

Investors Perspective of Various Disclosures in Corporate Annual Report

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Abstract

The companies in India are making disclosures related to their contribution towards non-financial areas rather than simply reporting financial figures. The present paper is an attempt to understand the pattern of decision making of investors and the importance of various components of annual report while making investment decisions. An effort is also made to understand the attitude of investor towards financial and non-financial disclosures and emerging concept known as integrated reporting. Exploratory analysis was done on the basis of 122 valid responses. The results showed that the respondents most likely make decisions by seeking advice from friends/family/colleagues and also on the basis of advice from specialists through print and audio /visual media. While making investment decisions, investors mostly read profit and loss figures, financial statistics/summary, dividend declared and executive summary. The most important non-financial information which was found to be highly relevant was 'Policies of the company towards its employees'; then 'Corporate Governance Report of the company' and then 'Policies of the company towards impact on the environment'. The results also showed that there is scope of integrated reporting in India as investors want the information in the manner as perceived in the concept. The study recommends that companies should use results of the study and make more detailed disclosures covering the relevant aspects of both financial and non-financial information.

Keywords: *Disclosures, Executive Summary, Dividend, Policies of companies towards Employees, Corporate Governance Report, Environment, and Integrated Reporting.*

Abstract

The strong economic fundamentals of Indian Economy have brought in remarkable shift in the corporate sector such as plethora of new technologies, global mind set and adoption of fair corporate policies in the country and many

more. In India, both domestic and international investment is growing. It is very important that they should be presented with information which they consider as relevant and is material in shaping their investment

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decisions. Therefore, reporting in India is also gaining new dimensions as a part of dynamic corporate environment. The enactment of Companies Act, 2013; the acceptance of IFRS in the form of IND AS; sustainability reporting; mandatory CSR reporting; recent amendments in audit standards in India, etc. are some of the changes that recognizes the responsibility of the company towards fair and full disclosure. The companies have now started realizing their responsibilities towards all stakeholders rather than focusing only on financial wealth. Companies in India are making disclosures related to their contribution towards non-financial areas rather than simply reporting financial figures. It is believed that even the shareholders who make financial investment in the companies prefer companies which make fair & complete (both financial and non-financial) disclosures. Sustainability reporting is one such practice which required all such disclosures and it actually has become a reporting culture of all established Indian Companies. Jagongo and Mutswenje (2014) found out that the most important factors that influence individual investment decisions were: "reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance of firm, price per share, feeling on the economy and expected dividend by investors". Chen & Steiner (2000) discussed various benefits of extensive corporate disclosures such as transparency. As the practices are evolving fast, new practice of reporting has come up which is being known as Integrated reporting (IR). On December 8, 2013, the International Integrated Reporting Council (IIRC) issued its "International <IR> Framework". IIRC defined integrated reporting as "An integrated report is a concise communication about how an organization's strategy, governance,

performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" (IIRC, 2013, paragraph 1.1, p.6). All these practices have come up because of the importance of tangible and intangible information in the reports. IR framework promotes integrated thinking. It emphasizes both tangible and intangible capital. It has been voluntarily adopted by many countries. Tata Steel, Kirloskar Brothers Limited of India took part in IIRC PILOT Programme in 2013. Its status is non-mandatory in India as the concept is relatively new and many doubt its effective implementation. The present paper is an attempt to understand what information investors read in annual reports and their attitude about financial and non-financial disclosures and also integrated reporting.

Literature Review

Adams, CA (2015) discussed some of the important distinctions between sustainability reporting and integrated reporting. In the last section of the paper he suggested the areas of further research and called for active participation from academicians in enriching the concept of integrated reporting. He also supported the current non-mandatory status of integrated reporting as the concept and accountings involved are not so developed.

Babajide, O., Imoleayo, O. & Uwalomwa, U. (2015) conducted an exploratory study to know the opinion of accountants on the question of should integrated reporting be incorporated in the management accounting curriculum. The study highlighted the importance of integrated reporting and provided that integrated reporting should be included in the management accounting curriculum of professional and postgraduate accounting programme.

Jagongo and Mutswenje (2014) conducted a study on 42 individual investors and used a structured questionnaire. The objective of the study was to identify the factors influencing investment.

Joshi, R. (2015) provided empirical evidence on the perspective of various stakeholders on voluntary corporate disclosures in the annual report. The findings highlighted the importance of voluntary disclosures.

Narayanaswamy, R., Raghunandan, K., & Dasaratha, V. R. (2012) studied corporate governance in India and cautioned policy makers that governance approaches from western countries can be effective only if they are adopted according to cultural and political environment in the country.

