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CORPORATE REPORTING - ITS IMPACT ON INDIVIDUAL INVESTORS

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ABSTRACT

'Corporate Reporting' is an important tool of the Management to communicate the Companies' performance and governance to outside investors. The quality of financial disclosure depends significantly on the robustness of the financial reporting standards on the basis of which the financial information is prepared and reported. Over the last few decades, there has been increasing convergence towards a set of non-jurisdiction specific, widely recognized financial reporting-standards. The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board provide a widely recognized benchmark in this respect. The present paper describes to what extent quality of financial disclosure is effecting the individual investors decision making in investment making.

KEYWORDS

corporate reporting, individual investor

INTRODUCTION

Corporate disclosure is reporting of the entity to outsiders about the quantitative and qualitative information both in terms of financial and non financial nature for the purpose of decision-making. The main objective of financial statements is to provide the information about the financial position, performance and changes in financial position of an enterprise. Such information is useful in decision-making to a wide range of users.

OBJECTIVES OF CORPORATE REPORTING

1. To give the information about the present performance of the company.
2. To give the information about the company's performance in relation to the previous year.
3. To give information about the various activities taken up by the company during the period.
4. To give information about the future capital project that would be taken up by the company.
5. To give information about the corporate governance of the company.

CONCEPT OF DISCLOSURE

Disclosure is the process of communicating material and relevant facts of the business that are to be disclosed either statutorily or otherwise, and to give a true and fair view of the profitability position and the financial position to the users of the financial reports. This means that corporate disclosure is the process of communicating the information about the business to the outside parties for decision making.

IMPORTANCE OF DISCLOSURE

1. In a free enterprise economy full disclosure is a must.
2. By conforming to the generally accepted standards of disclosure, enterprises can easily attract the investors for investments.
3. Disclosure helps the investors in assisting them with the selection of portfolio.
4. With the help of disclosure, investors will be able to distinguish between potentially successful and unsuccessful business.

DISCLOSURE AND THE LAW

In India, the Company's Law governs the disclosure of information in the annual reports by the companies. Keeping into consideration the growing needs of the user's information and the increasing complexities of business, the law has been amended from time to time.

SCOPE OF THE STUDY

The study is limited to perceptions of investors in the twin cities of Hyderabad and Secunderabad.

METHODOLOGY

The study is based on both primary and secondary. Primary data is collected through questionnaires administered to 100 individual investors. Relevant secondary data for the study is obtained for the publications, financial statements, periodicals and news paper, disclosure of voluntary information in annual report, SEBIs website.

OBJECTIVES OF THE STUDY

1. The main objective of the study is to identify the factors which the individual investors take into consideration before investment is made.
2. Determine to what extent these factors affect the investment decision.

