CHAPTER 1

INTRODUCTION
CHAPTER 1

INTRODUCTION

1.1 Background:

Disclosure is the process through which companies communicate business and financial information to its stakeholders. Disclosures are used to enhance the usefulness of financial reporting. Disclosure in financial reporting is a potentially important means for management to communicate firm's performance and position to outside investors. Enhanced disclosure practices will help to reduce information gap between firm and its stakeholders, to improve efficiency of capital allocation and also to reduce the cost of capital. Adequate disclosure in financial reports can build climate of trust and boost confidence of investors' community. The term disclosure has many meanings. Normally, the term is used to refer to the information that is provided on a supplementary basis outside the basic financial statements. It is also used as a vehicle for communication of decision-oriented information.

The primary objective of traditional financial reporting is the disclosure of financial data within the framework of Generally Accepted Accounting Principles (GAAP). Under conventional standards, the financial reporting process means that the reported data is not always a reliable basis for forecasting future performance, which can result in a loss in credibility from a stakeholder's perspective. Furthermore, it focuses almost exclusively on quantitative data and, typically, reveals little about issues such as investment risks and the long-term effects of capital investments. In addition, key drivers of corporate value in critical areas of the business are human capital, customer relations, innovation, research and development (R&D) and corporate reputation, which often do not get adequate reflection in published financial statements.

The accounting standard-setting agencies are now considering it necessary to be concerned with the totality of financial reporting. For example, the FASB in its SFAC1 (FASB, 1978) indicates its intention to step forward beyond the financial statements by opining that "Although financial reporting and financial statements
have essentially the same objective, some useful information is better provided by financial statements and some is better provided, or can only be provided, by means of financial reporting other than financial statements”.

In order to satisfy the growing information needs of the users and the compilers of Annual Report (A.R.) in the 21st century, emphasis should be placed on the usefulness, value and relevance of the information contained in the annual reports. With increasing exposure to international capital markets, Indian companies have been obliged to satisfy the information demands of foreign investors and to provide these investors with more transparent, meaningful, reliable and relevant information in their annual reports. Improvement of the quality, extent and informativeness of disclosures in annual reports may assist the capital mechanism to function efficiently and thereby facilitate the effective distribution of capital, assets and even human resources.

There are many factors and considerations that could influence a company’s overall disclosure policy. These factors include the extent, frequency and method of disclosure; the company’s objectives with disclosure; the size, type and culture of the company’s shareholders; the cost of disclosure; the favorableness of the news; the intensity of competition; earnings margins and the rate of return. Out of the various aspects, the most important is the disclosure cost. However, as a result of the heterogeneous nature of users, there is no optimum disclosure policy for a company to adopt. Ideally, compilers and users should jointly draft a conceptual framework that will satisfy the various and often conflicting needs of both groups. Ogan and Ziebart, (1991) state that it is imperative that the accounting profession should consider the various constituencies of the firm rather than assuming, myopically, that there is a single “general” user of financial statement information. Enterprises, too, should weigh up the adverse risk-sharing effect against the beneficial cost-saving effect that disclosure has on shareholders and should balance this comparison with information acquisition costs (Kim, 1993).

According to Guthrie and Parker (1990), the political economy perspective perceives accounting reports as social, political and economic documents. They serve as a tool for constructing, sustaining and legitimizing economic and political arrangements,
institutions and ideological themes which contribute to the corporation’s private interests. Disclosures have the capacity to transmit social, political and economic meanings for a pluralistic set of report recipients.

The overarching objective of AA1000 is the notion of accountability. Accountability state that to account is to explain or justify to those people who have a legitimate interest. Thus, in order to discharge its accountability, an organization will account for its acts, omissions, risks and dependencies. However, in addition to this accounting requirement of transparency accountability also entails a broader obligation of responsiveness and compliance (ISEA, 1999). Disclosure is an ‘accounting activity involving both human and nonhuman resources or techniques as well as the interactions between the two’ (Perera, 1994).

Disclosure is the communication of various details regarding the activities of the business which are to be disclosed either statutorily or voluntarily and it is to convey a true and fair view of the operating results to the users of financial reports. The two functions of accounting includes first, measuring and arraying the economic data and secondly communicating the results of this process to the interested parties (Dasgupta, 1977). But now, the boundaries of accounting have been extended (Glautier and Underdown, 1987). Accordingly, the purpose of accounting has been redefined as “to provide information which is potentially useful for making economic decisions” (AAA, 1975). Almost similar statement was made by The Trueblood Report of AICPA, ‘the basic goal of a country’s economy is to maximize the economic and social welfare of its citizens through an efficient allocation of resources’. Capital owners and investors like business enterprises require adequate information to make sound economic decisions. Otherwise, investment decisions would be based on tips, hunches, guess-work and unreliable news leading to an inefficient allocation of resources in the economy.

One motivation for trading in information is provided by the relationship between managers and shareholders in enterprises. A number of academics like Jensen and Mecking (1976), Watts and Zimmerman (1978) and Leftwich (1983) have applied agency wherein the stakeholders are the ‘principal’ and the managers, the ‘agent’. The divorce between the ownership and management of corporate sector enterprises, the
increasing complexities and size of operations, the growing awareness of the public and their keen interest on the affairs of companies, the changing socio-economic and political environment in the country and greater emphasis on rational decision making have created a gap between information needed by the stakeholders and information provided in the financial statement.

Consequently, the days of minimalist corporate reporting has been over with the market demanding more information and companies continuing to report in the traditional manner, have felt the necessity to change thereby going beyond the statutorily required minimum financial reporting in its annual reports. Information today is the lifeblood of capital markets. Investors risk their hard-earned capital in the markets, and they rely on information they receive from companies in making their investment decisions. Given the increasing complexity of business today, there is an urgent need for annual reports to include comprehensive yet concise information that, among others, analyses and explains, the main factors underlying the results and financial position of a company.

Sorter and Gams says, “Society looks to corporations for assistance in the efficient allocation of resources and expects the corporations to assume the responsibility of providing information that furthers this goal”.

Kohler’s dictionary defines it as an explanation or exhibit attached to a financial statement or embodied in a report containing a fact, opinion or detail required or helpful in interpretation of the statement or report. It is that aspect of financial reporting which has to do with the presentation of descriptive or supplementary data as distinguished from the general form of financial statements. It is the movement of information from private domain into public domain. It involves the company as issuer (preparer), the investors and creditors as primary users, other external users, the accounting profession as measures the auditors and the company law regulatory or administrative authorities. Thus, disclosure is the communication and reporting of accounting and non-accounting information to various direct and indirect users for the purpose of their analysis and decision making.
Disclosure practice does not develop in a vacuum, but rather reflects the underlying environmental influences that affect managers and companies in different countries (Choi and Levich, 1990; Adhikari and Tondkar, 1992). A variety of environmental factors affecting disclosure practices adopted by companies have been identified (Wallace and Gemon, 1991; Radebaugh and Gray, 1993). These factors include the economy, capital markets, accounting and regulatory framework, enforcement mechanisms, and culture and form part of what is referred to as environmental determinism theory (Cooke and Wallace, 1990).

