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A STUDY OF CORPORATE DISCLOSURES UNDER CLAUSE 55 OF SEBI'S LISTING AGREEMENT IN THE ANNUAL REPORTS OF SELECTED INDIAN COMPANIES.

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ABSTRACT

In the wake of corporate sector globally trying to take a new avatar as responsible corporate citizen where it feels accountable towards the resources it takes away from the society in order to earn profits and assumes responsibility to report them by way of various mandatory and voluntary disclosures in its annual reports, India is running fast on the tracks to catch the train before it is too late. The objective of this paper is to measure the extent of disclosures as per Ministry of corporate affairs National Voluntary Guidelines (NVGs)-2011 in the annual reports of selected Indian companies. Such disclosers were voluntary for listed companies for the financial year 2011-12 but from the financial year 2012-13 disclosures under NVGs became mandatory for top 100 companies by market cap. Reporting of these disclosures shall be mandatory under clause 55 of SEBI's listing agreement and shall be a part of annual report under the section called Business Responsibility Reporting (BRR.) The paper seeks to prepare a disclosure index to check the level of these disclosures for both the periods when these were voluntary as well as when they became mandatory. Further a relationship between the firm's Characteristics (Size, Age, Performance (Profitability and Market Performance), Governance Measures (Proportion of Independent Directors), Listing Status, Industry Type (Banking and Financial Institutions, Public sector Undertakings and Family owned Businesses) is established to see if the extent of such disclosures varies with respect to it. Although more comprehensive disclosures may not necessarily mean good Governance and performance but they do demonstrate a company's commitment towards the interests of stakeholders at large and more specifically the capital providers. Also Firms in certain industry types are expected to disclose more. This study

assesses the response of firms towards the Business Responsibility Framework as suggested by Ministry of Corporate affairs and as mandated by Securities and Exchange board of India under clause 55 of listing Agreement.

1. Introduction

Disclosure is an "act or process of revealing or uncovering (The Free Dictionary, 2013)." In accounting terminology disclosure is defined as a "statutory or good faith revelation of a material fact (or an item of information that is not generally known) on a financial statement or in the accompanying notes (footnotes) (The Business dictionary, 2013.)" The accounting meaning of disclosure is not very exhaustive since it talks about revealing information with respect to the financial statements. When we are trying to seek information about a business, how it is being conducted, how it is performing when performance in itself has many contexts so mere accounting definition is not sufficient. There are various users of accounting information with their diverse needs for such information. These users are nobody but the various stakeholders to the business viz. shareholders, investors, lenders, analysts, researchers, Government and various regulatory bodies. Hence the definition of disclosures as provided by GRI G3 Guidelines is more apt which states "Disclosure is the practice of measuring, reporting, and being accountable to internal and external stakeholders so as to provide a balanced and reasonable representation of performance (National Voluntary guidelines, 2011.)"

The most common public document which serves the information needs related to corporate form of business is an annual report. The rules regarding preparation and publication of Annual reports were notified by Securities and exchange board of India (SEBI) in official gazette of April 7, 1994 under SEBI (Annual report Rules) 1994. SEBI is the regulatory authority in India which was primarily conceived for three things viz. "(a) protection of the interests of investors in securities; (b) development of the securities market and (c)regulation of the securities market (Annual report of SEBI 2006-07)." All the above mentioned purposes behind conception of SEBI as the regulatory body of Securities markets in India are in part fulfilled by disclosures by corporate entities in their annual reports. Though the nature of most of the disclosures in annual report is mandated by the regulator but there is ample scope for the voluntary disclosures which SEBI requests the corporate entities to come out with voluntarily. It is not just in the interest of the stakeholders but also in the interest of the corporate entities as it leads to increased confidence of various stakeholders in the company. This increased confidence has many dimensions like better access to capital and long term success and sustainability of the business.

1.1 Significance of study

There's a whole Gamut of disclosures a listed company is supposed to comply with. Mainly disclosure norms of Companies Act 1956, SEBI Guidelines and Regulations from time to time and listing Agreement of Stock Exchanges mandates entities to disclose required information in order to raise capital from the securities markets. "This philosophy of disclosure is premised on the simple idea that securities represent a bundle of rights which are not visible to an investor of securities and such investors must know about the underlying company and the nature of the bundle of rights before they take an investment decision. Disclosures also reduce the possibility of wrongdoing. Even if a disclosure is not read by anyone, the fact that something needs to be disclosed and is in public domain will provide a good prophylactic against wrongdoing. The idiom that 'sunlight is the best disinfectant' succinctly describes this philosophy in the securities market (Report of the sub-committee on integrated disclosures, 2008.)" Disclosure and flow of information can be segregated into three categories i.e. Disclosures: (i) at the time of Public Offering, (ii) Continuous disclosure (Quarterly results, half yearly results, Annual reports, other disclosures) (iii) disclosure attributable to a particular transaction. Even before SEBI was established in 1992 under the Securities and exchange board of India Act, 1992 continuing disclosure regime as under the Companies Act 1956 existed. But the major drawbacks of such regime were low frequency (once a year), little recourse for non compliance and no separate specification of set of disclosures for private and public limited companies. SEBI played an active role in ensuring the incidence of disclosures on the part of corporate entities is more frequent and vivid by implementing the recommendations made by various committees for continuing disclosures, corporate governance, National Committee on Accounting Standards (NACAS) (in collaboration with Institute of charted accountants of India (ICAI.)) All this led to such mandated disclosure requirements which presented a clearer landscape of a company's business performance (Sabrinathan, G, 2010.)

1.2 Motivation behind the Study

On 24th November 2011 SEBI passed a board resolution mandating listed companies to report in its annual report fillings Environment, Social and Governance (ESG) initiatives undertaken. These disclosures are to done as Business Responsibility (BR) reporting in a phased manner. In order to facilitate this on August 13 2012 SEBI through its circular CIR/CFD/DIL/8/2012 to all stock exchanges made amendment in listing agreement by inserting a new clause 55 in the equity listing agreement. This new clause made inclusion of Business Responsibility Report (BR) mandatory in annual Report which earlier came under the purview of National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business and hence treated as voluntary disclosures in the annual reports. The circular were to come in force from Financial Year (F Y) ending December 31, 2012 onwards. However, the listed entities those were yet to come out with their annual reports for FY year ending March 2012 could include BR report in their Annual reports voluntarily.

