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Narrative Disclosure in Directors' Report:
A Study of Corporate Practices in India

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Abstract

In recent years, there has been a marked expansion of narrative disclosure in corporate annual reports in many parts of the world. Today, a substantial part of the information provided in corporate annual reports is presented in narrative format. Narrative communication in corporate annual reports is aimed at improving the serviceability of those reports and it provides a unique opportunity for the company management to comment on various aspects of business operations not captured by the traditional reporting model. Narratives in corporate annual reports appear in different forms – some of them are mandatory and others are voluntary. Directors' report, as the most important form of narrative communication, is a document prepared by the Board of Directors under the requirements of Indian Company Law. As the core of the annual report, it details the state of affairs of the company and its compliance with a set of financial, accounting, corporate governance and corporate social responsibility standards. The present article tries to study the extent and depth of narrative disclosure in the Directors' reports of Indian companies listed on NSE. The descriptive approach adopted in this study has been extended further by using analytical perspective.

Keywords: Directors' report, narrative disclosure.

1. Introduction

The capital market plays an important role in the efficient allocation of financial resources among different sectors in an economy. This is true not only within individual national jurisdiction or specific stock exchanges, but also on a global scale. Information plays a central role within the domain of capital market due to agency cost and information asymmetry between management of companies and investors (Nielsen, C. 2008). The financial reporting environment consists of various groups who are affected by mandatory financial disclosure requirements. These groups include management, investors, creditors, employees, information intermediaries, regulators and government. Each of them looks upon financial report from a different perspective as they are heterogeneous in their demand for analysis of financial information.

The investors are concerned with financial information only to the extent it is useful in assessing the attributes of the portfolio return. On the other hand, information intermediaries (e.g., financial analysts) are viewed as a major representative of investors demand for additional financial disclosures. The users of financial reporting cannot assess the opportunities and risks of investment propositions properly, if they are not provided with adequate and meaningful information. They need variety of information relating to economy (domestic and global), industries, markets, companies and securities. The users can make best decision only when complete information is provided from best sources. The management of a company is regarded as the best sources for company-specific information. The information regarding economy, industry and market are required for developing an idea about the external environment in which a company operates. A company's performance is measured with reference to the external environment. Company-specific information is critical for estimating future cash flows which ultimately result in the return on securities or repayment of loans. The companies are the immediate sources of cash flows for the investors and creditors. Therefore, reliable and meaningful reporting from the management is the cornerstone on which the process of capital allocation is built. Information relating to economic trend, industry and market developments and some important company-specific information are not provided by financial statements as they are purely non-financial. Company-specific non-financial information includes company's strategy, risk perception and risk management framework, innovation, customer relationships, human resources, intellectual capital, etc. These non-financial information cannot be quantified and disclosed through financial statements. But these factors are critical for company's success and growth. All these information are generally disclosed in narrative textual form in the corporate annual reports.

2. Background of the study

In recent years, there has been a marked expansion of narrative communication in corporate annual reports in many parts of the world. Today, a substantial part of the information provided in corporate annual reports is presented in narrative format. The annual report is the primary medium through which companies communicates information, and it is also the primary source of information for decision-making for external users. Narrative communication in corporate annual reports is aimed at improving the serviceability of those reports. It provides a unique opportunity for company management to comment on various aspects of business operations not captured by the traditional reporting model. Narratives in corporate annual reports appear in different forms and they embrace a variety of subject matters such as key performance indicators, business strategy, risk management, market overview, value management, corporate governance, and interactions with society and environment. The traditional corporate reporting model is focused on the financial statements, which are prepared in accordance with generally accepted accounting principles (GAAP). Now there is growing consensus that GAAP-based financial statements do not provide adequate information for decision-making processes. In the emerging information-based economy, significant changes have taken place in the way business is conducted and value is created. The earning power of companies increasingly rest on assets that lack physical substance. But GAAP has failed to cope with these changes. It has failed to develop appropriate mechanisms for capturing the new economy in which value is created by intangible assets. Most of the intangible assets the new economy company uses in generating value do not find a place on its balance sheet. As a result, the ability of the balance sheet to provide a realistic picture of the company's financial condition is impaired. Narrative disclosures can overcome this problem to a great extent.

