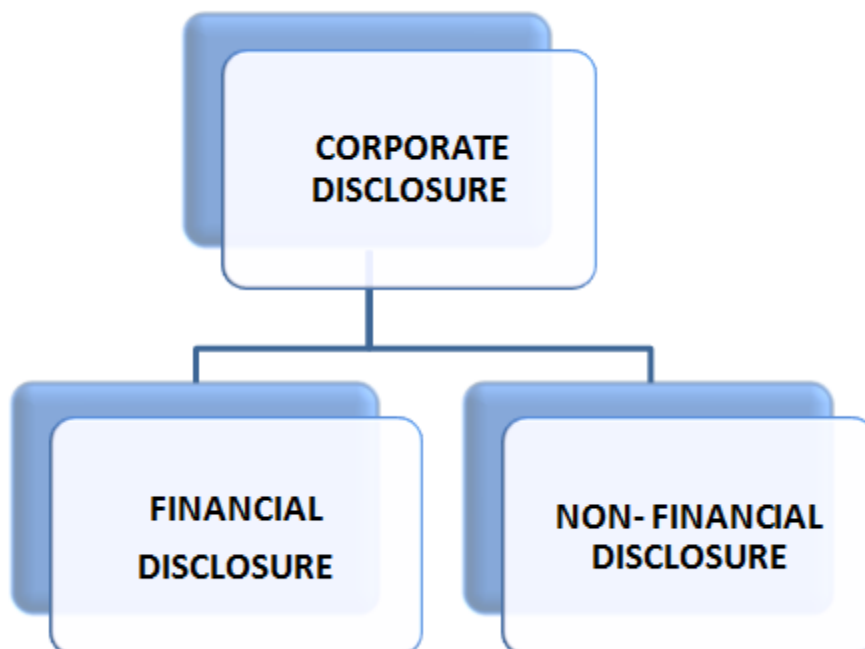
RESEARCH METHODOLOGY:

The Research design is descriptive and based on data available from secondary sources. The sample frame comprised of most liquid firms listed on S&P CNX NIFTY, India. The final sample consisted of 50 companies and period of study was five years, from 2011-2016. For examination of voluntary disclosure various items of financial and non- financial information were selected from annual reports of different companies on random selection basis. The published annual reports are considered as the most important parameter for disclosure of information by the corporates. Hence other disclosure methods like Prospectus, Press releases, house magazines, periodicals, statutory reports and interim reports publications of professional and other accounting bodies, official reports and publications of stock exchanges have not been considered in the present study. After detailed study on the annual reports of various companies, Disclosure index was prepared and in total 79 numbers of items were shortlisted as items, which are disclosed voluntarily by the firms to serve the requirements of Indian Capital Market. Further these items were categorized on the basis of financial and non-financial information. Descriptive Statistical tools were applied to examine the extent of such disclosure. Each item in the index of disclosure has been assigned a score of either 0 or 1, if an item has been disclosed in the annual report of the company; the item is assigned with a score of 1. In case of non-disclosure of the item, score 0 is given. The score sheet was prepared on the basis of given scores separately for each published annual reports for the years 2011-12, 2012-13, 2013-14, 2014-15, 2015-16. Further statistical tools were applied to get a result from the score sheet.

ANALYTICAL TOOLS USED FOR THE STUDY: Descriptive Statistical tools like Arithmetic Mean, Standard Deviation and co-efficient of variations, tables and diagrams were applied to examine the extent of voluntary disclosure made by the firms.

ANALYSIS AND INTERPRETATION:

The analysis of the present study is described in two parts Financial and Non- financial information



1 A) FINANCIAL INFORMATION

The primary function of annual report is informing about the financial health of the firm, no doubt all the firms are disclosing information related to the financial activities in their annual reports positively. But there are number of firms who are disclosing some information of financial activities which is not mandatory under the legal regime, because such information is getting much weightage by the stakeholders as important parameter of Firm's growth and expansion. The first objective of this study was to examine the extent of financial information disclosure by the companies on voluntary basis. For this purpose 37 items were taken in the disclosure index, which represents voluntary disclosure of information related to financial activities. Items in this category were divided further in 5 sub parts comprising financial information, financial review, foreign currency information, stock price information and graphic presentation of financial information. Table 1.1 has been constructed to obtain results for financial information.