National voluntary guidelines which were translated into the business responsibility framework consist of 9 principles related to ethics, transparency and accountability, sustainable production and sourcing of goods and services, promotion of wellbeing of employees, prevention of human rights violations, responsiveness towards stakeholder intrest and the interests of vulnerable and marginalized, protection and restoration of environment, engage in influencing public policy and customer value creation (National Voluntary Guidelines on social, environmental and economic responsibilities of business, Ministry of corporate affairs of India.)

SEBI's ruling of mandating the earlier voluntary disclosures is in sync with the thought behind the very existence of this institution i.e. ensuring compliance. Though the disclosures under ESG can very well be debated for staying voluntary in nature but in order to protect the interests of stakeholders probably SEBI thought to bring them under the purview of compliance. Since it has been made mandatory for top 100 companies on the basis of market cap it justifies the rational behind the protecting of interests of the stakeholders in the companies which are custodian of large amount of funds vested in them and the huge amount or resources they have an access to.

2. Review of the Work Done on the Subject:

The history of disclosures though dates back to seventeenth century. It was in the year 1841 the first report inquiring into greater scrutiny of joint stock companies by public gave certain recommendations in England. Till 1900s progress in corporate disclosures in US followed the standards set in England (Ramanathan Ramesh, 2009.) Progress in disclosures can be clearly identified with establishment of SEC in USA in 1933. In 1936 it issued a statement which required that accounting data should be based on objective evidence, which the modern disclosures identify as 'audit.' This lay the foundation for Generally Accepted Accounting Principles (GAAP) with the hope that they will improve the reporting for not just the benefit of business community but also public at large. It was not only the first major attempt towards formal accounting framework but also permitted the disclosure of information relevant to various situations among individual owner, manager, or creditor concerned based on certain unalterable rules. This paved the way for the monograph developed and authored by William A. Paton and A. C. Littleton 'Introduction to Corporate Accounting Standards' as published in 1940 discussing the accounting theory underlying the 1936 statement. Littleton was quick to recognize that "the primary function of accounting was a record-keeping and disclosure" (Bedford, M. Norton and Ziegler, E. Richard, 1975.) The concerns of Berle and means in 1932 regarding the modern corporation proved to be an ample motivation to the book 'An Introduction to corporate accounting standards by W. A. Paton and A. C. Littleton which understood the "public character" of big corporations and felt need for dissemination of information to various stakeholders (Cao, Zhiyan, nd.)

One of the fundamental challenges which a corporate form of business has been facing since inception is agency problem leading to Information asymmetry. The ownership and management structure of corporate form of business is the reason behind. There is a lot of seminal literature available on separation of ownership and management in a company. Digging into the history of company form of business which was called a joint stock company to begin with, an evidence of such form and structure can be found in the year 1407 in Italy. Since Italian Finance had a major influence on England such forms and structures were copied abroad. One of the early trade guilds which emerged during the Anglo-Saxon and Anglo-Norman social guilds was management by committee or board (Walker, C., E., 1931.) Berle and Means in his book 'The Modern Corporation and Private Property, 1932' exhibited grave concern for the 'separation of ownership and control in large U S Corporations. He feared the emerging class of mangers who will be at the helm of destroying or creating wealth for its owners (shareholders) and other stakeholders at large may become impermeable towards the welfare of others As a result of Berle and mean's concerns the whole concept of 'Mangerialism' came under the scanner and the theory of agency problem emerged as a logical argument of such phenomenon (Mizruchi, S, Mark, 2004.) Two phenomenal works which talk about agency problem and suggest alignment of manger's interests with the interests of stakeholders by applying certain monitoring mechanisms are the pioneer works of Jensen and Meckling and Fama and Jensen. Jensen and Meckling, 1976, defined the concept of agency costs with respect to the 'separation of ownership and control.' They defined the agency cost as the sum of the monitoring costs of principal, the bonding cost of the agent and the residual loss. The paper tried to answer many questions, one of them being "why accounting reports would be provided voluntarily to creditors and stockholders, and why independent auditors would be engaged by management to testify to the accuracy and correctness of such reports." By providing the information collected by the manager for his own decision making requirements to the principal (reduction in information asymmetries) and bondholders (reduction in covenants) in the low cost way, may lead to reduction in monitoring and bonding costs. This is enough evidence that it is very important to make disclosures to various stakeholders. Hence, disclosures may help in minimizing the agency costs, though the level of agency cost would depend "among other things, on statutory and common law and human ingenuity in devising contracts." Fama and Jensen, 1983, stated that in case of open corporations where there is complete specialization of decision making and residual risk bearing (separation of ownership and control), arguments related to agency problem between decision agents and residual claimants led to the establishment of Securities and Exchange Commission (SEC) and set the stage for modern Corporate Governance movement.

