
DISCLOSURE PRACTICES IN SELECTED PUBLIC SECTOR COMPANIES

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ABSTRACT

Corporate Disclosure can be defined as a process through which a business enterprise communicates with the external parties. Disclosure is the movement of information from the private domain (inside information) into the public domain. To evaluate the disclosure level of various companies, some yardstick is required. A comprehensive list of 14 major items with breakup of 482 sub items has been made to determine the adequacy of disclosure practices of the corporate sector in India. Disclosure practices in selected 16 public sector companies at two points of time i.e. 1990-91 and 2006-07 has been divided into two sections i.e. . Company wise analysis of Disclosure Score and Analysis of Major items of information. On the basis of Company wise analysis of Disclosure Score and Analysis of Major items of information , it can be concluded that there is considerable improvement in the various items disclosed by Public Sector companies over the period of study.

INTRODUCTION

Corporate Disclosure can be defined as a process through which a business enterprise communicates with the external parties.¹ Disclosure is the movement of information from the private domain (i.e. inside information) into the public domain.² The corporate reports are disclosed through company's annual reports: Annual report is a periodic statement, which is issued at the end of each accounting period.³ It usually consists of accounting and non accounting information. Accounting information are quantitative, formal, structural, numerical and past oriented materials. This includes Balance Sheet, Profit and Loss accounts, Schedules and notes to financial statements. These are generally audited by a qualified auditor. They must exhibit "true and fair view" of the state of affairs. Corporate disclosure is a process of reporting of accounting information of an entity to a user or a group of users. It signifies a total communication system between the corporation and its interested constituents. This is the most direct, least expensive, most timely and fairest methods of reaching present and potential users. So, corporate reporting is nothing but the communication of financial information of the activities of the undertaking to the interested parties for facilitating their economic decisions.⁴ Generally, three concepts have been proposed for disclosure and they are adequacy, fairness and full disclosure. The most commonly used concept is adequacy; and it implies that all material information needed by the users of the financial statements and reports should be included in such financial statements and reports i.e. it should be adequate to the need of the users. The adequacy of the information can be tested when it is reported outside the organization, but when reported inside the organization, the adequacy of the disclosure cannot be tested accurately as there is no test to measure it. Another difficulty is that the needs of the users are different from user to user, and as a result, adequacy can be obtained only to a certain extent. The concept of 'fair disclosure' implies that all users of the information should be treated alike, in preparing the financial statements and reports, and the concept of 'fair disclosure' implies that all users of the information should be treated alike, in preparing the financial statements and reports and the concept of 'full disclosure' implies that all relevant information of the financial activities of the business enterprise is presented in the financial reports. In the recent years, the perspective shifted to an informational approach. According to this approach, the basic purpose of financial statements is to provide information useful to various users, viz., investors, creditors, management, government, security analysts, consumers and the public. This shift in emphasis is fully reflected in the objectives of financial statements developed by the Financial Accounting Standard Board (FASB).

Corporate disclosure or reporting signifies a total communication system between the corporation and its interested constituents. The parties interested in the business organization need financial information for making sound economic decisions. Information about a company's affairs can be communicated through different medias. The published annual report is the most widely used comprehensive source of corporate financial data. Full disclosure of information by a company assumes a great deal of significance for the interested parties. It helps them to take a variety of decisions. These reports can be meant for internal users, viz., management or external users viz., shareholders, debenture holders, financial institutions, security analysts, government, creditors, suppliers and general

¹ Lal Jawahar Corporate Annual Report – Theory & Practice, Starling Publisher Pvt. Ltd. New Delhi, 1985, P.38

² American Accounting Association, Conceptual Framework for financial accounting and reporting, Elements of Financial Statement and their measurement, AAA, June 1977, p.19.

