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Impact of Corporate Reporting Practices on Organizational Performance: Perception of the Users

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ABSTRACT

The primary objective of this study is to assess the perceptions of the secretarial staff about the impact of corporate reporting practices on the performance of the organisations. For this purpose, questionnaire survey methodology was adopted and members of the Institute of Company Secretaries of India were approached who answered the given questions regarding their perception about impact of corporate reporting practices on organizational performance. The perception of the secretarial staff was studied on four parameters namely- impact of financial reporting on organisational performance, impact of non-financial reporting on organisational performance, impact of voluntary reporting on organisational performance and relationship between corporate reporting and market price of the share. The results of the present study showed that corporate reporting practices were found to have significant impact on organisational performance with financial reporting having the most significant impact followed by non financial reporting and voluntary reporting respectively. Company Secretaries are the people who are involved in the preparation and dissemination of all types of information to the concerned users. Since they are dealing with all the users, they can represent the views of a larger section of the users of corporate information. This study aimed at studying their perception and analyze the perception of the users with regard to impact of corporate reporting practices on organisational performance.

Keywords: Corporate Reporting, Disclosure Practices, Voluntary Disclosures, Financial Information, Non-Financial Information and organisational performance.

1. INTRODUCTION

After the enactment of the Companies Act, 2013 and the introduction of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the reporting and disclosure requirements of the companies have been enhanced and the thrust has shifted from a regulatory regime to a transparent regime. In this scenario, it becomes all the more important to understand the information needs of the users of annual reports and their perception about the usefulness of corporate reporting. The secretarial department of any company is the core of all activities related to various stakeholders who wish to communicate with the company. For studying the perception of the users of corporate annual reports, company secretaries can be taken as a representative group as they interact with almost all types of stakeholders interested in the wellbeing of the company.

Public limited companies in India have always been entrusted with the responsibility of taking due care in their business as their decisions can affect many shareholders. These companies should ensure greater accountability and transparency as the incidents of corporate frauds are on the rise. Apart from the shareholders, there are several other stakeholders who are interested in the well being of the company. They would require all sorts of information provided in a timely manner to make appropriate decisions.

Disclosure can be defined as the communication of non-financial information in addition to financial information which consists of all details regarding business activities that are disclosed either mandatorily or voluntarily to the financial reports users (Keyur, 2012). There are many ways in which companies usually disclose information namely- interim, quarterly and annual reports, prospectus, press releases and their own websites. Across all types of communications, corporate annual report is considered to be the most comprehensive source of information. Annual reports are useful for all stakeholders including regulatory authorities, which can ascertain whether the level of disclosure is adequate or needs improvement. The level of disclosure may vary between companies in terms of timing, quantity, quality and whether the information is negative or positive. In addition to being a routine activity, corporate reporting has become an effective tool of brand building these days (Mangala and Isha, 2015).

Increased disclosures help the shareholders as they are saved from the market uncertainty which they might face due to lack of information. It is not that only the shareholders who derive benefits of enhanced disclosure, the company also gains from enhanced disclosures as it leads to increased share prices which ultimately helps the company in capital generation and reduces the cost of capital (Kribat, 2015). Apart from the shareholders and the company, disclosures are useful for a large number of other potential users like venders, financers, creditors, employees, management, customers, stock brokers, stock exchanges, legislators, media, researchers, academicians and the public at large. For information to be able to help in increasing market confidence and proper pricing of the securities, it should be relevant, timely and adequately available. An investor must be fully informed of all available information so as to make good judgments about the value of securities. It is imperative for the efficient working of the capital markets that information is completely disclosed, including both positive as well as negative news about the company. This is the prime reason that the regulators are increasingly concerned about the quality of both the financial and non-financial information disclosed by the companies (Keyur, 2012).