Rowbottom, N., & Lymer, A. (2009) analyzed 4,652,471 successful requests for information made by the users of 10 UK FTSE 350 corporate websites. The paper found out that the majority of users for online sustainability information are employees, private individuals, ISPs and consultants. Whereas professional investors, creditors, accounting firms and lawyers make more use of the Annual Report and less use of sustainability reporting information and other online information.

Solomon, J. and Maroun, W. (2012) analyzed the annual reports of 10 major South African companies listed on the Johannesburg Stock Exchange (JSE). The findings found that 'there has been substantial increase in the reporting of social environmental and ethical information though social and environmental information was reported more as compared to ethical information'. But the findings also found certain weaknesses such that certain items of information had been excessively repeated.

Research Methodology

Objectives of the Study

The present study seeks to meet the following objectives:

- a) To understand the pattern of decision making of investors.
- b) To understand the relative importance of various components of corporate annual report
- c) To understand whether the investors give importance to non-financial information
- d) To understand the acceptability of the concept of Integrated Report.

Research Hypothesis

Research hypotheses, stated in their null form, have been formulated to achieve the research objectives:

H01: All the components of annual report are equally important to an investor and investors do not significantly differentiate between various components of annual report in terms of their importance to them.

H02: Investors do not consider non-financial information significantly relevant to them. Investors do not significantly agree to the disclosure of non-financial information.

H03: Investors do not significantly approve the concept of integrated reporting.

Research Methodology

The study is an exploratory study and seeks to know the opinion of investors towards research questions. The questionnaire was mostly self-designed and some help was taken from the study of Babajide, O., Imoleayo, O., Uwalomwa, U (2015) to frame questions. Likert Type Scale has been used for the

questionnaire. Regarding integrated reporting, the relevant questions were picked from the framework of International Integrated Reporting Council (IIRC) published in 2013.

In the present study, the results were compiled on the basis of 122 valid responses. The researcher collected data mainly from family, friends, neighbors and other acquainted group of people such as academicians who made or are making investments in the present. Data is analyzed using mean values to understand their importance and T values have been used to check hypothesis.

Results and Analysis

1. Demographic Characteristics of the Sample

Out of 122 respondents, 92 were male respondents and 30 were women respondents. The minimum age of respondents was 21 and maximum was of 62 years. The mean age of the respondents was 35.96 years. The respondents of the study were having minimum years of experience of investing was 1 year and maximum experience was of 40 years. The mean investing experience of respondents was 9.36 years. The results are shown in Table 1.

Table 1 : Characteristics of the Sample

		Gender	Age	Experience of Investing
N	Valid	122	122	122
	Missing	0	0	0
Mean		1.25	35.96	9.36
Std. Deviation		.432	8.798	6.527
Minimum		1	21	1
Maximum		2	62	40

2. Investment Decisions

The respondents were further asked about as to how they make investment decisions. They were told to respond on Likert type scale from 1 to 5 as "Never (1); Sometimes (2); May or may not be (3); Most of the times (4) and Always (5)." Higher the rating, the higher is the importance of decision pattern to the respondents. All the mean values above 3 indicate the preference of respondents for the decision pattern and below 3 shows vica versa.

Cut off point of 3 was taken to compute T values and their significance. The results are shown in Table 2.

The results showed that the respondents make decisions:

- a) By seeking advice from friends/family/colleagues (4.03)(Rank I)
- b) On the basis of advice from specialists through both print and audio /visual media (3.54)(Rank II)

Table 2: How the Respondents Make Investment Decisions

Statements	Mean	Standard deviation	T-Values (cut off point 3)	Significance Level	Result
I make my investment decisions by studying various types of information released by the companies both print and audio /visual media	3.39(III)	0.858	5.064	0.000	Agreement (Highly Significant)
I make my investment decision on the basis of advice from specialists through both print and audio /visual media	3.54(II)	1.129	5.292	0.000	Agreement (Highly Significant)
I invest by seeking advice from friends/family/colleagues	4.03(I)	0.715	15.953	0.000	Agreement (Highly Significant)
I use social media to decide about my investment	1.89(VI)	1.035	-11.809	0.000	Disagreement (Highly Significant)
I rely on the declarations made by financial authorities such as stock exchange	3.16(V)	0.803	2.142	0.034	Insignificant
I invest as advised by stock broker	3.34(IV)	0.831	4.576	0.000	Agreement (Highly Significant)

c) By studying various types of information released by the companies both print and audio /visual media (3.39)(Rank III)

d) As advised by stock broker (3.34)(Rank IV)

The respondents did not indicate preference for social media (1.89). Respondents were not found to be using declarations made by financial authorities such as stock exchange (mean value=3.16) as the t values indicated insignificant results.