³ Himstreet, W.C. Brelly, W.M. Business Communication, WM Publishing Co. Inc. California 1973, pp. 357-380, (guidelines for writing the report effectively)

⁴ Dr. M. Saeed, The Theory of Corporate Disclosure and its Applications in Financial Reporting, Anmol Publications New Delhi, p. 239

public. External reporting of information has assumed great significance over a period of time because of increase in the size of business units, scarcity of funds to finance the increased scale of operations, emergence of a large number of small investors, separation of ownership and management, increased public awareness, recognition by management of their responsibility towards various stakeholders and increased regulation of government forcing the companies to publicly make available essential business information. To evaluate the disclosure level of various companies, some yardstick is required. A list of disclosure index is being developed as yard stick on the basis of analysis of previous studies, literature, guidelines of ICAI for best presentation of accounts awards and a detailed consultation with various academicians, financial analysts etc. A comprehensive list of 14 major items with breakup of 482 sub items has been made to determine adequacy of disclosure practices of the corporate sector in India. A list comprising the major items and sub items of information is as under:

S.No.	Major items of Classification	No. of Sub items
1.	Contents	54
2.	Directors Report	59
3.	Chairman's Report	32
4.	Corporate Governance	26
5.	MDA (Management Decision Analysis)	26
6.	Shareholder's Information	51
7.	Accounting and Finance	96
8.	Personnel/HR information	27
9.	Marketing and Segment Reporting	20
10.	Highlights	25
11.	Mission	01
12.	Graphs, Diagrams, Pictures	44
13.	Social responsibility	11
14.	Emerging Concepts	10
	TOTAL	482

In India, corporate disclosure in case of public sector companies is governed by Companies Act, pronouncements of the Institute of Chartered Accountants of India (ICAI), guidelines of the Securities and Exchanges Board of India (SEBI) and the requirements of the Bureau of Public Sector Companies.

DISCLOSURE PRACTICES IN SELECTED PUBLIC SECTOR COMPANIES

Disclosure practices in selected public sector companies at two points of time i.e. 1990-91 and 2006-07 has been divided into two sections as under:-

- 1 Company wise analysis of Disclosure Score.
- 2 Analysis of Major items of information.

1 COMPANY WISE ANALYSIS OF DISCLOSURE SCORE.

Table 1.1 exhibits the company wise disclosure score of the selected companies of the public sector for the years 1990-91 and 2006-07. Analysis of table reveals that all the companies have improved their disclosure scores in 2006-07 over 1990-91. GAIL has shown highest percentage increase in scores i.e. 126.92 percent in 2006-07 over 1990-91

Table 1.1

COMPANY WISE DISCLOSURE SCORE IN SELECTED PUBLIC SECTOR COMPANIES

Sr. No.	Name of Company	Disclosure Score		Increase/Decrease in 2007 over 1991	Percentage Increase /Decrease in 2007 over 1991
		1990-91	2006-07		
1	CCI (Cement Corporation of India)	108	206	98	90.74
2	GAIL (Gas Authority of India Ltd.)	104	236	132	126.92
3	HPCL (Hindustan Petroleum Corpn. Ltd.)	182	273	91	50.00
4	IOC (Indian Oil Corpn.)	245	373	128	52.24
5	IBP Co. Ltd.	198	300	102	51.52
6	BPCL (Bharat Petroleum Corpn. Ltd.)	147	290	143	97.28
7	IRCON INTERNATIONAL LIMITED	122	237	115	94.26
8	CPCL (Chennai Petroleum Corpn. Ltd.)	138	250	112	81.16
9	IPCL (Indian Petrochemicals Corpn. Ltd.)	106	229	123	116.04
10	HZL (Hindustan Zinc Ltd.)	114	213	99	86.84
11	HINDALCO	121	257	136	112.40
13	SAIL (Steel Authority of India Ltd.)	112	233	121	108.04
13	BEL (Bharat Electronics Ltd.)	100	199	99	99.00
14	BHEL(Bharat Heavy Electricals Ltd.)	184	318	134	72.83
15	NTPC (National Thermal Power Corporation)	130	220	90	69.23
16	HMT Ltd.	129	202	73	56.59

Its score has increased to 236 in 2006-07 from 104 in 1990-91. Scores of IPCL, HINDALCO and SAIL have improved to the extent of 116.04 percent, 112.40 percent and 108.04 percent respectively. IOC has maximum disclosure score and BEL has minimum disclosure scores for the years 1990-91 and 2006-07. The minimum percentage increase in score is shown by HPCL i.e. 50 percent. So, it is evident from the above analysis that the disclosure scores of the public sector companies have shown remarkable improvement over the period of study.

