ASSOCIATION BETWEEN FIRM- SPECIFIC CHARACTERISTICS AND CORPORATE DISCLOSURE OF LISTED FIRMS IN INDIA.

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ABSTRACT

Corporate governance and corporate disclosure is an important issue now-a-days.In India, a number of attempts have been made on part of different governmental and non-governmental institutions for ensuring better corporate governance as a mandatory disclosure. On other hand corporate disclosure are the disclosure made by the firm voluntarily to increase transparency in the management of the firm. The study is an attempt to assess empirically the extent of corporate disclosure practices and influence of firm characteristics. The companies with large assets, size, higher profitability, higher leverage, listing in foreign stock exchanges, lower holding of promoters share and audited by big audit firms have tendencies to be more transparent and hence disclose more information. However, age of a company and residential status do not significantly influence the level of corporate disclosure.

Keywords: Audit firms, corporate disclosure practices, corporate governance, firm characteristics.

INTRODUCTION

Corporate disclosure refers to information made available at the discretion of the corporation. Liberalization and Globalization of Indian economy has made more dynamic and transparent of Indian corporate sector. In India, the last two decade has experienced profound change in corporate financial reporting practices. The changes are driven by the additional disclosure requirements prescribed through amendments to the Companies Act, 1956; by considerably amending disclosure requirements under SEBI regulations; and by additional disclochanges, companies listed on stock exchange have been forced to disclose the minimum infosure requirements stipulated in revised and new accounting standards. As a result of these rmation in their annual reports as set out by the statutory requirements. However, particularly large and publicly traded leading companies have gone beyond those minimum requirements. Reporting information voluntarily has become a norm for large companies. Companies compete with an extensive amount of business information voluntarily to establish competitive advantage in the capital market. The disclosure of information is dependent on the characteristics of the firm. The study is an attempt to assess empirically the extent of corporate disclosure practices and influence of firm characteristics.

NEED OF THE STUDY

Corporate governance and corporate disclosure is an important issue now-a-days. In India, a number of attempts have been made on part of different governmental non-governmental institutions for ensuring better corporate governance as a mandatory disclosure. On other hand corporate disclosure are the disclosure made by the firm voluntarily to increase transparency in the management of the firm.

REVIEW OF LITERATURE

The section reviews some of the studies on the extent of corporate disclosure henceforth conducted since early 1960 in the various countries of world. Since, the 1960s there has been an increased interest in accounting disclosure studies investigating various determinants of companies' disclosure practices. Cerf, A.R. (1961) measured disclosure by an index of 31 information items and concluded that financial reporting practices of many US companies need improvement. Several researchers have replicated his methodology. The majority of these studies were applied to developed countries such as the UK Spero, L.L. (1979). , Firth, M. (1979), the USA Buzby, S.L. (1974). Lang, M., & Lundholm, R. (1993). Canada Belkaoui, A., & Kahl, A. (1978), Sweden Cooke, T. E. (1989), Switzerland Raffournier, B. (1995), Japan Cooke, T. E. (1992), and in Hong Kong Wallace, R. S. O. & Naser, K. (1995). Similarly, the present study concentrates on corporate disclosure practices of Indian firms and influence of the firm characteristics on it.

OBJECTIVES OF THE STUDY

The objectives of this study is

1. To examine firm characteristics like Age of the Firm, Listing Status of the Firm, Ownership Structure of the Firm, Leverage of the Firm, Size of the Audit Firm, Residential Status of the Firm, Size of the Firm and Profitability of the Firm.
2. To assess the level of corporate disclosure of listed firms in India.
3. To determine which of the firm characteristics that significantly related to increased corporate disclosure.

DATA SOURCE

Annual financial reports of the select listed companies.

Sample Selection

The sample for the study was collected from the NSE 50 Index; reason behind selection of NSE index was that includes the major sector firms of India. So sample can be considered as representative sample. From this sample, banking & finance companies were eliminated as the disclosure requirements for these companies are specialized & regulated by other regulatory authority. Total 27 firms, including cement industry, textiles and sugar industry were selected. Annual reports of the firms were collected from corporate offices of the companies and from the web sites of the firms.

