CHAPTER 1: Introduction

CHAPTER – 1

INTRODUCTION

The objective of this chapter is to show the path to reader on which one has to walk during the study of present thesis. This chapter contains introductory material of entire research work carried out in the present thesis. The chapter is broadly divided into number of sections and then in many subsections. Section one pertains to the brief introduction of the subject-matter of corporate financial reporting system related to the research. It focuses on conceptual issues of corporate financial reporting system. Transparency being a major aspect of corporate financial reporting, has also been discussed and continues till forth section. Section fifth discussed about emerging capital markets. Section sixth to eighth is devoted to the research methodology adopted in the study. Sixth section considers the motivation of research and seventh the research objectives. And the eighth section entails research design which is further divided and sub-divided. And the last section states the limitations of the study and gives conclusion.

1.1 Conceptual Framework of Corporate Financial Reporting

A conceptual framework is an arrangement of concepts and principle that underpin the preparation and presentation of financial statements. These concepts and principles should be consistent with one another. Financial reporting is the process of preparing and distributing financial information to users of such information in various forms. Financial statements are the most common format of formal financial reporting. These statements are prepared according to the rigorously applied standards defined by professional accounting bodies developed according to the legal and professional framework of a specific locale (Wikipedia, 2010). “The main expected role of the financial reporting is to meet the external users’ varying needs. Users of financial reports in general and particularly investors require useful information for their decision making.” (http://www.eurojournals.com/mefe_3_07.pdf, 2010).

“Financial reporting is done by every business and organization to assess its financial performance. It is an indicator of how well or poor a company has performed in a particular financial year. Financial reporting involves preparation of financial reports or financial statements and then studying the overall performance of a company. These financial statements give a summary of a firm's long and short-term profitability.”
It involves income statement, balance sheet and cash flow statement. “Balance Sheet is one of the most important financial statement containing the assets, liabilities and net equity of a company at a given point of time. Income Statement is also known as Profit or loss statement. This financial statement reports company's results of operations over a period of time. Cash Flow Statement reports company's cash flow activities, including its operating, investing and financing activities” (www.abacusoutsourcing.com, 2012).

In financial reporting, transparency is one of the most significant feature or characteristic. “Companies must disclose something that might influence the investment decision of an informed investor. Nothing of consequence may be hidden. This rule is widespread and pervasive. Stock exchanges and Government agencies require it. Various accounting rulemaking bodies require it, including the Financial Accounting Standards Board in the United States and the International Accounting Standards Board. One aspect of transparency is timeliness. Generally speaking it is better to disclose information sooner rather than later, although there is some trade-offs. For example, companies that issue their annual reports on January 1 are extremely timely but there is a certain probability that some of the information in that report is not as complete or accurate as would be the case if the company had spent more time preparing the statements and had issued them a few weeks or months later. There is an inverse relationship between the quality of financial information and the timeliness with which it is reported. Accounting information becomes less relevant with the passage of time.” (http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN033860.pdf, 2010).

“The system of financial reporting is a function of the economic, legal and political institutions in a country. The changes taking place in the commercial world due to globalization have resulted in accountancy profession critically reviewing its role and relevance of its curriculum. In early times accounting was merely concerned with ascertainment of results of business enterprises. But, financial reporting has a new orientation these days owing to the increased needs of users accounting information. New accounting principles are constantly evolving and are influenced by changes in social, legal and economic environment and professional bodies like ICAI, the AICPA, IASB and the needs of
Creating a financial report is obviously one of the most important jobs for an accountant during the course of a fiscal year. It is essential to keep investors and stakeholders apprised of a company's financial situation to maintain good business relationships and fulfill investor contracts. “When the international business environment is undergoing rapid transformation and new linkages are sought to be enforced through multilateral trade negotiations, there is a need for restructuring the industry, agriculture and other sectors of economy to meet new challenges in the changing global business scenario. As a result, corporate reporting has also undergone a sea change, presenting newer challenges and further opportunities.” (http://dspace.iimk.ac.in/bitstream/2259/500/1/433-437.pdf, 2009). Although some investors prefer the traditional "numbers on a page" approach to financial reporting, but time is changing. New technologies have shifted the paradigm financial reporting.

1.2 Objectives of Corporate Financial Reporting

“The objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Capital providers are the primary users of financial reporting. To accomplish the objective, financial reports should communicate information about an entity’s economic resources, claims to those resources, and the transactions and other events and circumstances that change them. The degree to which that financial information is useful will depend on its qualitative characteristics.” (http://iasplus.com/pastnews/2008may.htm, 2010).