Voluntary disclosure on financial items was studied selecting 37 numbers of items in the disclosure index. It was found that segmental information had been disclosed by more than 90 percent of the companies. Financial Information through different ratios had been disclosed on an average by 85-90 percent companies, but the effect of inflation on qualitative and quantitative results was shown by less than 4 percent of the companies. Foreign currency fluctuation and the effect of these fluctuations have been disclosed by 20-40 percent companies. Long term and short term debt in currency had been disclosed only by 40 percent companies. On the other hand market capitalization and nature of shareholding information had been disclosed by more than 90 percent companies.

Table 1.1: Financial Information

Financial Information Disclosure in Annual Reports						
Items of Financial Information	Disclosing Companies for different years in percentage					
	2011-12	2012-13	2013-14	2014-15	2015-16	Mean Disclosure in %
1. Segmental Information	94	99	72	100	94	91.8
2. Geographical capital expenditure - quantitative	10	6	32	10	22	16
3. Geographical production - quantitative	10	9	8	10	16	10.6
4. Line-of-business production - quantitative	14	7	4	14	16	11
5. Competitor analysis – qualitative	0	0	2	0	4	1.2
6. Competitor analysis – quantitative	0	0	0	0	4	0.8
7. Market share analysis – qualitative	0	0	0	0	2	0.4
8. Market share analysis – quantitative	2	0	0	0	2	0.8
9. Profitability ratios	86	89	70	92	90	85.4
10. Cash flow ratios	86	89	92	92	92	90.2
11. Liquidity ratios	88	93	92	92	92	91.4
12. Gearing ratios	88	93	92	92	92	91.4
13. Disclosure of intangible valuations (except goodwill and brands)	84	89	92	92	94	90.2
14. Dividend payout policy	86	94	92	90	92	90.8
15. Financial history or summary - six or more years	72	85	80	76	76	77.8
16. Restatement of financial information to non-U.S./U.K. GAAP	76	80	86	74	64	76
17. Off balance sheet financing information	16	50	44	22	14	29.2
18. Advertising information - qualitative	0	2	10	10	2	4.8
19. Advertising expenditure - quantitative	18	22	8	16	12	15.2
20. Effects of inflation on future operations - qualitative	0	0	6	4	0	2
21. Effects of inflation on results - qualitative	0	2	0	0	0	0.4
22. Effects of inflation on results - quantitative	0	0	2	6	0	1.6
23. Effects of inflation on assets - qualitative	0	0	0	0	0	0
24. Effects of inflation on assets - quantitative	0	0	0	6	0	1.2
25. Effects of interest rates on results	0	2	0	0	2	0.8
26. Effects of interest rates on future operations	0	0	0	0	0	0
27. Effects of foreign currency fluctuations on future operations – qualitative	18	24	14	20	16	18.4
28. Effects of foreign currency fluctuations on current results – qualitative	28	28	24	32	22	26.8
29. Major exchange rates used in the accounts	38	26	28	30	24	29.2
30. Long-term debt by currency	44	44	42	46	38	42.8
31. Short-term debt by currency	46	44	42	46	38	43.2
32. Foreign currency exposure management description	20	16	26	18	12	18.4
33. Market capitalization at year end	86	94	72	94	94	88
34. Market capitalization trend	84	96	88	94	92	90.8
35. Size of shareholdings	92	98	94	96	100	96
36. Type of shareholder	90	96	94	92	96	93.6
37. Graphic presentation of Financial Information	98	99	100	94	98	97.8

The crux of the study on financial disclosure here is that most of the companies provide their financial results information through accounting ratios. Foreign currency fluctuations and effect of exchange rates was disclosed by few companies.

To examine variation in information related to financial disclosure of the annual reports for a period of five years, Table 1.2 has been prepared, which reveals degree of variation in disclosure of 37 items of these companies.