2. REVIEW OF LITERATURE

A number of studies have been conducted in the past about the perception of various stakeholders regarding the adequacy and usefulness of corporate reporting. For this purpose most of the researchers have used questionnaire survey methodology for the collection of primary data. Aggarwal (2013) reviewed literature about environmental sustainability and its effect on the financial performance of companies. The research analysed the relationship between environmental responsibility and performance with the help of previous research studies. The results of various empirical researches conducted in past years were mixed, ranging from positive, to negative or statistically insignificant relationship. The author found majority of studies indicate positive relationship. Through this research two thoughts came up – one was cost-concerned approach and second was value-creation approach. Kohli (2012) studied the level of disclosure of companies listed in India. She investigated the annual reports of companies listed in India of the year 2009-10 and found that 70.91% was the level of disclosure made by Indian companies. The results revealed that there is a strong and positive relationship between level of disclosure and the size of the company, profitability and whether the reporting is made in a timely manner in case of the sample companies.

Lishenga and Mbaka (2015) studied companies in Kenya to understand the association between the level of corporate reporting practices and performance of the sample companies for a sample of companies listed at Nairobi Securities exchange. The primary objective of the study was to ascertain the link between corporate governance index and performance of listed company. The results of the study showed that board size had insignificant relationship with firm performance whereas corporate governance index showed a positive relationship.

Jackling and Johl (2009) analysed the relationship between board structure and firm performance. Variables studied included voard busyness, board activity, board composition etc. The findings of the study suggested that larger board size and a higher composition of outside directors are positively related to firm performance.

Heracleous (2001) discussed two corporate best practices – CEO duality and the role of independent directors in an organizations performance. He tried to find whether there exists any relationship between these two corporate governance best practices and the performance of the organizations. He discussed four possibilities. One – that best practices are not related to performance, second- that this is a theoretical concept and not practically applicable, third – studies are narrow and do not support the hypotheses and fourth- that different type of organizations need different types of best practices and these cannot be standardized for types of organizations. He discussed at length these possibilities, supported with literature and laid the way for future research.

Palaniappan and Rao (2016) studied the annual reports of 10 companies for the year 2013-14 to find out whether any relationship exists between corporate governance practices and firm performance. The variables studied were Board Index (Board Size, Outside Directors, Independent Directors and Board meeting), Ownership concentration Index (Promoter as Ownership), Audit Committee Index, and Shareholding Pattern. The results confirmed that the companies which have better corporate governance policies and practices are more transparent and have higher profitability.

Mukhopadhyay, Mallik & Dhamodiwala (2012) studied annual companies of family managed medium sized companies in India. The results showed that there is positive and strong relationship between good corporate governance practices and financial results. The findings also suggested that non mandatory or voluntary disclosure if improved will definitely help companies achieve better financial performance in terms of the variables studied.

Ndikwe and Owino (2016) analysed public schools of Kenya to find whether there is any relationship between corporate governance and financial performance. The hypotheses were framed on four broad categories namely- Board composition, skills of the board members, corporate governance principles and separation of duties. Primary data was collected through questionnaire survey methodology from head teachers, parent teacher association, board of governors, district education officers and parents. The results concluded that corporate governance practices and separation of duties had a significant influence on the financial performance of the sample studied. Skills of the board of governors had the highest positive effect on performance.

Maigua (2013) analysed the effect of corporate governance practices on the financial performance of the sample companies in Kenya. The results showed that there is a weak relationship between the variables. This implies that corporate governance practices do not majorly affect the financial performance of the companies in Kenya. Wanyama and Olweny (2013) studied the effects of the board size, board composition, CEO duality and leverage on the performance of the sample companies. Primary data was collected through questionnaires filled from the staff of sample insurance companies in Kenya. The study covered board size, board composition, CEO duality and leverage as the independent variables and return on equity and return on assets as the dependent variable. The results of the study showed that there exists a strong positive relationship between high corporate governance standards and performance of the company. The findings clearly showed that experience and skills of the board of directors was more important than whether they are independent or not.

