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Impact of Corporate Disclosure on Investors' Attractiveness

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Disclosure is a growing phenomenon in the corporate world. It is a healthy practice of each and every corporate sector which is meticulously designed as a means of disclosing facts. Present study focus on disclosure practices of corporate sector in India. However, an attempt has been made to disclose the impact of different factors (constructs) related to disclosure practices on investors' Attractiveness.The study based on primary data analysis and empirical in nature.

The researcher verified the relationship among investors' attractiveness with six factors and also trying to establish the inter-factor relationship from disclosure point of view. The study will helpful to know about the disclosure practices of corporate sector and its impact on investors' mindset.

Keywords: Corporate Disclosure, Corporate Governance, Environmental Issues, Financial Disclosures, Investors' Attractiveness etc.

Introduction

Corporate reporting is an old concept followed by several organizations. The reporting process covers the organizational status and the performance on different aspects, preparation and provision, for the use of different stakeholders. It is often provided in the annual and financial reports which include the economic, environmental and social issues. This study shows only about the corporate disclosure practices within the company's annual and financial report which facilitate the investors to be conscious about the investment in different organizations.

Since long, the conventional financial reporting has been practiced by many organizations. But few of the selective user groups are disclosed as per SEBI guidelines since its inception i.e. 1992. The shareholders, prospective investors and financial institutions are the primary users of financial and nonfinancial disclosures. There are several factors like environmental, corporate governance, human resource management and financial disclosure have a greater importance and influence over financial and nonfinancial assessments of an organization. For an example, in the annual report, environmental disclosures are the primary concern for the company to satisfy the shareholders and stakeholders relating to environmental and social requirements.

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Review of literature

As stated, corporate governance is a set of accepted principles by management which involves a set of relationship between corporation's management, its board, its shareholders, and other stakeholders. It also provides a systematic process and structure of objectives of the corporation; means of attaining objectives and the system of monitoring performance are set. In order to obtain a detailed and well structured system of corporate governance, the investors are enabling to understand the disclosures in the annual reports of corporations. (Eng and Mak, 2003).

There are four pillars of modern corporate regulatory system i.e. accountability, transparency, fairness and disclosure, which involves the provision of information by corporations to the public in variety of ways. (Bhasin, 2011). There are two perspectives to view disclosures i.e. corporate disclosure and financial accounting disclosure (Solomon, 2004).

Pramanik Kumar Alok, Shil Chandra Nikhil & Das Bhagawan (2008), viewed about "Corporate Environmental Reporting: An EmergingIssue in the Corporate World". This study gives a conceptual idea about the corporate environmental reporting and guidelines. In which they concluded about the level, extent and style of disclosures. It was a theoretical study which gives the information about Conventional financial accounting and reporting model and need for environmental accounting and reporting, CER (corporate environmental reporting), factors under CER, formula to

environmental accounting standards, guidelines for CER, legislation of CER, environmental report of Asian countries and Indian Scenario of CER.

Bhasin Lal Madan (2010), stated about "Corporate Governance Disclosure Practices: The Portrait of a Developing Country". In this he had developed his own study "working "method. In order to verify about the company's complain against "point value system" of RIL. This study also helps to find out the effectiveness of corporate governance practices followed by RIL. At last he concluded that RIL is the best CG practices in India but still there should be more improvement needed.

Suttipun Muttanachai & Stanton Patricia (2012), studied about "Determinants of Environmental Disclosure in Thai Corporate Annual Reports". In their study they investigated the extent and content of environmental information disclosure provided in the annual report of listed companies on SET (Stock Exchange of Thailand). They tested the relationship between the amount of environmental disclosure and a number of companies characteristics used. They have taken the use of simple sampling method in which they found out that 62 companies are provided with environmental information in the annual report. And at last they conclude that there is a positive relation between the size of the company and the amount of environmental disclosure.