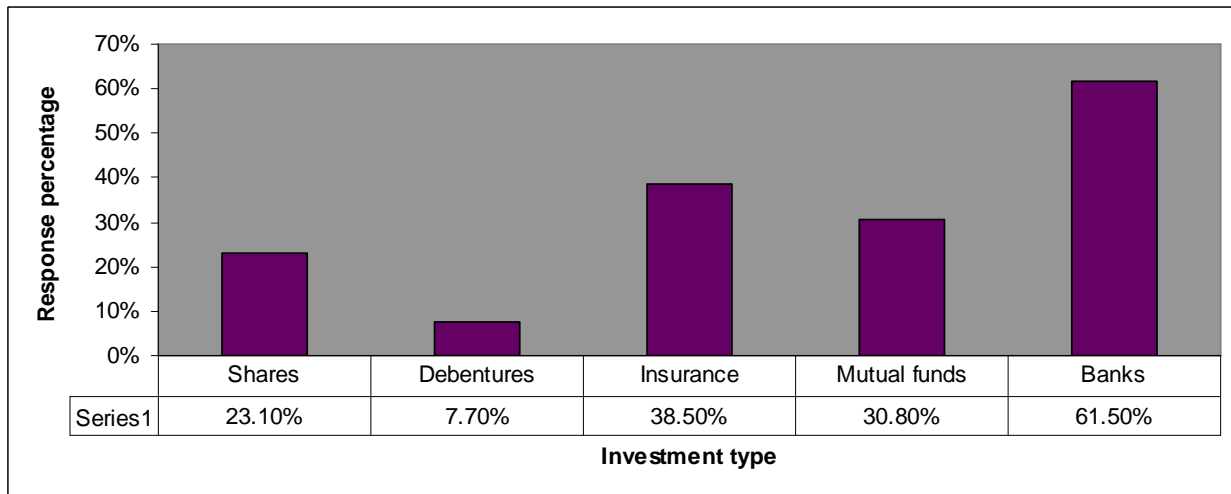
INVESTOR PERSPECTIVES ON CORPORATE REPORTING

In general, accounting information provided by the corporate reporting acts as the base for the external users to take decisions regarding investments. The investors are benefited from full disclosure as they do not bear the uncertainty caused by lack of full disclosure. The company is also benefited as the investors' decision to invest in a company that fully discloses the information results in an upward movement of the share prices, thereby reducing the cost of capital and helps in resource mobilization.

Based on the above assumption a questionnaire is circulated to know the opinion of the investors regarding corporate disclosure and the impact it has on their investment decisions.

ANALYSIS AND FINDINGS

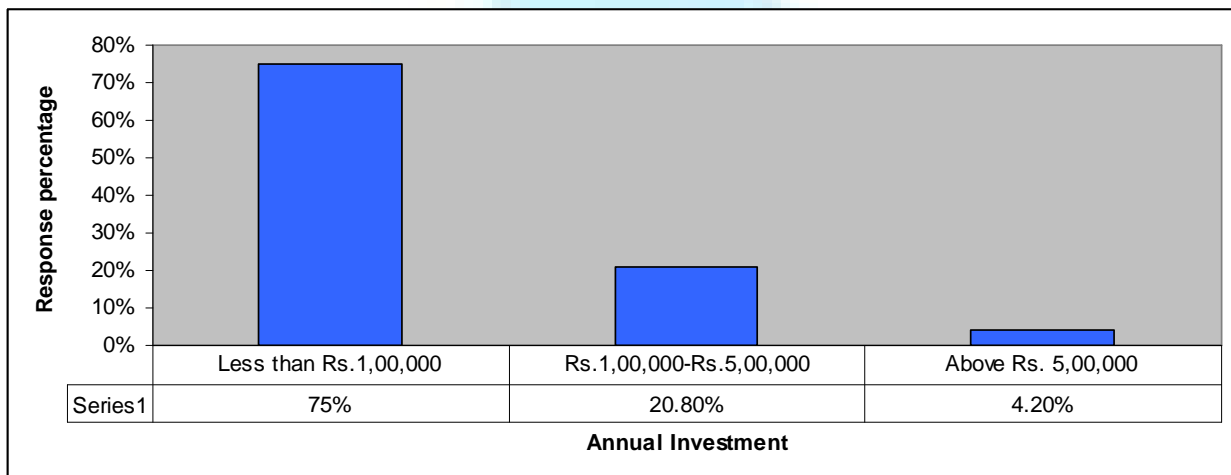
TABLE NO. 1: INVESTOR'S CHOICE OF INVESTMENT



Source: Primary data

From Table no.1 it is observed that a majority of individual investors expressed that they choose to invest in banks followed by investments in insurance, mutual funds, shares and debentures as other next preferred options. Hence it is inferred that the investors are giving less importance to benefits resulting out of other financial products.