The foundation of the conceptual framework serves as the basic objective of financial reporting. “The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.” (http://www.bafa.ac.uk/assets/files/Conference/BAFA_FBT%20presentation%2020120418-1.pdf, 2012).

1.3 Value Relevance of Corporate Financial Reporting

“Researches on value relevance of financial reporting are motivated by the fact that listed companies use financial statements as one of the major medium of communication with
their equity shareholders and public at large. Further, lot of hard work is done by stock market regulators and accounting standard setters in improving the quality of financial reporting and increasing the transparency level in financial reporting.” (www.eurojournals.com, 2010).

1.4 Qualitative Characteristics of Corporate Financial Reporting

The qualitative characteristics can be termed as those qualities that financial information must have in order to satisfy the objective of financial reporting. The presence of these qualities makes financial information valuable. It also plays an indispensable role in enhancing the worth of financial reporting information. The way these characteristics affect the utility of financial information, decides whether they are fundamental or enhancing. Materiality and cost are two pervasive constraints which bounds the utility of financial information.

1.4.1 Pervasive Constraints

1.4.1.1 Materiality

“Information is material if its omission or misstatement could influence the decisions that users make on the basis of an entity’s financial information. Because materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misstatement, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. While considering whether financial information is a faithful representation of what it purports to represent, it is important to take into account materiality because material omissions or misstatements will result in information that is incomplete, biased, or not free from error.” (www.fasb.org, 2008). “Materiality is a pervasive constraint on financial reporting because it pertains to all the qualitative characteristics of decision-useful financial reporting information.” (www.aasb.gov.au, 2008).

1.4.1.2 Cost

“Costs of providing information include costs of collecting and processing the information, costs of verifying it, and costs of disseminating it. Users incur the additional costs of analysis and interpretation. Omission of decision-useful information also imposes costs, including the costs that users incur to obtain or attempt to estimate needed information using incomplete data in the financial report or data available elsewhere. Preparers expand
the majority of the effort toward providing financial information. However, capital providers ultimately bear the cost of those efforts in the form of reduced returns.” (www.fasb.org, 2008).

“Cost is a pervasive constraint on the reporting entity’s ability to provide useful financial information.” (www.ifrs.org, 2011). “Application of the cost constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use that information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost. When applying the cost constraint to proposed standard, standard setters seek information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of that standard.” (www.aasb.gov.au, 2008).

1.4.2 Qualitative Characteristics

The main highlight is the decision usefulness which in actual is the ability to be useful in decision making. “The qualitative characteristics of useful financial information apply to financial information provided in financial statements, as well as to financial information provided in other ways.” (www.ifrs.org, 2010). These characteristics can be categorized in fundamental qualitative characteristics and the enhancing qualitative characteristics. IASB (2010) and FASB (2008) suggests “relevance and faithful representation as the fundamental qualitative characteristics whereas comparability, timeliness, verifiability and understandability as the enhancing qualitative characteristics that distinguish more useful information from less useful information.” (www.ifrs.org, 2011). They are as follows:

1.4.2.1 Fundamental Qualitative Characteristics

1.4.2.1.1 Relevance

“Information must be relevant to the decision-making needs of users. Information is relevant if it can be used for predictive or confirmatory purposes. It has predictive value if it helps users to predict what might happen in the future. It has confirmatory value if it helps users to confirm the assessments and predictions they have made in the past. Timeliness is the important aspect of relevance.” (ICAI, 2010).

1.4.2.1.2 Faithful Representation
“To be useful in financial reporting, information must be a faithful representation. Faithful representation is attained when the depiction of an economic phenomenon is complete, neutral, and free from material error.” (www.aasb.gov.au, 2008). The term faithful representation was proposed by IASB to be replaced with the term reliability and consider it as fundamental characteristic. Information needs to be reliable and for being reliable, it must be free from biasness or material error, and must also provide a faithful representation of what it should actually represent. Information, to be reliable, must satisfy these following qualities namely neutrality, completeness, substance over form, faithful representation and prudence. Reliability of information is important to users because it influences their decisions (ICAI, 2010).

