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## Corporate Disclosure Practices of Indian Companies: Evidence from Banking Sector

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*Corporate disclosure is a process through which a corporate entity communicates business and financial information to their stakeholders. The study is an attempt to study the recent developments and their extent of disclosure in the annual reports of the banking companies in India. The study was based on the secondary data. The corporate annual reports of all the banking companies from the S&P CNX Nifty were analyzed by using a disclosure index. The present study revealed that all the selected firms the disclosure level of Indian banks were very poor. The main reason behind that was due to the voluntary nature of disclosure. But the increased rate of voluntary disclosure will increase the transparency of the annual reports published by companies. Thereby it will enhance the confidence of the stakeholders and the value of the firm. Therefore, the companies should be making aware of the benefits of improved voluntary disclosure. The reformers should also try to improve disclosure by converting some important voluntary disclosure items to mandatory. Assessment is one of the most important elements of teaching-learning process; the educational, emotional, and formative ramifications of judging students' work can weigh heavily on the mind of a teacher. There are differences of opinion among the educationists, researchers and policy makers on the meaning of assessment and its purposes.*

Keywords: Financial, Voluntary, Disclosure, Practices and Banking Sector.

### Introduction

Corporate disclosure is a process through which a corporate entity communicates business and financial information to their stakeholders. A strong, informative and transparent system of corporate disclosure is of very important for the efficient and effective allocation of resources as well as integrity of financial markets. Corporate reporting has a very important role in the growth and development of every business and economy of all nations.

Nowadays corporate disclosure has assumed greater importance as the after effects of global financial crisis and more retail and institutional investors entered in the annual reports of companies which are listed in the stock exchange. The recent developments in corporate financial reporting indicate a greater emphasis on better voluntary disclosures by the companies regarding their performance and state of affairs. Many new areas have been included in the annual reports of the major Indian companies recently.

Corporate disclosure may be defined as communication of published financial statements and related information from a business organization to the external parties such as shareholders, creditors, customers, government authorities and the public. It is a total communication between a company and a group of users.

Corporate annual report is considered as the most effective means of communication to the various user groups and carries the relevant financial and non- financial information about the corporate performance (Lal, 1985). Annual report today is not simply a means of communication; it is now being regarded as a vehicle of building and enhancing corporate image. Therefore, the inclusion of the useful voluntary information will add more value to it. It will also reflect to what extent corporate unit is concerned with transparency in its activities. The study is an attempt to study the recent developments and their extent of disclosure in the annual reports of the banking companies in India.

### Objectives of the Study

The objectives of the study are:

- To study the recent developments in corporate disclosure practices of Indian companies.
- To study the extent of these disclosures in the annual reports of banking companies.

### Review of Literature

Some of the studies on the extent of disclosure are follows:

Roshna (2012)<sup>1</sup> made an attempt to analyze the voluntary disclosure practices of the selected Indian companies from 2002-2004. The annual reports of 160 companies from the BSE 500 were analyzed using an unweighted disclosure index having 92 items of information. It revealed that the companies disclosed financial, non- financial and strategic information more or less same in their annual reports. It was also found that company size, profitability and international listing were positively associated with the extent of disclosure.

Kaur and Narang (2010)<sup>2</sup> explored the extent of economic value added (EVA) disclosure made by Indian companies. For this purpose, they analyzed the corporate annual reports for a period of five years from 2004 to 2008. It was found that among the selected 500 India's largest companies, just 37 companies specifically mentioned EVA. More than 90 per cent of Indian companies did not report EVA in the annual reports.

Nangia (2005)<sup>3</sup> examined the disclosure practices of ten domestic companies and ten multinational companies operating in India for a period of ten years 1992- 2001. The analysis of the disclosure index of 106 items of information revealed that the average disclosure score of domestic companies are higher than that of MNCs. There was no association between the variables such as company size and profitability and the extent of disclosure.

Cooke (1989)<sup>4</sup> reported on the extent of corporate annual report disclosure in Sweden. Annual reports of 90 companies for the year 1985 were analyzed by using an unweighted disclosure index having 224 items of information. It was found that the range of disclosure varied from 24 to 78 per cent. Majority of the companies had a disclosure score of 50 per cent or above.