3. Importance of Various Components of Corporate Annual Report

The respondents were further asked about the importance of various components of annual reports to them. They were told to respond on Likert type scale from 1 to 5 as “Never (1); Sometimes (2); May or may not be (3); Most of the times (4) and Always (5).” Higher the rating, the higher is the importance of component of annual report to the respondents. All the mean values above 3

Table 3: Importance of Various Components of Corporate Annual Report

Components of Annual Report	Mean	Standard deviation	T-Values(cut off point 3)	Significance Level	Result
Executive Summary	3.32(V)	1.338	2.639	0.009	Significant(close to most of the times)
Directors report	2.72(XIII)	1.445	-2.131	0.035	Insignificant
Management Discussion and Analysis	2.70(XIV)	1.304	-2.569	0.011	Significant(close to neutral)
Consolidated Financial Statements	2.80(XII)	0.749	-3.022	0.003	Significant(close to neutral)
CSR information Published by the companies	2.89(XI)	1.085	-1.168	0.245	Insignificant
Business Responsibility Report	2.46(XV)	1.234	-4.842	0.000	Significant(close to sometimes)
Financial Ratios	3.48(IV)	1.123	4.759	0.000	Significant(close to most of the times)
Complete Report	1.80(XVIII)	0.809	-16.330	0.000	Significant(close to never)
Dividend Declared	3.86(III)	0.660	14.414	0.000	Significant(close to most of the times)
Cash Flow Statement	3.18(VI)	0.954	2.089	0.039	Insignificant
Balance Sheet	3.98(II)	1.044	10.403	0.000	Significant (close to most of the times)
Statement of Profit and Loss	4.13(I)	0.715	17.468	0.000	Significant (close to always)
Notes to Balance Sheet and Statement of Profit and Loss	2.16(XVII)	0.927	-10.057	0.000	Significant (close to sometimes)
Financial Statistics	3.17(VII)	1.204	1.579	0.117	Insignificant
Independent Auditors Report	2.44(XVI)	1.299	-4.740	0.000	Significant (close to sometimes)
Corporate Governance Report	3.02(VIII)	1.202	0.226	0.822	Insignificant
Financial Highlights	2.92(IX)	1.057	-0.857	0.393	Insignificant
Non-Financial Highlights	2.90(X)	1.071	-1.014	0.312	Insignificant

indicate the preference of respondents and below 3 shows vica versa. Cut off point of 3 was taken to compute T values and their significance. The results are shown in Table 3.

The results as displayed in table 3 showed that respondents consider 'Statement of Profit and loss' followed by 'Balance Sheet'; Dividend Declared; financial ratios and executive summary; cash flow statement; financial statistics and then corporate governance report important to read for investment decisions(all the mean values above 3). While 'Notes to Balance Sheet and Statement of Profit and Loss' and 'Complete Report' are rarely read by investors.

H01 : The null hypothesis could not be accepted at 1% level of significance thus alternative hypothesis accepted as all the components of annual report are not found to be equally important to an investor and

investors do significantly consider some information more relevant for investment decisions than others.

4. Relevance of Financial and Non-Financial Information Shown in Corporate Annual Reports

The respondents were asked about the relevance of various types of information. They were told to respond on Likert type scale from 1 to 5 as “Strongly disagree (1); Disagree (2); Neither Agree nor Disagree (3); Agree (4) and Strongly Agree (5).” Higher the rating, the higher is the importance to the respondents. All the mean values above 3 indicate the preference of respondents for the information and below 3 shows vica versa. Cut off point of 3 was taken to compute T values and their significance. The results are shown in Table 4.

Table 4: Important Financial and Non-Financial Information

Statements	Mean	Standard deviation	T-Values (cut off point 3)	Significance Level	Result
Corporate Governance Report of the company	3.82(III)	0.936	9.671	0.000	Significant (Agreement)
Contribution of the organization towards the society	3.54(V)	1.046	1.046	0.000	Significant (Agreement)
Policies of the company towards its employees	4.06(II)	0.672	0.672	0.000	Significant (Agreement)
Policies of the company towards impact on the environment	3.81(IV)	0.903	0.903	0.000	Significant (Agreement)
Economic performance	4.49(I)	0.578	0.578	0.000	Significant (Agreement)
Other Non-Financial measures	3.21(VI)	0.578	0.578	0.000	Significant (Agreement)

