CHAPTER 1

INTRODUCTION
Public limited companies in India have always been entrusted with the responsibility of taking due care in their business as their decisions can affect many shareholders. These companies should ensure greater accountability and transparency as the incidents of corporate frauds are on the rise. Apart from the shareholders, there are several other stakeholders who are interested in the well-being of the company. They would require all sorts of information provided in a timely manner to make appropriate decisions. Price Warehouse Coopers have referred to the term ‘corporate reporting’ a little differently and have considered measurement or accounting aspect as being separate from the disclosure aspects, and corporate reporting relates to the second aspect. They have considered various areas of corporate reporting like Integrated Financial reporting and narrative reporting; corporate governance; Executive remuneration; corporate social responsibility.

Disclosure can be defined as the communication of non-financial information in addition to financial information which consists of all details regarding business activities that are disclosed either mandatorily or voluntarily to the financial reports users (Keyur, 2012). There are many ways in which companies usually disclose information namely- interim, quarterly and annual reports, prospectus, press releases and their own websites. Across all types of communications, corporate annual report is considered to be the most comprehensive source of information. Annual reports are useful for all stakeholders including regulatory authorities, which can ascertain whether the level of disclosure is adequate or needs improvement. The level of disclosure may vary between companies in terms of timing, quantity, quality and whether the information is negative or positive. In addition to being a routine activity, corporate reporting has become an effective tool of brand building these days (Mangala and Isha, 2015).

 Disclosure of information is necessary for the efficient management of the capital markets. The capital resources of a market are not fully and effectively allocated, due to which the capital providers always seek an opportunity to realize added capital value, whereas capital users are always trying to put in efforts to attract sufficient capital for their business to make profits. Increased disclosure of information reduces the information asymmetry between investors and the management of the company. Disclosure involves the communication of non-financial information in addition to financial information about all the activities of the company, to the stakeholders so
that they can make a well informed investment decision. Increased disclosures help the shareholders as they are saved from the market uncertainty which they might face due to lack of information. It is not that only the shareholders who derive benefits of enhanced disclosure, the company also gains from enhanced disclosures as it leads to increased share prices which ultimately helps the company in capital generation and reduces the cost of capital. Apart from the shareholders and the company, disclosures are useful for a large number of other potential users like vendors, financers, creditors, employees, management, customers, stock brokers, stock exchanges, legislators, media, researchers, academicians and the public at large. For information to be able to help in increasing market confidence and proper pricing of the securities, it should be relevant, timely and adequately available. An investor must be fully informed of all available information so as to make good judgments about the value of securities. It is imperative for the efficient working of the capital markets that information is completely disclosed, including both positive as well as negative news about the company. This is the prime reason that the regulators are increasingly concerned about the quality of both the financial and non-financial information disclosed by the companies (Keyur, 2012).

1. Introduction

1.1 Concept of Corporate Reporting

Corporate reporting involves all sorts of communication from a company. It includes financial and non-financial information which is supposed to be disclosed mandatorily and also encompasses information disclosed voluntarily. All types of communication from the company will in one way or the other talk about the resources available for an organization and their utilization so that the company can achieve its predetermined goals and objectives. This information will also necessarily talk about the performance of the company against a preset target or that of its peers. The major objective of corporate reporting is to promote transparency so as to make sure that necessary information is available to the various stakeholders and the company remains accountable for its actions to the general public. With ever changing economic situations and increased pressures from the regulatory bodies, all the companies are required to provide information about the company covering different
aspects like - financial performance, strategy, social and environmental issues, corporate governance, marketing plans etc. in a detailed and comprehensive format. With increased disclosures the regulatory authorities and stakeholders get a better chance to monitor and control excessive risk-taking by corporations, which needs to be controlled as any business failure may affect lives of many.

Corporate reporting refers to presenting data whether mandatory or voluntary to people who are interested in such information. These people may be those belonging to the concerned organization like employees, shareholders etc. or people from the external environment of the organization like regulatory bodies, government agencies, customers, vendors and the public at large. Corporate reporting is complete process which follows a particular set of principles. This process will differ depending upon the people who are intended to be addressed. Corporate reporting mainly aims at consolidating these differences of information being reported to different groups such that the different stakeholders are aligned and are synchronized when it comes to information availability. The needs of the users of corporate reports should be communicated to the people who prepare these reports so that adequate and relevant information is included in the reports. Corporate reporting is like telling the whole world openly what you have been doing in the organization. It is very important as the public limited companies are not only using the money of the general public but are also assuring them that their money will be safeguarded and duly returned with accretions. This makes it all the more important that corporate reports be transparent and be able to communicate information in an effective manner.

1.2 Significance of Corporate Reporting

Every organization has different types of people who are interested in its wellbeing. All of these need to be addressed as they have their own informational requirements. Corporate reporting is one such way of providing concrete benefits in terms of increased market share and higher profitability and also other soft benefits like increased shareholders faith and the decision to stay invested in the company. With better sharing of information about the performance of the company it can strengthen its external relationships in the public domain. Inefficiencies in the business are reduced and the management system gets improved resulting in the reduction of
wastage and operating cost of the business. Corporate reporting acts as a magnet by pulling prospective investors towards it and also ensuring that the current investors also have faith in the company and do not pull away. It improves the relationship with the vendors at all the levels, be it suppliers, intermediaries or distributors as they are also fully aware of the company’s current status and are not kept in the dark. Even regulatory authorities develop faith in those organizations which are more transparent. The business gets a competitive advantage as the overall goodwill of the business increases and the presence of the business in the international arena is strongly felt. No business functions in isolation and corporate reporting also extends both internal as well as external benefits. The most important internal benefits that an organization can reap from increased disclosures are retention of highly qualified, hardworking, devoted and motivated workforce. This happens because of the presence of strong management system which leads to an efficient and effective organization. Such a system assures the deserving employees that there caliber will be duly rewarded. Still companies, sometimes, have a tendency to withhold information from the stakeholders, including shareholders. Stakeholders, on the other hand, prefer to deal with companies with better disclosure of information reflected in their corporate governance performance. They show their willingness to pay a premium to buy the services of such companies which contribute to the bottom line of the firms in the long run (Agarwal and Knoeber, 1996).