Companies usually sift through and deploy diverse channels of communication for disseminating information externally. Of these channels, however, published annual report is, arguably, still the main and most popular disclosure vehicle. There are probably two ways of disclosing information in the financial statements: Mandatory and Voluntary. (1). Mandatory or statutory disclosures are the minimum level of disclosures a company is bound to make in its financial statements so as to comply with the stakeholders legal requirements of disclosures. Statutory disclosures are the disclosures that are required by any statute e.g. (i) Company Law, (ii) Stock Exchange Regulation, (iii) Other Laws and (iv) Regulatory Body. The Companies Act and accounting standards normally prescribe minimum disclosure requirements, but do not prohibit companies from providing additional information. However, 21st century opens up new challenges for the financial reporting as the economic environment of the present day is distinctly different from the earlier times. Globalization of the business, rapid growth of new technology, continuing advances in the field of information technology, domination of intellectual capital over physical capital are some of the factors that have changed the information needs of the stakeholders of the companies. (2). Voluntary or extended or discretionary disclosures describe financial disclosures primarily outside the financial statements that is not explicitly required by GAAP or any accounting standards (Boesso, 2002). That is, it is a disclosure in excess of requirements. Voluntary disclosure refers to information made available at the discretion of the management. At present, voluntary disclosures account for more than half of the average length of published financial reports of publicly traded companies. Voluntary disclosures embrace many issues such as financial forecasts, human capital disclosure, knowledge asset disclosure, risk management, environmental reports, value added (VA) statements, statement of economic value added (EVA), frequently

5
asked questions (FAQ) and other statements. Meek, Roberts and Gray (1995) defined voluntary disclosures in excess of requirements representing free choices on the part of company management to provide accounting and other information deemed relevant to the decision needs of users of their annual reports. According to US Financial Accounting Standards Board (FASB) study report, the importance of the information provided by companies on a voluntary basis outside the basic financial statements is expected to increase in the future because of fast pace of change in business environment (FASB, 2001).

Companies are expected to issue financial reports in compliance with legal framework and the accepted accounting principles of their country of domicile. For instance, the Companies Act, 1956, the statute law governing corporate entities in India, has been amended in a major way. Since July 1991, the Act has not only mandated additional disclosure through the annual reports but has also mandated adherence to the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). Since (dis)incentives associated with (non)disclosures of statutorily required and additional (or non-statutory) information are quite distinct; additional or non-statutory disclosures (termed extended corporate reporting) is followed. Depending on the inherent flexibility of the prevailing principles, some disclosure about the actual measurement and aggregation of the accounting numbers is typically required. Any additional piece of information being provided in the financial reports can be viewed as a voluntary disclosure. In a descriptive sense, such disclosures might include accounting numbers which are less aggregated than the items in the ‘compulsory’ statements, information about the effect on accounting numbers if alternative measurement principles had been applied, forecasts of prominent accounting numbers or the general importance of distinctive firm characteristics.

Managers face a trade off when deciding whether to disclose their private information to outsiders (Ferreica, Daniel Rezende & Marcelo). Voluntary disclosure of information by corporations is widespread. For example, much of the information provided by firms in their annual reports is not required by laws or specific regulations (Botosan, 1997). Other than through annual reports, a firm’s management may also make its private information available to outsiders through press releases, conference calls, internet sites and mission statements among others. Managers who
disclose information through these services reach audiences far beyond the boundaries of their firms. A company’s disclosure decision could be a response to innovation, globalization or changes in business and capital market environments (Healy and Palepu, 2001).

It is often found that investors and other constituencies care about the disclosure of information regarding corporate strategy. For ex., in a recent study on transparency and disclosure around the world, Standard and Poor examined companies annual reports for many different categories of information, many of them directly related to strategic decisions. Some of the questions included by S & P’s researchers were: “Is there a discussion of corporate strategy? (Does the company) report the details of the kind of business it is in? Does the company disclose its plans for investment in the coming years?” (Patel and Dallas, 2002). These questions highlight the fact that information about strategy very often reflects managerial intentions, i.e., information about what a firm’s management has in mind for the future of its company. This fact, however, remains relatively unaddressed by theorists.

Economic theory suggests that firms might find it advantageous to provide additional pieces of information (i.e. voluntary disclosure) to investors and analysts. According to Jesper Banghoj & Thomas Plenborg, more voluntary disclosure does not improve the association between current returns and future earnings (i.e. current returns do not reflect more future earnings news). These findings raise the question of whether voluntary information in the annual report contains value-relevant information about future earnings or if investors are simply not capable of incorporating voluntary information in the firm value estimates.

Choi and Levich (1991) also argue that voluntary disclosures are a means by which corporations can cope with international diversity; and so they may represent an alternative path to the improbable harmonization of accounting standards. As investors around the world demand more detailed and timely corporate information, voluntary disclosure levels are increasing in both developed and developing markets (Boesso and Kumar, 2007; Choi, Frost and Meek, 2002).
The significance of voluntary disclosures, however, has increased in recent years when both researchers and practitioners started to question the usefulness of financial information being made available to investors as part of the mandatory financial reporting framework. That is, it has been argued that while the purpose of financial accounting is to provide users of financial statements with information that is useful for decision making (Canibano, Garcia-Ayuso and Sanchez, 2000; Lev and Zarowin, 1999), much of the relevant information likely to affect a company’s current financial position or its future performance is not being reported in its annual accounts. For example, Eccles, Herz, Keegan and Phillips (2001) have argued that traditional reporting model has failed those whom it intends and ought to serve best and, subsequently, neither the companies that report, nor the investors who listen, have fared well in recent years.

In general, companies, which voluntarily disclose extensive business and financial information, are trying to differentiate themselves by providing an enhanced level of information that helps investors and creditors understand the company better (Levinsohn, 2001). This information may assist stakeholders to better understand a company’s strategy and its critical success factors, as well as its competitive environment, the framework within which decisions are made, and the steps the company takes to ensure sustainable results. It is also argued that voluntary disclosures can lower agency costs, reduce the cost of capital and improve the market price of securities (Leuz and Verrecchia, 2000; Botosan, 1997; Hossain, Tan and Adams, 1994). On the other hand, the main reasons for non-disclosure are the costs associated with such disclosures. That is, there is a direct cost associated with producing and disseminating information, as well as an indirect cost stemming from a potential loss of competitive advantage or bargaining power through disclosure (Admati and Pfleiderer, 2000). Companies will therefore voluntarily disclose information, not required by financial reporting standards and other regulatory requirements, if they believe that the benefits will outweigh the costs.