When it comes to communication of business information to various stakeholders, especially the investors, analysts and stock markets the structure and process of communication matters a lot. The practice and perceptions about the effectiveness of financial reporting and disclosures varies depending upon the regulations mandated in specific countries and the thought process of the management towards furnishing additional information (voluntary disclosures) than the mandated one. Bushman and Smith have discusses many dimensions of Corporate disclosures and transparency and suggested very authentic and economic research based ideas for future research. The Bushman Piotroski & Smith, 2003 (BPS) frame work for conceptualizing and measuring corporate transparency at country level has three main elements: (i) corporate reporting (Voluntary and mandatory) (ii) information dissemination via media and internet channels (iii) private information acquisition and communication by financial Analysts, institutional investors, and corporate insiders. A study by Ho and Wong, 2003 revealing the 'preparer's perceptions of corporate reporting and disclosures' in Hong Kong found that the quality and quantity of disclosures is inadequate in Hong Kong and East Asian countries. The nature of information disclosed is also influenced not by the preparers but by the CEO's and CFO's of the company and also a very small no of preparers agreed that the current disclosures were effective to meet the information needs of investors. In order to bridge the communication gap between the preparers and the investors instead of focusing on improved financial reporting and disclosure regulations rather improvement in investor relations, development of industry specific disclosure guidelines and increased voluntary disclosures was suggested by the respondents. Razeen, Al-

Abdulrahman and Karbhari, Yusuf, 2004 have stated very elaborate list of mandatory and voluntary disclosures and checked for the relationship between the two. A very interesting revelation about the concentration of voluntary disclosures in one part of annual report (director's report) has been found moreover there is not much evidence that more vivid mandatory disclosures would lead to more voluntary disclosures also. In this era of globalization and financial market deregulation there is an ever increasing demand for corporate disclosure. Corporate disclosures when we say are done under two categories, one which is mandated by the regulation and the one which is voluntary in nature. Amongst these categories of disclosures the financial disclosures are more sought after by the shareholders, institutional investors and foreign investors. Certain times the accounting regulations are sufficient to ensure necessary disclosures and sometimes not. The gap between what is mandated and what is required can be bridged by increased voluntary disclosures, financial ones in particular. The study by Lakhal Faten , 2005 has shown that in case of French firms with voluntary earnings disclosures the ability to attract higher foreign institutional investor ownership and offer of executive stock option plans is more. According to Miller, Jeffery S, 2009, in order to facilitate investors to take sound investment decisions SEC mandates public companies to disclose financial information and other useful information. This information keeps all types of investors whether large institutional or individual to have access to common pool of information. Also SEC thoroughly believes that all important information is not covered by the mandatory disclosures. Hence a wide range of voluntary disclosures regarding current and forward looking information are sought after. But it has been evidenced that certain times managers try to use such disclosures to benefit certain subset of stakeholders at the cost of others. The stakeholder value perspective to increase the value of firms' equity shareholders at the cost of other stakeholders is not just unethical but also inconsistent with "public interest" justification of Securities Exchange Act of 1932 and the stakeholder theory which reinforces the importance of responsibility of board and management towards all stakeholders. Myring and Shortridge, 2010 wanted to establish relation between stronger corporate governance and its ultimate contribution towards reliable and enhanced disclosures but the evidence was weak to substantiate that. However every step taken in the direction of more corporate disclosures may lead to better governance perception of companies and less reliance by the analysts on idiosyncratic information. Razeen, Al-Abdulrahman and Karbhari, Yusuf, 2004 have stated very elaborate list of disclosures which are mandatory as well as voluntary and checked for the relationship between the two. A very interesting revelation about the concentration of voluntary disclosures in one part of annual report (director's report) has been found moreover there is not much evidence that more vivid mandatory disclosures would lead to more voluntary disclosures also.

Cooke, T. E. 1989 in his paper tried to assess the extent of corporate annual report disclosure in Sweden and further tries to find an association between a no. of corporate characteristics and extent of disclosure. Data has been collected on the basis of survey of annual reports of companies which published their results for the year ending 31st December 1985. A Stratified random sample of 250 companies from a population of 2000 divided into sub groups was requested for sending annual reports. The response rate after reminder reached 81%. The final sample under study was 90 after eliminating certain companies on the basis of parent subsidiary relationship to avoid duplication, specialized nature of operations and OTC listed companies. These 90 companies were distributed into three groups; unlisted companies, companies listed on Swedish stock exchanges (SSE), companies listed on SSE but have multiple foreign quotation. In order to capture disclosure a scoring sheet was developed. 224 items were listed in the scoring sheet which were distributed under financial statements, measurement and valuation methods, ratios, statistics and segmental information, projections and budgetary disclosures, Financial history, Social responsibility Accounting. Dichotomous procedure was used to arrive at un - weighted total disclosure (TD) score which was additive in nature which subsequently led to total index (TI) for each company. In order to test the null hypothesis one way analysis of variances and multiple linear regressions were applied. The depended and independent variables used were the value of total index and quotation status, parent company relationship, Annual sales, Total Assets Size, Number of shareholders respectively. One major corporate characteristic is the listing status and the results showed that the extent of disclosure in companies listed on SSE with multiple quotations had maximum disclosures followed by companies listed on SSE and last were the unlisted companies. It was inferred that the capital needs and foreign regulation led to more disclosures in case of companies with more disclosures. **Another finding of the paper was the association between size of the firm and extent of disclosure. Size of the company was explained by asset size, annual sales and number of shareholders and it was found that all three were significant in explaining variance in the extent of disclosures.**

Craig and Diga's, 1998, study aimed two targets first to gauge the "extent, nature and pattern" of disclosures in ASEAN and further to check whether the existing disclosure requirements are conducive to accounting Harmonization in ASEAN region. The nature of disclosures was broadly identified as financial and Social & non financial. The extent of disclosure was studied through

Disclosure score arrived at through a disclosure index consisted of 530 individual items of financial nature. the disclosure score D was dependent variable and the independent variable were company size, degree of leverage, industry membership, international operations, foreign ownership and country of origin. The sample size taken was random selection of 145 companies (30 companies each were chosen from Singapore, Malaysia, The Philippines, and Indonesia, and 25 were chosen from Thailand, the companies sampled were from the seven industry groups: Diversified holdings, Banking & finance, Manufacturing, Utilities, Natural resources, Property development, Other services) listed on various stock exchanges of ASEAN as on 31st December 1993.In order to statistically determine the significant differences among the countries in terms of disclosure scores, assets, turnover and debt to equity ratios various parametric and non parametric tools were used. The various tools applied were Kruskall-Wallis test for untransformed variables as normality could not be assumed for them, ANOVA after log transformation of continuous variables was used which satisfied the normality assumption, Tukey's procedure was applied to distinguish pair wise differences between countries, and multiple regression analysis was used to study dependent and independent variables. The study found that there was high degree of harmony in *de jure* disclosure and both *de jure* and de facto disclosures are not likely to hinder disclosure harmonization in ASEAN. But they observed that Non financial and social disclosures were superficially disclosed in ASEAN. Corporate accountability towards stakeholders didn't seem to be "widely accepted." A major gap identified by them was that there are not much studies of "disclosure of social and non-financial information by ASEAN companies." There was reasonable amount of mandatory disclosures but considerable reluctance on disclosures related to labour & Employment, environmental activities, transfer pricing policies, government subsidies and value added was there. **It was inferred and left open for future research that "disclosure harmony couldn't be achieved in the absence of specific regulatory compulsion" or else capital market competition should push "increased level of voluntary disclosures in individual enterprises."**