According to a study performed by Al-Moataz and Hussainey (2012), where they have examined the relation between some corporate governance mechanisms and the disclosure-level of corporate governance information in the 'Saudi Arabian' 97 listed companies in 2006 and 2007 using the content analysis approach to analyze the content of the reports. The researcher found that "board independence, audit committee size, profitability, liquidity and gearing are the main determinants of corporate governance disclosure in Saudi Arabia. They did not find any statistically significant association between firm size and corporate governance disclosures."

Ali Waris & Rizwan Muhhamad (2013), taken a study about "factors influencing corporate social and environmental disclosure (CSED) practices in the developing countries: an institutional theoretical perspective". This study mainly depends upon the Corporate Social and Environment Disclosure (CSED) and the factors related to it. They stated that by adapting three categories i.e. normative, interest and company groups a company can adapt CSED practices. Hence, this study was only based on theoretical perspective to provide the reasons for CSED in developing countries.

Objectives of the Study

- To asses investors attractiveness towards disclosure practices
- To rank different variable towards corporate disclosure and to identify different factors having significant impact on investor's attractiveness
- To examine the interrelationships among different constructs.

Methodology

In pursuit of the above objectives, the opinions of respondents are considered the sample frame for the study. The collection of data for the purpose of the study is aimed at getting current information about the disclosure practices in India as well as investors attractiveness towards the disclosed facts. Therefore, data was obtained to justify the above said objectives through primary sources.The Primary Data is collected from employees of Banks, financial institutions, stock broking firms and academicians. The researcher circulated 150 well drafted pre-tested structured questionnaire, out of which 128 fully filled flawless questionnaire taken for analysis.

The studymainly focuses on analysis of data related to investors' attractiveness due to disclosure. To study the attractiveness of investors' towards corporate disclosure practices, an attempt has been made through distributing well defined questionnaire to various sections of investors. Referring to different objectives taken earlier, two propositions has been constructed to delve it deeply.

Based on the objective to know about different factors influencing investors' attractiveness towards disclosure practices, a well accepted statistical tool (SEM) has been applied on the numerical values gathered from the opinions and complied against each component of the questionnaire. Subsequently, through manipulation, constructs like; Financial, Corporate Governance, Risk management, environmental, operational and HRM disclosure were identified.

Hypothesis

One proposition has been designed, to assess investors' attractiveness towards disclosure practices. The proposition tries to establish relationship between different constructs in priority by the investors. One of the major objectives of the current research is to verify the impact of all these constructs on investors' attractiveness. To justify the relationship, it was assumed that investment decision had a positive relationship with the obtained constructs. Hence, to examine theabove objective two hypothesis formed:

H_a1: The identified constructs positively affects investor's attractiveness.

H_a2: The identified constructs influence investor's attractiveness differently

Analysis

The SEM approach was used to test the above selected hypothesis. This is a multivariate technique used to explain the explanatory ability of the study. It helps in addressing a wide range of managerial and theoretical questions by examining only a single relationship or identifying interrelationship among the variables under study.

The researcher has constructed two hypothesis (Cited above) and tested through this technique. The SPSS AMOS 4.0 software was used for the purpose. The results thus unveiled were simultaneously, a single relationship as well as inter related latent relationship among different variables/constructs. More precisely it has been shown below through a neat diagram.

The above Figure1 shows the result of all relationships developed through the hypothesis developed above. Simultaneously, the below mentioned table (Table 1) Provides the model validation with the facts about Goodness of Fit Index (GFI), Normalized Fit Index (NFI), Chi-square divided by degrees of freedom, Root Mean Square Error approximation (RMSEA), and Cumulative Fit Index (CFI) of the SEM. The result show a generally good fit to the model with a small Chi square value and low RMSEA value .Focusing on the default values of GFI, NFI, CFI a good fit may be referred when the values are close to one (McDonald and marsh, 1990; Hu and Bentler, 1999; Marsh et al., 2004).So the table below justifies a good fit of the model.