Corporate reporting is such an effective means of improving the image of the company and thereby improving its performance manifold. Every organization is faced by many opportunities and threats. Corporate reporting is one of the ways in which a company identifies and manages environmental opportunities and threats and thus creating value for the shareholders. The expectations of the customers, allies, investors and the society are rising day by day due to corporate frauds. Reporting helps satisfy informational needs of all user groups. Every company prepares financial statements at the end of every year. These financial statements include the balance sheet, income statement or the profit and loss statement and cash flow statement. These statements are communicated to all those interested in the information after being duly certified by the auditors. The various interest groups include the owners/shareholders, customers, vendors, banks, financial institutions, government agencies etc. It is imperative that all accounting information be shared with the interst
groups and it cannot be avoided in any possibility. The annual report is the best mode of conveying all that a company has to say. The annual report is prepared and published as per the provisions of the Companies Act, 2013 and it includes directors’ report, financial statements and auditor’s report.

1.3 Qualitative features of Corporate Reporting

The conceptual framework as stated by the Institute of Chartered Accountants of India states that corporate reporting should possess some qualitative characteristics to be able to facilitate economic decision making. These qualitative attributes make the corporate reports very relevant and the information in these annual reports meaningful to the users. Four primary qualitative characteristics have been identified by the Institute of Chartered Accountants of India namely:

- **Understandability**: Information that is provided in the corporate reports should be easily understandable by the users. This is based on the premise that the user has a reasonable knowledge and general understanding of economic situations of the country, business activities and conceptual awareness of accounting principles. Apart from these, the user is also assumed to be ready to study and understand the information diligently to form an informed opinion.

- **Relevance**: Information plays two important roles- either predictive or confirmatory. Predictive information means which helps to predict the performance behavior of a company in the future and confirmatory information helps to make an analysis on the basis of the past performance or behavior of a phenomenon. Any piece of information to the stakeholders should be pertinent to the needs of the users and should be capable of helping them make an informed decision. If the information has the capability of influencing the economic or investment decisions of users, it is considered as relevant. This can be true if the information is able to help the users to assess past, present or future events or evaluating past notions about the company. The performance of the company in the past and its current financial status is generally used as the source of judgments for future performance of the company. The level of profit helps in judging the capability of the company to service its debt and dividend payment capacity. Also if the income statement clearly depicts each of the items, its
predictive capability increases. Timeliness is an important aspect of relevance. As the theory of financial management suggests that money has a time value, likewise information also has a time value. Information loses its value and relevance if the time necessary to take action has elapsed. If the information does not help the user in making decision it may not be considered to be relevant.

- **Reliability:** Any information to become reliable should be free from material errors and biases. The information should be prepared and presented in good faith. Reliability encompasses the factors of faithfulness, verifiability and neutrality. If the user can depend on the information it is considered to be reliable. However, relevance and reliability are two factors which may contradict each other. Forward looking information or future predictions may be relevant for investment decision making but may not be reliable as nobody can guarantee the future performance of a company.

- **Comparability:** for information to be comparable means that it should facilitate evaluation of financial statements of a company through time. This is important so that the stakeholders can identify the trends in its financial position and performance. Comparable information of similar enterprises in the industry should also be presented so that the users can evaluate the given data of the company over years and within industries. The users should be informed about the accounting policies and the change if any from one year to the other. For this purpose the measurement of any financial transaction and its reporting over the years should be done in a consistent manner. Reporting should include comparative statements and analysis as it is necessary for the understanding of the current period’s financial statements.

### 1.4 Corporate Reporting as per the Companies Act, 2013

The enactment of Companies Act 2013 have made changes in the reporting system of our country, with the intention to change from control based or regulatory regime to a disclosure based and transparent regime. Keeping in mind the current scenario it becomes all the more important on part of a company to enhance the disclosures in the corporate annual reports.

One of the mandatory aspects of corporate reporting is the annual report. An annual report is a concise document containing the details about the activities of a company
during a particular financial year, which includes mandatory as well as non-mandatory disclosures. The corporate annual report is a result of the expectations of the stakeholders to confirm the performance of the company, verify the accomplishments of the management and compare previous year’s performance of the company to that of the current years. An annual report contains a detailed account of the company’s processes and functions throughout the preceding year. The intention is clear, that the stakeholders get to see the complete picture of the performance of the company. Typically, an annual report contains the following information:

1.4.1 The Financial statements

The financial statements give the exact picture of all the commercial and financial transactions done by the company in the financial year under review. Detailed provisions have been made in the Companies Act, 2013 in this regard. The section 129 of the Companies Act, 2013 clearly states that the Board of Directors should ensure that the annual report is complete in all respects. It should contain the audited balance sheet and profit and loss account. In case the company has a subsidiary the financial statements shall also include the consolidated balance sheet and profit and loss account. These consolidated accounts shall also be audited by the company’s statutory auditor. The annual report shall also include a statement on impact of audit qualifications, if any. A cash flow statement shall also be incorporated in the annual report and shall be prepared under the indirect method. Detailed accounting standards have been notified by the Institute of Chartered Accountants of India, which have to be followed while preparing the financial statements. If the company has at any point of time deviated from the notified accounting standards, the annual report shall disclose this fact and also state the reasons thereof. If there are any financial effects of such deviations, they shall also be included in the annual report. The Board of Directors shall ensure that the financial statements give a true and fair view of the state of affairs of the company and shall be presented to the shareholders at every annual general meeting. These should be signed by the chairperson and two directors of the company.

1.4.2 The Directors Report

The Board’s Report is a direct communication by the directors to the shareholders of the company. The Companies Act, 2013 contains has improved the disclosures in the
Board’s Report. The disclosures required to be made in the report are numerous. Since the quantum of disclosure and the penalty for non-disclosure is huge, the Board has to be very cautious in preparation of the Board’s Report.

