International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 5.564 Volume 4, Issue 11, November 2017
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

INFORMATION ASYMMETRY IN THE CORPORATE SECTOR AND THE ROLE OF SEBI IN REDUCING IT-A STUDY IN RELATION TO THE CAPITAL STRCUTURE THEORIES

Sonia Viswam
PhD Scholar in Financial Management
Department of Business Studies
Central University of Karnataka, Gulbarga- 585 367

Abstract: The role of SEBI is indispensable in a country ruled by civil law. The presence of an enforcement agency is necessary where the legal structures are rigidly and not evolving from the precedence. Also the efficiency of the SEBI may be affected by the presence of other regulatory agencies. In this era of automisation where the computers interacts as individuals, the information asymmetries may decrease and might lead to the dilution of the importance of SEBI in reducing the information asymmetry. The SEBI has got only semi judicial powers. This might also restrict the organisation in enforcing the transparency and thereby the reduction of information asymmetry in the business environment. The reduction in the information asymmetry activities is by ensuring the corporate social responsibility activities and other regulatory activities which ensure the authenticity of the information shared by the companies with the public. The SEBI acts as the framer of laws as well as its enforcer. Also the role of a regulatory agency like SEBI is absent in foreign companies. In Indian companies the influence of SEBI is more evident in banking companies than other sectors in enforcing corporate social responsibility and other disclosure requirements.

Introduction: The Information Asymmetry is playing a big role in the debt financing of the companies. If there is more information asymmetry between the managers and the public the firms will resort to the debt financing and when there is information asymmetry among the firms about the methods of the debt financing then it might lead to the situation of affecting the capital structure and the firm value. So the information asymmetry can be explained by the level of corporate social responsibility. And the corporate social responsibility is controlled by the regulatory bodies. Securities and the Exchange Board of India (SEBI) is one among them. The study explores the role of SEBI in reducing information asymmetry through regulating corporate social responsibility and thereby affecting the firm capital structure.

Literature Review:

But the corporate disclosures are a major factor for reducing the information asymmetry .But disseminating confidential or otherwise advantageous information may affect the advantage of the corporate entity which has got that information. This will tend to increase the information asymmetries shared among the business entities in any business sector. Also the direct relationship between reduction in Information asymmetries and the corporate disclosure are already explained by the previous researches.

(Battacharyaetal 2013; Cormieretal; 2013)

Crutchley C.E and Jensen M.R.H (1996) analyses the impact of the information asymmetry and other agency factors on the debt financing of a firm. They have analysed and found out the organisational ownership has reached up to the activist level which is sufficient to replace the debt financing. They also reject the Jensen Meckling model which states the agency theory of the capital structure.

According to Jensen and Meckling(1976) agencies resort to those capital structures which are most suited to them to minimise the agency costs.So they will resort to either debt or equity which has got the minimum agency costs.So the maturity of the market influences the behaviour of debt raising and the short term and long term leverages. They areas supposed to have an inverse relationship.

Demirguc-Kunt and Maksimovic(1999) finds the relation between the legal structure of a country and the capital structure of the industries there. Those who have a dominant common law tend to have capital structures which are entrepreneurship and market oriented consisting of developed and mature markets. And those which are oriented with civil laws will have a bank oriented and undeveloped market structure.The countries which are dominated by the civil law will have less developed capital markets, less protection for the investors, less compliance with the standard accounting procedures, share holders and creditors have got less information, where there a less standards for the corporate governance procedures. So in such a condition forms will tend to use internal external debt to finance their needs. So there is a positive relationship between the deficit financing and the issuing of the debts.

The Pecking Order Theory of Myers and Majluf (1984)explain the working of the Information Asymmetry. A condition of Information Asymmetry exists between the firm managers and the external stake holders. So if a firm tries to raise fund through equity, then due to the information asymmetry public has got a feeling those equities are overvalued. So they will decrease the price of equities. Due to this factor firms give preference to debt as a method of financing than the equities. Thus the hierarchical order of financing is the following 1) internal funds 2) debt 3) equities

La Porta etal(1998) opines that effective enforcement of the investment rights will help to reduce the information asymmetry and it will reduce the costs of financing.These are the common law countries.