3. Objectives of the study

The objective of this study is to investigate the reporting of narrative information in the Directors' reports of Indian companies listed on the NSE. Its underlying premise is that narrative reporting, if properly used can play a very important role in bridging the gap between narrowly-focused GAAP reporting and the information needs of stakeholders. The study will examine and evaluate the nature of information the companies are releasing in their directors' reports in narrative form and judge whether they are clear-sighted and focused on the issue. To be more specific, the study will judge whether companies in India are providing the right quality of relevant narrative information on matters such as business strategy, principal risks and uncertainties, and accountability. Since the study is concerned with narrative communication in directors' reports, much attention will be directed towards providing insights into the conceptual and methodological issues that are involved in corporate narrative reporting.

4. Research methodology

The study is predominantly descriptive in nature. The descriptive approach adopted in the study has been extended further by using analytical perspective. There is however, a research question which is framed in the following words: Are companies in India providing useful and relevant information in their directors' reports in narrative form?

Selection of Sample: For the purpose of study, the top Nifty 50 companies as on 1st April 2012, which represents 24 different sectors of the economy, have been selected. The 50 companies include 8 PSU's, 10 banks and NBFC'S and 32 other public limited companies

Period of study: This study covers a period of five years, 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16.

Collection of data: Published annual reports of the sample companies have been collected from companies' website.

Measurement of narrative disclosures: In the present study un-weighted disclosure index method has been used owing to its wider use and for the practical difficulties involved in using content analysis method. The range of disclosures has been measured both in terms of "item-wise disclosures" and "company wise disclosures"

Framework of analysis: Descriptive statistical tools like arithmetic mean, standard deviation and co-efficient of variation have been applied for assessing the levels and variability of item wise and company wise disclosures . Independent sample t-test has been applied to test the significance of difference between mandatory and voluntary disclosures and F test has also been applied to test the significance of differences among the mean disclosure scores of the three categories of companies.

5. Directors' report

Since the advent of companies as a new form of organization, they were governed by directors (Jaganathan, S. 2009). The Directors' Report was the first narrative in communication to the outside world. The need for narrative disclosure arose from the shareholders' need to interpret the financial results, understand the nature of company's business and industry, get the information regarding changes in the environment and have the idea about the future direction of the company's activities. Thus, by providing all such information, the Directors' Report educates the shareholders. Directors' Report is a document prepared by the Board of Directors under the requirements of Indian Company Law. This report details the state of affairs of the company and its compliance with a set of financial, accounting, corporate governance and corporate social responsibility standards. The Directors' Report is considered as the core of the annual report. The Directors' Report can include any matter which is not legally required to disclose in that report. In view of this many companies put various relevant issues and matters to bring about greater transparency in corporate governance.

Regulation of accounting and reporting is an age-old phenomenon. The scope and extent of regulation may vary across boundaries. Regulations of developed countries are not free from certain limitations. The nature of regulation in India has undergone many changes overtime with a view to reduce its shortcomings and making it in tune with the changing socio-economic environment (Banerjee, B. 2002). Under Companies Act 1882, the directors were required to report on the state of affairs of the entity only (Clause 94). The said Act of 1913 mandated the attachment of Balance sheet to the Directors' report and additional disclosure of the amount of recommended dividend in the same report (Section 108). Companies' Act, 1936 extended the disclosure requirements by inclusion of the amount carried to the general reserve (Section 131A). Companies Act, 1956 brought about revolutionary changes in the regulation of corporate reporting in India. It introduced various newer sections and extended reporting requirements significantly. It was a mammoth legislation.