Table No. 2 summarizes the results of SEM in a precise tabular format. So far as this study is concerned, authors have considered one selected hypothesis (Ha1) for investors' attractiveness with the six constructs indentified through Factor analysis. The acceptance of hypotheses made on two standards such as p value at 0.01and regression weight. But here preference will be given to the higher regression value for the acceptance of hypothesis. Out of six constructs, only two constructs have higher positive regression weight. So, the factors like; Operational Disclosure, Financial Disclosure, Risk Management and Environmental disclosure though affects investors attractiveness were rejected due to their low regression weight.

Figure-:1SEM model to test hypotheses

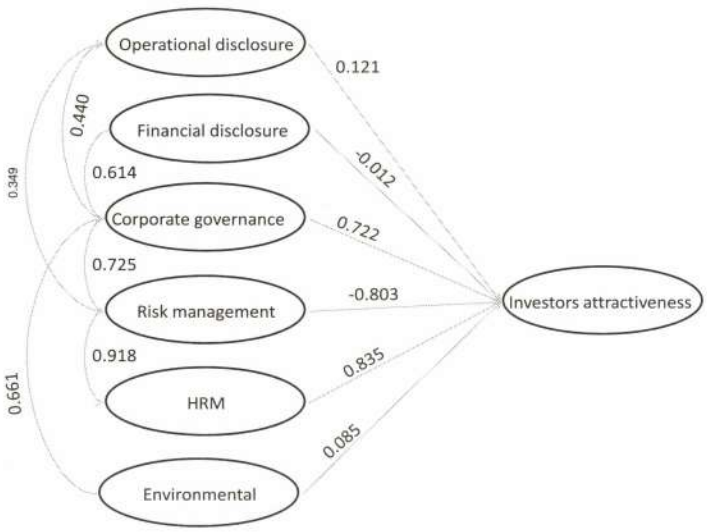


Table No-1: Model validation

Model	Chi-square/DF*	GFI	NFI	CFI	RMSEA
Default	1.711	0.714	0.683	0.864	0.075
Independent	3.768	0.236	0.000	0.000	0.148

Source: Computed and complied

Table No-2: Results of hypothesis testing

Hypotheses (H_a1)	Factor No.	Identified Constructs	Regression Weights	Results
The identified constructs positively affects investor's attractiveness	1	Operational Disclosure	0.121	Refuted
	2	Financial Disclosure	-0.012	Refuted
	3	Corporate Governance Disclosure	0.722	Accepted
	4	Risk Management Disclosure	-.803	Refuted
	5	HRM disclosure	0.835	Accepted
	6	Environmental disclosure	0.085	Refuted

Source :computed and complied

Table No-3: Results of hypothesis testing

Hypotheses (H_a2)	Identified Constructs	Regression Weights	Results
Corporate Governance positively affects	Operational Disclosure	0.440	Accepted
	Financial Disclosure	0.614	Accepted
	Risk Management Disclosure	0.725	Accepted
	Environmental disclosure	0.661	Accepted
Risk Management also affects HRM disclosure positively		0.918	Accepted

Source: computed and complied

Table No. 3 Reflected the results of the analysis for Ha2 where Corporate Governance with other constructs like; operational disclosure, Environmental Issues, financial disclosure and Risk Management of an organization were taken for studying the interrelationship. It could be further stated that out of six factors four factors have inter relationship with corporate governance. The acceptance of hypotheses based on regression weights where higher regression value given priority for the acceptance of hypothesis. Hence, the constructed hypothesis will hold good and accepted. Apart from these authors found Risk Management also affects positively HRM disclosure with 0.918 regression weight, which is too high to consider as an influencing factor.

Conclusion

In this study authors have analyzed the relationship among investors' attractiveness with six factors and also trying to establish the inter-factor relationship from disclosure point of view. Out of two hypothesis, the second hypothesis has been accepted because of high regression weight. But in first hypothesis, out of six constructs, only two constructs have higher positive regression weight. So, the factors like; Operational Disclosure, Financial Disclosure, Risk Management and Environmental disclosure though affects investors attractiveness were rejected due to their low regression weight.

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