“A depiction of an economic phenomenon is complete if it includes all information that is necessary for faithful representation of the economic phenomena that it purports to represent.” (www.aasb.gov.au, 2008). “Neutrality is the absence of bias intended to attain a predetermined result or to induce a particular behavior. Neutral information is free from bias so that it faithfully represents the economic phenomena that it purports to represent” (www.fasb.org, 2008). Faithful representation “does not imply total freedom from error in the depiction of an economic phenomenon because the economic phenomena presented in financial reports generally are measured under conditions of uncertainty. For a representation to imply a degree of completeness, neutrality, or freedom from error that is impracticable would diminish the extent to which the information faithfully represents the economic phenomena that it purports to represent. Thus, to attain a faithful representation, it sometimes may be necessary to explicitly disclose the degree of uncertainty in the reported financial information.” (www.fasb.org, 2008).

1.4.2.2 Enhancing Qualitative Characteristics

1.4.2.2.1 Comparability

Comparability assists users to keep a watch on similarities and dissimilarities between conditions and events. Financial information must be comparable. It should be comparable over time, so that the information in the financial statements for one year can be compared with previous years. The financial information for one business entity should also be comparable with the information in the financial statements of other business entities (FASB, 2008). The comparison is usually between companies and competitors.
In order to measure the trends of an entity’s financial position or financial performance, users must possess the ability of comparing the financial statements of different business entities over time.

1.4.2.2.2 Timeliness

“Timeliness means having information available to decision makers before it loses its capacity to influence decisions. For example, users may need to assess trends in various items of financial reporting information in making investment or credit decisions.” (rierc.org, 2014). Companies must provide information on a periodic basis i.e., monthly, quarterly, half-yearly or annually to its external users for timely information.

1.4.2.2.3 Verifiability

Verifiability “implies a consensus among different measurers. For example, the historical cost of a piece of land to be reported in a company's balance sheet usually is highly verifiable. The cost can be traced to an exchange transaction, the purchase of the land. However, the fair value of that land is much more difficult to verify. Appraisers could differ in their assessment of fair value. The term objectivity often is linked to verifiability. The historical cost of the land is objective and easy to verify, but the land's fair value is subjective, influenced by the measurer's past experience and prejudices. A measurement that is subjective is difficult to verify, which makes it less reliable to users.” (Connect.mcgraw-hill.com, 2012).

1.4.2.2.4 Understandability

Understandability “means that users must understand the information within the context of the decision being made. This is a user-specific quality because users will differ in their ability to comprehend any set of information. The overriding objective of financial reporting is to provide comprehensible information to those who have a reasonable understanding of business and economic activities and are willing to study the information” (connect.mcgraw-hill.com, 2012) with ‘reasonable diligence’. It is enhanced when information is characterized, classified and presented concisely and clearly. The users of the financial statement must be able to spot the necessary information at a glance (FASB, 2008).

1.5 Emerging Capital Markets: Meaning and Definition

“Globalization has opened up many investment opportunities for investors in some of the most obscure countries in the world. However, the main goal of every investor is to

[1.7]
maximize returns on investments. To maximize returns, the investor’s strategy is to invest in a market where he can diversify his portfolios and succeed in gaining returns commensurate to the level of risk assumed. The investor will not be willing to put out investment capital if visibility for potential return on investment is obscures. With such objectives in the investor’s mind, the investor will prefer to invest in only emerging capital markets.” (www.ghanaweb.com, 2011). where financial information is more transparent and reliable.

1.5.1 Background Information

“The terminology “emerging markets” was derived from the expression “newly industrializing countries”. The expression “newly industrializing countries” was coined by IMF in the 1980’s and used to describe the few fast-growing economies in developing countries in, Asian and Latin American countries. In the 1990s, the number of liberalized economies increased, and as a result, the IMF replaced the term “newly industrializing countries with the expression “emerging markets”. These emerging markets now include Africa, Asia, Latin America and Russia. Emerging markets have some fundamentally applied characteristics that distinguish them from the developed markets. Emerging markets are countries with new and small stock markets that are experiencing rapid economic growth, and are located in countries with below-average income.” (http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=162093, 2011).