Every law loses its relevance after a certain point of time. Even series of amendments cannot rescue it from becoming obsolete. Companies Act, 1956 has been in force for about fifty-seven years and had been amended several times. The legislators were unable to foresee the innumerable changes that would have taken place in the coming decades. The world has changed drastically in the new millennium. Therefore, a new legislation is needed to be framed to respond to the changes and to adopt internationally accepted practices. In view of changes in the national and international economic environment and expansion and growth of our economy, the Government of India after due deliberation decided to repeal the Companies Act, 1956 and enact a new legislation to provide for new provisions to meet the changed domestic and global economic environment and further accelerate the expansion and growth of our economy. The new Companies Act, 2013 has come into force on 29 August, 2013. New disclosures like related party transactions, development and implementation of risk management police, Corporate Social responsibility Policy, manner of formal evaluation of Board of directors and individual directors, nomination and remuneration policy, remuneration of directors and key managerial personnel, etc. have been in the Directors' report. Thus, the new Companies Act of 2013 is a positive step towards modernizing Indian Company Law and aligning it to global standard

The following provisions in particular provide for narrative reporting guidelines in directors' report:

- Section 217 of the Companies Act, 1956 along with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and Companies (Particulars of employees) Amended Rules, 2011 and other relevant provisions like Section 58A, 224, 233B, 205C and Part VI of Chapter II of Companies Act, 1956 upto 31^{st} March, 2013.
- Section 134 and 135 of the new Companies Act, 2013 along with Companies (Accounts) Rules, 2014, Companies (Corporate Social Responsibility) Rules, 2014, Companies (Share Capital and Debentures) Rules, 2014 and other relevant provisions like Section 131, 139, 140, 141, 148, 177, 178, 197 and 204 with effect from 1^{st} April, 2014.

6. Findings of the study

This section analyses the current disclosure practices of listed Indian companies in their Directors' reports. The present study is divided into three parts – item- wise disclosure, mandatory and voluntary disclosure and company- wise disclosure.

A. Item-wise disclosure in Directors' reports:

The 'item-wise disclosure score' has been calculated for each item included in the index of disclosure by dividing the number of companies disclosing such item by the total number of companies for which the item is applicable. The following table presents the item-wise disclosure scores for the period under study.

Table-1							
Item-wise disclosure in Directors' reports (2011-12 to 2015-16)							
Items of information			**Disclosure score (%)**				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Mean**	**Rank**
A. Statutory Disclosure under Companies Act							
1. State of Affairs:							
(a) Financial performance	96	96	96	96	96	96	4
(b) Review of operations	56	56	44	56	42	50.8	23
(c) Finance & capital structure	68	80	72	48	88	71.2	12
(d) Corporate development & actions	50	50	46	44	44	46.8	29
(e) Expansion, modernization, diversifications, etc.	38	38	38	24	34	34.4	41
(f) MOUs, major agreements, pacts, etc.	16	12	18	14	12	14.4	52
(g) Capital expenditure	8	12	28	18	18	16.8	49
(h) Commercial performance	8	0	0	0	0	1.6	73
(i) Liquidity management	2	0	0	2	0	0.8	93
(j) Change of name	2	0	0	0	0	0.4	100
(k) Change of registered office	2	0	4	0	2	1.6	73
(l) Alteration of Articles of Association	2	0	0	0	4	1.2	81
2. Dividends	94	94	96	98	94	95.2	5
3. Transfer to reserves	22	18	28	54	40	32.4	43
4. Transfer of unclaimed dividends to IEPF	16	20	22	20	18	19.2	48
5. ESOS	56	50	52	58	56	54.4	20
6. Fixed deposits	50	48	44	60	18	44	33
7. Consolidated financial statements	38	36	56	44	48	44.4	32
8. Post balance sheet events	2	2	2	4	8	3.6	60
9. Subsidiaries, Associates and Joint ventures	90	82	94	90	96	90.4	8
10. Performance of subsidiaries, associates & JVs	NA	NA	20	80	58	52	22
11. Directors & KMPs	98	98	96	98	100	98	2
12. Board and committee meetings	NA	NA	6	76	82	54.67	18