Voluntary disclosure items may be classified into historical, current and predictive items, depending on whether they are based on the past, present or envisaged performance of the company. Harrison (1993) identifies two types of disclosure policies that companies may adopt namely, a liberal and a restrictive disclosure
policy. His arguments in favour of a liberal disclosure policy are similar to those put forward by Atiase, Bamber and Freeman (1988), that it reduces the volatility of the company's share price and helps to build credibility with the investment community. Arguments against a liberal disclosure policy are that it is costly and requires a great deal of time and effort and may reveal important information to competitors. There are various corporate attributes in measuring the level and extent of disclosures as follows:

1. **Age:** The extent of a company's disclosure may be influenced by its age, i.e. stage of development and growth (Owusu-Ansah, 1998; Akhtaruddin, 2005). Owusu-Ansah (1998) pointed out three factors that may contribute to this phenomenon. Firstly, younger companies may suffer competition, secondly, the cost and the ease of gathering, processing and disseminating the required information may be a contributory factor, and finally, younger companies may lack a track record on which to rely for public disclosure. Kakani, et al. (2001) pointed out that newer and smaller firms, as a result, take to the market in spite of disadvantages like their lack of capital, brand name and reputation with older firms.

2. **Size:** There is a positive relationship between company size and the extent of disclosure. For e.g. Singhvi and Desai (1971); Kahl and Belkaouzi (1981); Cooke (1989, 1992); Ahmed and Nicholls (1994); Hossain, et al. (1994); Wallace, et al. (1994); Craig and Diga (1998); Hossain (2000). Hossain (2001) have advanced a number of reasons in the literature to justify this relationship on a priori grounds. Singhvi and Desai (1971) offered three justifications for the variations in the extent of financial disclosure in firms of different sizes. Firstly, the cost of accumulating certain information is greater for small firms than for large firms. Secondly, larger firms have a greater need for disclosure because their securities are typically distributed via a more diverse network of exchanges, and thirdly, management of a smaller corporation is likely to believe more strongly than the management of a larger corporation, that
the full disclosure of information could endanger its competitive position.

3. **Profitability**: Cerf (1961); Singhvi (1968); Singhvi and Desai (1971); Belkaoui and Khal (1981); Wallace, et al. (1994); Wallace and Naser (1995); Raffournier (1995); Inchausti (1997); Hossain (2000); and Hossain (2001) have found a positive relationship between profitability and the extent of disclosure.

4. **Complexity of Business**: Haniffa and Cook (2002) argued that structural complexity has a significant influence on the extent of disclosure. Such complexity requires a firm to have an effective management information system for monitoring purposes (Courtis, 1978; Cooke, 1989).

5. **Market Discipline**: Market discipline might be able to supplement traditional supervisory assessments to distinguish ‘good’ companies from ‘bad’ companies and therefore, lower the overall social costs of companies supervision.

The voluntary disclosure of information in the annual reports implies additional costs and the users’ needs of information should be considered before disclosing in the annual reports. A cost-benefit analysis must be done for each type of information supplied. Unfortunately, there is no general accepted technique of measuring the costs and benefits, that is why the process is complex, subjective and often inappropriate, sometimes inexact or even wrong. According to Malone, et al. (1993) the firms which are economically stimulated to supply more information, will do it if the marginal cost will surpass the marginal profit of the additional disclosure. The report on cost-benefit achieved by Gray, Radebaugh and Robberts (1990) has led to the conclusion that the items published voluntarily which have led to significant increase of net costs are: the inflation adjusted profit, the measurement of the forecasts and the information regarding the segments reporting.

AICPA in Jenkins Report (1994) identified five constraints to reduce costs in areas where the costs of reporting under the model could be significant:
a) Business reporting should exclude information outside of management’s expertise or for which management is not the best source. That is, business reporting should include only company-specific information that is within management’s expertise to provide.

b) Management should not be required to report information that would harm a company’s competitive position significantly.

c) Management should not be required to provide forecasted financial statements. Rather, management should provide information that helps users forecast for themselves a company’s financial future, such as the information specified in the Committee’s model.

d) Other than for financial statements, management need only report the information it knows. That is, management should be under no obligation to gather information it does not have, or need, to manage the business. Certain elements of business reporting should be presented only if users and management agree they should be reported - a concept of flexible reporting.

e) Companies should not have to expand reporting of forward-looking information until there are more effective deterrents to unwarranted litigation that discourages companies from doing so.

Singhvi and Desai (1971) have shown the cost of accumulation of certain information is bigger for the smaller companies than for the larger ones, especially because the large companies dispose a more complex reporting system and a high level of earnings, the larger enterprises afford more easily high advertising costs which allows them to pick up the benefits of the easier shares’ transaction and to obtain finance easily. On the other hand, the smaller firms can put their competitive position in danger by an excessive information disclosure. Through the increase of the publishing level, especially of the firms provisioned the firms can reduce the cost of capital attainment (Healy si Palepu, 1993). However, Thompson (1995) warns that an undisciplined expansion of the business reporting can lead to an un-necessary increase of the expenses.
Users of corporate annual and interim reports require an extensive range of financial and non-financial information, whether mandatory or voluntary, in order to assess the fair value of an investment in shares. Directors of companies need to make decisions in favour of or against the disclosure of certain informative items and are in a position to enhance the effectiveness of the chosen tool of communication, namely the annual report. However, the current system of financial reporting mainly presents historical and factual financial information, neglecting relevant economic, political, environmental, ethical and social issues, because they are regarded to be immeasurable in monetary terms. Gray (1994) has noted that accounting should be a social rather than a strictly economic concept and that a broader concept of accountability would recognize a wide range of groups or individuals that have the potential right to more information that is not strictly measurable in monetary terms and is of a voluntary nature. Shareholders, employees, customers and society in general have a right to financial and non-financial information. Therefore, by voicing their opinions and putting pressure on the compilers of annual reports to include more qualitative information, users can contribute towards a more valuable form of accountability.

In a competitive economy, corporate disclosures exist as a means of discharging a corporation’s accountability to providers of money capital (investors) and to facilitate the allocation of resources to their most productive uses. Another development force behind corporate disclosure is to obtain external financing as cheaply as possible.

