Stakeholders' Perspective of Voluntary Disclosures in Indian Corporate Annual Reports

Rajsee Joshi
Assistant Professor
N.R. Institute of Business Management
(MBA), GLS University
GLS Campus, Ellisbridge,
Ahmedabad

Abstract

In this study an attempt is made to provide empirical evidence on the perspective of various stakeholders on voluntary corporate disclosures in the annual report. To do so, ten user groups were surveyed through a questionnaire about the purpose, usefulness and importance of voluntary disclosures made in the Annual Report. Analysis reveals that all the various stakeholders believed that the primary purpose of voluntary disclosures is to reduce information asymmetry and increase investors' confidence. Majority of the stakeholders considered voluntary 'financial disclosures' as most important followed by 'forward-looking information.' In terms of usefulness, large majority of the stakeholders believed that voluntary disclosures are useful in evaluating the company's performance and comparing it with other companies. Also, they were of the opinion that voluntary disclosures were useful in taking informed investment decisions and monitoring their investments. Few of them agreed that the voluntary disclosures were useful in predicting the expected income and earnings per share with certainty. Findings reveal that stakeholders consider voluntary disclosures important and useful for evaluating the company's performance.

Key Words: Voluntary Disclosure, Stakeholders' perception, Investors' confidence

Introduction

The corporate governance of a firm is disciplined both by external as well as internal mechanisms. Corporate disclosures are one such internal mechanism which enables investors and other outside parties to monitor the firm's performance by reducing information asymmetries. Singhvi and Desai (1971) stated that the quality of corporate disclosure in annual report considerably influences the extent and quality of investment decisions made by investors. Annual reports are commonly regarded as an important means of acquitting accountability in the corporate and government sectors and often are one of the means by which sectors can improve stakeholders' perceptions of their accountability. Flack and Douglas (2007) reported that annual reports were known as the annual reporting behaviors of a corporation and it has ability to improve the perceptions of accountability among stakeholders and the wider community. With the increased frequency, intensity and magnitude of corporate frauds, corporate governance reforms have been made and new standards have been set to increase the transparency in Annual Reports.

Corporate have recognized the need to reduce information asymmetry to increase investors' confidence and have therefore adopted various mechanisms to diminish the adverse effects of information asymmetry. Voluntary disclosure is one such mechanism which reduces information asymmetry and improves investors' confidence. Companies disclose voluntarily when they perceive the benefits of disclosure outweighing the costs (Gray & Roberts, 1989 quoted in Marston & Shrives, 1991). This study focuses on various stakeholders' perspective on the purpose, importance and usefulness of voluntary disclosures in Annual Report.

Literature Review

Narayanaswamy, R., Raghunandan, K., & Dasaratha, V. R. (2012) studied corporate governance in India, including a description of Indian contextual differences (as compared to the U.S. and elsewhere) and discussed the major events contributing to the evolution of India's corporate governance/accounting/auditing practices since economic deregulation in 1991. They conclude that, there is a growing recognition that governance approaches that are appropriate in Anglo-Saxon or Western countries may not be necessarily enough or appropriate in settings such as India. Though it is easy to import governance codes and mechanisms, their effectiveness depends on the cultural and political environment within which businesses operate.

Corporate disclosure is an important function of an efficient capital market. On the positive side, there are several benefits of extensive corporate disclosure. The first benefit of disclosure is reducing information gap between market participants. Second, the disclosure of more relevant and credible information allows shareholders and outside investors to obtain a better understanding of a company and its value. Third, corporate disclosure brings transparency that increases the faith of investors. Fourth, increased information disclosure can potentially improve corporate governance and managers' investment decisions, and support the corporate control mechanisms of the capital markets (Chen & Steiner, 2000; Chung & Jo, 1996).

Along with benefits, there are costs of corporate disclosure. Lueuz and Wysocki (2008) suggest that there are two types of cost; direct and indirect that arise when the companies disclose more information.

Corporate disclose information through a variety of communication channels like annual reports, interim and quarterly reports, other regulatory filings, company's website, industry reports or communication through press. Certain information is to be filed with the Registrar of Companies. Singhvi and Desai (1971) stated that Annual reports are commonly regarded as an important means of acquitting accountability in the corporate and government sectors and often are one of the means by which sectors can improve stakeholders' perceptions of their accountability.