13. Independent director's declaration	NA	NA	6	86	58	50	25
14. Board's evaluation of own performance	NA	NA	4	82	78	54.67	18
15. Nomination & Remuneration policy	NA	NA	4	72	76	50.67	24
16. Remuneration of Directors & KMPs	NA	NA	0	76	68	48	27
17. Particulars of employees	92	92	98	80	94	91.2	7
18. Directors' Responsibility Statement	98	98	98	100	100	98.8	1
19. Extract of Annual Return	NA	NA	6	94	92	64	14
20. Particulars of loans, guarantees & investments	NA (2)	NA	6	80	92	59.33	16
21. Related party transactions	NA	NA	6	90	92	62.67	15
22. Statutory Auditors	92	96	94	94	94	94	6
23. Statutory Auditors' Report	34	28	38	50	26	35.2	40
24. Cost Auditors & Report	72.22	80.56	91.67	94.44	91.67	86.11	9
25. Secretarial Auditors	10	12	18	78	92	42	36
26. Secretarial Auditors' Report	10	0	18	78	26	26.4	46
27. Internal control and its adequacy	10	10	12	80	74	37.2	38
28. Risk Management Policy	8	6	8	84	78	36.8	39
29. CSR policy and its implementation	60	38	90	96	98	76.4	11
30. Significant material orders passed by the court	8	4	10	26	28	15.2	51
31. Vigil mechanism and whistle blower policy	18	18	24	86	88	46.8	29
32. Shareholders' update	0	2	2	2	2	0.8	93
33. Energy conservation, tech. absorption & forex outgo	84	74	78	94	88	83.6	10
34. Composition of audit committee	NA	NA	2	4	54	20	47
35. Revision of financial statements	0	0	0	0	0	0	109
36. Frauds reported by auditors	0	0	0	0	0	0	109
B. Statutory disclosure under other relevant laws							
37. Policy on prevention and redressal of sexual harassment	NA	NA	8	56	64	42.67	34
38. Implementation of official	100	90.91	100	90.91	100	96.36	3

language policy							
39. Disclosure under MSME Development Act,2006	0	0	37.5	50	50	27.5	44
40. Welfare measures of SC, ST and PD	18.18	45.45	72.73	54.55	54.55	49.09	26
41. Insider Trading Code	2	2	2	2	6	2.8	64
42. Implementation of RTI Act,2005	54.55	0	72.73	54.55	45.45	45.46	31
43. Disclosure under FEMA	0	0	2	2	4	1.6	73
C. Voluntary disclosure							
44. Credit Rating	6	32	30	32	36	27.2	45
45. Tier-I & Tier-II capital	50	62.5	62.5	37.5	25	47.5	28
46. Capital Adequacy Ratio	50	62.5	87.5	75	50	65	13
47. HR & Industrial relations	62	44	56	60	68	58	17
48. R&D, Technology and Innovation	30	24	36	32	44	33.2	42
49. Sustainability	38	38	34	44	34	37.6	37
50. Corporate strategy and initiatives	2	0	8	8	10	5.6	58
51. MIS & IT	12	0	16	16	22	13.2	54
52. Future outlook	14	10	18	14	14	14	53
53. Awards & Accolades	46	42	42	38	44	42.4	35
54. Provision towards retirement & other benefits	2	2	2	2	2	2	68
55. Regulatory guidelines & amendments	2	6	10	4	2	4.8	59
56. Global Compact Communication Program	6	0	0	0	2	1.6	73
57. Population of equipment	0	0	2	0	2	0.8	93
58. BIFR & BRPSE Status	0	0	2	0	0	0.4	100
59. Citizens charter and public grievance redressal	4	8	8	6	8	6.8	57
60. Business excellence - Global Benchmarking	8	0	4	4	2	3.6	60
61. TQM & Quality initiatives	16	16	12	8	14	13.2	54
62. Depository System & Listing of shares	14	26	12	12	14	15.6	50
63. Registrar & Share Transfer Agents	0	0	2	0	8	2	68
64. Insurance/Safety & Security of assets	4	0	2	0	2	1.6	73
65. Branch auditors	0	0	0	0	2	0.4	100