What types of voluntary information should be disclosed? Historically, annual reports were compiler-oriented and not user-oriented. It was left to the compiler of an annual report to decide whether to take a negative approach and to provide only the minimum of information required by statute, or to present the corporation’s financial performance in the most favourable way of disclosing more information than the required statutory minimum. The model presented by Verrechia (1983) offers an equilibrium threshold level of disclosure, which is a function of proprietary cost. The threshold level of disclosure is the point above which a manager chooses to disclose what he observes and below which he withholds information.
Only after an evaluation has been done against various parameters that disclosure of an item should be termed as 'voluntary', 'recommendary', 'mandatory', 'statutory' or 'extended' (Vasal, 2005). In terms of the first parameter of managerial discretion, it should be evaluated, in the first step, whether the disclosure on an item is 'desired' or 'required' by a body or not. In the second step, if answer to the first step is negative, then disclosure on the item should be classified as 'voluntary'. If answer in the first step is affirmative, then, it should be established whether disclosure required by the body concerned is 'desired' or 'required'. Accordingly, disclosure on the item should be classified as 'recommendatory' or 'mandatory' respectively. In terms of Sets Theory, voluntary, recommendatory (desired) and mandatory (required) disclosures represent mutually exclusive sets of informational items. It is only the mandatory (required) disclosures which are put to further testing against the second parameter. Statutory disclosures can be perceived as a sub-set of the mandatory disclosures.

The multifarious changes in the provisions of the Companies Act, 1956, issue of many new accounting standards by the Institute of Chartered Accountants of India (ICAI) especially in the last decade, more and more rigorous disclosure requirements mandated by Securities and Exchange Board of India (SEBI) coupled with a radical transformation in business, socio-economic-cultural and political environment (both domestic and international) as a result of globalization and liberalization in early 1990s have significantly changed the landscape of corporate financial reporting in India.

Financial reporting is not an end in itself but is a means to certain objectives. In other words, business firms communicate the “results” of their operations and statement of affairs to various user-groups normally through annual accounts, which comprise a number of financial statements and reports. The reported results or disclosures are now treated as “social goods” and they are used by different “segments of society”. Financial reporting acts as a subset of this communication component of accounting (Jawaher Lal, 1985).

Overall disclosures in an annual report reflect performance of an entity with respect to its overall objectives (both financial and social). Consequently, information disclosed in an annual report corresponding to commercial and social objectives can be termed-
as financial and social reporting (Estes, 1976 and Vasal, 1993). ‘Accountability arises from the social role of the entity and not solely from legal requirements’.

There is a close relation between measurement and disclosure although there is a difference between the two. Accounting measurement includes the assignment of numerals to an entity’s past, present or future economic phenomena on the basis of observation and according to rules. Financial reporting process constitutes disclosure, the communication of accounting measurements to some user of that information to facilitate a decision.

Without disclosure, accounting measurements in and of themselves serve no useful purpose. Yet, disclosure cannot take place until the information has been developed. Thus, measurement and disclosure articulate with one another to give corporate financial reporting its substance.

Available disclosure literature leads us to assert that: (a) Disclosure is not only fundamental to financial reporting but is, at the same time, its most qualitative aspect, and (b) The nature and extent of disclosure needed in individual reporting situations is determinable only by expert professional judgement. The qualitative nature of disclosure can occur directly within financial statements by appropriate statement captions.

Disclosure to be made effective should answer three questions: a) For whom is the information to be disclosed? b) What is the purpose of the information? c) How much information should be disclosed?

Thus, disclosure is an instrument which can play a vital role in bringing the enterprise and investors at the same platform. However, it can serve the intended purpose only if it has the qualities of relevance, usefulness, reliability, understandability, adequacy, comparability and timeliness. Other useful factors include neutrality, verifiability, completeness, consistency and materiality.

FASB (1980) requires that the disclosure of accounting information should possess two primary qualities - ‘relevance’ and ‘reliability’. To be relevant, the information
should possess the qualities of 'predictive value' and / or 'feedback value' besides being 'timely'. The attributes that make information reliable are verifiability, neutrality and 'representational faithfulness'. In the hierarchy, 'comparability' (including consistency) of information has been termed as a secondary quality that interacts with both relevance and reliability. According to IASC (1989) and ICAI (1996) four principal qualitative characteristics of accounting information are 'understandability', 'relevance', 'reliability' and 'comparability'. Both these frameworks state that relevance of information is affected by its nature and materiality. However, in order to be reliable, the information should meet the criteria of 'faithful representation', 'substance over form', 'neutrality', 'prudence', and 'completeness'. The frameworks have recognized 'timeliness', 'balance between benefit and cost', and 'balance between qualitative characteristics' as constraints on relevant and reliable information.

Supply of information by the corporate entities, on their affairs and performance, to the external users is variously termed as corporate reporting, corporate disclosures, external information reporting, external reporting or public reporting. Chandra (1974) has defined disclosure as the process through which an entity communicates with the outside world. Conceptually, therefore, corporate reporting refers to the transfer of information from the private domain (of management) to the public domain. The information transferred to the external users may be quantitative or qualitative, and may include disclosures on the history, achievements, problems, future plans and developments etc. Corporate reporting is an end-result of the interplay of several factors - akin to the elements constituting an information / disclosure system.

Elements of an Information / Disclosure System:

<table>
<thead>
<tr>
<th>DISCLOSURE SYSTEM</th>
<th>CORPORATE REPORTING SYSTEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sender</td>
<td>Accounting Entity</td>
</tr>
<tr>
<td>Message</td>
<td>Facts &amp; Figures</td>
</tr>
<tr>
<td>Channel</td>
<td>Annual Reports / Other Published Statements</td>
</tr>
<tr>
<td>Receiver</td>
<td>Users</td>
</tr>
<tr>
<td>Monitor</td>
<td>Regulatory Environment</td>
</tr>
</tbody>
</table>
A company should discharge the function of accountability by periodically reporting information on its performance and programs to external stakeholders (users). Such reporting of information (message) would reduce the levels of ignorance and uncertainty about the corporate performance and programs and, hence, help the stakeholders in making informed decisions.

Dissemination of information constitutes the domain of financial reporting. Financial reporting demonstrates how well the management has discharged its stewardship responsibility to the owners (FASB, 1978). But financial reporting is not an end in itself. It aims at providing information that should be useful in making decisions regarding the commercial performance of an enterprise. Financial performance disclosures may appear anywhere in the annual report and not just in the formal financial statements (Henley, 1989).

There is a general consensus that disclosure should be full, fair and adequate. ‘Full’ refers to a complete and comprehensive presentation of information of the financial activities, in the financial reports. It means the presentation of relevant information. According to Chasteen, “Full disclosure means that published financial statements should include any economic information related to the accounting entity that is significant enough to affect the decisions of an informed and prudent user of financial statements. Full disclosure is aimed at improving the clarity, quality and economic data disclosed by an accounting entity. It increases the relevance and reliability of accounting information”. ‘Fair’ disclosure implies that the accounting and other information should be free from bias, free from dishonesty, free from sentiment and impartial. Nothing should be hiding or withholding, and it should be transparent. ‘Adequate’ disclosure implies that all material information needed by the users of the financial statements and reports should be included in such statements and a minimum set of information should be disclosed. In other words adequate disclosure implies a minimum amount of disclosure congruous with the negative of making the statements not misleading. Fair and full are more positive concepts.