Table 5: Acceptability of Concept of Integrated Reporting

Statements	Mean	Standar	T-Values(cut off point 3)	Significance Level	Result
Explains the Business model that is how the value is created in the organization	4.48(II)	0.707	23.061	0.000	Significant (Agreement)
Provides information about financial and non-financial performance of the company in an integrated manner.	3.73(IX)	0.793	10.162	0.000	Significant (Agreement)
Provides information about financial and non-financial performance of the company in separate reports.	2.60(X)	0.700	-6.336	0.000	Significant (Disagreement)
Information which links current performance of the company to strategy	4.03(VI)	1.004	11.367	0.000	Significant (Agreement)
Communicates information about the increase/decrease in financial and non-financial capital of the company	3.77(VIII)	0.653	13.035	0.000	Significant (Agreement)
Provides information about social and environments impact of the company	3.82(VII)	0.945	9.582	0.000	Significant (Agreement)
Provides information about how the value will be sustained in the future.	4.20(V)	0.642	20.729	0.000	Significant (Agreement)
Provides information relevant to various stakeholders of the organization	4.52(I)	0.646	26.085	0.000	Significant (Agreement)
Provides information about the risks and opportunities faced by the company	4.31(III)	0.618	23.452	0.000	Significant (Agreement)
Provides information about the governance of the company that is ethics and transparency policies.	4.30(IV)	0.612	23.359	0.000	Significant (Agreement)

All the information that is mostly reported was considered significant by the respondents but the most important information that was considered significant is Economic Performance followed by Policies of the company towards its employees then by Corporate Governance Report of the company and then Policies of the company towards impact on the environment and then by Contribution of the organization towards the society and then Other Non-Financial measures. That clearly shows that today's investor is vigilant towards both financial and non-financial responsibilities of the companies.

H02: The null hypothesis could not be accepted as investors do consider non-financial information significantly relevant to them. Thus, Investors significantly agree to the disclosure of non-financial information.

5. Acceptability of the Concept of Integrated Reporting

The respondents were further asked about the acceptability of concept of integrated reporting. They were told to respond on Likert type scale from 1 to 5 as "Strongly disagree (1); Disagree (2); Neither Agree nor Disagree (3); Agree (4) and Strongly Agree (5)." Higher the rating, the higher is the importance to the respondents. All the mean values above 3 indicate the preference of respondents for the concept and below 3 shows vice versa. Cut off point of 3 was taken to compute T values and their significance. The results are shown in Table 5.

The results as shown in table 5 shows that there is scope of integrated reporting in India as all investors have highly valued all the statements are highly valued (mean values above 4) investors. Investors want that both financial and non-financial information should

be disclosed in an integrated manner in one report that provides information relevant to all the stakeholders of the organization and value creation.

H05: The null hypothesis could not be accepted as investors significantly approve the concept of integrated reporting and value reports that present information in an integrated manner.

Summary and Conclusions

The study is quite useful to various people who want to know the importance to an investor of various disclosures in corporate annual report. The various important findings of the current study are:

1. Respondents make decisions mostly by seeking advice from friends/family/colleagues (4.03) (Rank I) and on the basis of advice from specialists through print and audio /visual media (3.54) (Rank II). It was though unexpected but the results showed that respondents did not indicate preference for social media (1.89). Thus, today's investor is still using referral methods for taking investment decisions. The reason that could be is that most of the investors are already occupied in their routine work and thus don't find much time to probe at their own about various investment avenues.
2. The results also showed that respondents consider 'Statement of Profit and loss' followed by 'Balance Sheet'; Dividend Declared; financial ratios and executive summary; cash flow statement; financial statistics and then corporate governance report important to read for investment decisions (all the mean values above 3). Thus, profit and loss figures, financial statistics/summary, dividend declared still

rule the mind of investor when taking investment decisions.

3. All the non-financial information was considered significant by the respondents. But the investors considered the Economic Performance still as the most important information. The other non-financial information which was found to be highly relevant was 'Policies of the company towards its employees'; then 'Corporate Governance Report of the company' and then 'Policies of the company towards impact on the environment'.
4. The results also showed that there is scope of integrated reporting in India as investors preferred that both financial and non-financial information should be disclosed in an integrated manner in one report.

The study recommends that companies should make more detailed extensive disclosures in systematic manner. Print and Audio Visual Media Should be widely used as they leave impact on the minds of investors. The current study has shown that though Financial Figures are considered the most influential in shaping investment decisions but disclosure of non-financial information is also significant. Integrated Reporting has a definite scope in India as investors want one simple integrated report that provides information relevant to all the stakeholders of the organization, future strategy and value creation.

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