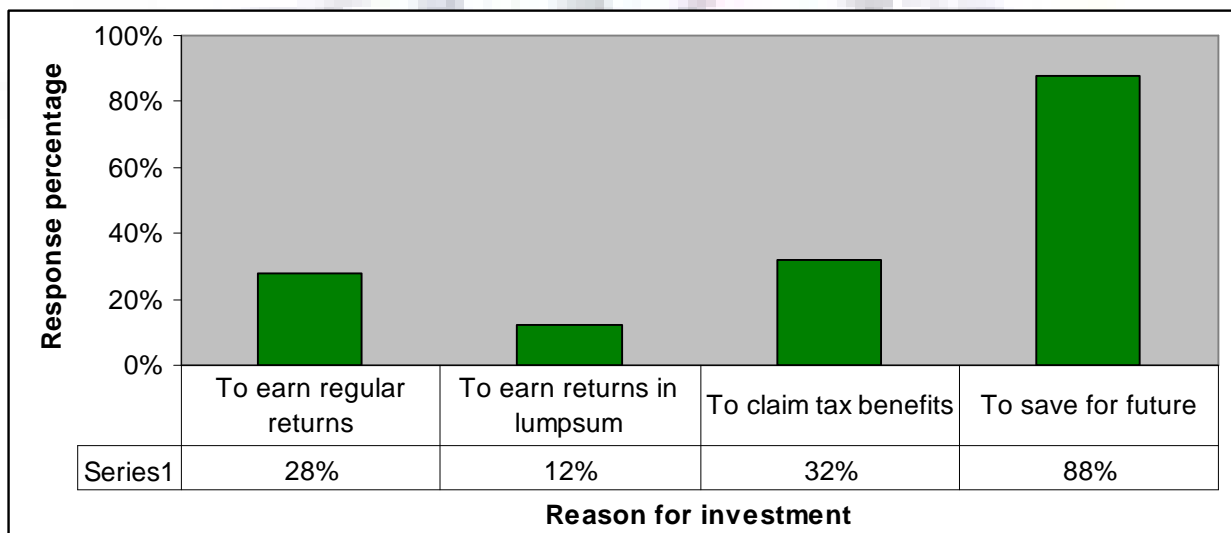
TABLE NO. 2: INVESTMENT MADE ANNUALLY



Source: Primary data

From Table no.2 it is seen that of the total individual investors, 75% of them invest less than Rs.1,00,000 annually, 21% of the total investors invest an amount between Rs.1,00,000 and 5,00,000 and 4.2% invest more than Rs.5,00,000.

TABLE NO. 3: REASON FOR MAKING INVESTMENT

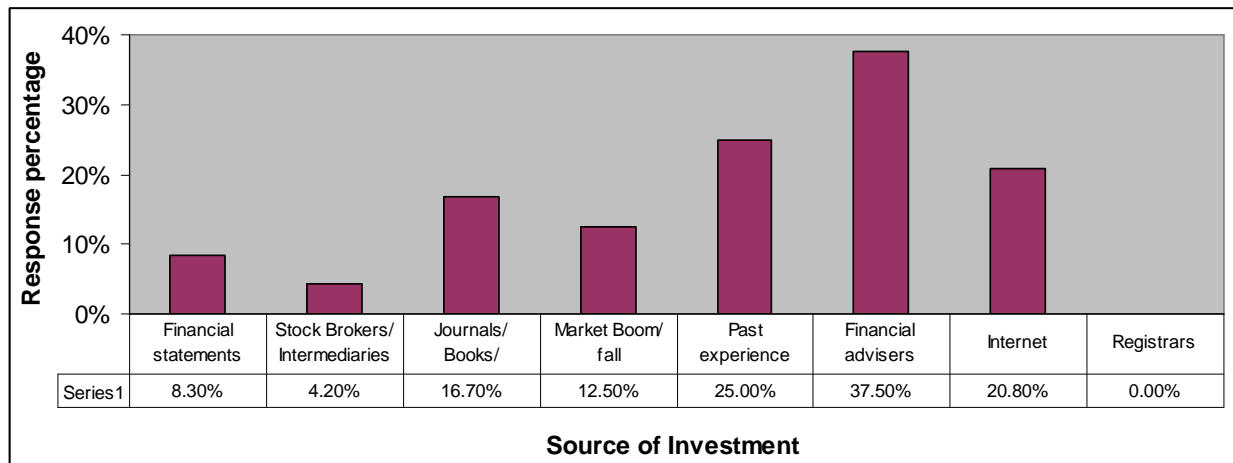


Source: Primary data

From Table no. 3 it is seen that investors saw investment as a mode to save for future in priority then followed by claiming tax benefit, earning regular returns and earn returns in lump sum.

Hence it can be inferred that individual investors are considering investments as their savings for the future and they are unaware about the other benefits involved in the investments.