Some experts argue that full disclosure might sometimes lead to the presentation of superfluous information, and is therefore inappropriate. In their opinion, too much information is harmful in that the presentation of unimportant details hides the
significant information and makes the financial reports difficult to interpret. However, appropriate disclosure of information significant to investors and other stakeholders should be adequate, fair and full.

A positive objective is to provide the users of accounting information with significant and relevant information to aid them in making of economic decisions in the best possible and cheapest way with the limitations that the benefits should exceed the costs. In this context, Bevis Herman W. has rightly remarked, “No matter how extensively consensus on accounting and reporting practices are established and how closely they are followed, the principle of full and fair disclosure must remain the keystone of successful corporation - stakeholders and corporate society relations”.

Tremendous pressure has been given to improve the quality of financial reporting. If the information that is made available to investors is of high quality, the securities will be priced properly and this will promote efficiency in the operation of capital market. The information supplied by the companies through the accounting reports should possess some qualities / attributes. Qualitative characteristics are considered desirable by some prominent accounting bodies such as the FASB (1980), the IASC (1989) and the ICAI (1996). FASB (1980) has described properties of information as the qualities to be sought when accounting choices are made. Arthur Levitt, former SEC chairman, describes the importance of quality financial information thus:

“Quality information is the lifeblood of strong, vibrant markets. Without it, investor confidence erodes. Liquidity dries up. Fair and efficient markets simply cease to exist” (Levitt, 1999).

C.A. Glassman, an US Sec. Commissioner, has made the following observations while discussing the importance of financial reporting (Glassman, 2003): “Capital is the engine of our economy, and information is the oil that keeps the engine running smoothly. It is on this premise that the entire disclosure framework of our securities laws rests. The assumption— and I think it is a good one— is that providing information on which sound investment decisions can be made is the best way to allocate the scarce resource known as investment capital. In an efficient market,
capital will seek its highest use. It is therefore, not an overstatement to say that without good information our markets could not function effectively”.

Quality financial information enhances investor’s confidence, inducing them to demand less premium thereby reducing the company’s cost of procurement of capital followed by increase in profitability. Conversely, a want of transparency in corporate financial reporting may destabilize the capital market by misguiding capital flows. To be of high quality, financial reporting information must be capable of reflecting the underlying economy of the transactions being reported.

There are many forms of informational media which can be used by companies to convey their activities to the external parties and some of the commonly used mediums are arranged visits to plants, print media - ‘published reports’, ‘press releases’ (regular news, inspired newspaper editorials, advertising, and special supplements), ‘house magazines’, ‘periodicals’, ‘booklets’, ‘brochures’, ‘leaflets’, ‘posters’; audio-visual media - ‘press conferences’, ‘radio’, ‘exhibitions’, ‘slides’, ‘television’, and ‘films’; and digital media - ‘floppies’, ‘CDs’, ‘DVDs’, ‘corporate websites’, and ‘public websites’. Of all the media, however, ‘Corporate Annual Report’ (CAR) - also termed as ‘published accounts’ or ‘annual progress report’ continues to remain the primary, most popular and extensively accessible medium of communication. According to Haggie (1984), ‘annual report’ is not only ‘the primary medium for projecting a company at its audience’, but is also the most effective voice in corporate communication. Duff and Phelps (1976) calls annual report as the most direct, least expensive, most timely and fairest method of reaching all the shareholders, and other present or potential investors. For public sector enterprises, Narain (1968) has called annual reports as an important aspect of public relations.

Sometimes the terms ‘annual report’ and ‘financial statements’ are used interchangeably. But, in a strict sense, an annual report is so wide in scope that financial statements constitute only one section, albeit an important one, in the document. In other words, an annual report is composed of numerous sections. A typical annual report in India supplies information under the following sections - Chairman’s Report, Directors’ Report (including Corporate Governance Report and Management Discussion and Analysis Report), Financial Statements (Balance Sheet
and Profit and Loss Account along with schedules and notes to accounts), Auditors’ Report and supplementary statements. Some companies supply information predominantly in financial terms, narrative disclosures dominate in others. On the importance of annual reports and responsibility of directors for the contents included therein, the Financial Reporting Council (FRC), the UK, has stated ‘...prime responsibility for published accounts lay with the directors. The directors’ should aim at providing a clear, informative and unambiguous set of accounts which supply a basis for narrative within the annual report which adequately highlights all matters of significance, good or bad, affecting a company’s performance and position....’.

Literature has shown that neither stakeholders nor companies are satisfied with mandatory financial reporting as the sole source of corporate information (Holland, 1997). To counter this many companies voluntarily disclose information, both financial and non-financial. Subsequently, corporate managers face choices in determining what information, as well as when and where to disclose information in order to construct their corporate ‘picture’. They can choose to disclose publicly, privately or not to disclose at all. “These disclosure choices are subject to constraints arising from reporting standards and stock exchange rules and the information costs and benefits associated with these choices” (Spence in Holland, 2006). Public disclosure is where a corporation discloses information directly into the public domain. Avenues for public disclosure include, but are not limited to annual reports, interim reports, management announcements to stock exchanges, information in takeover documents and general media releases. Private disclosures are those where the disclosure of information is knowingly limited to specifically identified and defined parties. The form of disclosure takes place most commonly in private briefings, site visits, ‘road shows’, one-to-one meetings and formal written responses to written requests for information.

Despite the apparent strict regulation of financial disclosures, considerable discretion is available to managers to voluntarily disclose information within legally mandated limits. Managers can select from a wide variety of measurement and reporting practices allowed by reporting frameworks which can be supplemented by the voluntary release of other information. This information generally consists of items such as: background information, policy statements, strategic statements or
performance forecasts (Lev, 1992). The demand for disclosure arises due to information asymmetry and agency conflicts and is critical for the functioning of an efficient capital market (Healy and Palepu, 2001). Research that studies and models management discretion in disclosing value relevant information and research that considers the role of disclosure of information efficiency (Verrecchia, 2001). The literature on public voluntary disclosures is arguably premised on the notion that “higher quality disclosure is efficient in that it leads to a reduction in the information asymmetry component of the cost of capital” (Verrecchia, 2001). Voluntary disclosure is a multi-dimensional construct which encompasses public disclosure but also includes private disclosure and disclosure of information other than that which is regarded value-relevant.

According to Mantz and Williams, “Financial disclosure includes any international release of financial information beyond those members of the company organization who have a need to know in order to discharge assigned duties”. The users of financial statements should be in a position to evaluate and assess the company’s earnings performance, financial position and the present and future cash flows. In effect, they should be capable of making intelligent investment decisions necessary for efficient allocation of scarce resources. The Securities and Exchange Commission, USA, defines disclosure as “material information as is necessary to make the required statements in the light of circumstances under which they are made, not misleading”.