Section 134 of the Companies Act, 2013 speaks about the various details to be included in the director’s report like the extract of annual return as per section 92(3). Every independent director needs to furnish a statement of independence to the board and the annual report should include a statement by the board about the independent directors as per section 149(6). Section 178 of the Companies Act, 2013 states that every listed company shall constitute a nomination and remuneration committee and the annual report shall contain details about the company’s policy on directors’ appointment, their remuneration and the basis chosen to decide the qualifications, independence of a director and the positive characteristics of a director. If the auditor’s report or the secretarial audit report contains any qualification, reservation or any adverse remark, the annual report shall contain an explanation on these by the board of directors. Section 186 of the Companies Act, 2013 speaks about loans, guarantees or investments in which the directors are interested. The annual report shall contain details of such transactions along with those entered into with related parties under section 188 of the Companies Act, 2013. The annual report shall discuss state of the company's affairs; amount proposed to be carried to reserves; amount proposed to be paid as dividend to the existing shareholders of the company; if any material changes have occurred between the end of the financial year and the date of the annual report and may affect the financial position of the company, details of such changes shall be included in the annual report; conservation of energy, technology absorption, foreign exchange earnings and outgo. Apart from these the annual report shall include a statement about the formulation and implementation of a risk management policy, various steps taken towards the fulfillment of corporate social responsibility of the company and a statement of the Board’s evaluation of its own performance and its committees.

The Directors report should include the Director’s responsibility statement wherein they take complete responsibility that the annual accounts of the company have been prepared as per the notified accounting standards and the accounting policies applied were selected to give a true and fair view of the state of affairs of the company; proper and sufficient care was taken in maintenance of the accounting records; the Directors
had prepared the annual accounts on the premise that the company is a going concern, assurance that adequate internal financial controls were in place and that the directors ensured compliance with all applicable laws.

The directors should ensure that the Annual General Meeting is called only after giving at least 21 clear days’ notice which means that the date of posting and receiving the notice is not counted in these 21 days. The notice should specify the place, date, day and the hour of the meeting and the agenda of the meeting clearly conveying the details of the matters to be discussed at the ensuing meeting.

1.4.3 The Auditors Report

The Auditors must enquire and state in their report:

1. Whether the company has maintained proper records of fixed assets.
2. Whether the company has maintained proper records of Inventory.
3. Whether there exists an adequate internal control procedure.
4. Whether related party transactions are disclosed.
5. Whether provisions of the Companies Act, 2013 have been complied in case the company has accepted any public deposits.
6. Whether the company has failed to repay any dues of any bank or financial institution.
7. Whether any wrongful transaction/fraud or scam has been identified during the year.

1.4.4 Corporate Governance

The intention behind Corporate Governance is enrichment of the shareholder’s wealth in the long run as well as protection of the interests of the other stakeholders. After the enactment of the Companies Act, 2013 and the implementation of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 the thrust has been laid on self-regulation rather than the erstwhile control regime. There are numerous responsibilities on the promoters and directors of companies with a view to ensure good governance, higher levels of transparency, increased accountability and promoting self-compliance. Corporate governance is an idea or a perception, rather than an instruction manual. It covers the relationship between owners, the Board of
Directors, management and the stakeholders such as employees, suppliers, customers and the public at large. It also provides the arrangement, through which the company determines its goals and objectives, sets out the means of achieving these objectives, measuring performance and tries to find out the deviations. The purpose is to have a balance between economic and social goals and between individual and common goals.

Corporate governance is not purely about law, it is something beyond that. It constitutes the cultural fabric of the company. It emanates from the ethical thought process of the management, and cannot be controlled or implemented by legislation alone. Rather, the need of the hour is to promote business self-regulation so that the societal responsibilities of business are realized. Corporate governance involves fair management of the company so as to benefit the stakeholders and ensure that every decision of the company is advantageous to the maximum number of stakeholders. No organization can be successful without the effort and support from its stakeholders and the management must understand that they stand in a fiduciary position, one that of trust, when it comes to holding the wealth of the shareholders. It is their duty that there is no information asymmetry between the owner managers and the general shareholders. Corporate Governance is all about being open, transparent and accountable. If a particular company fails in implementing good corporate governance mechanisms it might have to bear a heavy price beyond compliance issues. It has been suggested that such companies might have to pay a significant risk premium when competing for scarce capital in the public markets. (Palaniappan and Rao, 2016)

1.4.5 Corporate Social Responsibility

Corporate social responsibility are the actions of an organization which are fair and morally right and the basic principle assumes that none of the decisions of the company will in any way harm the society at large. It means that the company should act in such a way that everyone who has any interest in the company is positively affected by the actions rather than being negatively affected. Here, the stakeholders is wider term and is not speaking only about the shareholders. Every company is interchanging resources with the society continuously. And this interchange definitely has an impact on people, partners and profits. The whole idea of corporate social responsibility is increasing the shareholders’ value. (Mishra and Suar 2010). Section 135 of the Companies Act, 2013 states that every company which has a net worth of
rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year has to mandatorily constitute a Corporate Social Responsibility Committee of the Board. Such a committee shall comprise of at least three directors, out of which at least one director shall be an independent director. This Committee is responsible for undertaking the CSR activities. It is the duty of the Board of Directors to ensure compliance of the CSR policy framed by the Committee and disclose contents of the policy in the company’s report.

The annual report should include details about the Net worth/ Turnover/ Net Profit of the company; whether a corporate social responsibility committee has been constituted if the profits or turnover is more than the threshold limit; Composition of the committee; formulation of the corporate social responsibility policy; disclosure of the policy in the board’s report and the company’s website; a statement that money spent on corporate social responsibility activities is as per the stipulations and reasons if the Company fails to spend the earmarked amount.