Khanna and Rivkin 1999 statistically confirmed that networks in emerging economies mold the broad patterns of economic performance. They showed the effect of Business groups on accounting profitability in strong and economically meaningful ways in twelve of the thirteen countries. The results were robust. This paper leaves ample scope for future research on such network affiliations based on regional, language and caste based factors as groups exist for different reasons. Moreover specifically in context of Indian family businesses the group network effect is studied for networks identified such as RPG group which belongs to Goenka's. Similarly

Chen and Jaggi 2000 studied the impact of Family controlled firms in Hong Kong on corporate board responsiveness where in the extent of Financial disclosures were used as proxy for board responsiveness and proportion of independent directors a measure for corporate boards. The findings supported an association between proportion of independent directors and comprehensiveness of financial disclosures but the association was weaker for family controlled firms. An Ordinary Least squares regression and Pearson's Correlation was applied to test the association between variables. Additionally size of the firm proxied by total assets, sales and market value were positively associated with Disclosures. Further the paper argues scope for further study on association of family controlled businesses and extent of disclosures.

S P Kothari, J E Short , 2003 emphasized the importance of corporate disclosures and its impact on the financial health of the company. Although the study was successful in providing empirical evidence demonstrating the importance of positive news disclosure on cost of capital yet there have been no findings which suggest the impact of negative news disclosures. The information analysis suggests strong and different patterns in disclosure content made by firms, analysts and the press and laid emphasis on the role of agency in assessment. This was found that as the role of information intermediaries increased, the level of information discerned also goes up. Data relating to who says what, when, and through what channel, on the firm's cost of capital was also available. The sample comprises of companies in four sectors- Pharmaceutical, Telecommunication, Financial Services and Technology and four electronic data sources were accessed- Dow Jones Industrial, Investex, Factiva and Securities and Exchange Commission's Edgar site. The researchers not only studied the annual reports of the companies concerned but also include all other disclosures made by companies, analysts and business articles published by over 400 news journals, magazines and other publishers available electronically. The research should further be extended to the other industry sectors and to deepen the potential.

Mohammad Hossain , 2008 in his paper "The extent of disclosures in annual reports of Banking Companies: the case of India" argued attributes like size, profitability, board composition and market discipline are significant in explaining the extent of disclosures. The study empirically examines the extent to which Indian listed banks disclose mandatory and voluntary items in their annual reports. The sample size covered all the banks listed on BSE and NSE in the year 2004. A list of mandatory and voluntary items were selected by the researcher and the study revealed an average score of 88 in case of mandatory disclosures which was much higher than the average score of 25 in case of voluntary disclosures. The study further identified a list of attributes like size, profitability, board composition and market discipline variables that positively affect the extent of disclosures. The attributes which were insignificant were complexity of business and age. This paper was a major contribution in the concerned field showing that transparency and high compliance could be attained through a strong monitoring system.

Mohammed Hossain, Helmi Hammami, 2009 argued in their study "Voluntary disclosure in the annual reports of an emerging country: The case of Qatar" that some of the company specific factors that are significant in explaining the extent of voluntary disclosures are age, size and asset-in-place. The study focuses on finding out the factors which determine the extent of voluntary disclosure in the annual reports of listed firms in Qatar. The sample selected is 25 listed firms of Doha Securities Market (DSM) in Qatar. These firms constitute almost 86% of the total market. The study further comes out with relationship between company – specific characteristics and voluntary disclosures of the sample. The researchers employed multiple regression analysis to find out significant and insignificant factors.

Ragini, 2012 did a comparative study of Intangibles disclosure practices among Indian, US, and Japanese Companies for a period of five years, i.e., 2001-2005. The study developed and examined a disclosure index of 180 items both mandatory and voluntary to examine the type and extent of disclosures. Both univariate and multivariate techniques were used to analyze the data. In order to In order to test the difference between the disclosures score over the years Wilcoxon matched pair-sign rank test and paired t-test were used, for the difference in the disclosure scores of the three countries Kruskal-Wallis Test was used and for the difference in disclosure scores of different Industries Independent sample t test has been used. Step wise regression has been used to find the association of company attributes like Size, profitability and Industry type with disclosure scores of the three countries. It was found that though the disclosures have improved over a period in these counties. In context of India it was suggested that narrative nature disclosures should be emphasized by accounting and regulatory authorities to improve the level and extent of disclosures in India.

3. <u>Research Methodology</u>

3.1 Objective of the study

The key objectives of this paper are as follows:

1) To study nature of disclosures under clause 55 of SEBI in the annual reports of Indian companies.
2) To measure the level of disclosure under Clause 55 of SEBI through development of disclosure index.
3) To identify whether the disclosures under Clause 55 in the annual reports of Indian companies are different based upon firm characteristics.

