CHAPTER 7

FINDINGS AND RECOMMENDATIONS
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We summarize and highlight the findings of our study and also, here, we point out the shortcomings of our study, offer some suggestions and state the areas of further research that could be undertaken on this topic. Our study would certainly throw light on the current trends and voluntary disclosure practices of IT sector companies.

7.1 Summary of Findings:

- The Council of the ICAI, so far, has approved 32 Accounting Standards. ICAI has set an internal deadline of aligning its AS with IFRS by April 2011. A standard on insurance contracts is also on the way which would bring out standards almost on a par with the International Financial Reporting Standards (IFRS).

- The comprehensive framework developed in this study for organizing and evaluating voluntary disclosures is an initial step in the direction of examining voluntary disclosure practices from the perspective of Indian IT companies.

- In addition to investors' information needs, other factors such as the outlook of company management, contribution of intangible assets for generating revenue and market complexity affect both the volume as well as the quality of voluntary disclosures.

- Total voluntary disclosures expanded too as the corporate report moved away from being primarily a statutory document concerned with financial stewardship towards a public relations document. This shift in emphasis also led to a revamping of the corporate report with more disclosures.
The digital age has produced a dramatic shift in the corporate communication paradigm. As a result, companies increasingly use the internet as an investor relations medium and a vehicle to disseminate financial information to capital markets. Modern communication systems such as the internet have facilitated economic globalization (Paehlke, 2003) and at the same time, have allowed stakeholders in widely dispersed jurisdictions to find common cause with each other and create swarms to attract a corporation (Reingold, 2002).

A study between the 10 sample companies belonging to the IT sector and the 10 BSE Sensex companies (other than the IT sector) reveal that in case of IT sector companies there is a wide disparity between the number/quantity of voluntary items disclosed in the annual reports as compared to BSE Sensex companies. For instance, with respect to IT sector companies, Infosys Ltd. rated the highest and disclosed 58 items out of 80 items; Satyam ranked the second and disclosed 42 items; both Tata Infotech & PCS Technology ranked eighth and disclosed 19 items and Zenith Infotech disclosed 18 items and ranked the last. With respect to BSE Sensex companies, Reliance Industries Ltd. ranked the highest with 43 items; Hindalco Industries Ltd. second with 41 items; both Tata Motors & NTPC Ltd. third with 40 items and ACC Ltd. ranked the last with 30 items. However, this disparity is not noticed in case of mandatory disclosures for both the sector companies. Coefficient of Variation confirms this result as in case of IT sector companies it is 11.805 and in case of BSE Sensex companies (other than the IT sector) it is 3.986.

This study investigated the informational importance of voluntary disclosure as perceived by the IT sector and BSE Sensex companies. No significant difference were found between the perception of the 20 sample companies in the case of 27 out of 80 voluntary disclosed items such as additional information on directors; attrition rate; awards & achievements of the company; Chairman's letter or CEO message; CEO or CFO Certification; code of business conduct & ethics; company information; contents of annual report; corporate social responsibility statement; dividend policy of the firm; financial highlights of past 5 or 10 years; globalization initiatives; graphical
presentations; highlights of performance; history of the company / co. at a glance; human resource disclosures; management structure; market price data (current price); non-mandatory disclosures on environment, employee health & safety; risk management; shareholders / investors grievance committee; statistical data of public & employee grievance cases; sustainability reporting; the year at a glance; total shareholders return & vision / mission statement.

It has been observed that on one hand, certain items such as contribution to national exchequer, demand & supply analysis, financing of new projects, distribution of revenue, product flow chart, value chain & supply chain statement & productivity have been disclosed by only the companies that form the BSE Sensex but not the IT sector companies. On the other hand, certain items such as balance sheet including intangible assets, current cost adjusted financial statements, enterprise value, FAQ, gender-wise presentation in the change of number of employees, intangible asset score sheet, value added statement & value reporting have been reported only by IT sector companies. In addition, items such as awards & achievements of the company, company information, dividend policy of the firm, highlights of performance, market price data (current price), the year at a glance, shareholders / investors grievance committee, statistical data of public, employee & investor grievance cases is an admixture of both the IT sector & companies belonging to other sectors in their annual reports. Due to lack of mandatory requirements, none of the sample companies have disclosed highlights of Cash Flow Statement (CFS) over last 5 years & market share price (future years).