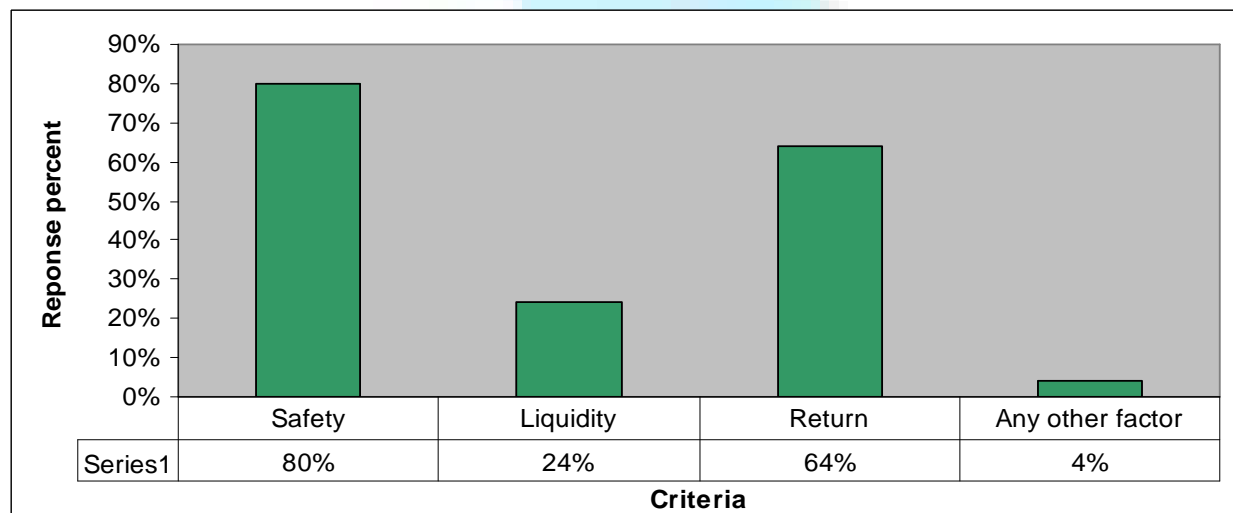
TABLE NO. 4: SOURCE OF INFORMATION AS A BASIS TO TAKE INVESTMENT DECISIONS



Source: Primary data

Table no.4 provides the information about the influential factors which help the individual investors to take decisions relating to investment. It is observed from the table that the majority of individual investors make investments on suggestions made by financial advisers. Around 38% of individual investors expressed that they make investment out of past experience. Around 21% expressed that internet is a source of getting information based on which investment decision is made. A small group of individual investors expressed that they rely on financial statements before investment is made. i.e. it is inferred that disclosure in financial statements are not able to motivate the investors directly in taking investment decision.

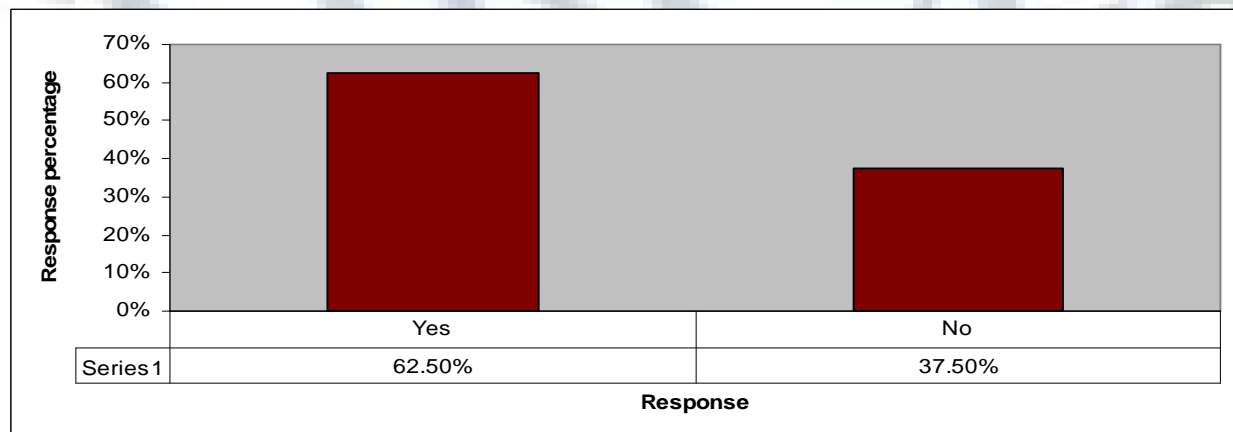
TABLE NO. 5: CRITERIA FOR INVESTMENT DECISION



Source: Primary data

From Table no. 5 it is observed that majority of individual investors i.e. 80% of the respondents expressed safety as the major criteria for investment decision followed by returns (64%) and liquidity (24%). Hence it is inferred that investors are more concern about safety of their investment.