Chow and Wong- Boren (1987)<sup>5</sup> reported the extent of voluntary financial disclosure by a set of 52 Mexican companies. The analysis of unweighted index of 24 items revealed that the company's disclosure score varied from 0 to 17 with a mean of 7.86. The weighted index ranged from 0-79.37 and mean 38.25. So many studies have been conducted in the field of corporate disclosure practices, extent of EVA reporting, voluntary reporting, etc. But none of the studies have been conducted for studying the extent of recent developments in the corporate disclosure practices.

### Methodology

The study was based on the secondary data such as books, journals, and websites and so on. Annual reports of the selected companies were the major data source. The annual reports were collected from the company websites. All the banking sector companies among the 22 sectors in the S&P CNX Nifty were selected for the present study. Judgment sampling was used to select the sector and the sample size was six.

Table 4.1

#### Free Float Market Capitalization

Company Name	Market (Rs Cr) capitalization	Weight
<i>ICICI Bank Ltd</i>	122051	6.77
<i>HDFC Bank Ltd</i>	114230	6.34
<i>State Bank of India</i>	57761	3.21
<i>Axis Bank of India</i>	29520	1.64
<i>Bank of Baroda</i>	13424	0.75
<i>Punjab National Bank</i>	11181	0.62

Source: S&P CNX Nifty as on September 28, 2012

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## The Recent Developments

The study selected only three developments such as Value-Added Statements, Human Resource Accounting and Economic Value Added. There are other many developments in the corporate disclosure practices. But they are not included in the present study.

Value Added Statement shows the value created or generated and the distribution of it to interested groups such as employees, shareholders, promoters of capital and the government. Value added statement is a modified version of the profit and loss account and income. It includes the rewards of a much wider group than just the shareholders. Thus, value added is a better measure for evaluating the performance and the efficiency of an enterprise than the profit figure disclosed by conventional profit and loss account. Value Added Statement are useful to external users of annual reports in making economic decisions and could lead to better predictions of a company's future earnings.

Human Resource Accounting (HRA) is a process of measuring and reporting the human resources of an organization. It is significant from the perspective of investors and other external users of the annual reports. The inclusion of HRA in published annual reports is useful in predicting future performance and also in assessing the management's preparedness to meet future challenges and opportunities.

Economic Value Added (EVA) is a new concept being applied to understand and evaluate financial performance. It represents the value added to the shareholders by generating operating profits over and above the cost of capital employed in the business.

## Discussion of the Results

For the purpose of analysis, annual reports for the year 2011- 2012 were used as the main source of data. An unweighted disclosure index was used to analyze the extent of mandatory and voluntary disclosure practices. The contents of annual reports were examined and a score is given in the form of 1 and 0. If the disclosure item is present, then a score of 1 is given and if the item is not present then a score of 0 is entered as score.

## The Extent of Disclosure

For the purpose of analysis, annual reports for the year 2013- 2014 were used as the main source of data. An unweighted disclosure index was used to analyze the extent of recent developments of corporate disclosure practices. The content of annual reports was examined and a score is given in the form of 1 and 0. If the disclosure item is present, then a score of 1 is given and if the item is not present then a score of 0 is entered as score.

Table 6.1

## The Extent of Disclosure

Company Name Items of Disclosure	ICICI	HDFC	SBI	Axis	Bank of Baroda	PNB	Total
Economic Value Added	0	0	0	0	0	0	0
Value Added Statement	0	0	0	0	0	0	0
Human Resources Accounting	0	0	1	0	0	0	0
Total	0	0	1	0	0	0	0

Source: Annual Reports 2013-2014.

From the table 5.2 it is clear that none of the banks disclosed economic value added and value-added statement for the year 2013-14. Out of the six banks, only one of them have disclosed about human resource accounting. The results indicated that the disclosure level of Indian banks were very poor in reporting recent trends of the corporate annual reports.

### Conclusion

The present study revealed that all the selected firms the disclosure level of Indian banks were very poor. They have disclosed all of mandatory disclosures. The main reason behind that was due to the voluntary nature of disclosure. But the increased rate of voluntary disclosure will increase the transparency of the annual reports published by companies. Thereby it will enhance the confidence of the stakeholders and the value of the firm. Therefore, the companies should be making aware of the benefits of improved voluntary disclosure. The reformers should also try to improve disclosure by converting some important voluntary disclosure items to mandatory.

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