Among the 20 sample companies, Infosys Technologies Ltd. has been rated the highest with 58 items disclosed out of 80 and disclosed items such as age distribution of existing employees, capital expenditure over last 5 or 10 years, corporate governance report in compliance with regulation of some foreign countries, current cost adjusted financial statements, FAQ, financial statements as per GAAP of foreign countries, intangible asset score sheet and value added statement among others.
Corporate Governance Rating (CGR) by rating agencies is of immense importance and high CGR reflects company's transparent shareholding pattern, sound board practices, interactive decision-making process, fair and transparent disclosure practices followed in the operations of the business. A few IT sector and BSE Sensex companies have done corporate governance rating by rating agencies and disclosed such ratings.

Today, besides generating profits and employment, the corporate sector is expected to stretch beyond commercial motives and address a wide range of social concerns like education, health care, rural upliftment, child development, housing and natural environment amongst others. With the accelerating pace of globalization and increasing competition, it becomes inevitable for companies to have clearly defined business practices with a sound focus on public interest. In recent years, the concept of corporate social responsibility has gained prominence from all avenues. 60% of IT sector companies & 90% of BSE Sensex companies (other than the IT sector) have disclosed corporate social responsibility statement in their annual reports which shows that IT sector companies have put less emphasis than BSE Sensex companies on corporate social responsibility statement.

Both IT sector and BSE Sensex companies have put stress on non-mandatory disclosures on environment, employee health & safety. The Health, Safety & Environment (HSE) policy of Infosys is "Infosys as a corporate citizen is committed to demonstrating a high standard of environmental protection, sharing of best practices and provision of a safe and healthy work place". This involves: (a) Conservation of resources; (b) Prevention of pollution; (c) Adherence to all applicable legislations; (d) Eliminating accidents, occupational illnesses and injuries at work. 40% of IT sector companies and 90% of BSE Sensex companies have made non-mandatory disclosures on environment, employee health & safety in their annual reports.

Almost all the BSE Sensex companies have included EVA statement, debt-equity ratio, ratio analysis, total shareholders return, market capitalization over
last 5 or 10 years & attrition rate as mechanism for measurement and management of performance. Whereas IT sector companies use debt collection period / status, total shareholders return, attrition rate and ratio analysis for measurement of performance.

From the period of the 1840s, long into the early 1990s, a corporate’s value was mainly driven by its tangible assets – values presented in the corporate balance sheet. However, in this information age, the key drivers of the market value in this new economy are the intangible assets. The market provides a value to the off-balance-sheet assets of the company - that is, those assets which are invisible or which are not accounted for in the traditional financial statements. The intangible assets of a company include its brand, its ability to attract, develop and nurture a cadre of competent professionals and its ability to attract and retain clients. None of the BSE Sensex companies have disclosed intangible assets. Among the IT sector companies, Infosys Technologies Ltd. disclosed Intangible Asset Score Sheet and also regularly discloses balance sheet including intangible assets (also by Satyam).

Financial markets have started opening up across the globe and today investors have a wide choice of capital markets to invest in. A key issue in the international financial analysis is the restatement and translation of financial reports that describe operations conducted in one environment, but which are the subject of review and analysis in another. None of the BSE Sensex companies have mentioned but IT companies like Infosys Technologies Ltd. & Wipro Ltd., disclosed unaudited financial statements as per GAAP of some developed countries, especially as per US GAAP in their annual reports. In this respect, the following excerpt from the annual report of Infosys Technologies Ltd. for 2005-06 is worth to be noted: "As an investor-friendly company, committed to highest standards of disclosure, we have been voluntarily providing unaudited financial statements prepared in substantial compliance with the GAAP requirements of Australia, Canada, France, Germany, Japan and the United Kingdom, besides those of the US and India". 

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Many empirical findings suggested that a large array of advantages could arise for companies who voluntarily disclose human resource information. A team of competent, devoted and motivated employees can convert a sick concern to a successful one whereas incompetent and unmotivated personnel may squander away the existing physical and financial resources, leading the concern to bankruptcy. Almost all the IT sector and BSE Sensex companies have disclosed human resources in their annual reports. All IT sector companies except Wipro Ltd. and all BSE Sensex companies except Hindustan Unilever Ltd. (HUL) have disclosed human resource information in their annual reports. However, human resource accounting (models) have been disclosed by only two IT sector companies viz. Infosys Technologies Ltd. & Satyam Computer Services Ltd.

7.2 Suggestions:

Results of this study confirm the findings of previous researchers that companies are disclosing more information on voluntary basis than they were doing previously. However, companies should attempt to match the information disclosed with the information desired by the stakeholders by careful and systematically assessing stakeholders’ information needs.