3.2 Broad Research Statement:

Disclosures under Clause 55 in annual reports are significantly different based upon firm characteristics viz. Age, Size, Performance, Listing Status, Corporate Governance (Proportion of Independent Directors) and Industry Type (Banking & Financial Institution, Public Sector Undertaking, Family Owned business)

3.3 Hypothesis Formulation

H1: There is significant mean difference between disclosure scores of firms with larger Size
H2: There is significant mean difference between the means of disclosure scores of firms with older age
H3.1: There is significant mean difference between disclosure scores of firms with higher Return on Net Worth.
H3.2: There is significant mean difference between disclosure scores of firms with higher Net Profit Margin.
H3.3: There is significant mean difference between disclosure scores of firms with higher Price Earnings.
H3.4: There is significant mean difference between disclosure scores of firms with higher Asset Turnover.
H4: There is significant mean difference between disclosure scores of firms with international Listing Status
H5: There is significant mean difference between disclosure scores of firms with higher proportion of Independent Directors
H6: There is significant mean difference between disclosure scores of Banking & Financial Institutions and others

H7: There is significant mean difference between disclosure scores of Public sector undertakings and others
H8: There is significant mean difference between disclosure scores of Family owned Businesses and others

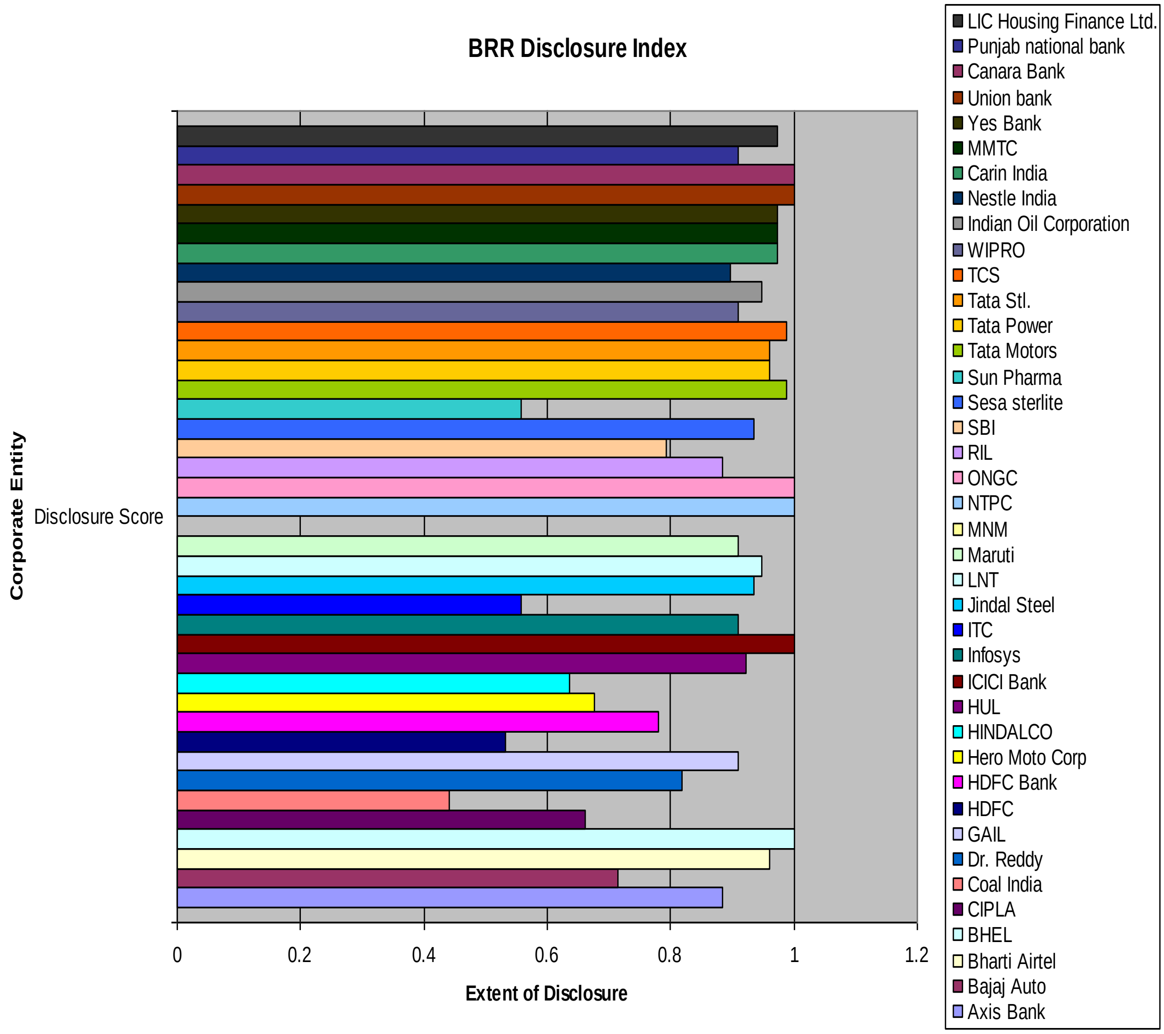
3.4 Sample Selection and Data Collection

Since the objective of this paper is to measure the extent of disclosures as per Ministry of corporate affairs National Voluntary Guidelines (NVGs) - 2011 in the annual reports of selected Indian companies the first step is to select a well recognized index of listed companies. For this purpose the business responsibility reports of 40 companies were selected from the list of Top 100 companies of India issued by Ministry of Corporate Affairs. Such disclosers were voluntary for listed companies for the financial year 2011-12 but from the financial year 2012-13 disclosures under NVGs became mandatory for top 100 companies by market cap. Reporting of these disclosures is mandatory under clause 55 of SEBI's listing agreement and should be a part of annual report under the section called Business Responsibility Reporting (BRR.) In the year 2011-12 Infosys and Wipro were the only companies to come out with a business responsibility report. But as soon as it was made mandatory more number of companies published their BRR. In order to know the extent of these disclosures a disclosure index containing 77 items was prepared based on the BRR framework as proposed by the Ministry Of Corporate Affairs and mandated by SEBI under Clause 55 of Listing Agreement.

3.5 Disclosure Index Construction and Disclosure Scores

In order to find the disclosure of each company first of all a disclosure index has been developed. The index contains 77 items of disclosure, where in each item was looked for in the BRR filed by the selected company. If the disclosure item is present in the BRR of a company then it is assigned a score of 1 for that item and in case it is not there then its score is 0. In order to find the disclosure score of each company the following formula is used:
Disclosure Score = Total no of disclosures done by the company /Total No. of disclosures as identified in the disclosure index i.e. 77.