The philosophy of ‘disclosure statutes’ is best expressed by Brandies Louis in ‘Other People’s Money’ - “Sunlight is said to be the best of disinfectants, electric light the most efficient policeman”. The required disclosure of financial accounting numbers is supposed to serve as these cleansing agents.

R. Devaranjan said corporate reporting is a variable to be adjusted or manipulated by management in support of its strategies and goals, subject to whatever statutory disclosure constraints exists. If financial reporting is to be made really useful for the society, it must provide relevant, reliable, timely and transparent information about its various events and actions.
Many companies voluntarily disclose social, environmental and ethical information. Largely, the format, content and details of such disclosures are unregulated. Voluntary corporate, social, environmental and ethical disclosures (CSEED) are a case of information inductance (Gray, 2001). These disclosures enlist, echo and amplify dominant societal themes and values (Lehman and Tinker, 1987). The incidence and frequency of CSEED has, however, developed substantially since the 1970's (Parker, 1986).

To sum up, the term 'disclosure is a relative concept and it involves the entire process of financial reporting. Disclosure in financial reporting is the presentation of information necessary for the optimum operation of efficient capital markets by means of presenting sufficient information enabling the users of accounting information to evaluate the past performance and financial position of the reporting corporate entity and predict future dividend trends, variability and the covariability of future returns with the market. In simple, the concept of disclosure as used in financial accounting refers to the dissemination of corporate information that the external users may need for making economic and investment decisions.

Expanded disclosure is also instrumental in reducing the cost of capital since it helps to reduce the risk associated with the return. Besides, shareholders and creditors, the demand for more disclosure by Multi-National Corporations (MNCs) is made by labour unions (who are interested in the security and welfare of the employees), the host country governments of developing countries (who tend to see the multinational as a direct challenge to their national sovereignty and are interested in monitoring the macro economic impact of the MNC's activities) and the public at large which is concerned about the adverse environmental and social effect of the corporation's operations.

Miller (2000) presents four axioms concerning what might happen if financial reporting does not adequately describe financial operation in that:

- Incomplete information fosters uncertainty
- Uncertainty creates risk

\[21\]
• Risk motivates investors to demand higher rate of return
• That demand results in a higher cost of capital and lower security prices.

Thus, disclosure is the heart of securities market’s efficiency. Over the years, the financial accounting standard-setting organizations like FASB and other similar organizations in the world have gradually expanded the quantity and quality of disclosure. Disclosure reduces information asymmetry, decreases the possibility of abnormal returns through private information, makes capital markets more efficient and leads to a better allocation of resources.

Most theoretical articles on disclosure have focused on communication between managers and investors e.g. Diamond (1985); Diamond and Verrecchia (1991); Stocken (2000); Boot and Thakor (2001). Information disclosed to investors of publicly listed firms is a nonrival good, thus other stakeholders may also be interested in it. This gap in the literature is acknowledged by Healy and Palepu (2001) “Corporate disclosure can also be directed to stakeholders other than investors. However, there has been relatively little research on these types of voluntary disclosures”.

1.2 Literature Review of Corporate Disclosure Practices:

In the earlier section, to build up the background of the study, we have cited literary references regarding importance and significance of disclosures in the financial statements, in this section we focus specifically on issues related to voluntary disclosures.

The disclosure-related literature has developed into a distinct branch of economic and accounting research (Frolov, 2004). Following the taxonomy suggested by Verrecchia (2001), it is easy to distinguish three major research problems confronted by the literature:

I. Whether information disclosure is economically efficient in general;
II. The effect of information disclosure on the aggregate behaviour of economic agents;

III. The circumstances surrounding the decision to make private information public.

On the one hand, Kunkel (1982) shows that in an economy including both production and exchange, information disclosure may be preferred because altered production plans lead to more efficient allocation of resources across time and firms. On the other hand, Diamond (1985) also suggests that in a pure exchange setting with costly acquisition of private information, the (costless) information disclosure is desirable because it will allow investors to economize on the acquisition of private information and make them better off, despite adverse risk-sharing effects. Secondly, the literature-related research focuses on the effect of information disclosure on the aggregate behaviour of economic agents, and in particular on the behaviour of financial market aggregates like stock prices and trading volume. It also explains the association between information disclosure and market responses, using plausible assumptions about diversity among market participants. Finally, it is a standard argument here that management’s decision about whether to disclose information or not is based on weighing expected costs and benefits of making the information public (Frolov, 2004). The available literature has suggested many ways that a firm or its management can benefit from improved disclosure. For example, direct evidence that firms increase the intensity of their disclosure efforts before offering public debt and equity has been obtained by Lang and Lundholm (1993, 1996), Frankel, et al. (1995), Healy, et al. (1990) etc. Literature has showed that information disclosure is socially desirable (Frolov, 2004; Diamond, 1985). Economic and accounting literature has asserted that in view of informational asymmetry, (costless) disclosure of private information brings general gains in economic efficiency. However, the size of the gains and the ultimate effect on financial prices may vary considerably depending on the ‘informativeness’ of disclosed information and on the ways the information is disseminated and used.

Several research studies have been conducted to examine the corporate reporting practices in India, by Shankar (1972), Dasgupta (1977), ICAI (1981 and 1985), Lal (1985), Vasal (1992), Chakravorty, (1994) Banerjee (1994, 2002 and 2005) and
others. The Indian research in this direction instituted in the early seventies with the study by Shankar in 1972. Shankar (1972) examined the adequacy of reporting in Indian annual reports vis-à-vis reports of USA, Germany, Britain and Japan. The findings of the study were that Indian annual reports are “the least innovative and informative” and are prepared largely within the legal framework in contrast to much more informative and illustrative foreign annual reports.

Narain (1975) conducted a study of the annual reports of 66 enterprises - 53 Government companies, 12 public corporations and 1 departmental enterprise in the form of the Indian Railways for the year 1970-71. The focus of the study was on findings how far working of public enterprises had been reported through the annual reports. The study examined in detail two sections of the annual reports - Directors Report and Accounts and Audit Report - and made some suggestions for improving them. The study found that annual reports of public corporations had shown a low degree of compliance with the statutory disclosure requirements, possibly due to merger control on the enforcement of the statutory laws.

“Financial Reporting in India” by Dasgupta (1977) is a pioneering work in this field. He dealt with the structure, theory, objectives and history of Indian financial reporting and the influence of British law and practice on the then financial reporting practices and examined the trends in financial reporting in India and abroad (like USA, UK, France, Australia etc.). After examining the accounting pronouncements issued by professional accounting bodies in the USA, the UK and by the IASC, he opined that inclusion of ‘statement of highlights’, ‘summarized balance sheet and profit and loss’, ‘statement of sources and application of fund’, ‘statistical records’, ‘diagrams and charts’, and ‘inflation adjusted statement’ would make Annual Reports more informative and useful. He concluded that most of the companies publish the bare minimum financial information, and, in some cases, they even violate the provisions of the law. He, therefore, advocated several remedies for improvement in financial reporting and enhancing its usefulness to various sections of the society including the government and the public at large.