Results of this study also identify new drivers of voluntary disclosures and give some evidence about the nature, extent of voluntary disclosures of Indian IT sector companies. In an emerging economy, disclosure of certain items are very important and relevant to facilitate –

- Wider participation of retail investors in capital markets.
- Wide gap between book value of shares and market value of shares can be minimized.
- Growing importance of intangibles, some of which are not disclosed in the accounts clearly, for instance, brands.
- Globalization and integration with foreign markets.
• Demand for more information on the part of stakeholders (confirmed from our perception study).

Although some disclosures were found about internally generated intangible assets, additional data about those assets would be beneficial because of the importance of intangibles to a company's value. Internally generated intangible assets are not always disclosed in the company's balance sheet. However, intangible assets play a significant role and hence more of such assets should be disclosed.

Voluntary disclosures should cover not only good news but also disappointments. Disclosures are most useful if they report on previously closed plans and goals and the results achieved in meeting those plans and goals to ensure the feedback value of quality financial reporting.

The metrics used by companies to manage their operations and drive their business strategies often are very useful. A company uses different metrics or measurements to compare its goals, strategies and to compare current performance with previous performances. These metrics or performance measurements should be explained and consistently disclosed from period-to-period to the extent they continue to be relevant to a company's success. These metrics should also be used for interfirm as well as interperiod (5 - 10 yrs.) comparative analysis.

The cost of disclosing additional information should be considered. This view is supported by Gray, Radebaugh and Roberts who found that, on average, financial executives tend to perceive most voluntary disclosure items in terms of their net cost. Gray, et al. (1990) also found that there is a general agreement among financial executives that the most important cost factor is the indirect cost of competitive disadvantage resulting from the disclosure of information such as future-oriented information.

It may be said that, although there have been a marked improvement in the quantity and quality of information provided in the financial statements by the Indian IT companies over the years, there exists still some diversity in their
reporting practices. For instance, in case of IT sector companies, some companies are disclosing more and some disclosing less information, so a disparity exists. Thus, more efforts should be put to reducing the diversity and ambiguity in their disclosure and hence enhancing the quality, reliability, comparability and comprehensibility of accounting information.

♦♦♦ Compilers and users of annual reports should be encouraged to communicate in order to attain a higher degree of consensus on the extent and importance of voluntary disclosure. Otherwise, the information content of annual reports will not satisfy the needs of all constituents. It will therefore remain an imperfect mechanism in the communication process.

♦♦♦ Disclosures that are made voluntarily should be reliable and consistent and should improve the quality of corporate communication. Furthermore, the interest of the users of corporate annual reports should take precedence over the interests of the compilers. Compilers should identify what is perceived to be useful decision-making information in terms of user needs and should respond by improving the non-financial information content of the annual report and by formulating an effective disclosure policy.

♦ Disclosure is good, and it is to be encouraged but at the same time it should be made within a common framework in order to meet the test of comparability. In many cases it has been observed that some voluntary disclosures made by the companies appear in non-comparable and inconsistent form. This will entail some timely effort on the part of regulators and standard setters in right direction to issue some common guidelines.

♦ There is an apprehension that disclosure of too many items in the annual report may result in information overload. To avoid financial disclosure overload in future, it may ultimately be necessary to publish separate, supplementary or summarized reports that serve the different needs of the various stakeholders. The solution to the problem of information overload proposed by Wallman (1997) is a user customized system in which the users determine what information they wish to access from a comprehensive disaggregated database to enable them to prepare their own customized financial statements from real-time information. The publicly accessible
databases include the Securities and Exchange Commission's Electronic Data Gathering and Retrieval System and Compustat, for example, Extensive Business Reporting Language (XBRL). Electronic data will certainly be the primary source of information in the future and annual reports should already be geared to this method of disseminating information.

- In order to avoid confusion on the part of stakeholders, the annual report should clearly mention the items which are actual figures (i.e. backed by vouchers) and which are estimated figures (i.e. not backed by vouchers).

### 7.3 Limitations of the Study:

Some of the limitations of the present study are:

- The study is based on the published annual reports of only three years, which makes this study a snapshot. Analysis of annual reports over a longer period of time would have given a better picture and trend in the corporate voluntary disclosure practices.

- The sample consists of 10 large and established companies belonging to the BSE Sensex and 10 renowned IT sector companies. If the sample size is increased to include relatively smaller and the less renowned companies, the findings are likely to be different.

### 7.4 Areas for Further Research:

Further research could be carried out on the following areas:

- Voluntary disclosures by Small and Medium Enterprises.
- Comparative analysis of voluntary disclosures among Companies of SAARC Countries.
- Voluntary disclosures and Cost of Capital.
- Impact of voluntary disclosures on Share price.