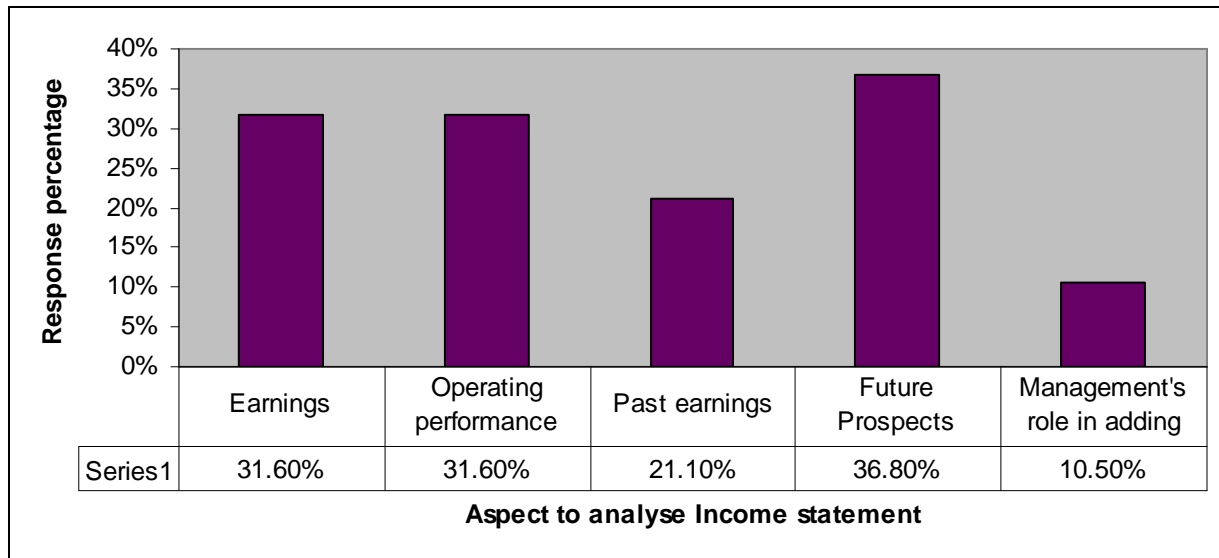
TABLE NO. 6: SKIMMING UP OF INCOME STATEMENT BEFORE INVESTMENT DECISION



Source: Primary data

When the opinion of individual investors is elicited about the analysis of income statement before investment decision, majority of them i.e. around 63% responded positively and the rest of them said they don't analyse the statement.

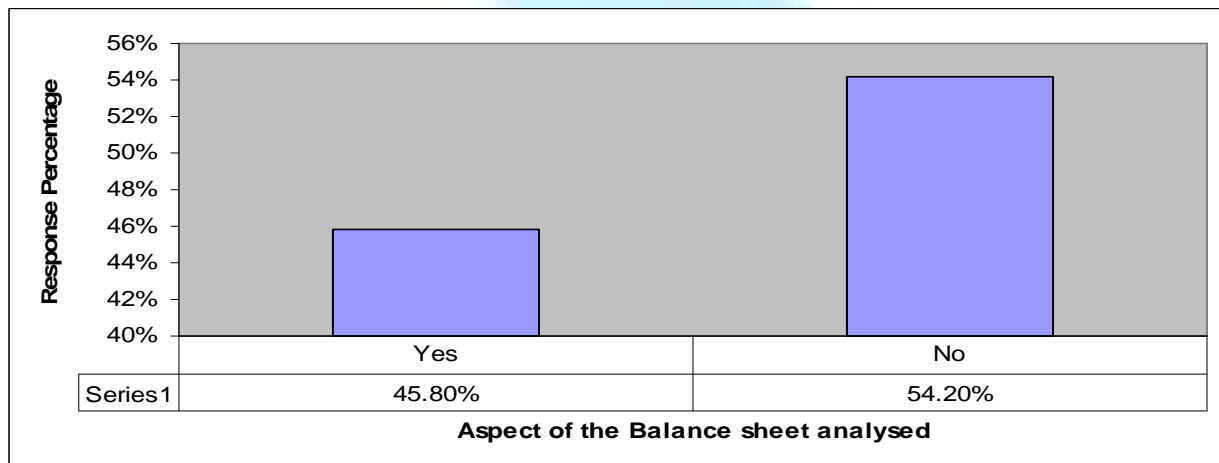
TABLE NO. 7: IF YES, WHAT ASPECTS YOU LOOK FOR IN INCOME STATEMENT /PROFIT AND LOSS ACCOUNT