The information disclosed by companies can be divided into two broad categories, mandatory disclosure and voluntary disclosure (see, Marston & Shrives, 1991). Mandatory disclosures are those required by regulators such as government, stock exchanges and the accounting profession. The extent to which companies comply with legal and other regulatory requirements depends on the strictness of enforcement by these bodies. Voluntary disclosure, disclosure of information in excess of the minimum, may arise where companies perceive the benefits of disclosure outweighing the costs (Gray & Roberts, 1989 quoted in Marston & Shrives, 1991). Companies tend to provide voluntary disclosures when they plan to raise finance in order to give investors explicit information and influence their perceptions. Lang and Lundholm (1996) indicated that the provision of accounting information through voluntary disclosures gives financial analysts a better picture of companies' financial performance and capacity, and enables them to issue superior and more reliable forecasts. Companies also manipulate their disclosure levels to match investor sentiments.

Healy & Palepu (2001) shows that there are several kinds of effect that can occur in capital markets when companies disclose more voluntary information. These are reduction in information asymmetry and agency costs, improved stock liquidity, reduction in cost of capital and enhancement of company value. One major benefit of disclosure of additional information is that it improves stock market liquidity. Welker (1995) investigates the relationship between the stock market liquidity and corporate disclosure policy. Using the Association for Investment and Management Research (AIMR) disclosure score and the bid-ask spread as a proxy for liquidity, his study covers the years 1983 to 1990. He finds a negative relationship between disclosure policy and bid-ask spreads. His findings suggest that greater the information disclosures, the lower the bid-ask spreads. This is due to the decrease in perceived information asymmetry between market participants.

Bernard S. Black & Vikramaditya S. (2007) and Petersen and Plenborg (2006) investigate the relationship between the level of voluntary disclosure and the information asymmetry for 36 industrial companies listed on the Copenhagen Stock Exchange during the period 1997-2000. They constructed a disclosure checklist in attempt to measure the level of voluntary disclosure, used the bid-ask spread and the turnover ratio as their proxies for information asymmetry. The results from this study indicated that voluntary disclosure is negatively associated with proxies for information asymmetry and so reduces information asymmetry. Thus literature suggests that a voluntary disclosure reduces information asymmetry but it is vital to know various stakeholders' perspective on purpose, importance and usefulness of these voluntary disclosures. The present study attempts to know the perspectives of ten different user groups on voluntary disclosures in annual report.

Objectives

- To gain an understanding of stakeholders' perspective on the purpose of voluntary disclosures in the annual reports
- To gain an understanding of stakeholders' perspective on the importance of voluntary disclosures in the annual reports
- To gain an understanding of stakeholders' perspective on the usefulness of voluntary disclosures in the annual reports

Data and Methodology

Primary data was collected through structured questionnaire for this descriptive research. Questions required the respondents to answer on a 5-point Likert scale anchored by 'Not Important at all' to 'Very Important; 'Strongly Disagree' to 'Strongly Agree' and 'Not Useful' to 'Very Useful'. To obtain a score for these questions, mean score was calculated and ranks were allotted in terms of preference.

To provide empirical evidence on the above mentioned objectives, 300 respondents were surveyed which consisted of ten user groups: Individual Investors, Bank Loan Officers, Stock Brokers, Financial Analyst, Government Official, Mutual Fund Manager, Institutional Investor, Financial Advisor, Academician and Auditors. The choice of target groups was influenced by literature.

Result and Analysis

Importance of Various Sources of Corporate Information

Various user groups who took part in the survey were asked to indicate the importance that they attach to different sources of corporate information and the results are mentioned in Table I. Looking at the sample as a whole, all the respondents ranked 'Annual report' as the first source of information, followed by 'Information directly from the company'. As for the individual user groups, majority of Individual Investors, Institutional Investors, Bank Loan Officers, Auditors, Stock Market brokers, Financial advisors and Mutual fund Managers consider annual report as the most important source of corporate information. Government officials, showed that they rely on 'Annual Report' and 'Direct information from company' as the main source of information. Apart from the annual report and direct information from the company, the participants indicated that they seek information from special publications and financial analyst's report when making investment decisions about a company. Further, the respondents revealed that interim reports are also used as a major source of information about the company.