1.5.2 Asia-Pacific Region

“Asia-Pacific capital markets have experienced rapid growth over the past few years, with many markets emerging as key players in the global economy. With increased investment and stability in the region, now is the time to get involved and participate in the emerging markets of the Asia-Pacific Region.” (“Essential Asia-Pacific Capital Markets Handbook for 2009.” M2 Presswire, Nov 11 2008 Issue). “Emerging Capital Markets are financial markets that reside in the low or middle income economies or where the ratio of investable market capitalization to GNP is low. The emerging capital market nations have a large population size but a very low share of the World GNP. According to the statistics of the Bank for International Settlements the emerging capital markets have grown by 3% to 5% of the World Market. It has been observed that about 60% of the emerging capital markets resided in Asia, 21% in Latin America and 19% in Eastern Europe, Middle East and Africa. Although the size of the emerging equity market is very small, more number of domestic
companies participates in these markets as compared to the equity markets of the developed countries.” (http://www.economywatch.com/market/capital-market/emerging.html, 2011).

1.6 Motivation for Research

Corporate reporting is a means for an organization to communicate its past actions and proposed future plans to owners, investors or to the society, as they are either the present or the potential stakeholders in businesses. It is the process of communicating both types of information whether financial or non-financial relating to the resources and performance of a company. Financial reporting provides “information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners and about other factors that may affect an enterprise's liquidity or solvency.” (www.icai.org, 2014). The corporate financial reporting aims at providing reports that are consistent and comparable, so that the investors can take decisions in an informed manner. Degree of decision making varies directly with financial reporting. Investment which is based on financial information requirement, which should comply with financial reporting’s objective.

In the recent past, a number of instances have come to the force, where loopholes in the traditional financial reporting system have been exploited to provide misleading information to the investors, while hiding the real financial position of the companies. There are number of scandals that have taken place such as Enron, Satyam computers etc. The issue of corporate reporting for greater transparency has come up in the wake of such scandals and due to the process of globalization. The inability to understand and deal with financial data is a severe handicap in the corporate world.

The need is felt to find out the rules that are common and global. The reason behind this is obvious – as the capital markets increasingly become global in nature, more and more investors see the need for a common set of international accounting standards (Deloitte, 2008). And it gives the light to develop the new trends in the field of corporate financial reporting. Complexity, in fact, is the most highlighting issue in financial reporting and financial instruments are considered the most complex one, to be reported clearly. New financial reporting mechanisms, such as International Financial Reporting Standards (IFRS), eXtensible Business Reporting Language (XBRL) etc. have been developed to avoid the issue of complexity with a view to providing relevant and reliable information to the stakeholders which are not fully apply till now around the world. So there is a need to
develop and adopt the standards and rules regarding corporate financial reporting that are common and globally acceptable among the countries.

Stakeholders in the business (whether they are internal or external) seek information to find out three fundamental questions. These are: (i) How is the business doing? (ii) How is the business placed at present? (iii) What are the future prospects of the business? For outsiders, published financial accounts are an important source of information to enable them to answer the above questions. But to some degree or other, all interested parties will want to ask questions about the quality of financial information. The companies responded to the new economic realities by adding more information to its annual reports and enhance its quality. Certain new dimensions of financial reporting, which were hitherto ignored by the accountants and the managements, have been added to its domain. Such new dimensions of financial reporting include value added statement, human resource accounting, social reporting, and certain emerging areas like value reporting, corporate sustainability reporting, governance reporting etc. True success of a business entity is in the truthful expression of the performance when it is measured. A common assumption is that financial reporting practices have been on the path of improvement during recent years; but still, significantly strengthened enforcement mechanisms are required for further improving the quality of corporate financial reporting.

Keeping in mind the weaknesses of traditional financial reporting system and to remove the issue of complexity, the present research titled “Corporate Financial Reporting Practices in Emerging Capital Markets: An Empirical Study with Special Reference to Asia-Pacific Region” is centered with familiarizing the new upcoming solutions i.e., IFRS and XBRL as a modern tool in the area of financial reporting. The study also designs a format of corporate financial reporting which is common in emerging capital markets in its concluding part.

1.7 Research Objectives

Researcher aimed at developing an accurate model for corporate financial reporting practices. Therefore, the study is carried out by keeping in mind the following objectives in the context of Emerging Capital Markets of Asia-Pacific region: To study the legal environment of corporate financial reporting,

1. To study the legal environment of corporate financial reporting.
2. To measure the quality of corporate financial reporting in selected companies,
3. To compare corporate financial reporting with International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) in selected countries,
4. To assess the role of Extensible Business Reporting Language (XBRL),
5. To examine the stakeholder’s perception towards corporate financial reporting in selected countries, and
6. To design a format of corporate financial reporting in emerging capital markets.