3. RESEARCH METHODOLOGY

The current study is exploratory and quantitative in nature. For the purpose of the study, responses from secretarial staff were to be collected and for this purpose members of ICSI were approached. Moreover, for the study, responses from only those selected members were needed who deal with preparation and submission of corporate reports of listed companies. Thus, using references and snowball sampling approach in total responses of 100 company secretaries were recorded who are involved with listed companies for preparation and submission of company's annual report. There were 8 variables included in the instrument comprising of 'gender' (2 items), 'age' (4 items), 'nature of membership' (2 items), 'experience' (4 items), 'impact of financial reporting' (7 items), 'impact of non-financial reporting' (10 items), 'impact of voluntary reporting' (5 items), and 'relationship between corporate reporting and market price of the share' (1 item).

Objectives

To assess the perception of the secretarial staff members about the impact of corporate reporting practices on organizational performance.

Hypothesis

$H_0$1- There is no significant impact of corporate reporting practices on organizational performance for the users.
$H_0$1.1 There is no significant impact of financial reporting practices on organizational performance for the users.
$H_0$1.2 There is no significant impact of non financial reporting practices on organizational performance for the users.
$H_0$1.3 There is no significant impact of voluntary reporting practices on organizational performance for the users.
$H_0$1.4 There is no significant relationship between corporate reporting and market price of shares for the users.

Internal Consistency Analysis

The Cronbach's α-value ranges from 0.756 to 0.898 portraying an internal consistency with α-value higher than 0.70. Hence, no items were removed from list. And based on the results, all the constructs were accepted and included in the final instrument.

4. ANALYSIS AND FINDINGS

For the purpose of the study in all a sample of 100 Company Secretaries were surveyed and only those who are involved in preparing and submitting the corporate reports for the companies were considered under survey population (as discussed in Chapter 3). Taking a note of sample distribution, 45 percent (45 out of 100) respondents were 'males' and 55 percent 'females'. Further, on the aspect of 'age group', 50 respondents were below 25 years of age, 28 respondents between 26 – 35 years, 12 between 36 – 45 years and rest 10 were above 45 years of age (Table 5.11). Majority of the sample (72 out of 100) were Fellow Company Secretaries and the rest (20 out of 100) were Associate Company Secretaries, Indicating that majority of the sample were senior members of the fraternity. As far as perception about impact of disclosures on organizational performance on the basis of demographic spread is concerned, both the groups including 'males' (4.12) and 'females' (4.11) have rated it equally, on the basis of age the ones in the group of '25 – 35 years' (4.28), and '35 - 45 years' (4.11) have rated disclosures as having a significant impact on organizational performance more than the others in the age group of 'less than 25 and more than 45 years' (4.05 and 4.02) respectively (Table 1).

Table 1: Demographic Statistics – Aggregate Mean Scores of Perception of Secretarial Staff in regard to various parameters of corporate reporting

Sl. No.	Demographic Variable		N	Parameters			
				Disclosure of Financial Reporting	Disclosure of Non - Financial Reporting	Disclosure of Voluntary Reporting	Corporate Reporting and Market Price
1	Gender	Male	45	4.27	4.10	3.88	4.24
		Female	55	4.36	4.14	3.85	4.11
2	Age	< 25 Years	50	4.35	4.11	3.66	4.08
		25 - 35 Years	28	4.38	4.21	4.19	4.36
		35 - 45 Years	12	4.12	4.06	4.10	4.17
		> 45 Years	10	4.21	4.02	3.76	4.10
3	Nature of Membership	ACS	28	4.32	4.10	4.04	4.29
		FCS	72	4.32	4.13	3.80	4.13
4	Experience	< 1 Year	42	4.39	4.23	3.86	4.02
		1 - 5 years	21	4.38	4.05	3.65	4.14
		6 - 10 Years	32	4.28	4.07	4.10	4.31
		> 10 Years	5	3.71	3.82	3.36	4.60
	Total		**100**	**4.32**	**4.12**	**3.87**	**4.17**