However, what attracts one's attention about the results regarding the perception of stakeholders' is that newspapers and magazines, friends' advice and market rumors are considered to be the least important source of information.

Table I: Stakeholders' attitude towards various sources of corporate information

	User groups											Whole Sample	
Sources of corporate information	Freq.	1 *n*=(41)	2 *n*=(25)	3 *n*=(32)	4 *n*=(30)	5 *n*=(32)	6 *n*=(28)	7 *n*=(28)	8 *n*=(29)	9 *n*=(27)	10 *n*=(28)	Mean	Rank
Annual Report	300	4.92	4.80	4.62	4.86	4.75	4.87	4.90	4.82	4.85	4.87	4.83	1
Interim Report	300	4.28	4.46	3.87	3.90	4.22	4.02	4.46	4.28	4.76	4.45	4.27	5
Financial Analysts' Report	300	4.17	4.78	4.80	4.45	4.43	4.07	4.35	4.65	4.85	4.32	4.49	3
Friends/Relatives Advice	300	3.73	3.50	3.45	3.42	3.35	3.23	3.31	4.12	3.63	3.57	3.53	8
Newspapers /Magazines	300	3.26	3.79	3.51	3.57	3.68	4.01	3.52	4.08	3.56	3.43	3.64	7
Special Publications	300	4.31	4.42	4.15	4.32	4.40	4.12	4.55	4.35	4.37	4.25	4.32	4
Direct information from company	300	4.89	4.65	4.89	4.70	4.87	4.54	4.76	4.72	4.58	4.67	4.73	2
Market Rumours	300	4.23	3.80	3.22	3.70	4.19	3.12	4.02	4.55	3.88	3.15	3.79	6

Mean Values score - 1 = Not Important at all; 5 = Very Important. (1.Individual Investors; 2.Bank Loan Officers; 3.Stock Brokers; 4.Financial Analyst; 5.Government Official; 6.Mutual Fund Manager; 7. Institutional Investor; 8.Financial Advisor; 9.Academician and 10.Auditors).

Purpose of Voluntary Disclosures in Annual Report

Respondents of all user groups believed that the primary purpose of voluntary disclosures is to reduce information asymmetry and increase investors' confidence. A close second reason as perceived by the respondents was to influence investors' perceptions before issue of public debt or equity. Individual Investors and Academicians agreed that the purpose of voluntary disclosures can be to make outside investors aware of the managerial ability and avoid misevaluation of the actions and performance of Board of Directors, whereas Bank Loan officers, auditors and stock market brokers disagreed to this purpose. Sample as a whole disagreed that the purpose for voluntary disclosures can be to correct any misunderstandings about the valuation of managers' stock prior to expiration of their stock option awards. Government officials and auditors were of opinion that voluntary disclosures can be made with a purpose to reduce the cost of litigation that can arise when companies provide inadequate information or untimely disclosures while others disagreed to this. Sample as whole had mixed views that company discloses voluntarily to show the investors that they are aware of companies' economic conditions and able to respond quickly and to benefit their competitive position in product markets. Responses of user groups on Purpose of Voluntary disclosures are mentioned in Table II.

Table II: User groups' views on the Purpose of Voluntary Disclosures in Annual Report

	User groups											Whole Sample	
Purpose of Voluntary Disclosures	Freq.	1 *n=(41)*	2 *n=(25)*	3 *n=(32)*	4 *n=(30)*	5 *n=(32)*	6 *n=(28)*	7 *n=(28)*	8 *n=(29)*	9 *n=(27)*	10 *n=(28)*	Mean	Rank
To reduce information asymmetry and increase investors' confidence in the company	300	4.81	4.76	4.85	4.79	4.91	4.87	4.69	4.75	4.81	4.71	4.80	1
To give explicit information to investors and influence their perceptions before issue of public debt or equity	300	4.75	4.68	4.53	4.67	4.78	4.74	4.56	4.67	4.78	4.58	4.67	2
To make outside investors aware of the managerial ability and avoid misevaluation of the actions and performance of Board of Directors	300	4.78	2.67	2.56	4.43	4.25	4.56	4.37	4.51	4.75	2.22	3.91	3
Managers voluntarily disclose in order to correct any misunderstandings about the valuation of their stock prior to expiration of their stock option awards	300	2.11	2.46	2.91	2.26	2.18	2.96	2.16	2.89	2.78	2.69	2.54	7
To reduce the cost of litigation that can arise when companies provide inadequate information or untimely disclosures	300	3.14	2.78	2.83	3.21	4.89	2.73	3.34	2.92	2.63	4.86	3.33	6
To show the investors that they are aware of companies' economic conditions and able to respond quickly	300	4.15	4.18	4.46	3.87	4.26	3.67	3.69	3.25	3.47	3.76	3.88	4
To benefit their competitive position in product markets	300	3.87	3.25	3.41	3.76	3.82	3.27	3.81	3.93	2.78	3.15	3.51	5