66. Investors' relation & engagement	0	4	4	2	4	2.8	64
67. Internal auditors	0	0	0	0	4	0.8	93
68. Market capitalization	0	0	0	4	2	1.2	81
69. Branding	4	2	2	2	2	2.4	67
70. Business process re-engineering	4	2	2	2	0	2	68
71. Cost development	2	2	0	0	2	1.2	81
72. Legal proceedings & litigations	0	4	0	0	0	0.8	93
73. Secretarial standards of ICSI	0	2	0	0	6	1.6	73
74. Occupational health, safety & environment	56.67	46.67	56.67	43.33	60	52.67	21
75. Codes & Standards	2	2	0	6	0	2	68
76. Overview of economy	6	0	4	0	6	3.2	62
77. Equal opportunity employer	2	0	2	0	2	1.2	81
78. Statement as per FASB 61	2	0	0	0	0	0.4	100
79. GAAP compliance	2	0	0	0	0	0.4	100
80. Promotion of sports	6	0	0	0	0	1.2	81
81. Women empowerment	4	0	2	0	0	1.2	81
82. Staff welfare	6	0	0	10	0	3.2	62
83. Implementation of Integrity Pact	2	0	2	0	2	1.2	81
84. Fuel security	2	0	2	0	2	1.2	81
85. Master plan for fire, subsidence & rehabilitation	2	0	2	0	2	1.2	81
86. Asset quality	10	0	10	0	20	8	56
87. Product development	0	0	4	0	2	1.2	81
88. Adoption of Companies Act, 2013	NA	NA	6	0	0	2	68
89. Communication management	0	0	2	2	2	1.2	81
90. Branch network	0	0	4	0	4	1.6	73
91. Customer care	0	0	2	0	6	1.6	73
92. Global foot-prints	0	0	0	0	2	0.4	100
93. Enhancing shareholders' value	0	0	0	0	2	0.4	100
94. Outside consultancy services	0	0	0	0	6	1.2	81
95. Adoption of Ind AS-IFRS	0	0	0	0	14	2.8	64

convergence							
96. Future plan	0	0	0	0	2	0.4	100
97. Intellectual capital	0	0	0	0	4	0.8	93
98. Forex risk management	0	0	0	0	2	0.4	100
99. Anti-bribery Corruption Directives	0	0	2	0	2	0.8	93

The disclosure score of 110 items (including the items clubbed under “State of affairs”) in the disclosure index have been calculated. Out of 110 items only 98 items are applicable for both 2011-12 and 2012-13 as 12 items are not included in the provisions of Companies Act, 1956 relating to the Directors’ Report. These items are required to be disclosed as per provisions of the Companies Act, 2013. Only one voluntary item (item no. 88) is not applicable for 2011-12 and 2012-13.

There are 54 items in the Table-1 which are mandatorily required to be disclosed in Directors’ report as per provisions of Companies Act, 2013 (47 items) and other relevant laws (7 items). But as per provisions of Companies Act, 1956 the number of mandatory items was 37 and the number of mandatory items under other relevant laws was 6. Total number of voluntary items identified for 2011-12 and 2012-13 is 55 and for the remaining 3 years is 56.