Empirical Analysis

Table: 1 Descriptive Statistics of the variables of the study

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Disclosure score	135	0.15	0.75	0.5321	0.09213
Ownership Structure	135	.0500	9318.8500	538.085037	1627.8169660
Leverage	135	.0000	179.6500	17.049778	31.9263159
Size of the Audit Firm	135	0	1	.85	.357
Residential Status of the Firm	135	0	1	.81	.390
Market Capitalization	135	-2346.1300	17086.1300	606.574222	2014.9720464
Sales	135	.0000	7527.7600	499.858889	1031.8498608
Total Assets	135	.1400	10126.6500	742.509926	1724.5379472
Return on Capital Employed	135	-15.6900	133.3500	10.026963	16.0609444
Return on Net Worth	135	-8109.0200	486.6400	-46.637778	702.2666097
Return On Sales	135	-14.2500	12.0000	.250000	1.7945111
Age Of The Firm	135	2	79	30.52	21.005
Listing Status Of The Firm	135	0	1	.81	.390

INTERPRETATION:

The results of descriptive statistics presents in the above table 1. The results from the disclosure index indicate (DIS) that the level of average voluntary disclosure in the sample firms is 0. So the firms are not widely distributed with regard to corporate disclosure. The mean age of the firm is 30 years with standard deviation of 21.005. Ownership structure proportion mean is 538.08 with minimum of 5% to 93%. The average leverage of the firm is 17.04 with standard deviation of 31.92. Minimum and maximum value of market capitalization is 606.57 and 2014.97 respectively with mean value of 606.57.The average total asset is 742.50.

MODEL DEVELOPMENT:

In the present to examine the impact of independent variables on the disclosure score of the firm the following Ordinary Least Square (OLS) regression model has been used.

Disclosure Score = β0+ β1AGE+ β2LIST+ β3OWNER+ β4LEV+ β5AUDIT+ β6RS+ β7SIZE+ β8PROFIT+ €

Where

AGE = Age of the Firm

LIST = Listing Status of the Firm

OWNER = Ownership structure of the Firm

LEV = Leverage of the Firm

AUDIT = Size of the Audit Firm

RS = Residential Status of the Firm

SIZE = Size of the Firm

PROFIT = profitability of the Firm

Table: 2 Pearson Correlation Analysis

Variables	DIS	OS	LEV	AUDIT	RS	MC	SALES	TOTAL ASSETS	ROCE	RONW	ROS	AGE	LS
DIS	1												
OS	.000	1											
LEV	.954	.005	1										
AUDIT	.494	.059	-.028	1									
RS	.333	.084	.016	.875	1								
MC	.000	.533	-.087	.063	.086	1							
SALES	.000	.906	-.020	.025	.064	.320	1						
TOTAL ASSETS	.000	.955	.011	.062	.095	.664	.849	1					
ROCE	.428	-.069	-.175	.092	.104	-.050	-.019	-.080	1				
RONW	.000	-.394	.048	-.024	-.029	.244	-.365	-.385	.057	1			
ROS	.920	-.009	.006	-.026	-.016	-.187	-.006	-.099	.026	.001	1		
AGE	.834	-.018	.167	.528	.527	.017	.020	-.012	.062	.018	-.075	1	
LS	.333	.084	.016	.875	1.00	.086	.064	.095	.104	-.029	-.016	.527	1

INTERPRETATION:

The above table 2 presents the result of the Pearson Correlation Coefficients of the continuous explanatory variables as well as the dependent variable included in the study. The result of Pearson correlation exposed that listing status of a firm and return on sales are positively related with voluntary disclosure (P<0.05, Two – tailed), but total assets and profitability of the firm (ROCE, RONW, ROS)are negatively related with disclosure score (P<0.05, Two-tailed). Ownership structure, leverage, size of the audit firm, residential status of the firm, market capitalization, age of the firm, and listing status of the firm are positively related with voluntary disclosure (P<0.01, Two-tailed).