Singh and Gupta (1977) examined the relationship between the level of disclosure and seven organizational correlates for 28 companies (22 private sectors and 6 public
sectors. Seven correlates examined in the study were age, earnings margin, rate of return, size (total assets and net sales), number of shareholders, size of the auditing firm and ownership pattern of the companies. The results of the study showed that public sector companies were disclosing relatively more information than their counterparts in the private sector. Also, level of disclosure was found significantly associated with the number of shareholders, age and ownership pattern of the companies.

Singh and Bhargava (1978) examined disclosure of financial and non-financial information in the annual reports of 40 public sector enterprises. Using a disclosure index consisting of 35 informational items, the study examined the relationship between the extent of disclosure and organizational pattern and nature of industry. Findings of the study showed that there were significant cross-sectional differences in the disclosures by the sample companies. Based on the analysis, the study inferred that while nature of industry had an impact on the level of disclosure, the organizational pattern did not.

Seshan and Gujrathi (1980) surveyed financial reporting practices of 200 public companies in India. Focus of their study was on examining the form and content of the annual reports (balance sheet, profit and loss account, auditors' report and directors' report). In particular, the study examined disclosure of informational items such as accounting policies, supplementary financial statements (including the statement of changes in financial position), inflation-adjusted statements, consolidated financial statements, historical summary of financial information, disposition of gross earnings and highlights of the year's operations. Based on the analysis, the study inferred that many sample companies were not disclosing their accounting policies and supplementary financial statements in their annual reports.

The ICAI makes periodic publications on prevailing corporate reporting practices in India. In its 1981 publication, ICAI opined that most Indian companies or a great majority of them provide only that much information as are necessary under the law and such information usually pertain to the method of valuation of inventories, changes in the basis of accounting and the like. This apart, a separate disclosure of accounting policies figured nowhere in the financial statements. In the year 1985,
ICAI observed that the contents of profit and loss account and the sequence in which they appeared varied widely from company to company. This was attributed to the fact that the then legal provision merely prescribed the information to be given in the profit and loss account without prescribing a form for the purpose. Another striking observation was that the companies which adopted the ‘T’ form gave much more detailed information in the profit and loss account itself than the companies that adopted vertical or single column form.

Singh and Ahuja (1983) explored the extent of social responsibility disclosures in the annual reports of 40 public sector enterprises. Using a disclosure index consisting of 33 social responsibility items, the study examined the relationship between the level of disclosure and select organizational correlates - age, total assets, net sales, rate of return, earnings margin and type of industry. The study revealed that companies were not disclosing many of the informational items included in the disclosure index. Further, size (total assets) had a positive relationship with the level of disclosure. Also, earnings margin and nature of industry had a significant impact on the disclosure scores; age, net sales, rate of return were not significant determinants of the social responsibility disclosures.

Lai (1985) prepared a disclosure index consisting of 50 major items (104 items in all possible sub items) of 180 manufacturing companies in the private sector to measure the extent of disclosure in annual reports. The impact of four corporate characteristics: asset size, earnings margin, nature of industry and association with a large business house was studied on the level of disclosure. By employing the multiple regression analysis technique, he observed that there was a significant positive association between disclosure score and the aforesaid four-characteristics of the company. Among the four characteristics, the asset size of the company had greater influence on the extent of disclosure than the other three independent variables in question.

Vassal (1992) measured a disclosure index based on 65 items out of a sample of annual reports of 129 central public sector corporations. He observed a high degree of variation in inter-corporate disclosure consistently in all the sample years (1987-88 to 1990-91) as well as for four-year average data with disclosure on some items is substantially higher than those. He also concluded that the company in comparison to
social reporting items disclosed financial reporting items more frequently, the nature of industry having a significant impact on the level of reporting.

*Chakravorty (1994)* made a comprehensive study of the provisions of Companies Acts of 1882, 1913, 1936 and 1956 relating to accounting and reporting in order to show the evolutionary nature of the development of accounting and reporting in India. He found that, by and large, Indian companies complied with statutory disclosure requirements. But, as regards disclosure of additional information on human resources, social responsibility of the business etc., public sector companies fared better than the private sector companies. He, therefore, offered some suggestions for improvement in the accounting and reporting scenario in India.

*Eccles and Mavrinac (1995)* focused on the key factors for a high-level of corporate disclosure and on the perceptions of constituents. They conducted a survey among corporate managers, financial analysts and portfolio managers to determine their opinions on disclosure regulations and how companies communicated with the capital markets. Their findings revealed that, although the respondents did not support an increase in the regulation of disclosure, there was a need for companies to upgrade the role of the investor-relations personnel; report non-financial information voluntarily; formulate explicit disclosure strategies and policies; and reach out to capital-market customers and solicit their needs, opinions and preferences in order to close the communication gap.

Subsequent to a pronouncement of the Securities and Exchange Board of India (SEBI), making supply of cash flow statement mandatory for all companies listed on the Indian stock exchanges, effective end of financial year 1994-95, *Dhar (1998)* conducted a study on the cash flow reporting practices in India. Based on an analysis of 106 annual reports for the year 1996-97, the study found, among other things, that while all the companies were preparing the cash flow statement, the statement was not being accorded adequate importance by the management due to three reasons: threat of negative impacts perceived by the management, lack of appreciation by the management of the utility of cash flow statement and lack of support from the statute law, the Companies Act.
Paul and Pai (2001) examined corporate environmental reporting in the annual reports of 23 companies. For the sample period of 13 years - 1986-87 to 1998-99 the study concluded, that, even in the absence of any legal compulsions, corporate environmental reporting had gained momentum with the passage of time. There also existed a relationship between the environmental reporting and profitability.

Banerjee (2002) examined corporate reporting practices of 50 companies in India of which 25 companies (referred to as group A) were among the top 50 companies out of 500 companies ranked by ‘Economic Times’ based on market capitalization and other 25 companies (referred to as group B) were outside those 500 companies. He investigated the compliance with the mandatory reporting and voluntary reporting practices. He found that all the sample companies disclosed information as required under the Companies Act, 1956, although there was a great amount of diversity in reporting information in the profit and loss account. He concluded that compliance with accounting standards appeared to be good with many companies disclosing information much more than what is required under the Act confirming a significant improvement in the quality and quantity of information provided in the financial statements as reflected from the study of the sample companies for the period 2000-2001.

Banerjee (2005) examined environmental accounting and reporting practices of 60 companies for the financial year 2002-03. Based on analysis, the study concluded as follows: disclosure of environmental information was not significant with only a few companies showing their awareness to disclose quantitative information voluntarily; there is an improvement in the environmental disclosures by the companies over time; and there were hardly any disclosures on environmental auditing.