1.8 Research Design

This section describes the design and methodological highlights of the study including the sample description, data collection and analysis. Research design tracked by the researcher can be described in the following sub-heads.

1.8.1 Research Assumption

With aims at corporate financial reporting practices the study hypothesized that there is no significant relationship between quality of the corporate financial reporting and its modern techniques such as application of IFRS and XBRL in corporate world.

1.8.2 Data Collection

The data for the study were collected mainly from the primary as well as secondary sources. Primary sources include e-questionnaire and secondary sources include Websites, journals, books, articles, and annual reports of selected companies of Stock Exchanges of Asia-Pacific region. The secondary source is sample survey through the structured questionnaire which was developed during the course of study.

1.8.3 Sample Description and Selection

Secondary Data: “Emerging Capital Markets are financial markets that reside in the low or middle income economies or where the ratio of investable market capitalization to GNP is low. The emerging capital market nations have a large population size but a very low share of the World GNP. According to the statistics of the Bank for International Settlements the emerging capital markets have grown by 3% to 5% of the World Market. It has been observed that about 60% of the emerging capital markets resided in Asia, 21% in Latin America and 19% in Eastern Europe, Middle East and Africa. Although the size of the emerging equity market is very small, more number of domestic companies participates in these markets as compared to the equity markets of the developed countries.” (http://www.economywatch.com/ market/capital-market/emerging.html, 2011).
Asia-Pacific region includes eight Stock Exchanges and at least 10% to 25% of companies of each stock exchange were selected for study from Asia-Pacific region randomly.

### Table 1.1 Showing Selection of Companies

<table>
<thead>
<tr>
<th>Region</th>
<th>Stock Exchange</th>
<th>No. of Benchmark Companies</th>
<th>No. of Selected Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>Australian Securities Exchange</td>
<td>101</td>
<td>22</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Bombay Stock Exchange</td>
<td>200</td>
<td>20</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Hong Kong Stock Exchange</td>
<td>70</td>
<td>14</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Korea Exchange</td>
<td>55</td>
<td>12</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>National Stock Exchange of India</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Shanghai Stock Exchange</td>
<td>111</td>
<td>22</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Shenzhen Stock Exchange</td>
<td>48</td>
<td>10</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Tokyo Stock Exchange</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>565</td>
<td>132</td>
</tr>
</tbody>
</table>

**Primary Data:** Sample size was 100 respondents in each country to examine the stakeholder’s perception towards financial reporting practices in the concerned country. For the selection of stakeholders, convenient sampling technique will be used by considering only those stakeholders who were available on ‘Net’. Sample size to measure the benefits and challenges in XBRL adoption, was 49 in first stage and 400 in next stage.

**1.8.4 Data Description**

It is rightly said that data selection must be performed judiciously to avoid the “garbage-in, garbage-out” syndrome often associated with computers. Performance of an analytical study is highly dependent on the quality and appropriateness of its input data. If relevant data inputs are not included, the results suffer needlessly. Keeping this in mind, the researcher had planned to use the following data.

**Dependent Variable:** The Quality of Corporate Financial Reporting has been taken as the dependent variable.

**Independent Variables:** Seventeen different parameters have been taken as the independent variable. The description of the variables selected and their source is tabulated below in the table 1.2.

### Table 1.2: Data Description

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Variables</th>
<th>Symbol</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Quality of Corporate Financial Reporting</td>
<td>QCFR</td>
<td>--------</td>
</tr>
</tbody>
</table>
### 1.8.5 Period of the Study

In order to study the corporate financial reporting practices in emerging capital markets, six years’ data from the financial year 2004-05 to 2009-10 had been taken. There was the controversy of the financial year among the different countries, therefore, researcher had considered six years that ends in the year 2010 for study.

### 1.8.6 Tools for Analysis

For the purpose of study, researcher made use of following tools.

#### 1.8.6.1 Logit Model

Joseph Berkson in 1944 introduced logit model. The model was borrowed by analogy from the very similar probit model developed in 1934 by Chester Ittner Bliss. G. A. Barnard in 1949 coined the commonly used term log-odds; the log-odds of an event is the logit of the probability of the event. Both the models can be applied in qualitative studies on dichotomous (dummy) variables with a domain between 0 and 1. The only difference is that probit model is applicable when only independent variables are dummy coded while logit model is applicable when both dependent and independent variables are dummy coded. For the purpose of modeling the quality of corporate financial reporting, software such as MATLAB 7.0, STATA 12.0 and SPSS 19 were used.