TABLE 1.2

CLASSIFICATION OF COMPANIES ON THE BASIS OF THEIR DISCLOSURE SCORES. (PUBLIC SECTOR)

Disclosure Scores	1990-91		2006-07	
	No. of Co.	%	No. of Co.	%
0-50	0	0	0	0
50-100	0	0	0	0
100-150	12	75	0	0
150-200	3	18.75	1	6.25
200-250	1	6.25	8	50
250-300	0	0	5	31.25
300-350	0	0	1	6.25
350-400	0	0	1	6.25
400-500	0	0	0	0
Total	16	100	16	100

Table 1.2 presents the classification of selected public sector companies on the basis of their disclosure scores and a look at the table reveals that 75 percent of the Companies have shown disclosure score in the range of 100-150 in 1990-91. None of the Companies has disclosure scores above the range of 200-250. In 2006-07, 50 percent of the companies have disclosed 200-250 items, whereas the percentage of disclosing companies in this range in 1990-91 is 6.25 percent. The percentage of companies disclosing items ranging between 250-300, 300-350, 350-400 is 31.25 percent, 6.25 percent and 6.25 percent respectively. The percentage of Companies disclosing in all these ranges is Zero in 1990-91. Analysis further shows that none of the companies have disclosure score in the range of 400-500 over the period of study. It is very much clear on the basis of table 1.2 that the number and percentage of companies showing disclosure score in higher ranges has increased in 2006-07 over 1990-91.

TABLE 1.3

COMPARISON OF PUBLIC SECTOR COMPANIES ON THE BASIS OF MINIMUM AND MAXIMUM DISCLOSURE SCORE

Range	1990-91		2006-07	
	Disclosure Score	Name of the Co.	Disclosure Score	Name of the Co.
Minimum	100	BEL	199	BEL
Maximum	247	IOC	373	IOC

Table 1.3 reveals the minimum and maximum disclosure scores of the public sector companies during 1990-91 and 2006-07. During 1990-91, minimum disclosure score is 100 for BEL and maximum disclosure score is 247 for IOC. BEL and IOC has minimum and maximum disclosure scores of 199 and 373 respectively, in 2006-07 also. Analysis further shows that there is remarkable improvement in the minimum and maximum disclosure scores of the public sector companies in 2006-07 over 1990-91.

TABLE 1.4

STATISTICAL ANALYSIS OF SCORES OF SELECTED PUBLIC SECTOR COMPANIES

Statistics	1990-91	2006-07
Mean	140.00	252.25
Standard Deviation	41.30	48.00
Coefficient of Variation	29.50	19.03
't'-value	't' = 22.5*	

Note *: Significant at 0.05 level

Table 1.4 exhibits the mean, standard deviation and coefficient of variation of disclosure scores of the selected public sector companies in India. Analysis of table reveals that mean disclosure score of the public sector has improved to 252.25 in 2006-07 from 140 in 1990-91. Standard deviation shows that there is increased in variations of items on an average from 41.3 in 1990-91 to 48.0 in 2006-07. The coefficient of variation has declined from 29.50 percent in 1990-91 to 19.03 percent in 2006-07. It indicates lesser degree of variability and increased consistency of score of the public sector over the period of study. On the basis of 't' value at 0.05 level of significance, it can be concluded that there is significant difference/ improvement in the disclosure score in 2006-07 over 1990-91.

2 ANALYSES OF MAJOR ITEMS OF INFORMATION DISCLOSED BY PUBLIC SECTOR COMPANIES.

Table 1.5 shows the percentage of public sector companies disclosing major items of information and average number of disclosing companies (in %age)

TABLE 1.5

DISCLOSURE OF MAJOR ITEMS OF INFORMATION BY PUBLIC SECTOR COMPANIES

Sr. No.	Items of Information	Percentage of Disclosing companies		Average Disclosure Score (%age)
		1990-1991	2006-2007	
1	Contents	81	94	87.50
2	Director's Report	100	100	100.00
3	Chairman's Report	31	31	31.00
4	Corporate Governance	0	100	50.00
5	Mgt. Discussion & Analysis	38	69	53.50
6	Share holder's Information	50	100	75.00
7	Information on Accountings & Finance	100	100	100.00
8	Information on Personnel	100	100	100.00
9	Information on Marketing	100	100	100.00
10	Highlights	75	94	84.50
11	Mission & Objectives	50	50	50.00
12	Presentation by Graphs & Pictures	81	88	84.50
13	Social Responsibility	100	100	100.00
14	Emerging Concepts	69	88	78.50

A look at the table 1.5 reveals that on an average percentage of companies disclosing the major items of information varies between 31-100 percent. Items of information such as accounting and finance, director's report, information on personnel, information on products & marketing and social responsibility has been disclosed by 100 percent companies.