The term “State of affairs of the company” has not been defined in both the old and new Companies Act. The term “State of affairs of a company” generally means the current financial position of a company which includes financial and operational performance during the year under review in comparison with previous year or years. The present study has followed the guidelines issued by the Institute of Company Secretaries of India (ICSI) In “Referencer on Board’s report- The Companies Act, 2013 Series”,(May, 2015) in clubbing 12 items under this head. Out of the mandatory items top ranked 15 items are: Financial performance, Finance & capital structure, Dividends, Subsidiaries, joint ventures and associates, Directors & KMPs, Particulars of employees, Directors’ Responsibility statements, Extract of Annual Return, Related party transactions, Statutory auditors, Cost auditor & report, CSR policy and its implementation, Energy conservation, technology absorption and foreign exchange outgo, Implementation of official language policy (applicable only in case of PSUs and PSBs) and Particulars of loans, guarantees and investments. All these items are regular items. Other mandatory items are reported as and when the related events occur. Top ranked voluntary items are: Capital Adequacy Ratio, Tier-I & Tier-II capital, credit rating, HR & Industrial relations, Occupational health, safety and environment, Awards and accolades, R&D, technology and innovation and Sustainability. Very few companies have disclosed information relating to their strategies and future outlook voluntarily.

B. Mandatory and voluntary disclosure in Directors' reports:

Table-1 consists of both mandatory and voluntary informational items. Mandatory items are those which are statutorily required to be disclosed as per provisions of Companies Act in force along with various rules and other relevant laws. Voluntary items are not mandatory but are deemed to be relevant for various interested groups.

Table-2

Mandatory and voluntary items of information in Directors' Reports					
Types of information	**Disclosure score (%)**				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Mandatory items:					
Mean	36.859	34.626	34.641	54.212	53.142
SD	35.727	36.042	35.699	35.819	35.712
N	43	43	54	54	54
Voluntary items:					
Mean	8.583	7.958	9.905	8.443	10.125
SD	15.615	16.203	18.373	16.361	15.879
N	56	55	56	56	56

The above table reveals that there is large variation between disclosure scores of mandatory and voluntary items in a particular year. To test the significance of difference between mean disclosure scores of mandatory and voluntary items of information, the following null hypothesis has been formulated and tested.

H_0: There is no significant difference between mean disclosure scores of mandatory and voluntary informational items in directors' reports of listed Indian companies.

To test this hypothesis, independent samples t- test has been applied. The results of the 't-test' is presented in Table-3.

Table-3

Directors' reports – T test

Mandatory and voluntary disclosure of items of information in

Types of Information	**Disclosure score**									
	2011-12		**2012-13**		**2013-14**		**2014-15**		**2015-16**	
	Mean	t value	Mean	t value	Mean	t value	Mean	t value	Mean	t value
Mandatory	36.859	5.254	34.626	4.867	34.641	3.109	54.212	8.589	53.142	8.133
Voluntary	8.583		7.958		9.905		8.443		10.125	

The above table reveals that 't' values are significant at both 1% and 5% level of significance. Hence the null hypothesis is rejected. Comparing the mean values, it is evident that the disclosure scores of mandatory items are significantly higher than that of voluntary items.

C. Company-wise disclosure:

The analysis of company-wise disclosure is necessary for determining the inter- company variability in disclosures during the period of study. Variations in narrative disclosure practices are likely to result since companies are managed by groups which have varying managerial philosophies and wide discretion in connection with disclosing information. The present sample includes 8 PSUs, 10 banks and NBFCs and 32 big public limited companies. The disclosure score has been calculated by dividing the total score obtained for a company in a particular year by the total score applicable to the company using an index of disclosure. Table-4 presents the company-wise disclosure score during the period of study.

Table - 4

		Company-wise Disclosure in Directors' Report					
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Average**	**Rank**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	
A. PSUs							
NMDC	29.59	32.65	30	39.09	40	34.27	3
Coal India Ltd.	38.78	42.86	30	40.91	40.91	38.69	1
ONGC	34.69	32.65	26.36	34.55	37.27	33.1	4
BHEL	18.37	19.39	18.18	20.91	19.09	19.19	42
BPCL	20.49	29.59	26.36	36.36	32.73	29.11	8