Carrol (1991) divides the term Corporate Social Responsibility (CSR) into 4 items .They are 1) economic 2) legal 3) Discretionary 4) Ethical

Joshi & Gao (2009) states that compliance with the CSR values help the companies to build their brand value better than the advertising activities

Information Asymmetries between Artificial Intelligence Entities: It is much more in the case of the human individuals than in the case of one entity of artificial intelligence and another entity of artificial intelligence. So information asymmetry can be reduced by more automisation.

Other methods to get rid of information Asymmetries: The method to get rid of Information Asymmetry is by screening .This is proposed by Joseph Stiglitz.Theunder informed party can ask the other party to select from a list of items which will include the confidential information he is supposed to know.In the case of the information asymmetry the value of the products will be decreased .There is a perceived amount of risk existing in the market and the buyers will be averse to buying which will lead to the decrease in the product prices in the market.

Lemons Problem

Lemons problem proposed by George Akerlof explains information asymmetries in the context of buying of the cars. When the car is second hand sale then the price offered by the buyer will be that of the middle value between the bargain value and the premium value, then the seller is benefited by the information asymmetry. But when the car is a premium item then the value offered by the buyer will be less than that of the original value. In this case the seller is not benefited by the information asymmetry.

(arxiv.org)

Corporate social responsibility and Information Asymmetry: One method to measure the information asymmetries of companies is through the corporate social responsibility. This is based on the assumption that those who having more corporate social responsibility are the ones which have more transparency and who hides less information. It is also based on the level of the intervention of the government assuring the transparency of the data. These are based on the inclusivity, sustainability of the companies. The researchers proved that the regulatory changes in Bangladesh during the period of 2008-2010 affected the Corporate Social Responsibility Reporting of the banks. The research also proved that there is no relationship between the bank attributes and the Corporate social Responsibility reports.

Narwal (2007) has stated the various activities taking by the banking organisations to boost the women empowerment, empowerment of the underprivileged sections in the society.

(Ullah and Rahman ,2015)

Methodology

The methodology is based on grounded theory based on cross comparisons. And the research is basically an exploratory research. The researcher is following the judgemental sampling to compare the involvement of SEBI in India. The crossed comparisons are used to generate the hypothesis. The information asymmetry is directly related to the method of financing by the firm whereas the level of the information asymmetry can be explained by the rate of corporate social responsibility. So SEBI is an enforcer of corporate social responsibility. So this study explores the role of SEBI in the corporate social responsibility and thereby reducing the information asymmetry. So this can provide insight into the power of SEBI in influencing the leveraging aspects and the capital structure of a firm.

Findings:

The regulatory powers of the SEBI without causing prejudice to the Companies Act 1956 are the following:

1) Regulations related to the issue of thecapital, transfer of shares and other matters related.

2) Regulations related to the issue of the prospectus and documents related to the issue of the shares

Without prejudicing the securities Contract Regulations Act ,1956 SEBI makes laws related to the collective Investment Scheme which is the scheme of not less than 100 crores(10 million) of investment.

The deposits are received by the Section 58 A of the Companies Act 1956

The deposits are received under the Mutual Benefit Scheme or the Nidhi company under the section 620 A of the Companies Act 1956

The subscriptions related to the mutual fund

The subscriptions related to the Section of the Chit fund companies formed according to the Chit Fund Act 1982

The offerings related to the co-operative societies in relation to the Co-operative Societies Act 1912.

The Non Banking Finance Companies Act related to the 45 I section of the Reserve Bank of India Act 1932.