There has been extensive research in the advanced and developing countries by Cerf (1961); Singhi and Desai (1971); Buzby (1974); Kahl and Belkaoui (1981); Marston (1986); Wallace (1987); Cooke (1989, 1991, 1992, 1993); Malone, et al. (1993); Hossain, et al. (1994); Ahmed and Nicholls (1994); Wallace and Naser (1995); Inchausti (1997); Craig and Diga (1998); Hossain (2000); Hossain (2001); Haniiffa and Cooke (2002); Akhtaruddin (2005) to measure the corporate disclosure in financial and non-financial companies.
The foregoing literature review shows that till date no detailed study has been undertaken on voluntary disclosure practices by Indian companies in general and Information Technology (IT) companies of India in particular. The present study tries to analyze the extent of voluntary disclosures made by IT companies in India in their published annual report and also makes a comparative study with companies in other industries regarding voluntary disclosures. The study also conducts a perception study by the users of financial statements in order to identify the areas on which disclosures are required.

The following are some of the facts which lead us to specifically study the voluntary disclosure practices of IT industry:

- Unlike other common industries, the IT industry is knowledge-based.
- Efficient utilization of skilled labour forces in the IT sector can help an economy achieve a rapid pace of economic growth.
- While on the one hand it will lead to generation of more and more employment, on the other hand, it would also mean that the manpower is also employable.
- As per a recent estimate, the sector is expected to generate exports of 60 billion $ and contribute to around 8 % of India's GDP in the coming years.
- The IT industry helps many other sectors in the growth process of the economy including the services and manufacturing sectors.
- The IT industry can serve as a medium of e-governance, as it assures easy accessibility of information.

The IT business in India has transformed from a small sector to a large and growing industry. This change in status is leading to a major shift in paradigm:

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. IT as a sector</td>
<td>IT as an Industry.</td>
</tr>
<tr>
<td>2. Providing satisfactory services to existing increase in demand</td>
<td>Adding value to sustain the growth.</td>
</tr>
<tr>
<td>4. IT for specialists</td>
<td>IT for masses.</td>
</tr>
<tr>
<td>5. Fulfilling external demand</td>
<td>Creating internal demand.</td>
</tr>
</tbody>
</table>
From the above presentation it is clear that IT sector has been gradually assuming the position of pride in Indian industrial scene. Moreover, being a knowledge based industry, it is expected to adopt more sophisticated and detailed method of disclosure of information in the annual report. Moreover, it has the potential to show the rest of the industries the way of presenting the information required by the stakeholders in the annual report. Being an emerging industry, it is hoped that Indian IT industry would be open to new ideas and developments in the developed world. Further, it would be interesting to examine whether in reality it is disclosing more voluntary information than the companies belonging to non IT sector. Moreover, lack of detailed study on voluntary disclosures by Indian companies belonging to the IT sector has prompted us to take up the present research study.

1.3 Objectives of Study:

The primary objective of this study is to make an assessment of the emerging trends of the voluntary disclosure practices in the company's (basically belonging to the IT sector) annual reports in India. However, in the course of assessing voluntary disclosures, mandatory disclosure practices in the corporate annual reports have also been included so as to make the study a success.

More specifically, the objectives of the study would be:

i) Examine the existing mandatory disclosures in the corporate annual reports in tune with the disclosure requirements prescribed by the Companies Act, professional regulation of corporate disclosure as per Accounting Standards issued by ICAI and disclosure requirements in accordance with the listing requirements pronounced by SEBI.

ii) Discuss the background, need for voluntary disclosures, literature available on the basis of past studies made both nationally and internationally, the items of voluntary disclosures generally disclosed in the annual reports of companies & merits and limitations of voluntary disclosures.
iii) Critically analyze the nature, extent and items of voluntary disclosures disclosed in the published annual reports for 3 yrs. 2004-05, 05-06 & 06-07 of 10 selected public limited companies belonging to the IT sector.

iv) Comparisons are made to find out similarities and differences on the voluntary disclosure practices in the annual reports of sample IT companies and some selected companies belonging to the BSE Sensex.

v) To ascertain the gaps that exist between the information provided and information required by the stakeholders and to determine what sort of information, if disclosed voluntarily, would bridge such gap on the basis of questionnaires mailed to the users - academics as well as the professionals throughout the country.

vi) We summarize and highlight the findings of our study and also, there, we will point out the limitations of the study, suggest measures aimed at improving voluntary disclosures in the IT Industries in India and state the area of further research that could be undertaken on this topic.

1.4 Methodology:

The present study is both explorative and empirical in nature. The explorative part examines the background of and statutory requirements for financial reporting in India. The theoretical part of the study is based on the disclosure requirements contained in company laws of India, principles and guidelines as per Accounting Standards formulated by the Institute of Chartered Accountants of India (ICAI) and disclosure requirements contained in securities laws promulgated by Securities and Exchange Board of India (SEBI). Discussions on the voluntary disclosure practices have been predominantly based on available literature on the subject.
For analytical purpose a humble attempt has been made to analyze and review the emerging trends in voluntary disclosure practices by information technology companies in India. A case study has been conducted by selecting the published annual reports of the sample companies having regard to the time and resource constraints. For this purpose annual reports of top 20 companies belonging to IT sector and BSE Sensex have been selected since they are financially strong as well as they predominate and influence the stock market movement of the country. The period of study covers the financial years 2004-05, 2005-06 & 2006-07.

In the case study portion, an attempt has also been made to analyze the effectiveness of voluntary disclosure practices in the company’s annual reports from the perception of users of accounts. For this purpose and in order to make the study broad-based and all-India character, questionnaires were framed and sent to the academics as well as the professionals throughout the country. Careful consideration was given to the development, design and testing of the questionnaires to ensure the reliability, validity and quality of data gathered by means of mail questionnaires. The detailed study of the survey as perceived by the users of annual reports have been discussed in chapter 6 - Users' Perception of Voluntary Disclosures - An Empirical Verification.

1.5 Design of the Study:

For attainment of the objectives of the study, as laid down in section 1.3, the study has been divided into seven chapters as detailed below:

Chapter 1 : Introduction.
Chapter 2 : Mandatory Disclosure Requirement in India for Listed Public Limited Companies.
Chapter 3 : Voluntary Disclosures as part of Financial Disclosures - National & International Scenario.
Chapter 4 : Voluntary Disclosure Practices of Indian IT Companies.
Chapter 5 : A Comparative Analysis of Voluntary Disclosures between IT Companies and Companies belonging to Other Industries.

Chapter 6 : Users' Perception of Voluntary Disclosures - An Empirical Verification.

Chapter 7 : Findings and Recommendations.

There may not be unanimity in designing the above-mentioned plan of work. Nevertheless, a logical sequence has been endeavored.