Due to the increased awareness amongst the stakeholders about their rights, it is imperative that the company makes full and complete disclosures. The Companies Act requires every company to make disclosures at timely intervals so that the stakeholders can take a well informed decision about their investment. But accountability does not happen in isolation, it is people centered. The attitude of a company’s stakeholders towards reporting and governance at large is the key factor that will make it work in the long run.

1.5 Corporate Reporting and Securities and Exchange Board of India

The Securities and Exchange Board of India was established on April 12, 1992 as per the provisions of the Securities and Exchange Board of India Act, 1992. As stated in its Preamble, the basic functions of the Securities and Exchange Board of India include- protection of the interests of investors in securities and to promote the development of, and to regulate the securities market. In order to fulfill these functions SEBI issues guidelines and regulations from time to time which are to be adopted by all listed entities. In this series of guidelines, SEBI has issued the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in replacement
of the listing agreement. The purpose behind this replacement was to align the provisions of the Companies Act, 2013 with that of the listing obligations and disclosure requirements to be followed by a listed entity.

1.5.1 Securities and Exchange Board of India (SEBI) Regulations, 2015
(Listing Obligations and Disclosure Requirements)

The Securities and Exchange Board of India has made extensive provisions in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, with respect to disclosures so as to monitor the capital markets and ensure transparency and accountability on part of the listed entities.

1.5.2 Principles governing disclosures

The Regulation 4 of the aforesaid regulations speaks about the principles governing disclosures as issued by the Board. These principles are as under:

a) Adherence to applicable Accounting standards and requirements of financial disclosure

b) Accounting standards to be followed in letter and spirit

c) Ensure independence of Audit

d) No misrepresentation/misleading information

e) Adequacy and timeliness of information

f) Accuracy, simplicity and explicitness of information

g) Compliance of all laws relating to Securities and other Guidelines issued by SEBI

h) Disclosure should consider spirit of all stakeholders, keeping in view its obligations in letter and spirit.

i) Relevance of information

j) Stakeholders to be in a position to assess current status of the company through filings made.

k) Regulations recognizes the rights of stakeholders

These principles have been framed to ensure that companies do not follow the rules as a mere formality, rather they should understand the purpose behind enhanced disclosures and follow it with full ethics.
1.5.3 Disclosures in the Annual Report

Detailed provisions are made in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with respect to the contents of the Annual Report of a listed entity. These provisions are enlisted in the regulation 34, 43A and schedule V of the aforesaid regulations and state that the annual report shall contain the following disclosures:

a) Audited financial statements - balance sheets, profit and loss account and in case the auditor’s report is qualified, a statement on Impact of such audit qualifications shall also be included in the annual report, as stipulated in regulation 33(3)(d);

b) In case the company has a subsidiary company, the annual report shall include the consolidated financial statements audited by its statutory auditors;

c) Cash flow statement prepared under the indirect method as prescribed and as applicable;

d) Directors report;

e) Management Discussion and Analysis report, which may be included as a part of director’s report or separately;

f) Business Responsibility Report shall be included in the annual report in the prescribed format. This is mandatory for five hundred listed entities with highest market capitalization, as on 31st March every year. The report shall include details of the programs and projects undertaken from an environmental, social and governance point of view. These companies shall also disclose the dividend distribution policy which covers the details like internal, external and financial parameters to be considered while the declaration of dividend and how the retained earnings shall be utilized. Other entities may include this report voluntarily.

g) Other disclosures as specified in Schedule V of these regulations, which are explained hereunder:

   Related Party Disclosures

   - Details of transactions- All listed companies except listed Banks need to disclose the compliance of accounting standard on Related Party Disclosures; total amount outstanding during the year, total amount at the end of the year and the maximum amount of loans/ investments/ advances to either holding
company, subsidiary company or any company in which directors are interested. These details have to be stated by name and amount. As far as SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are concerned directors’ interest is the same as stated in section 184 of Companies Act, 2013.

- **Policy on deciding materiality of transactions**- It is the responsibility of the management to judge the materiality of the transactions and the annual report shall state whether a policy has been formulated to decide on this aspect of related party transactions and on dealing with such transactions. The annual report shall state the transaction value and if it exceeds ten percent of the annual turnover it has to be considered a material related party transaction.

- **Approval from the audit committee**- The annual report shall include a confirmation that all related party transactions had prior approval of the audit committee. If the audit committee has granted omnibus approval for any related party transaction, the annual report shall specify the criteria followed by the committee and the need for granting such approval along with the name of the related party, nature of transaction, period of transaction, maximum amount of transaction, the base price / current price and the formula for variation in the price if any. The annual report shall confirm that all such transactions have been reviewed on a quarterly basis at least and that fresh approvals were granted once in every financial year. The annual report shall state that all related parties shall not have a right to vote on these resolutions in the general meetings.

**Management Discussion and Analysis**

Every listed entity shall include in its annual report a discussion on the following issues: structure of the industry and advances; opportunities and threats; performance of the company, either segment–wise or product-wise; position of the company; risks that may be applicable to the company; nature of internal controls and whether they are adequate; discussion on financial and operational performance and important developments in human resources, including number of employees. The financial statements must be accompanied with an explanation by the management, if the company has followed a different accounting treatment than prescribed in the accounting standards.
Corporate Governance Report

A separate section should be included in the annual report with respect to Corporate Governance containing-

- **Company’s Philosophy** - A brief statement on the company’s general philosophy on code of governance.

- **Board of directors** - composition and category of directors whether promoter, executive, nonexecutive, independent non-executive. In case of nominee director, the annual report should contain the name of the institution which he is representing and also whether representing as a lender or as shareholder; attendance of the directors at every meeting of the board of directors and whether attended the last annual general meeting; other directorships or committee chairmanships held by the directors; number of meetings of the board of directors held along with dates of each meeting; disclosure of relationships among directors to determine the related party transactions; number of shares and convertible instruments held by non-executive directors; web link where details of familiarization programmes conducted for independent directors is disclosed.