Source: Primary data

From Table no.7 it is observed that majority of investors give priority to future prospects of company followed by earnings and operating performance aspects in the income statement.

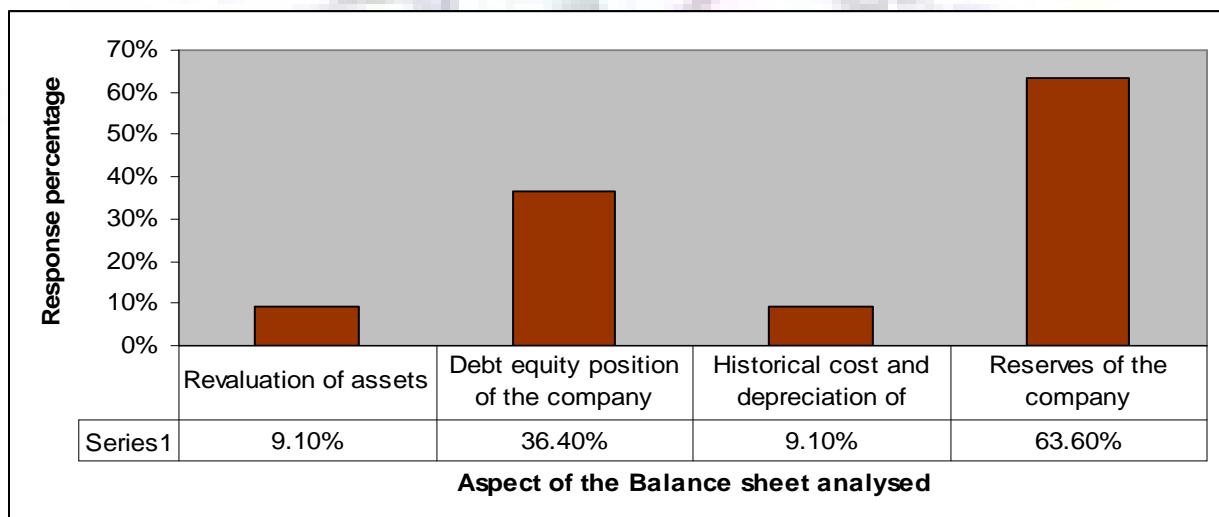
TABLE NO. 8: DO YOU THOROUGHLY READ AND ANALYSE THE BALANCE SHEET OF A COMPANY BEFORE INVESTMENT IS MADE?



Source: Primary data

From the table no.8 it is seen that majority of individual investors are neutral to balance sheet analysis. They said their investment decision is not based on the balance sheet analysis.