Table 2: Perception of Secretarial Staff in regard to impact of Financial Reporting on Performance of the organization

Sl. No.	The disclosures in the following categories of Financial Reporting have a significant impact on the performance of the Organization	Frequencies (in Percentage)					Mean	SD	Chi	P
		SD	D	N	A	SA				
1	Balance sheet	0.0	0.0	6.0	22.0	72.0	4.66	.590	71.12[a]	.000*
2	Profit and loss statement	0.0	0.0	5.0	25.0	70.0	4.65	.575	66.50[a]	.000*
3	Cash flow statement	0.0	0.0	13.0	28.0	59.0	4.46	.717	33.02[a]	.000*
4	Footnotes to the financial statements	0.0	1.0	17.0	34.0	48.0	4.29	.782	50.00[b]	.000*
5	Amount of money spent on Corporate Social Responsibility (CSR)	1.0	1.0	23.0	49.0	26.0	3.98	.791	80.40[c]	.000*
6	Remuneration to Key Managerial Personnel (KMP)	1.0	4.0	20.0	38.0	37.0	4.06	.908	61.50[c]	.000*
7	Other Financial Disclosures	0.0	3.0	16.0	46.0	35.0	4.13	.787	44.24[b]	.000*

* Significant at 0.01 level

Further, on the basis of experience, the respondents in the experience bracket of '6 – 10 years' rated highest the statement that there is significant impact of disclosures on organizational performance and market price of shares, followed by 'less than one year' (4.12). Also the respondents in the experience bracket of 'above 10 years' rated the highest that there is significant relationship between corporate reporting and market price of the shares (4.60), followed by '6 – 10 years' (4.31), '1 – 5 years' (4.14), and 'less than 1 year' (4.02) respectively.

On the aspect of impact of various categories of disclosures on organizational performance, Financial disclosures had the most significant impact (4.32), followed by Non – Financial disclosures (4.12) and Voluntary disclosures (3.87) respectively (Table 1).

On the basis of the analysis of responses of Secretarial Staff with regard to 'Impact of Financial Reporting on Performance of the Organizations', the disclosure in 'Balance Sheet'(4.66) was ranked the highest, followed by 'Profit & Loss Statement'(4.65), 'Cash Flow Statement'(4.46), 'footnotes to Financial Statements'(4.29), 'Other Financial Disclosures'(4.13), 'Remuneration to Key Managerial Personnel'(4.06) and 'Amount of Money Spent on Corporate Social Responsibility'(3.98) respectively. Also all parts of financial information were found significant on the basis of responses with high and significant ($p \leq 0.01$ for all statements) chi square values (Table 2).

Table 3: Perception of Secretarial Staff in regard to impact of Non-Financial Reporting on Performance of the organization

Sl. No.	The disclosures in the following categories of Non- Financial Reporting have a significant impact on the performance of the Organization	Frequencies (in Percentage)					Mean	SD	Chi	P
		SD	D	N	A	SA				
1	Board Composition	1.0	2.0	12.0	36.0	49.0	4.30	.835	92.30[a]	.000*
2	Board Meetings	1.0	4.0	15.0	40.0	40.0	4.14	.888	72.10[a]	.000*
3	Board Level Committees	1.0	3.0	19.0	46.0	31.0	4.03	.846	72.40[a]	.000*
4	Particulars of Past AGM	0.0	5.0	31.0	40.0	24.0	3.83	.853	26.48[b]	.000*
5	Means of Communication	0.0	4.0	28.0	41.0	27.0	3.91	.842	28.40[b]	.000*
6	Related Party Transactions	0.0	1.0	12.0	36.0	51.0	4.37	.734	61.68[b]	.000*
7	Whistle Blower Policy	0.0	2.0	12.0	50.0	36.0	4.20	.725	57.76[b]	.000*
8	Information about subsidiary companies	0.0	1.0	8.0	47.0	44.0	4.34	.670	68.40[b]	.000*
9	General Shareholders information like dematerialization of shares, Financial Calendar, Book Closure and Dividend payment dates	1.0	5.0	25.0	43.0	26.0	3.88	.891	58.80[a]	.000*
10	Compliance Related and other disclosures like statutory compliances, Number of employees and shareholders, credit rating, Internal Controls etc.	1.0	3.0	13.0	39.0	44.0	4.22	.860	81.80[a]	.000*