Variables\Model	1	2	3	4	5	6	7	8	9
Constant	.000	.000	.000	.000	.000	.000	.000	.000	.000
	.782	.996	.959	.669	.908	.954	.601	.840	.889
Age	.294	.298	.292	.284	.290	.286	.287	.293	.289
	.004	.004	.005	.005	.005	.005	.005	.004	.005
listing status	.162	1.78	.181	.153	.170	.174	.145	.164	.169
	.351	.309	.299	.377	.328	.317	.401	.348	.335
ownership structure	-.008	-.044	-.048	-.135	-.140	-.135	-.373	-.360	-.319
	.967	.827	.811	.168	.180	.173	.179	.201	.275
Leverage	-.010	-.034	-.032	.002	-.024	-.024	-.007	-.033	-.031
	.908	.693	.704	.985	.778	.777	.930	.700	.710
audit firm size	-.100	-.103	-.104	-.086	-.093	-.093	-.081	-.088	-.090
	.568	.559	.554	.618	.595	.595	.640	.614	.605
residetial stattus	.000	.178	.000	.000	.000	.000	.000	.000	.000
	.000	.309	.000	.000	.000	.000	.000	.000	.000
market capitalization				.080	.074	.060			
				.411	.455	.550			
Sales	-.093	-.063	-.061						
	.641	.750	.758						
Assets							.294	.272	.272
							.289	.332	.332
Roce	.134			.134			.135		
	.115			.115			.110		

Ronw		.001			.004			.004	
		.992			.964			.962	
Ros			-.063			-.052			-.043
			.449			.537			.626
r2	.146	.129	.132	.149	.132	.134	.152	.134	.136
adj r2	.098	.080	.085	.102	.084	.087	.105	.087	.088
F(Sig)	.005	.013	.010	.004	.011	.009	.003	.009	.008
DW	1.813	1.806	1.815	1.821	1.814	1.819	1.825	1.818	1.821

Table 3. Regression Analysis

INTERPRETATION:

To measure association between dependent and independent variables in present study regression analysis has been run. The results from the multiple regression analysis have been presented in the above table 3. Three separate determinants of firm size, sales, total assets, and market capitalization as well as three different measures of profitability (ROCE, RONW, ROS), were used. Each surrogate to represent size and profitability was used only once in a model. This led to the creation of nine regression equations, the results of which have been presented in the above table.

Above table reveals that for all nine models of regression ownership structure was positively found to be significant at 1% level. But audit firm size was negatively found significant in all nine model of regression at 1% level of significant.

CONCLUSION

The objective of this study is to examine firm characteristics and their influence on corporate disclosure. These factors include Age of the Firm, Listing Status of the Firm, Ownership Structure of the Firm, Leverage of the Firm, Size of the Firm, Size of the Audit Firm, Residential Status of the Firm, and Profitability of the Firm. In particular, the study aimed to determine which of these factors were significantly related to increased corporate disclosure. The study used the disclosure index to measure corporate disclosure on a sample of 27 listed non financial firms of India. The results of the study indicate that the extent of corporate disclosure within the sample firm varies within 15% to 75% (approximately) for the period of study. It implies that though all the firms disclose mandatory information as required by law, but at the same time, a large number of firms disclose more than required by legal provisions. These firms are globally recognized and have overseas operations too. These firms are also known for maximization of the shareholders wealth. That is why these companies try to be more transparent in the eyes of domestic as well as foreign investors and have better disclosure level. It has also been observed that the extent of corporate disclosure is influenced by listing status of the firm, ownership structure, leverage of the firm, size of the audit firm, size (as measured by total assets, sakes and market capitalization), and profitability (as measured by return on capital employed). The companies with large assets, size, higher profitability, higher leverage, listing in foreign stock exchanges, lower holding of promoters share and audited by big audit firms have tendencies to be more transparent and hence disclose more information. However, age of a company and residential status do not significantly influence the level of corporate disclosure.

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