On an average 87.5 percent of the public sector companies has disclosed "contents" in their annual reports. The percentage of companies disclosing contents has increased to 94 percent in 2006-07 from 81 percent in 1990-91.

On an average 84.5 percent companies are disclosing "Highlights" and "Presentation by Graphs & Picture". In 2006-07, percentage of companies disclosing highlights has increased to 94 percent from 75 percent in 1990-91. This shows the increased importance for disclosure of this item because of its increasing utility for all types of investors. Further, Graphs and pictures are used to present the information in an effective manner. This item has been disclosed by 88 percent companies in 2006-07 as compared to 81 percent companies in 1990-91. "Emerging Concepts" or "Additional Shareholders Information" has been disclosed on an average by 78.5 percent companies. This concepts discloses information on price-level adjustments, value-added statements, human resource accounting, EVA etc. The percentage of companies disclosing information on this item has increased to 88 percent in 2006-07 from 69 percent in 1990-91.

Analysis of table further indicates that on an average the percentage of companies disclosing "Shareholders Information is 72 Percent. There is considerable improvement in the percentage of companies disclosing this information. Corporate Governance has been disclosed by 100 percent

companies in 2006-07 as compared to 0 (Zero) percent in 1990-91. “Management Discussion & Analysis” has been disclosed on an average by 53.5 percent of companies. There is considerable improvement in the percentage of companies disclosing this item over the period of study.

“Mission & Objectives” has been disclosed on average by 50 percent of companies. Further “Chairman’s Report” has been stated only by 31 percent of the companies for the years 1990-91as well as 2006-07.

Analysis of table reveals that there is an increase in the percentage of companies disclosing major items of information in 2006-07 over 1990-91.

**TABLE 1.6
DISCLOSURE OF AVERAGE SCORES (NO. OF ITEMS) OF PUBLIC SECTOR COMPANIES**

Sr. No.	Items of Information	Average Disclosure Score		‘t’ values
		1990-91	2006-07	
1	Contents	8.69	16.81	6.39*
2	Director’s Report	28.38	40.25	9.04*
3	Chairman’s Report	8.19	10.25	2.40*
4	Corporate Governance	2.00	14.94	7.28*
5	Mgt. Discussion & Analysis	5.19	13.19	5.72*
6	Share holder’s Information	8.25	20.75	8.54*
7	Information on Accountings & Finance	47.75	75.31	16.38*
8	Information on Personnel	6.81	13.50	8.26*
9	Information on Marketing	3.75	9.00	7.27*
10	Highlights	9.31	17.56	6.35*
11	Mission & Objectives	0.50	0.56	1.00
12	Presentation by Graphs & Pictures	7.69	13.25	3.09*
13	Social Responsibility	2.81	5.31	8.26*
14	Emerging Concepts	0.68	1.56	4.34*

Note: *- Significant at 0.05 level

Table 1.6 shows the average number of items disclosed by public sector companies for major items of information and values t-statistics. A look at the table reveals that the average number of items disclosed in major items of information has considerably increased in 2006-07 as compared to 1990-91. The average disclosure score in highest for information on accounting and finance during the period under study. Average number of items disclosed for this item has increased to 75.31 items in 2006-07 from 47.75 items in 1990-91. Minimum number of items has been disclosed on an average in “Additional Shareholder’s Information” or “Emerging Concepts”. The disclosure score on average for this item has increased form 0.68 items in 1990-91 to 1.56 items in 2006-07. t-value at 0.05 level of significance suggests that there is significant difference in the average score for 13 major items of information.

On the basis of Company wise analysis of Disclosure Score and Analysis of Major items of information , it can be concluded that there is considerable improvement in the various items disclosed by Public Sector companies over the period of study.