Table 1.2 : Variation in Financial Information

Number of Disclosing Companies →					
Number of Items Covered ↓	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
0-7	5	1	0	01	01
7-14	7	12	15	14	13
14-21	37	33	30	29	31
21-28	1	3	5	6	5
28-35	0	1	0	0	0
35-42	0	0	0	0	0
Mean Disclosure	22.26	23.24	23.1	23.1	23.1
S.D	8.45	8.36	8.16	8.16	8.16
Co-efficient of variation	37.96	35.97	35.32	35.32	35.32

A glance at the table shows that near about 15 companies have shown 7-14 items in the index and 14-21 items have been shown by 29-37 companies. Only 3-6 companies were able to show 21-28 items. No company has reached to disclosure of more than 35 items. There is a slight change in the yearly mean disclosure of the companies. There is a variation of 8.45 items on average in 2011-12 and 8.16 items in the year 2015-16 as suggested by value of standard deviation. Coefficient of variation comes to be very high in the year 2011-12 which was 37.96 per cent but in rest of the years it was significantly low as shown by results of the year 2015-16 where it was 35.32 percent. The Co - efficient of variations also show that low variation was found between the financial information for the period 2011-16

1 B) NON - FINANCIAL DISCLOSURE

Non - financial reporting is defined as disclosing information that is not based on usual financial figures but which nevertheless gives stakeholders an understanding of the essential areas of value creation in business that goes way beyond financial statements.

Non-financial information comprises all quantitative and qualitative data on the policies pursued, business operation and the results of policies in form of outcome, without a direct link with financial system. It refers to information that falls outside the scope of mainstream financial statements. It is a basis of providing direction. It does not have direct financial impact. Non- financial information could refer to social accounting, corporate social responsibility, environment reporting sustainability service, performance reporting etc.

After studying the corporate disclosure on financial information, next objective was to analyse non -financial disclosure of information in Annual Reports. These days non-financial information disclosure is also considered by the stakeholders. Information related to the non- financial activities of the firm is provided by number of the firms on voluntary basis. Here in this part of the paper, extent of such disclosure was measured. For this purpose 42 items were taken in the disclosure index, which represents information related to non-financial activities. Items in this category were divided further in 6 sub parts comprising information about directors, employee's information, social policy, environment protection activities and graphic and diagrammatic representation of the information. Table 1.3 has been constructed to obtain results for non- financial information.

Table 1.3: Non-Financial disclosure

Non-Financial Disclosure in Published Annual Reports						
Items of Non-Financial Information	Disclosing Companies for different years in percentage					Mean Disclosure in %
	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	
1. Age and retirement age of the directors	82	85	68	78	78	78.2
2. Educational qualifications (academic and professional)	86	87	88	82	80	84.6
3. Commercial experience of the executive directors	90	93	88	92	88	90.2
4. List of Directors	100	97	98	98	98	98.2
5. shares held by directors of the company	94	94	98	94	96	95.2
6. remuneration of the directors	94	96	98	94	92	94.8
7. functions of board	96	97	96	96	96	96.2
8. meetings held and attended	100	97	96	96	96	97
9. Other directorships held by executive directors	88	76	70	76	70	76
10. training of board members	8	12	38	10	6	14.8
11. Geographical distribution of employees	18	44	18	20	14	22.8
12. Line-of-business distribution of employees	10	14	12	10	30	15.2
13. Categories of employees by gender	48	42	34	50	48	44.4
14. Identification of senior management and their functions	8	4	16	4	6	7.6
15. Number of employees for two or more years	0	0	2	0	0	0.4
16. Reasons for changes in employee numbers or categories	0	0	0	0	0	0
17. Amount spent on training	6	8	4	6	2	5.2
18. Nature of training	14	12	0	8	6	8
19. Categories of employees trained	2	6	8	4	2	4.4
20. Number of employees trained	2	6	4	4	2	3.6
21. Data on accidents	0	0	0	0	0	0
22. Cost of safety measures	8	12	4	12	10	9.2
23. Redundancy information (general)	0	0	2	0	0	0.4
24. Equal opportunity policy statement	4	2	8	4	4	4.4
25. Recruitment problems and related policy	0	0	2	2	0	0.8
26. Safety of products (general)	76	93	64	98	92	84.6
27. Charitable donations (amount)	66	68	82	78	78	74.4
28. Community programs (general)	68	68	80	80	82	75.6
29. Value added statement	42	67	66	54	56	57
30. Value added data	40	45	56	46	50	47.4
31. Value added ratios	32	38	68	40	58	47.2
32. Qualitative value added information	12	24	20	6	14	15.2
33. company concern for environment	70	76	64	88	88	77.2
34. Compliance with environmental Standards	14	14	30	26	18	20.4
35. conservation of natural resources	26	28	30	38	36	31.6
36. information relating to environmental costs and liabilities	20	20	20	16	18	18.8
37. Future estimates relating to environmental	14	10	14	8	8	10.8