Section 11 C deals with the investigative power of the SEBI to those people who are acting against the goodwill of the investors. It has powers to summon any kind of documents and keep them in its custody for 6 months without affecting the regulations related to the Sections 235 to 241 of the Companies Act .Any depository, Foreign Institutional Investor, Custodian of Securities, Credit Rating Agencies, Share Transfer Agents, otherintermediaries, broker,sub broker, portfolio manager or underwriters shall buy securities or sell securities without obtaining the registration certificate from SEBI

The impact of the presence of the regulatory bodies

INSIDER TRADING CASES UNDER SEBI		
Year	cases undertaken	cases under investigation
1996-97	4	....
1997-98	5	
1998-99	4	4
1999-2000	3	5
2000-01	6	4
2001-02	16	6
2002-03	13	14
2003-04	14	8
2004-05	6	10
2005-06	6	8
2006-07	17	10
2007-08	7	28
2008-09	9	9
2009-10	10	10
2010-11	28	15
2011-12	24	21
2012-13	11	14
2013-14	13	13
2014-15	10	15

Source:SEBI annual reports

The disclosure required by the SEBI from the credit rating agencies

The employees who are joining the credit rating agencies shall submit the disclosures that the amount of securities they own in the market within 7 working days as per section 2(2).

Also if the employees have purchased any shares they shall submit it within a period of 7 days too. Also there should be a consolidated financial statement to be submitted within 30 days of every financial year. Also the employees who are involved in rating a company are not supposed to have the ownership of the shares of the company.

Features of the SEBI complaints redressal system (SCORES)

1)Centralised database 2)Uploading of the action taken reports(ATR) of the complaints on the website 3)Online tracking of the complaints 5)The movement of the complaints to the intermediaries.Also SEBI curbs insider trading. There should not be any ‘contradicting’ that is trading of the same securities within a period of 6 months. Also the Employee Stock Ownership plan is exempted from that. Also the directors are prohibited from cash settled futures forward options. But the trading on index futures is not prohibited. Also the buy back of the shares, rights issue, bonus issues etc are exempted from the ambit of the insider trading. The code of the insider trading not only applies to the listed companies but also applies to all the intermediaries.

SEBI will not handle complaints which are under the ambit of other regulatory bodies. But they include PFRDA, CCI, FMC, RBI, IRDA etc. The delisted or liquidated companies are not regulated by SEBI. Also incomplete complaints are not handled by SEBI. The Stock Brokers complaints are handled by Stock Exchange whereas the Depository Participants complaints are handled by Depositories. But all are monitored by SEBI. If the entities are not satisfied with the first stage then they can complain directly to SEBI and SEBI will react in the form of the Action Taken Reports (ATR).Limitations of SEBI in dispute handling: SEBI is not an ultimate arbitrator or resolver of disputes. If the investors are not satisfied with the arbitration they can approach other courts on the basis of the legal rights for their grievance redressal.

Arbitration process in SEBI

THE ENTITIES SEBI IS AUTHORISED TO TAKE ACTION AGAINST	
Depository	Credit Rating Agencies
Mutual Fund	Custodians of securities
Debenture Trustees	Stock Brokers
Merchant Bankers	Stock Exchanges
Underwriters	Registrar/Share Transfer Agents
Alternative Investment Funds	Portfolio Managers
Bankers to an issue	KYC Registration Agencies

Regarding the corporate social responsibilities of the firms operating in India the survey conducted by the Business World /Indica Research(1999) states that the following

TOP 25 COMPANIES DOING CSR ACTIVITIES	
TYPE OF COMPANIES	PERCENTAGE
INDIAN COMPANIES	68%
MNCS	28%
PUBLIC SECTOR COMPANIES	4%

The ethical business practices, women empowerment activities, Social audit practices are much lesser for the Indian companies than the Multinational companies. Also the Indian companies are more bent on the environmental part of the corporate social responsibility. **Companies listed in Bombay Stock Exchange**

Jammu and Kashmir Bank-It gives more importance to helping the backward and vulnerable sections of the society.It helped a lot to mitigate the disasters of flood etc.Other reports presented are the corporate governance reports.But they publish the corporate governance reports which are in accordance with the SEBI Listing Obligations and Disclosure requirements.These include the number of directors, the appointments made, the meeting of the directors etc.They constituted and reported properly 1) the audit committee 2)Risk Management Committee3)Stakeholder relations Committee 4)Nomination and Remuneration Committee. They also publish the share holder pattern reports which includes the details of the promoters also, the shareholder information report, financial performance reports, the historical performance for the past years also.