- **Board Composition** - The annual report should include disclosures regarding the composition of board of directors of the company and a declaration that the composition is as per regulation 17 of the Listing Obligations and Disclosure Requirements, 2015 wherein there should be an optimum combination of executive and nonexecutive directors, which means at least fifty percent of the directors on board shall be non-executive directors with at least one woman director. The annual report should clearly state whether the chairperson of the board of directors is executive or non-executive director. If the chairperson is non-executive, at least one-third of the board of directors shall be independent directors and if the company does not have a regular non-executive chairperson, at least fifty percent of the board of directors shall be independent directors. Even if the company has a regular non-executive chairperson, but he is the promoter or is related to any promoter of the company or any other person occupying managerial position or at one rank below that of the board of directors, fifty percent of the board of directors shall
be independent and all the above details as to composition of the board of directors should be clearly stated in the annual report of every listed entity.

- **Board Meetings** - The annual report should include details of the board meetings and a statement that at least four meetings of the board of directors were held in the financial year and that the maximum gap between two meetings was not more than one hundred and twenty days. Exact dates of all meetings and attendance of all the directors at each of the meeting and quorum should be specified. The board of directors should state in the annual report whether they have been reviewing periodically the compliance reports to all the laws applicable to the listed entity and as well as steps taken to rectify non-compliance, if any. The directors while signing the declaration of compliance to regulation 17 of the Listing Obligations and Disclosure Requirements, 2015, also affirm that proper succession planning is in place for the board of directors and senior management.

- **Code of Conduct** - The board of directors shall confirm in the annual report that a code of conduct is in place for all members of board of directors and senior management of the company and that all the duties of independent directors as per the Companies Act, 2013 have been incorporated in the said code of conduct.

- **Compliance statement issued by the board of directors** which confirms that all fees paid to non-executive and independent directors has been approved by the board and the shareholders in general meeting unless it is within the limits prescribed by the Companies Act, 2013. Such approval must specify the limits for stock options that may be offered to non-executive directors.

- **Compliance certificate issued by the chief executive officer and the chief financial officer** - The annual report shall contain such a certificate to the board of directors stating that they have reviewed the financial statements of the company and that to the best of their knowledge, all information contained is true and fair to represent the financial health of the company; the company has not entered into any agreement which is fraudulent in nature; proper internal controls for financial reporting are in place and that they have evaluated the effectiveness of the internal control system of the company.
• **Risk management**- The annual report should confirm that the directors were informed about risk assessment and the procedures for the minimization of risk. The details of the risk management policy as framed by the board of directors shall be disclosed in the annual report and web link also be mentioned which directs to the said policy and the board shall be responsible for the implementation of the policy.

• **Audit Committee** Details of the Audit committee in terms of its composition and name of members and the chairperson. The annual report should also include a brief description of the matters to be referred to the audit committee, accessibility of the chairperson and the details of the meetings of the audit committee and attendance of members during the year.

• **Composition of Audit Committee**- The annual report shall contain a statement that qualified and independent audit committee was duly constituted; the names of directors who are its members should be mentioned, that at least two-thirds members of the audit committee were independent directors; that at least one member of the audit committee had knowledge of accounting or financial management expertise and all the members had the ability to read and understand basic financial statements i.e. balance sheet, income statement, and cash flow statement. The annual report shall disclose whether the audit committee has an independent director as the chairperson and that the Company Secretary shall act as the secretary to the audit committee. The annual report shall mention whether the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor have been invited to be present at the meetings of the audit committee.

• **Meetings of Audit Committee**- The annual report shall affirm the fact that the audit committee met at least four times in the year along with dates and attendance of each member; the gap between two such meetings was not more than one hundred and twenty days and that the requisite quorum was present which included at least two independent directors. The powers of the audit committee and the matters referred to the committee shall be included in the annual report.
• **Nomination and remuneration committee** - Details of Nomination and Remuneration Committee in terms of its composition and name of members and the chairperson. The annual report should also include a brief description of the matters to be referred to the Nomination and Remuneration Committee and the details of the meetings of the said committee and attendance of members during the year. The annual report should also include the criteria for the performance evaluation of independent directors.

• **Composition of the Nomination and Remuneration Committee** - The annual report shall contain a statement that a nomination and remuneration committee has been constituted by the board of directors comprising of at least three directors and all were non-executive directors, fifty percent of the directors including the chairperson were independent and that the chairperson of the company was not the chairperson of the nomination and remuneration committee.

• **Roles and Powers of the Nomination and Remuneration Committee** - The role and powers of the nomination and remuneration committee and the matters referred to the committee shall be included in the annual report. Details of all pecuniary transactions with the non-executive directors and the criteria of making payments to non-executive directors shall be disclosed in the annual report. The details of the remuneration of directors should include all elements of compensation package of individual directors grouped under major heads like salary, benefits, bonuses, stock options, pension etc. The annual report should include details of fixed as well as the variable component of the compensation package including the performance linked incentives, the criteria for the payment of such incentives; service contracts, notice period, severance fees; stock option details, if any and whether the stock options were issued at a discount or not. The annual report shall clearly state the period over which the stock options have accrued and over which the option is exercisable.

• **Stakeholders Relationship Committee** - Details of Stakeholders’ grievance committee in terms of the name of director heading the committee, the director heading the committee shall be essentially non-executive; name and designation of compliance officer. The annual report should contain complete inventory of shareholder’s complaints like details of number of shareholders’
complaints received in the year, number of complaints not solved to the satisfaction of shareholders and number of complaints pending with the committee.

- **Composition of the Stakeholders Relationship Committee** - The annual report shall contain a statement that a Stakeholders Relationship Committee was constituted to specifically look into the matters of the solving the grievances of shareholders, debenture holders and other security holders. The statement shall confirm that the chairperson of this committee is a non-executive director. The role of the Stakeholders Relationship Committee and the matters referred to the committee shall be included in the annual report.