* Significant at 0.01 level

On the basis of the analysis of responses of Secretarial Staff with regard to 'Impact of Non- Financial Reporting on Performance of the Organizations', the disclosure in 'Related party Transactions' (4.37) was ranked the highest, followed by 'Information about subsidiary companies' (4.34), 'Board Composition' (4.30), 'Compliance related and other disclosures' (4.22), 'Whistle Blower policy' (4.20), 'Board Meetings' (4.14), 'Board level Committees' (4.03), 'Means of Communication' (3.91), 'General Shareholder's Information' (3.88) and 'Information about past AGM' (3.83). Also all parts of Non Financial information were found significant on the basis of responses with high and significant ($p \leq 0.01$ for all statements) chi square values (Table 3).

On the basis of the analysis of responses of Secretarial Staff with regard to 'Impact of Voluntary Reporting on Performance of the Organizations', the disclosure in 'Competition and Outlook' (3.93) was ranked the highest, followed by 'Human Capital' (3.89), 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (3.88), 'General Strategic Disclosures' (3.83) and 'Forward looking information' (3.81) respectively. Also all parts of Voluntary reporting were found significant on the basis of responses with high and significant ($p \leq 0.01$ for all statements) chi square values (Table 4).

Table 4: Perception of Secretarial Staff in regard to impact of Voluntary Reporting on Performance of the organization

Sl. No.	The disclosure in the following categories of Voluntary Reporting have a significant impact on the	Frequencies (in Percentage)					Mean	SD	Chi	P
		SD	D	N	A	SA				

	performance of the organization									
1	General Strategic Disclosures	1.0	4.0	28.0	45.0	22.0	3.83	.853	65.50[a]	.000*
2	Forward looking information	1.0	1.0	34.0	44.0	20.0	3.81	.800	74.70[a]	.000*
3	Competition and outlook	1.0	0.0	28.0	47.0	24.0	3.93	.782	42.80[b]	.000*
4	Human capital	1.0	2.0	23.0	55.0	19.0	3.89	.764	96.00[a]	.000*
5	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business	1.0	3.0	27.0	45.0	24.0	3.88	.844	67.00[a]	.000*

* Significant at 0.01 level

Table 5: Perception of Secretarial Staff in regard to relationship between Corporate Reporting and Market Price of the Share of the organization

Sl. No.	Statement	Frequencies (in Percentage)					Mean	SD	Chi	P
		SD	D	N	A	SA				
1	There is a significant relationship between Corporate Reporting and Market Price of the share	1.0	1.0	13.0	50.0	35.0	4.17	.766	94.80[a]	.000*

* Significant at 0.01 level

Based on analysis of the perception of Secretarial Staff it was found that there existed a significant relationship between Corporate Reporting and Market Price of the share with a mean score of 4.17. It was also found significant on the basis of responses with high and significant ($p \leq 0.01$) chi square values (Table 5).

CONCLUSION

On the basis of the above discussion it can be concluded that corporate reporting has a positive impact on the performance of the organizations as per the perception of the secretarial staff. The results of the present study showed that corporate reporting practices were found to have significant impact on organisational performance with financial reporting having the most significant impact followed by non financial reporting and voluntary reporting respectively. Under the head of financial reporting the disclosures in the balance sheet was rated the highest and related party disclosures was rated the highest under non financial disclosures. Under voluntary disclosures the disclosures about competition and outlook was rated to be having the most significant impact on the performance of the organisation. The study thus concluded that the secretarial staff of companies perceived that the various reporting practices have a significant impact on performance of organizations.

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