#### 1.8.6.2 Factor Analysis
This technique was invented by Charles Spearman in the context of psychology. Factor analysis in psychology is most often associated with intelligence research. Raymond Cattell expanded on Spearman's idea of a two-factor theory of intelligence after performing his own tests and factor analysis in the study of personality. However, it also had been used to find factors in a broad range of domains such as personality, attitudes, beliefs, etc. It can assess the validity of an instrument by finding if the instrument indeed measures the postulated factors. It can reduce the number of variables, by combining two or more variables into a single factor and identify groups of inter-related variables, to see how they are related to each other.

Today, it is used in behavioral sciences, social sciences, marketing, product management, operations research, and other applied sciences that deal with large quantities of data. There are basically two very closely related types of factor analysis:

**Exploratory factor analysis (EFA):** It is used to identify complex interrelationships among items and group items that are part of unified concepts and thereby identify the underlying factor model.

**Confirmatory factor analysis (CFA):** It aims to confirm theoretical predictions, tests the hypothesis whether a specified set of constructs is influencing responses in a predicted way. It uses structural equation modeling to test a measurement model whereby loading on the factors allows for evaluation of relationships between observed variables and unobserved variables.

For the purpose of modeling the measures of XBRL adoption, software such as SPSS 19 and Amos 19 were used.

### 1.8.6.3 Principal Component Analysis (PCA)

Principal Component Analysis was developed in 1901 by Karl Pearson, as an analogue of the principal axes theorem in mechanics. Later, Harold Hotelling in the 1930s independently developed and named it. It studies an overview of the relationships between a set of variables and evaluate individuals with respect to those variables. PCA is often used in this manner for dimensionality reduction. In addition, this technique is used in conjunction with other techniques, such as regression analysis, z-test etc. For the purpose to study the stakeholders’ perceptions towards corporate financial reporting, PCA was applied on questionnaire with the use of STATA 12.0.
1.9 Limitations of the Study

The limitations to the study justify the need to develop new research, to correct the limitations now announced. It is necessary to undertake a new study covering the period in which the new guidelines are of mandatory application. Another area of research is to investigate the quality of corporate financial reporting practices and its emerging trends, which previously were not in the public domain. This new source of information will enable a more detailed research on the corporate financial reporting subject.

- The sample size of the respondents is very limited due to the lack of respond problem. Due to the lack of responses, the results obtained are limited to India, not to Asia Pacific region in primary study.
- It was a common practice among the respondents; those who were aware of; were not willing to respond to the questionnaire.
- Some of the conclusions are based on the estimates, assumptions, observations and informal interviews.
- It is very difficult to contact the higher authorities within the companies due to the companies not allowing the researcher to contact authorities.
- The companies had certain facts which are kept confidential, hence not shared with the researcher.
- The respondents hold the key to an effective research. When the respondent is biased, ignorant and moody or influenced by any external or internal factor, then the response tends to be incorrect.
- Sample size remains medium and the margin of error associated with it could creep into influence the inferences drawn in this study.
- Long-run success of XBRL in reporting practices can be analysed by taking a longer time period, say post adoption years. For this, one would have to wait for few years to get the relevant data.
- Note that the above findings are limited by some of the constraints of this study.
- Another limitation results from the sample referring to a period of 6 years for collecting annual reports of companies.
- The next limitation arises from difficulties in obtaining the necessary information to realize the study. Financial years in different countries opt differently. Even sometimes, companies follow different financial years in the same country.
Concluding Remarks

Present chapter is aimed at a conceptual framework of corporate financial reporting in general. Further, researcher have focused on motivation for research work, objectives developed on its basis and discussed the methodology to achieve these objectives in the light of research assumption, sample selection and description, data collection, data description, study period and analytical tools and techniques which are applied on arranged data in the present research work. In the last section, researcher have discussed about the limitation of the study which can be overcome in further studies.

Bibliographical Notes

The concepts of corporate financial reporting practices are studied from the number of books on fundamentals of corporate financial reporting practices. The features and definitions of financial reporting are well documented and various books and e-books are considered. The e-books are Walther and Sousen (2009), Mongiello (2009), ICAI (2010) and Financial Reporting (2010). The printed books are Lal (2005), Rao (2000), Chorafas (2000), Vasal (2006) and Gibson (2007).