costs						
38. adoption of environment friendly technology	16	12	12	14	10	12.8
39. training and education of employees on environment protection	2	4	12	4	2	4.8
40. awards for environment protection	6	10	6	12	12	9.2
41. other useful non -financial information	0	2	2	0	0	0.8
42. Graphic Or Diagrammatic presentation of Non -Financial Information	0	4	0	0	2	1.2

Analysis on non-financial disclosure of the items form index which are 42 in number reveals that director's information like board functions, meetings attended, shares held by the directors, their commercial experience and educational qualification etc. such kind of information is disclosed by more than 90 percent companies. On the other hand employee's information has not been significantly reported by the companies. Employee's turnover, Reasons for that, data on accidents, amount spent on the training of employees is provided by very less number of the companies. Considering environment protection policies related information, few companies are providing information related to training and education of employees on environment protection, Future estimates relating to environmental costs, information relating to environmental costs and liabilities, adoption of environment friendly technology was computed as less than 20 percent. Information related to the social policies is provided by good number of companies , as shown by the results there were 60-80 per cent disclosure on items like Safety of products (general), Charitable donations (amount) Community programs (general). Graphic or Diagrammatic presentation of Non-Financial Information was disclosed by 1 percent companies only.

In such a way above analysis represents that director's information has been disclosed by giving utmost importance by large number of companies but the environment protection or concern related items have not been covered by ample number of companies in their annual reports.

To examine the variation in information related to non-financial disclosure of the annual reports for a period of five years, Table 1.4 has been prepared, which reveals degree of variation in disclosure of 42 items of these companies.

Table 1.4 : Variation in Non-Financial disclosure

Number of Disclosing Companies →	2011-12	2012-13	2013-14	2014-15	2015-16
	Number of Items Covered ↓				
0-7	2	1	1	0	1
7-14	19	19	14	16	14
14-21	22	20	28	27	30
21-28	5	8	6	6	3
28-35	2	2	1	1	1
35-42	0	0	0	0	1
Mean Disclosure	22.5	16.24	23.38	23.38	23.38
S.D	9.18	6.05	8.67	8.67	8.67
Co-efficient of variation	40.73	37.25	37.8	37.8	37.8

A glance at the table shows that near about 20 companies have shown 7-14 items in the index and 14-21 items have been shown by 28-30 companies. Only 2 companies were able to show 28-35 items. Only one company has reached to disclosure of more than 35 items. There is a slight change in the yearly mean disclosure of the companies. There is a variation of 9.18 items on average in 2011-12 and 8.67 items in the year 2015-16 as suggested by value of standard deviation. Coefficient of variation comes to be very high in the year 2011-12 which was 40.73 per cent but in rest of the years it was significantly low as shown by results of the year 2015-16 where it was 37.8 per cent.

Conclusion:

Relevant and reliable information must be disclosed to acquaint the thrust of the users. The study concluded that firms while considering information requirements of the users consider financial data as important information. As results are revealing that most of the items of financial information are disclosed by maximum number of firms. There is slight change in the mean disclosure of such information. Variation in disclosure is also very low in case of financial information disclosure. Going through the results of non- financial information disclosure the present study has also concluded that the information relating to human resource reporting, environmental and social responsibility reporting are ignored by most of the firms.

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