GlaxoSmithkline Pharmaceuticals Limited.-PULSE partnership programme is the programme uniquely organised by the GlaxoSmithklineCompany in which the skill set of the employees are compared with the skill set of the otherNon profit Organisations and the lacking areas will be properly trained by the Glaxosmithkline employees to increase the skill set of the employees of the non profit organisation.They also provide an orange day for the employees to contribute themselves to the deprived sections of the society.They are keen to build the NGO capacity,health and welfare system for women etc.

Oceanic Foods Limited-This is a multinational company established in 1972.This is having FSSC22000 certification,USFDA registration,SEDEX compliant facility etc.They have appointed according to the SEBI 30(5) Listing Obligations and Compliance Requirements the key managerial personnel for the materiality of an event or the stock exchange of India.They also publish the standalone financial reports according to the SEBI 33 listing and financial requirements.The Initial Public Offer reports includes the reports of promoters as stipulated by SEBI section 2(1)(z)b.Also the depositories are the ones registered under SEBI

United Drilling Tools Limited-They also publishes the details of the Scrutinizers report of the e – voting done for declaring the dividend .It is according to the Companies Act sections 108 and 109.They also publishes financial results on a quarterly basis.Even the unaudited reports are uploaded. They also publish the shareholding pattern details, share transfer agent details etc.The Corporate Governance Report focuses on the green initiative-avoiding the use of papers, all done electronically.

Companies Listed in London Stock Exchange

The Llyods Bank-It publishes the Investment Sentiment Index.Apart from that they donot publish the compliance reports.They concentrate on making the customer aware of the different products and services.

The Barclays Bank,UK-The bank's corporate governance is well defined.It is mainly divided into three factors. They are social, governance and environmental.The governance aspect provides importance to schemes like Social Innovation Facility, 2012which promotesIntraprenuership within the organisation which promotes the social entrepreneurship activities of its employees.It also has got a range of product portfolio to invest that will make an impact in the society positively.They also partnered with Glaxo Smithkline to remove the barriers to health facilities in Zambia.This programme is called Live Well.Also they started to empower women through their financing facilities.They share insights like ina survey only 18 % of the males shared the fact that they wanted to start a new industry and 48 % of the females shared that wanted to start a new industry.The financial results report share details like Tangible net asset loss per share and basic loss per share .The 12 % increase in the Profit Before Tax states details like reduced impairment, reduced cost income ratio etc.It is also controlled by the Bank of England Minimum Own funds and Eligible Liabilities.It also shares details regarding the wholesale funds excluding the repurchases.Also it is committed to increase the shareholder value after it deconsolidated from African Holdings with a loss.

Sainsburys ,UK-They have saved more than 13 million for the charity purposes. The site also shares information regarding the shares of the company. They provide facilities to manage shares online, e-communications, providing the buy, sell or the transfer of the shares. They also precautioned the investors on the share frauds and the email of the controlling authority of the shares.They also have animal welfare policies, diversity and inclusion etc. They also provide the share gift option where some shares are valued more than their face values and the balance goes to the charity purposes.They also have a 200 million pounds corporate green loan facility to invest in the green loan activities.They also publish the details of debt securitisation, debt raised through the Commercial Mortgage Backed Securities by Eddystone Finance for 2.07 billion pounds etc.

Analysis and Interpretations:

As Battacharyaetal(2013) and Cormier etal(2013) has stated that organisations have the tendency not to share the information which are beneficial to them and which will be beneficial to others too. So the intervention of SEBI is essential in this context. It is acting as a regulatory body not contradicting the provisions of the Companies Act 1956.It regulates chit funds co-operative societies, stock market brokers etc. The insider trading investigative cases are good evidences showing the role of SEBI in curbing the information asymmetry and the information manipulations. The research did byBajo and Petracci(2006) prove the inability of the Italian laws to curb the insider trading. Also the information asymmetry is exploited by the insiders to draw benefits out of the available information. They influence the prices of the stocks. This is most evident from the negative abnormal returns after the ownership increases of the insiders, and more explicit in the 1st and the 3rd month after the insider transaction. Also the value of the portfolio increased after the ownership increase of the insiders and their public issue of the shares after that. So from this it is evident of the role of a regulatory body like SEBI even though there are several existent laws to curb insider trading. Also this can be read together with the fact that regulatory changes had helped bring the corporate social responsibility activities of the Bangladesh banks(Ullah and Rahman,2015) There will be no initiative on the part of the organisations unless there is a regulatory regime. Also there should be regulatory bodies in addition to the strict laws.