Based on the disclosures scores worked out on the bases of above formula below is a comparison of these scores based on the data collected for 40 companies.



3.6 Statistical Model

Analysis of data and hypothesis testing has been done by using an Independent sample t-test which is a parametric test. Hypothesis formulation and testing on the sample data is is pertinent to settle on the validity of results. The Independent t test studies each variable in isolation by comparing the means of two groups and establishing whether or not they are statistically different. An independent sample t test has been used to analyze the mean differences of the data on the basis of Size, Age, Profitability (Return on Net Worth, Net Profit Margin, Price Earning Ratio, Asset Turnover Ration) Listing Status, Governance aspect (Proportion of Independent Directors) and Industry type (Banking and Financial Institutions and Non- Banking and Financial Institutions, Public Sector Undertakings and Non Public Sector Undertakings, Family Owned Businesses and Non- Family Owned Businesses.

3.7 Variable Description

Variables Incorporated	**Explanation**	**Proxy**	**Nature of Variables**
Dependent Variable			
Disclosure Index (DI)	Disclosure of a particular item as per BRR is = 1 and Non Disclosure of a particular item is = **0** Disclosure Index Score = Total Disclosures as per BRR by a firm/ Total Number of Disclosures in the Index (77).	Disclosures Index Score (DI Score)	Continuous – Interval Variable
Independent Variables			
Size of the Firm	Total Assets of the Firm	Log Size	Continuous – Interval Variable
Age of the Firm	No of Years since Incorporation	Age	Continuous – Interval Variable
Performance of the Firm – Profitability and Market Performance.	Return On Net Worth = Profit After Tax / Net Worth Net Profit Margin = Profit After Tax / Total Income Asset Turnover Ratio = Total Income / Total Assets Price Earning Ratio = Market Value Per Share / Earning Per Share	RONW NPM AT PE	All Continuous – Ratio Variables
Listing Status	Whether a firm is Listed only in India or Listing in India as well as some foreign listing.	If Indian as well as foreign Listing then 1, if only Indian	Categorical – Nominal - Dichotomous Variables

		listing then 0	
Corporate Governance	Proportion of Independent Directors = Total Number of Independent Directors in a Firm / Total Number of Directors in a Firm	ID	Continuous – Ratio Variable
Industry Type	Banking & Financial Institution and Non Banking & Financial Institution. Public Sector Undertaking and Non Public Sector Undertaking. Family Owned Business and Non Family Owned Business.	If Banking & Financial Institution then 1, if otherwise then 0 If Public Sector Undertaking then 1, if otherwise then 0 If Family Owned Business then 1, if otherwise then 0	All Categorical – Nominal - Dichotomous Variables

4. Data Analysis and Result Discussion

Out of the eleven variables tested for significant differences in the means, two variables have been found to be significant. The Firm disclosures under Clause 55 with respect to Size of the firm and Firm performance by way of Market Performance (Price Earning) have been found to be statistically significant. None of the variables under industry type have been found to be significant. Firstly the results of significant variables have been discussed followed by discussion on results of other variables

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Disclosure Score	40	.000000000	1.000000000	.83149350640	.240450689593
Log Size	40	7.94416232E0	1.42642018E1	1.0755972508E1	1.55322289799E0
Log Age	40	1.791759469E0	4.663439094E0	3.579509071 42E0	.701690014102
RONW	40	.0092	1.1801	.220495	.2019456
A T	40	.09	10.15	1.0700	1.70160
PE	40	.0009	.1015	.010700	.0170160
NPM	40	-.0024	1.4599	.174290	.2462881
ID	40	.090909091	.800000000	.42427521052	.181944060839
Listing status (Foreign Listing =1 or only Indian Listing = 0	40	0	1	.42	.501
Family Owned Business House = 1 or otherwise = 0	40	0	1	.37	.490
PSU = 1 or otherwise = 0	40	0	1	.30	.464
Banks & Fin Institutions =1 or otherwise = 0	40	0	1	.28	.452
Valid N (list wise)	0				

4.1 Disclosure Scores and Size of the firm:

An independent-samples t-test was conducted to compare disclosure scores in larger in size and smaller in size firms (Table 1 & 2). There was a significant difference in the scores for larger (M=**0.90**, SD=**1.3**) and smaller (M=**0.66**, SD=**0.34**) firms; t (12.365) =**2.357**, p = **0.036**. These results suggest that size really does have an effect on extent of disclosures. Specifically, the results suggest that larger in size firms disclose extensively with a large effect size (Cohen's effect size r = **0.47**). The results also go well with the existing studies of Cooke 1989, Craig and Diaga 1998 and Hossain 2008.

Table 1

Group Statistics

	Log Size	N	Mean	Std. Deviation	Std. Error Mean
Disclosure Index(Dependent Y)	>= **10.00000000**	28	.90398886818	.130030650601	.024573483165
	< **10.00000000**	12	.66233766225	.344806806720	.099537151339

Table 2

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Disclosure Score	Equal variances assumed	12.077	.001	3.250	38	.002	.241651205929	.074346026531	.091145543710	.392156868147
	Equal variances not assumed			2.357	12.363	.036	.241651205929	.102525609345	.018992414932	.464309996926

4.2 Disclosure Scores and Price Earnings of the Firm

An independent-samples t-test was conducted to compare extent of disclosure score viz a viz Price Earnings of a firm (Table 3 & 4). There was a significant difference in the scores for firms with higher price earnings (M=**0.75**, SD=.29) and lesser price earnings (M=**0.90**, SD=**0.13**) firms; t (26.181) = -2.072, p = **0.048**. These results suggest that market performance does have an effect on extent of disclosures with medium effect size (Cohen's effect-size r = **0.32**.) But what is pretty apparent is that firms with higher price earnings have lower mean of disclosure scores and firms with lower price earnings have higher mean of disclosure scores. This leads us to envisage firms with lower price earnings try to communicate more to the markets and investors through extensive disclosures so that Investors can take sound and informed decisions and do base their decisions exclusively on market performance. The finding goes well with the study of Lakhal Faten (2005) and Miller, Jeffery S, (2009)