- **Past Annual General Meetings** - The annual report should contain details about location, time of past three Annual General Meetings and any special resolutions passed in those meetings. If any special resolution was passed in the last year through postal ballot, the annual report should contain details of voting pattern, name of the person who conducted the postal ballot exercise. If any special resolution is proposed to be conducted through postal ballot, then the procedure for postal ballot be included therein.

- **Means of communication** of the following types of information- quarterly results; names of newspapers in which they are published; the link of the website, where displayed and presentations made to the analysts or institutional investors.

- **General shareholder information** about the current year’s annual general meeting - date, time and venue; financial year; dividend payment date; name and address of the stock exchanges at which the securities are listed along with a declaration about the payment of annual listing fee; code of the company at the stock exchange; data of the high and low market price of the share during every month in the last financial year; performance of the market price of the share in comparison to broad-based indices such as BSE sensex; if the security is suspended from trading during the financial year for any duration, then the annual report should contain the reason for suspension of securities along with an explanation from the directors; registrar to the issue and share transfer agents; system of share transfer; distribution of shareholding as at the beginning of the year and that at the end of the year; dematerialization of
shares and details like demat number and percentage of company’s equity in
dematerialized form; outstanding GDRs or ADRs or warrants or any
convertible instruments, conversion date and the likely impact of the said
cconversion on equity; commodity price risk or foreign exchange risk faced by
the company and hedging activities undertaken; plant locations and company
address for correspondence.

- **Other Disclosures** like disclosures on related party transactions that are
  materially significant and may have any conflict with the interests of listed
  entity along with the web link which discloses the policy on dealing with
  related party transactions; details of non-compliance by the entity, penalties,
imposed on the listed entity by stock exchange or the Securities and Exchange
Board of India or any other statutory authority, on any matter related to
capital markets, during the previous three years; details of vigil mechanism,
whistle blower policy, and affirmation that no employee has been denied
access to the audit committee; web link where the policy for determining
‘material’ subsidiaries is disclosed

- If any of the requirements of the corporate governance report as specified
  above is not complied with, reasons for such non-compliance should also be
disclosed.

- The corporate governance report should disclose the extent to which the
discretionary requirements have been adopted, like separation of the office of
the chairperson and the chief executive officer, reporting of the internal
auditor.

- Certain corporate governance requirements are specified in regulation 17 to 27
  and clauses (b) to (i) of sub-regulation (2) of regulation 46 of the Listing
Obligations and Disclosure Requirements, 2015. The annual report should
include disclosure of compliance to these regulations in the section on
corporate governance. Majority disclosure items have already been elaborated
upon and the rest of the regulations cover the following aspects of disclosures:

- **Risk Management Committee**

  The annual report shall contain a statement that a Risk Management
Committee has been constituted which may include senior executives of the
company, however, majority of the members of the committee shall consist of
the board of directors including the chairperson. The role and responsibility of the risk management committee shall be defined by the board of directors and will include the task of and reviewing of the risk management plan. The details of the responsibility and the matters referred to the committee shall be included in the annual report.

- **Vigil mechanism**

The annual report shall contain details of the vigil mechanism formulated for directors and employees so that they can report genuine concerns. The annual report should confirm whether the chairperson of the audit committee can be approached directly in certain cases to provide adequate safeguards against victimization of any person.

- **Subsidiary and Associate Companies** - Corporate governance requirements with respect to subsidiary of listed entity

The annual report shall specify that the audit committee of the listed entity has also reviewed the financial statements of the subsidiary company and both the companies shall have at least one independent director in common.

- **Independent Directors**

The annual report shall contain the details of number of companies in which a person is serving as an independent director as the number cannot exceed seven. The annual report shall also specify if the independent director is a whole time director as in that case the maximum number permissible is three. The annual report shall contain the details of meetings of the independent directors in the year in terms of the dates, attendance and quorum present at such meetings.

The annual report shall also contain a statement that the independent directors have reviewed the performance of non-independent directors, the chairperson and the board of directors as a whole; have assessed the adequacy and timeliness of information flow between management and the board of directors. The annual report shall contain the details of any casual vacancy in the office of any independent director in terms of the time within which it was filled.
The annual report shall state the details of familiarization programmes for independent directors which shall include the details of nature of the industry; business model of the company and roles, rights, responsibilities of independent directors. Details of attendance of the directors and total hours spent at such programmes shall also be included.

The annual report should state the details of the procedure adopted for performance evaluation of independent directors and that such evaluation was done by the entire board of directors wherein the concerned director did not participate.

- **Key Managerial Personnel and other employees of senior management, directors and promoters**

The annual report shall state the details of directorships/ memberships of committees held by a director in other companies as one cannot be a member in more than ten committees or act as chairperson of more than five committees across all listed entities in which he is a director and these details shall be incorporated in the annual report basis the information provided by the concerned director.

The annual report shall contain details of shareholding of non – executive directors and also include a statement that all members of the board of directors and senior management personnel have complied with the established code of conduct.

The annual report shall include the disclosures relating to all material, financial and commercial transactions, where any member of the senior management has a personal interest that may be potentially conflicting with the interest of the company.

The annual report shall contain details about the steps taken for prohibition of insider trading and that no employee including any key managerial personnel or director or promoter of the company has entered into any agreement with any shareholder with regard to compensation or profit sharing in dealings in the securities of such company.
• **CEO Declaration:** The annual report shall include a declaration signed by the chief executive officer stating that the members of board of directors and senior management personnel have accepted and also assure the compliance with the code of conduct determined for the board of directors and senior management.

• **Compliance certificate:** The annual report of every listed company shall include a declaration from either the statutory auditors of the company or a company secretary in whole time practice regarding compliance of conditions of corporate governance annexed with the directors’ report.

• **Disclosures with respect to DEMAT suspense account/ unclaimed suspense account:** The annual report of every listed company shall disclose the following details, if applicable: total number of shareholders and the number of shares outstanding in the suspense account at the beginning of the year and that at the end of the year. The annual report shall specify the number of shareholders who approached the company for transfer of shares and to whom shares were transferred from suspense account during the year accompanied by a statement that the voting rights on such shares shall remain frozen till the rightful owner of such shares claims the shares.