The rate of the Corporate Social Responsibility Activities of the companies can be taken as the success rate of the SEBI in reducing information asymmetry.Dhaliwal (2011) has also prove that the Corporate Social Responsibility Activities(CSR) helps to reduce the cost of the capital. So the Corporate Social Responsibility leading to reduction of Information Asymmetry as well as through other brand image and good will of the public due to the CSR activities might be helping to reduce cost of capital. Joshi Gao (2009) also states this. So SEBI's increased role will help to reduce the cost of the capital of the companies. This can be read together with the findings of LaPortaetal(1998) states that the enforcement of the investment rights will help to reduce the cost of the capital. The information sharing or transparency is a part of the investment rights. So SEBI's activities will help to reduce the cost of the capital of the companies

India can be categorised as a civil law country (Verma,B.L,1987) .It is ruled by a codified set of laws that will govern it. It is a rigid set of laws. They have no organic characteristics or reactive power. They do not evolve dynamically according to the needs of the society and they are stagnant set of laws. Common law countries are based on the judicial precedence and there is no rigid set of written laws. So in the opinion of Kunt&Maksimovic(1989) the civil

law countries have immature markets,more information asymmetry and less protection of the investors and less compliance to the standards of the accounting procedures. So the role of SEBI is immense in that.

From the analysis of the companies like Jammu Kashmir Bank, Oceanic Foods etc reveals the role of SEBI in ensuring transparency and enforcing the investor's rights. The depositories, the disclosure requirements are all ruled by SEBI. The Company Law also has got a prominent role in the disclosures and the compliance. The case of the United Drilling Tools shows this.

But coming to the common law country of UK the absence of such a regulatory body like SEBI is evident. The organisations are themselves in a common law environment which impels them to obey the law and show compliance to the accounting procedures. Also they have more mature markets and more protection of the investment rights. So it can be hypothesised that SEBI is taking the role of the Common law in India. This is evident from the cases of Barclays Bank, UK and Sainsbury's UK. Their compliance is not due to a regulatory body like SEBI. They are directed mostly by common law of the country.

Though the investigative and the arbitration process of SEBI is all pervasive it is limited. It can be challenged in the higher courts. Also there is the presence of other regulatory bodies like Insurance Regulatory and Development Authority (IRDA), Forward Market Commission(FMC) supplementing SEBI.So there can be the hypothesis that the presence of those regulatory bodies are affecting the efficiency of SEBI negative and thereby increases information asymmetry and the cost of the capital. Also the existence of company act is increasing the efficiency of SEBI or decreasing the efficiency of

SEBI. There can also be the hypothesis that the presence of SEBI helps to increase the brand value of the company. Also it should be observed that SEBI is more involved in enforcing the regulations in the stock market, co-operative banks mostly in the investment sector. This ensures that they are complying with the regulations. But this does not imply that they are successful in making the information reach the stake holders. Also it is found that the automation decreases the information asymmetry, it is less between a machine and a machine, it can be hypothesised that the role of the SEBI will decrease in the future days of automisation.

Also SEBI is concentrating on the information asymmetry of the banking sector, stock market etc,it is not able to manipulate the information asymmetries among other firms in their general day to day activities rather than compliance requirements.

Conclusions

SEBI increases the corporate social responsibility activities of the companies.

SEBI curbs insider trading which affects the information asymmetry and unprofitable gains of the inside traders or share holders within the company.

SEBI's role is more prominent in a civil law country like India than the common law countries.

The company law is supplementing the work of SEBI

The presence of the company law may positively or negatively influence the efficiency of SEBI

The presence of other regulatory firms may decrease or increase the efficiency of SEBI.

The investigative power of SEBI is partial.