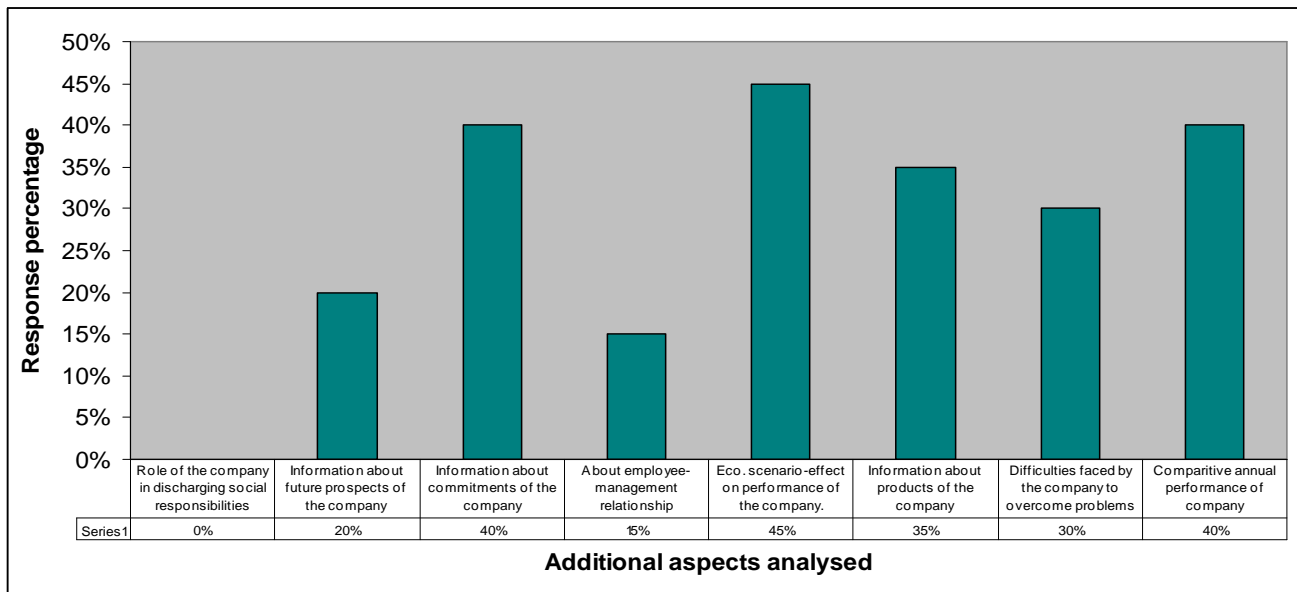
TABLE NO. 9: IF YES WHAT ASPECTS YOU LOOK IN BALANCE SHEET?



Source: Primary data

From the table no. 9 it seen that majority of individual investors expressed their view that they look into reserves of the company's balance sheet before investment decision is made next preference is given to debt equity position of the company. Hence it is inferred that only reserves in the balance sheet is effecting individual investor's investment decision.

TABLE NO. 10: CONSIDERING ADDITIONAL INFORMATION FOR INVESTMENT DECISIONS



Source: Primary data

From the table no. 10 it is observed that all factors are moderately considered by the investors before investments are made. 45% of the respondents consider the economic scenario and its impact on the performance of the company. 40% of the respondents consider information about the commitments of the company and also the performance of the company as compared to the previous year's performance. 35% of the respondents consider the products of the company, 30% consider the difficulties faced by the company to overcome problems. The factors like information about the future prospects of the company, employee – management relationship are given less importance and no respondent is interested in the discharge of social responsibility by the company. To sum up accounting is recognized as an information and communication system of an organization. Disclosure can be explained as the process to communicate all details regarding activities of the business that are to be disclosed either statutorily or otherwise, and to convey a true and fair view of the operating results and financial position to the users of the financial reports. It is nothing but the communication of financial information of the activities of the undertaking to the interested parties for facilitating their economic decisions. In general, accounting information is considered to be the chief means of reducing the uncertainty under which external users make decisions. If other things are equal, one would prefer to invest in a company that discloses fully than in a company that doesn't but from the study it is observed that individual investor's decision is not effected by disclosure practices of the companies. The board should disclose facilities which may exist to provide members with professional advice. The board should also disclose whether that facility has been used during the reporting period.

CONCLUSION

Corporate Reporting' is an important tool of the management to communicate the Companies' performance and governance to outside investors. From the study it is inferred that in spite of all factors for disclosure of corporate reporting for investors is essential from the company point of view. These factors are observed to be least influencing factors in inspiring the individual investors in making investment decision. Hence companies should adopt various strategies to educate the investors about various alternatives available for them to invest and also bring awareness as to how other factors are necessary for them to be considered before investment decisions are made. Investors should also be educated related to benefits out of various financial products.

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