**1.5.4 Disclosures on the Website**

a) The company must have a functional website of its own which should be properly managed on a regular basis. The following disclosures have to be made on the website of the company: details of the business of the company; the terms and conditions on which the independent directors shall be appointed; details of the various committees of board of directors and their composition; code of conduct framed for the board of directors and senior management personnel. Apart from the above the website shall also contain details of vigil mechanism/ whistle blower policy; criteria of making payments to non-executive directors, if the same has not been disclosed in annual report. There are several policies that a listed company is supposed to frame and display on its website including policy on dealing with related party transactions; and policy for determining ‘material’ subsidiaries. The website shall also state the details of familiarization programmes imparted to independent directors; specify on the website the dedicated email address for
grievance redressal and the contact information of the designated officials of the company for handling investor grievances;

b) The disclosures on the website shall also include financial information like: the financial results of the company and notice of meeting of the board of directors in which the financial results shall be discussed and adopted. The website shall display a complete copy of the annual report including balance sheet, profit and loss account, director’s report, corporate governance report; detailed pattern of shareholding; details of agreements with media companies and presentations to institutional investors.

1.6 Corporate Reporting and the Stock Exchanges

A stock exchange is a place where shares of public limited companies are traded. Capital market can be bifurcated into two types- Primary market where companies float their securities to the general public for the first time and Secondary market where securities which are already issued are available for trading. Secondary market is where one investor buys shares from another investor at the prevailing market price. The regulatory authority of stock exchanges in India is the Security and Exchange Board of India (SEBI). A stock exchange is the place where buyers and sellers meet, so it is important for stock exchanges to be updated about the functioning of the companies whose shares are listed with them. The prospective investors get a lot of information from the stock exchanges. So the stock exchanges also cater to the informational needs of the investors by following strict disclosure norms.

1.6.1 Disclosure requirements of the stock exchanges

India’s premier stock exchanges are the Bombay Stock Exchange and the National Stock Exchange and companies listed on both these stock exchanges have to regularly file several documents so as to keep the investors posted about the happenings in the company. Some of the disclosure requirements of stock exchanges are:

a) The annual report has to be approved and adopted in the annual general meeting and a copy of it has to be submitted to the stock exchange within twenty one working days;

b) A statement giving details of investor grievances and complaints shall be furnished within 21 days of the end of each quarter;
c) A quarterly compliance report on corporate governance within fifteen days from end of the quarter;
d) A statement showing holding of securities and shareholding pattern separately for each class of securities at the time of listing of securities, at the end of each quarter and at the time of capital restructuring;
e) Financial results within 45 days from the end of the quarter in case of quarterly results and in case of annual financial result, within 60 days from the end of the financial year;
f) Advance notice of board meetings of 2 days for routine matters, 5 days for discussing financial results and 11 days for alteration in securities, date of interest payment, redemption of debentures etc. to the stock exchanges;
g) An intimation of all price sensitive information, within twenty four hours of the occurrence of the event and subsequently after the cessation of the event;
h) The outcome of the board meeting within 30 minutes of the closure of the meeting
i) An advance notice of at least seven working days for corporate actions like book closures and record date;
j) Details regarding the voting results within forty eight hours of conclusion of the General Meeting;
k) An intimation from the company of any transaction by the promoter, employee or director of the company in securities of the company within two trading days of such transaction if the value of the securities traded equals or exceeds a value in excess of ten lakh rupees for the sake of prohibition of insider trading.

Mandatory reporting norms in India are continuously evolving and ever changing so as to include a lot of information that may be necessary for any person connected to the company, which helps in effective decision making. When it comes to mandatory disclosures every company feels it is their foremost responsibility to comply, but the real difference in ethics can be seen by the extent of voluntary corporate reporting that a company follows.

1.7 Voluntary Corporate Reporting

Every organization faces issues related to information asymmetry and agency costs which can be addressed by increased disclosures. Previous research indicates that
increased disclosures lead to reduced information asymmetry which ultimately leads to better protection and reduced risk levels at the investor level and reduced cost of capital at the firm level. Tian and Jingliang (2009) examined in detail the concept of voluntary disclosures as well as overall disclosures of an organization. They concluded that voluntary disclosures are an extension of the compulsory disclosures and they not only support the mandatory disclosures but also compliment them. Voluntary disclosures are beyond compliance and only those companies will indulge in such disclosures which are confident about their performance as they would want to project a better image of the company and future prospects in front of its prospective investors. Information asymmetry exists between investors and the management of the company and this may lead to unjustifiable decisions on the part of the investors. In the corporate form of organization the owners are not involved in the day to day management of the affairs of the company and this creates agency issues and Information asymmetry. The companies in the west are focusing more on voluntary disclosures whereas in the developing countries even the mandatory disclosures are a challenge. Therefore, studies have been conducted in the past to analyze the effect of disclosures on investor confidence at two points in time: one when the disclosures were optional or voluntary and second when these became mandatory due to regulatory changes. Such disclosures related to financial as well as non-financial item namely: Corporate Social Responsibility (CSR), Employee, Governance, Environment and Community perspectives (Hung, Shi and Wang, 2015). There is a possibility that the enhanced voluntary disclosures have a strong financial consequence in terms of improved organizational performance. When talking of the investor community and the other stakeholders, their concern is to judge whether enhanced disclosures have any effect on the market price of shares. This is an area of interest for the regulatory authorities as well as the policy makers. To understand the association between two variables, not only the level of disclosure but the type of disclosure is of equal importance. The firms which are not closely followed by analysts are expected to depict forward looking and non-financial disclosures properly, but companies which have high analyst following are expected to clearly disclose information related to history and background of the company (Botoson, 1997).
Users of corporate annual reports need all types of information be it financial or non-financial. Non-financial disclosures include all information such as resources, people, relationships, environment and management’s expectations of future performance. The reporting of these items of information care must be taken to ensure that the users are able to identify a clear link or association between a company’s business, and its financial performance (Marshall, FRC 2012.) Companies these days do not consider reporting a s a burden, rather it is regarded as a step forward as it offers many benefits to the companies. Majority of the large companies in the world have initiated sustainability reporting which includes information about people, planet and profits and not only about profits. The companies which disclose key financial data vividly in its annual report enables its gauge tribulations earlier than the havoc (Hoyer, 2014).