The power of the resolution of the disputes by SEBI is partial, as it can be taken to highercourts.

SEBI may influence the capital structure of a company by reducing the information asymmetry.

The existence of laws is not enough to induce corporate social responsibility in a civil law country. A regulator is essential.

1)Battacharya,N;Desai,H and Venkataraman,K(2013),"Does earnings quality affects information asymmetry?Evidence from trading costs",*Contemporary Accounting Research.*Vol30.No2.pp482-516

2)Bajo,E and Petracci,B(2006)" Do what insiders do:Abnormal Performances after the release of insiders' relevant transactions",*Studies in Economics and Finance,*Vol23,Issue2,pp94-118

3)Business World/IndicaResearch(1999),India's most respected Companies",*Business World/IndicaResearch,*New Delhi

4)Carrol A.B(1991),"The Pyramid of Corporate Social Responsibility:toward the moral management of Organisational Stakeholders",*Business Horizons*.Vol34.No4.P39

5)Cormier,D;Ledous,M.J. and Magnan,M.(2011),"The Informational Contribution of Social and Environmental Disclosures for Investors",*Management Decision.*Vol49.No8pp1276-1304

6)Crutchley,C.E,Jensen M.R.H(1996)"Changes in Corporate Debt Policy :Information Asymmetry and Agency factors",*Managerial Finance,*Vol22,Issue2 pp1-15.

7)Demirguc-Kunt,AandMaksimovic,V(1999) “Institutions ,financial markets and firm debt maturity”,*Journal of Financial Economics*,Vol54,No3,pp295-336

8)Dhaliwal,D.S,ZhenLi,O.Tsang,A.andYangY.G(2011),”Voluntary Non Financial Disclosure and the cost of equity capital:the initiation of corporate social responsibility reporting”,*American Accounting Association*,Vol 86,No1,pp59-100

9)Jensen ,M.C&Meckling ,W.H(1976)”Theory of the firm:managerialbehaviour,agency costs and ownership structure”.Journal of Financial Economics Vol3.No4. pp305-360

10)Jensen,M.C(1986)”Agency Costs of Free Cash Flow,Corporate Finance and Takeovers.*American Economic Review* pp323- 329

11)Joshi ,P.L.Gao S.S(2009)”Multinational Corporations Social and Environemental Disclosures (CSED) on websites.*International Journal of Commerce and Management*.Vol 19.No1pp27-44

12)La Porta,R and Lopez –de-Silanes,F,Shleifer,A and Vishny R.W (1997).”Legal Determinants of External Finance “.Journal of Finance.Vol52.No3 pp1131-50

13)Myers,S.C and Majluf ,N.S (1984)”Corporate Financing and Investment Decisions when firms have Information that Investors donot have “.*Journal of Financial Economics*.Vol 13(2) pp 187-221.

14)Narwal,M(2007).”CSR Initiatives of the Indian Banking Industry (hack, jklq)

15)Ullah ,H. and Rahman,M.A(2015)” Corporate Social Responsibility reporting practices in Banking companies in Bangladesh:Impact of Regulatory Change”.*Journal of Ethical Reporting and Accounting”*.Vol13,Issue2,pp200-225

16)Varma,B.L(1987)”Development of Indian Legal Sytem:adalatsystem,civillaw,criminallaw,revenuelaw,personallaws,constitutionallaw*”*.New Delhi: Deep & Deep Publications

17)https://www.crisil.com/crisil-young-thought-leader-2010/dissertations/Topic3-RamanAgarwal.pdf[Accessed 12 th November 2017]

18)http://www.sebi.gov.in/enforcement/clarifications-on-insider-trading/aug-2015/guidance-note-on-sebi-prohibition-of-insider-trading-regulations-2015_30515.html[Accessed 18 th November 2017]

19)https://www.barclays.in/[Accessed 23 rd November 2017]

20))https://www.home.barclays/citizenship.html[Accessed 19 th November 2017]

21https://www.sainsburys.co.uk/[Accessed 26 th November 2017

22)https://arxiv.org/abs/1510.02867[Accessed 24 th November 2017]

23)http:sebi.org[Accesed 27 th September 2017]