Mean Values score - 1 = Strongly Disagree; 5 = Strongly Agree. (1.Individual Investors; 2.Bank Loan Officers; 3.Stock Brokers; 4.Financial Analyst; 5.Government Official; 6.Mutual Fund Manager; 7. Institutional Investor; 8.Financial Advisor; 9.Academician and 10.Auditors).

Importance of Voluntary Disclosures in Annual Report

A list of expected items of voluntary disclosures that may appear in the annual report was provided to participants to indicate the degree of importance they attach to each of these items. The list comprised of 50 voluntary disclosures bifurcated in 4 broad categories namely; General & Strategic Company Information, Financial Information, Non-Financial Information and Forward looking Information is included in Appendix I.

Voluntary disclosures like 'General Information about the economy', 'Business environment (Economics and Political), 'Significant Issues during the year', 'Information on last year's performance', 'Review of current financial results and discussion of major factors underlying performance' and 'Share price information' were considered important by large majority of investors

Voluntary disclosures like 'Description of major goods/products/services', 'Information of member companies', 'Measures to control environment pollution' and 'Description of Social Activities undertaken' were considered fairly important. Investors consider 'Return on Equity' and 'Profitability Ratios' as Very Important disclosures.

Voluntary disclosures like 'Company's contribution to the national economy', 'Methods of Quality Control', 'Value added statement (Statement of wealth created)', 'Financial Statements as per International Financial Reporting Standards (IFRS)' 'Projection of Research & Development expenditure' and 'Planned Capital Expenditure' are also considered important by a large majority of investors.

In terms of categories of voluntary disclosures, 'Financial Information' is considered the most important closely followed by 'Forward looking Information'. 'General & Strategic Company Information' and 'Non-Financial Information' disclosures are considered fairly important as mentioned in Table III.

Table III: User groups' views on the Importance of various Categories of Voluntary Disclosures

Categories of Voluntary Disclosures	User groups											Whole Sample	
	Freq.	1 n=(41)	2 n=(25)	3 n=(32)	4 n=(30)	5 n=(32)	6 n=(28)	7 n=(28)	8 n=(29)	9 n=(27)	10 n=(28)	Mean	Rank
General & Strategic Company Information	300	3.15	3.91	3.82	4.15	4.23	4.32	4.82	3.87	3.72	3.18	3.92	3
Financial Information	300	4.26	4.58	4.91	4.63	4.51	3.98	4.19	4.72	4.25	4.36	4.44	1
Non-financial Information	300	3.11	3.52	3.67	3.89	4.15	4.32	3.76	3.43	3.28	3.65	3.68	4
Forward Looking Information	300	4.18	4.26	4.65	4.32	4.12	4.22	4.68	4.53	4.21	4.19	4.34	2

Mean Values score - 1 = Not Important at all; 5 = Very Important. (1.Individual Investors; 2.Bank Loan Officers; 3.Stock Brokers; 4.Financial Analyst; 5.Government Official; 6.Mutual Fund Manager; 7. Institutional Investor; 8.Financial Advisor; 9.Academician and 10.Auditors).

Usefulness of Voluntary Disclosures in Annual Report

The respondents were asked to present their level of agreement on six statements that reflect the areas where voluntary disclosures in the annual report can be useful to the investors. The same has been mentioned in Table IV. The respondents strongly agreed or agreed with all the statements with the exception of the proposal that the information presented in the annual report is useful in 'predicting dividends of the company'. The respondents indicated that the information contained in the annual report is useful in evaluating the company's performance and comparing it with other companies. Also, they were of the opinion that voluntary disclosures in the annual reports were useful in taking informed investment decisions and monitoring their investments. Few of them agreed that the voluntary disclosures were useful in predicting the expected income and earnings per share with certainty.