Table 3

Group Statistics

	PE	N	Mean	Std. Deviation	Std. Error Mean
Disclosure Score	>= 18.00	20	.75584415570	.298555642251	.066759071114
	< 18.00	20	.90714285710	.132259295081	.029574077446

Table 4

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Disclosure Index(Dependent Y)	Equal variances assumed	8.329	.006	-2.072	38	.045	-1.512987014000E-1	7.301643399091E-2	-2.991127442408E-1	-3.484658559152E-3
	Equal variances not assumed			-2.072	26.181	.048	-1.512987014000E-1	7.301643399091E-2	-3.013356982333E-1	-1.261704566748E-3

4.3 Disclosure Score and Age of the Firm: The result of the Independent t test reveals that there is no significant difference between the extent of disclosures and the age of the firm. This revelation is in confirmation with the study of Hossain (2008.)

4.4 Disclosure Score and Listing Status of the Firm: The result of the Independent t test reveals that there is no significant difference between the extent of disclosures and the listing of the firm. This result is not in confirmation with the study of Cooke (1989.)

4.5 Disclosure Score and Corporate Governance measures of the Firm (Proportion of Independent Directors): The result of the Independent t test reveals that there is no significant difference between the extent of disclosures and the proportion of Independent directors which a measure of corporate governance in a firm. This revelation is in confirmation with the study of Myring and Shortridge (2010.)

4.6 Disclosure Score and Performance of the Firm (Profitability): The result of the Independent t tests of Net profit Margin and Asset turnover reveals that there is no significant difference between the extent of disclosures and the profitability (Net Profit margin, return on Net worth and Asset turnover of the firm.) This result is not in confirmation with the study of Hossain (2008) and Ragini (2012.)

4.7 Disclosure Scores and Industry Type of the firm: Though none of the Industry type variables were found to be statistically significant but there were some interesting observations in tune with the existing studies of Hossain 2008 and Chen and Jaggi (2000)

4.8 Extent of Disclosure score in Public Sector undertakings: Out of 40 firms only 12 firms were Public Sector undertakings then also the mean level of disclosure was higher in PSU ($M = 0.91$, $SD = .16$) than other firms ($M = 0.79$ $SD = .26$) but $t(38) = 1.410$, $p = 0.167$ was n.s.

4.9 Extent of Disclosure score in Banking and Financial Institutions: Out of 40 firms only 11 firms belonged to banking and Financial Institutions then also the mean level of disclosure was higher ($M = 0.89$, $SD = .14$) than other firms ($M = 0.80$, $SD = .27$) but $t(38) = .989$, $p = .329$ was n.s. This result is not in confirmation with the findings of Hossain 2008.

4.10 Extent of Disclosure score in Family owned Firms: Out of 40 firms 15 firms were Family owned but not just the mean level of disclosure was lower in Family Owned Firms ($M = 0.81$, $SD = .25$) than other firms ($M = 0.83$ $SD = .23$) but $t(38) = -.268$, $p = .790$ was n.s. This result is in confirmation with the findings of Chen and jaggi, 2000.

5. <u>Conclusion</u>: the study examines the disclosures required under the BRR framework mandated by SEBI's clause 55 of listing agreement. The study navigates through annual reports of 40 Indian companies selected from the list of top 100 companies by market cap issued by Ministry of corporate affairs. In order to workout the disclosure score of each company a disclosure index of 77 items was developed to gauge the extent of disclosures by each firm. Further the disclosure Scores of selected firms were checked for differences on the basis of firm characteristics like age, size, performance, listing status, Governance measure and Industry type. The results of data analysis revealed that Size and performance of the firms (Price Earnings) were significantly different for level of disclosure by the firms. As far as extent of disclosures and Industry type are concerned banking and financial institutions and Public sector Undertakings had higher mean level disclosures than other companies but the results was statistically not significant. While in case of Family owned businesses the result was in confirmation with Chen and Jaggi, 2000. Overall it can be concluded that some of the firm characteristics do have an effect on the extent of disclosures by a firm. Moreover this study can be further extended to workout a model based on firm characteristics which best explains the extent of disclosures by a firm. Since the set of disclosures captured by this paper to form the disclosure index for the selected firms is mandatory for these companies that's' why the average disclosure done by these companies is high in number of disclosers but not sufficient with respect to quality or depth of disclosures. It needs to be seen from the policy making side that mere disclosure doesn't mean that business responsibility is amicably owned by the businesses. It has been observed while collecting the data that disclosure were done at some places in such away that it was difficult to make out whether there were sufficient processes to take care of requirements of that particular principle of BRR. So the policy makers should try to incorporate disclosures on such parameters which can establish the authenticity of information. Mere compliance to having policies in place relating to each of the nine principles is not sufficient.

Annexure

Disclosure Index

Business Responsibility Report - Suggested Framework as per SEBI's clause 55

Item no.	S. No.	Information/Disclosure
		Section A: General Information about the company
1	1	Corporate Identity Number (CIN) of the Company
2	2	Name of the company
3	3	Registered Address
4	4	Website
5	5	E-mail id
6	6	Financial Year reported
7	7	Sector(s) that the Company is engaged in (industrial activity code-wise)
8	8	List three key products/services that the Company manufactures/provides (as in balance sheet)
9	9	Total number of locations where business activity is undertaken by the Company
10	i.	Number of International Locations (Provide details of major 5)
11	ii.	Number of National Locations
12	10	Markets served by the Company – Local/State/National/International/
		Section B: Financial details of the company
13	1	Paid up Capital (INR)
14	2	Total Turnover (INR)
15	3	Total profit after Taxes (INR)
16	4	Total spending on Corporate Social responsibility (CSR) as percentage of profit after tax (%)
17	5	List of activities in which expenditure in 4 above has been incurred:-