Schadewitz (1997) concluded that firm size and type both have a significant association with mandatory disclosures but in case of voluntary disclosures only firm size was concerned to have a strong association. Varghese (2011) did the content analysis of annual reports of manufacturing companies and studied their voluntary reporting practices to see whether any relationship exists between firm characteristics and extent of disclosure. He found that there was a variation in extent of disclosures but the statistical analysis did not find any significant relation between the nature of industry and extent of disclosures. A lot of research has been undertaken to study the disclosures and their association with firm characteristics like size and type of the industry but its correlation with performance variables like return on equity, return on assets and market price of shares needs more exploration (Lang and Lundholm, 1993.) There exists a positive relationship between economic performance and environment performance where industry type was studied as a moderator (Russo and Fouts 1997). A company’s financial performance as suggested by accounting and market based measures like return on equity, PBIT margin and market price of shares was significantly related to corporate social responsibility disclosures in Tehran (Yeganeh and Barzegar 2014).

1.8 Organizational Performance

Organizational performance encompasses all the activities that are undertaken to establish organizational goals, monitor progress toward the goals, study the deviations
and make necessary changes in order to achieve those goals more effectively and efficiently. This is the major task of the management in the organizations and those businesses are considered successful which accomplish these activities effectively and better than others (Short and Palmer, 2003).

Organizational performance refers to the steps that are taken by an organization to achieve its vision, mission, goals and objectives. For strategic management it is imperative that the organizational performance be assessed. The business managers and leaders should know the status of their organizations performance and how well they are doing so that they can take remedial actions to correct the course of things. This helps them in assessing as to what strategic changes have to be made so that the organizational goals and objectives can be achieved. Performance is a concept which can be gauged through a performance measure. Most executives examine measures such as profits, stock price, sales and various financial ratios to better understand how well their organizations are competing in the market (Short and Palmer, 2003).

Organizational performance relates to how successfully an organized group of people with a particular purpose perform a function. Hagel, Brown and Davison (2010) in their article in Harvard Business Review, remarked that to understand the organization’s progress, measuring its performance is very important. It involves measuring the actual performance of an organization against its projected goals. They proposed that this requires a top- down approach and strategic plans which provide performance targets for the organization, this in turn sets the direction of the organization. They concluded that to measure the organizational performance, many stock analysts and investors consider return on equity and return on assets and profitability ratios to be of utmost relevance.

Organizational performance as examined by Richard, Devinney, Yip and Johnson (2009) covers three specific areas of firm outcomes: Financial performance which refers to measuring a company’s operations and policies in pecuniary terms. To see the company’s performance various ratios can be studied like return on assets, return on investment, Net profit margin and PBIT margin; Market performance which measures how well a company performs in the marketplace. If the market share or the market price of the shares rises, the company is said to have performed well. This can also be explained by sales and market to book value ratio; and Shareholder return which is considered to be the ultimate measure of organizational performance as it
measures how much value is created for the shareholders. If the shareholders are happy with the returns they continue to stay invested with the company. This in turn leads to wealth creation for the shareholders. Shareholders enrichment is the most important measure of organizational performance as explained by ratios like price earnings ratio and return on equity.

1.9 Corporate Reporting and Organizational Performance

A number of studies have examined the link between Corporate Reporting and Organizational Performance. Companies that have better information disclosures could reduce the occurrence of information asymmetry between the various stakeholders (Ross, 1977). This reduced information uncertainty leads to enormous benefits to the concerned organization in terms of reduced cost of capital (Lang and Lundholm, 1993; Botosan, 1997; Botosan and Plumlee, 2000 and Walter, 2006). Apart from equity, decreased levels of information uncertainty are also associated with reduced cost of debt (Sengupta, 2006), and increased stock prices (Bloomfield and Wilks 2000). Whereas some studies have put it in a reverse manner, that companies dependent on external financing have higher level of disclosures (Velashani and Mehdi, 2008).

Corporate reporting and disclosure are important means for a company to communicate its strategy, values and ethics to the outside investors. Increased voluntary disclosure of financial information by any company can prove to be a vital component of the corporate governance framework and a very important indicator of earnings quality and thus good organizational performance. Increased voluntary disclosure reduces the gap of information between investors, resulting in increased confidence levels of informed investors about the value of the company. This leads to benefits for the company in terms of increased liquidity as investors would prefer to stay invested, leading to better performance of the company (Healy and Palepu, 2001).

This proposition was also seconded by Barako (2007) that the management of a company would willingly and voluntarily disclose more information to the market in order to increase and enhance the value of the firm, therefore suggesting that positive
relationship exists between voluntary disclosure and financial performance of companies.

1.10 Discussions

The listed companies India have by implication the responsibility of taking due care of their business as they carry entrust of investors and their decisions can affect many stakeholders. It is due obligation of these companies to ensure greater accountability and transparency as the incidents of corporate frauds are on the rise in recent times. The stakeholders are majorly dependent on the critical source of information in form of annual reports wherein the companies disclose and report on various aspects of the functioning and performance either under the mandatory or voluntary guidelines laid down by various regulatory bodies.

The current chapter was dedicated to and discussed various facets of corporate reporting including the concept, significance and features of corporate reporting, guidelines of regulatory authorities, its relationship and aspects related to stock exchanges and organizational performance. The next chapters in the thesis has been devoted the review of relevant and referred literature, the overall research framework, methodology and analysis before arriving at the findings, discussions and conclusions towards the end of the thesis.