The disagreement that the respondents showed to the usefulness of voluntary disclosures in predicting future dividends and earnings could be due to the fact that the data contained in the annual report are primarily historic in nature and the level of forward looking information or future forecasts is quite less.

Table IV: Stakeholders' views on the usefulness of Voluntary Disclosures in Annual Report

Usefulness Criterion	User groups											Whole Sample	
	Freq	1 n=(41)	2 n=(25)	3 n=(32)	4 n=(30)	5 n=(32)	6 n=(28)	7 n=(28)	8 n=(29)	9 n=(27)	10 n=(28)	Mean	Rank
How useful are voluntary disclosures for taking informed investment decisions	300	4.78	4.65	4.87	4.27	4.84	3.98	4.97	4.91	4.58	4.72	4.66	1
How useful are voluntary disclosures for monitoring your investments	300	4.23	4.51	4.74	4.81	4.28	4.17	4.62	4.26	4.19	3.87	4.37	3
How useful are voluntary disclosures for predicting expected income and earnings per share	300	2.54	2.32	2.98	2.71	3.27	3.81	2.36	2.51	2.16	3.76	2.84	5
How useful are voluntary disclosures for predicting future dividends of the company	300	2.13	2.35	2.47	2.81	2.91	3.11	3.14	2.17	2.41	2.33	2.58	6
How useful are voluntary disclosures in evaluating company's performance over a period of time	300	4.13	4.26	4.81	4.58	4.26	3.97	3.65	4.11	4.93	4.23	4.29	4
How useful are voluntary disclosures to make a comparison with other companies' performance	300	4.26	4.13	4.52	4.29	3.92	4.21	4.56	4.71	4.73	4.64	4.40	2

Mean Values score - 1 = Not Useful; 5 = Very Useful. (1.Individual Investors; 2.Bank Loan Officers; 3.Stock Brokers; 4.Financial Analyst; 5.Government Official; 6.Mutual Fund Manager; 7. Institutional Investor; 8.Financial Advisor; 9.Academician and 10.Auditors).

Conclusion

The main aim of this study was to provide empirical evidence on the purpose, importance and usefulness of corporate voluntary disclosures. Consequently, ten user groups were surveyed: Individual Investors, Bank Loan Officers, Stock Brokers, Financial Analyst, Government Official, Mutual Fund Manager, Institutional Investor, Financial Advisor, Academician and Auditors. The analyses revealed that irrespective of the category of stakeholder, voluntary corporate disclosures are considered important and useful for making informed investment decisions. This reflects the fact that corporate can gain investors' confidence by disclosing information over and above the mandatory requirements.

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A. General & Strategic Company Information
General Information about the economy
Corporate Mission Statement
Brief History of the company
Description of major goods/products /services
Analysis of Company's market share
Organizational Structure/chart
Business environment (Economics, Political)
Statement disclosure relating to competitive position in the industry
Company's contribution to the national economy
Company's current business strategy
Likely effect of current business strategy on current performance
Information of member companies
Methods of Quality Control
Awards/Achievements
Significant Issues during the Year
Information on last year's performance
Statement of financial objectives
Chairman/MD's Letter or CEO's Letter to shareholders
B. Financial Information
Historical Summary of financial data of last 5 years or more
Review of current financial results and discussion of major factors underlying performance
Value added statement (Statement of wealth created)
Share price information
Advertising and publicity expenditure
Return on Assets
Return on Equity/Return on Shareholders' Funds
Profitability Ratios
Liquidity Ratios
Leverage Ratios
Other Ratios
Financial Statements as per International Financial Reporting Standards (IFRS)
C. Non-Financial Information
General statement on Industrial Relation
Productivity
Measures to control environment pollution
Major Industry Trends
Description of Social Activities undertaken
Description of Human Resource Development
D. Forward looking Information
Factors that may affect future performance

New products/service development
Marketing Plan, distribution system, expansion plan
Effect of Business strategy on future performance
Projection of research and development expenditure
Cash Flow projections
Earnings Forecast
Future Sales Revenue Forecast
Planned Capital Expenditure