	Section C: Other Details	
18	1	Does the company mentions about its susidiary company/ companies in BR Report
19	2	Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company?
20	3	Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company?
	Section D: BR Information	
21	1	Information about the Director/Director/executive responsible for implementation of the BR policy/policies.
22	2	Information about the BR head
		Principle-wise (as per NVGs) BR Policy/policies
23	3	Do you have policy/policies in accordance with and for all 9 principles (if a co have policy for majority of principles and reason & time frame for not having for others is mentioned then 1 has been assigned.)
24	4	Has the policy being formulated in consultation with the relevant stakeholders?
25	5	Does the policy conform to any national /international standards? If yes, specify?
26	6	Has the policy being approved by the Board? Is yes, has it been signed by MD/owner/CEO/appropriate Board Director?
27	7	Does the company have a specified committee of the Board/ Director/Official to oversee the implementation of the policy?
28	8	Is there a mention of link for the policy to be viewed online?
29	9	Has the policy been formally communicated to all relevant internal and external stakeholders?
30	10	Does the company have in-house structure to

		implement the policy/policies?
31	11	Does the Company have a grievance redressal mechanism related to the policy/policies to address stakeholders' grievances related to the policy/policies?
32	12	Has the company carried out independent audit/evaluation of the working of this policy by an internal or external agency?
33	13	If the company has no policy with respect to any of the principles or all the principles has it mentioned the reason for this?
34	14	Does the company provides some timeline for putting such polocy/policies in place.
35	15	Is there a mention about the frequency with which the Board of Directors, Committee of the Board or CEO assesses the BR performance of the Company?
36	16	Does the Company mentions about the publication of BR report?
37	17	Does the Company mentions the hyperlink for viewing the published BR report?
38	18	Does the Company mentions about the frequency of publication of BR report?
	Section E: Principle-wise performance	
		Principle 1: Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
39	1	Apart from the company itself does the policy relating to ethics, bribery and corruption extend to the Group/Joint Ventures/ Suppliers/Contractors/NGOs /Others?
40	2	Does the Company mentions about the stakeholder complaints have been received / not received in the past financial year and also about percentage of satisfactorily resolvement by the management
		Principle 2: Business Should provide goods and

		services that are safe and contribute to sustainability throughout their life cycle
41	1	Is there a mention of company's products or services whose design has incorporated social or environmental concerns, risks and/or opportunities?
42	2	For each such product mentioned, are the details provided in respect of resource use (energy, water, raw material etc.) per unit of product(optional):
43	3	Is there information about reduction of resources during sourcing/production/ distribution achieved since the previous year throughout the value chain?
44	4	Is there information about reduction during usage by consumers (energy, water) has been achieved since the previous year?
45	5	Is there information about the company having procedures in place for sustainable sourcing (including transportation)?
46	6	Is there information about the percentage of inputs which were sourced sustainably?
47	7	Has the company taken any steps to procure goods and services from and tried to improve the capacity of local & small producers, including communities surrounding their place of work?
48	8	Does the company provide information about some mechanism in place to recycle products and waste?
		Principle 3: Businesses should promote the wellbeing of all employees
49	1	Information of Total number of employees.
50	2	Information on Total number of employees hired on temporary/contractual/casual basis.
51	3	Information on Number of women employees.
52	4	Information on Number of employees with disabilities
53	5	Information on employee association that is

		recognized by management
54	6	Information on number of complaints relating to child labour, forced labour, involuntary labour, sexual harassment in the last financial year and pending/resolved, as on the end of the financial year.
55	7	Information on employees given safety & skill up-gradation training in the last year
		Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.
56	1	Has the company mapped its internal and external stakeholders?
57	2	Out of the above, has the company identified the disadvantaged, vulnerable & marginalized stakeholders?
58	3	Is there information on any special initiatives taken by the company to engage with the disadvantaged, vulnerable and marginalized stakeholders.
		Principle 5: Businesses should respect and promote human rights
59	1	Does the policy of the company on human rights cover only the company or extend to the Group/ Joint Ventures/Suppliers/Contractors/NGOs/Others?
60	2	Information on stakeholder complaints received in the past financial year and satisfactory addressesal of such complaints.
		Principle 6: Business should respect, protect, and make efforts to restore the environment
61	1	Does the policy related to Principle 6 cover only the company or extends to the Group/Joint Ventures/Suppliers/Contractors/NGOs/others.

62	2	Does the company have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc, with a hyperlink for webpage?
63	3	Does the company identify and assess potential environmental risks?
64	4	Does the company have any project related to Clean Development Mechanism with a mention of any environmental compliance report is filed?
65	5	Has the company undertaken any other initiatives on – clean technology, energy efficiency, renewable energy, etc., with a hyperlink for web page?
66	6	Is there information on the Emissions/Waste generated by the company being within the permissible limits given by CPCB/SPCB for the financial year being reported or Is there a reduction in emissions from last year?
		Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
67	1	Is there information of company's membership of any trade and chamber or association with which it deals?
68	2	Is there information on company Having advocated/lobbied through above associations for the advancement or improvement of public good with mention of specific areas of Governance and Administration, Economic Reforms, Inclusive Development Policies, Energy security, Water, Food Security, Sustainable Business Principles, Others)
		Principle 8: Businesses should support inclusive growth and equitable development
69	1	Does the company have specified programmes/initiatives/projects in pursuit of the

		policy related to Principle 8?
70	2	Are the programmes/projects undertaken through in-house team/own foundation/external NGO/government structures/any other organization?(if any of them is present then 1 otherwise 0)
71	3	Is there information on any impact assessment of company's initiative?
72	4	Information on company’s direct contribution to community development projects- Amount in INR and the details of the projects undertaken.
73	5	Information on steps taken to ensure that the above community development initiative is successfully adopted by the community.
		Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner
74	1	Information on customer complaints pending or not as on the end of financial year.
75	2	Information on the company displaying product information on the product label, over and above what is mandated as per local laws?
76	3	Information on any case filed or not by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year.
77	4	Did your company carry out any consumer survey/ consumer satisfaction trends?

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