NTPC	32.65	31.63	31.82	40.91	41.82	35.77	2
GAIL	32.65	27.55	28.18	34.55	33.64	31.31	6
Power Grid Corporation	27.55	33.67	30.91	35.45	35.45	32.61	5
B. Banks & NBFCs							
Indusind Bank	12.24	15.31	15.45	32.73	33.64	21.87	31
SBI	12.24	7.14	10.91	12.73	9.09	10.42	50
Axis Bank	12.24	11.22	12.73	23.63	28.18	17.6	46
BOB	13.26	11.22	16.36	15.45	15.45	14.35	49
ICICI Bank	12.24	11.22	13.64	24.55	20.91	16.51	47
PNB	8.16	6.12	22.73	20	18.18	15.04	48
HDFC Bank	12.24	14.29	13.64	28.18	28.18	19.31	41
Kotak Mahindra Bank	11.22	12.24	14.55	27.27	28.18	18.69	44
HDFC Ltd.	24.49	30.61	19.09	24.55	28.18	25.38	17
IDFC Ltd.	15.31	19.39	19.09	30	24.55	21.64	34
C. Other PLCs							
Tata Power	21.43	18.37	14.55	26.36	32.73	22.69	27
ACC Ltd.	20.41	18.37	30	34.55	37.27	28.12	10
Ambuja Cement	22.45	23.47	30	33.64	39.09	29.73	7
UltraTech Cement	21.43	21.43	22.73	29.09	34.55	25.85	15
JSPL	17.35	14.29	18.18	30.91	34.55	23.06	26
JP Associates	20.41	18.37	21.82	30	33.64	24.85	20
HCL	21.43	20.41	20	36.36	30.91	25.82	16
Cairns India	18.37	26.53	29.09	31.82	30.91	27.34	12
HUL	16.32	12.24	14.55	18.18	29.09	18.08	45
DR. Reddy's Lab.	17.35	16.32	16.36	28.18	30.91	21.82	32
Cipla Ltd.	14.29	11.22	15.45	24.55	30	19.1	43
Bharti Airtel	23.47	27.55	20	30.91	28.18	26.02	14
Tata Motors	19.39	16.33	19.09	31.82	33.64	24.05	23
Asian Paints	15.3	19.39	19.09	23.64	26.36	20.76	37
Aurobindo Pharma	17.35	16.32	17.27	37.27	32.73	24.19	22
Bajaj Auto	16.33	22.45	17.27	26.36	25.45	21.57	35
DLF	19.39	20.41	20	32.73	3.82	24.87	19
Vedanta	17.35	18.37	19.09	30.91	33.64	23.87	24
L&T	19.39	23.47	17.27	28.18	29.09	23.48	25
Grasim Industries	18.37	20.41	17.27	33.64	31.82	24.3	21
Hindalco	19.39	19.39	17.27	28.18	27.27	22.3	30
Infosys	25.51	29.59	19.09	26.36	32.73	26.66	13
Tata Steel	14.29	13.27	15.45	30	35.45	21.69	33

ITC	17.35	20.41	18.18	30	27.27	22.64	28
Lupin	15.31	17.35	16.36	24.55	26.36	19.99	40
Maruti-Suzuki	15.31	18.37	17.27	26.36	26.36	20.73	38
Mahindra & Mahindra	23.47	25.51	24.55	34.55	36.36	28.89	9
RIL	19.39	25.51	17.27	24.55	25.45	22.43	29
Sun Pharma	15.31	15.31	15.45	29.09	29.09	20.85	36
TCS	19.39	18.37	17.27	22.72	24.55	20.46	39
Wipro	17.35	23.47	16.36	38.18	29.09	24.89	18
Hero Motocorp.	19.39	27.55	20	37.27	35.45	27.93	11
Mean	**19.349**	**20.5714**	**19.872**	**29.4546**	**29.5852**	**23.8778**	
SD	**6.200676**	**7.443745**	**5.372349**	**6.184732**	**7.297014**	**5.479493**	
Coef. Var (%)	**32.0465**	**36.18492**	**27.03477**	**20.99751**	**24.66441**	**22.94807**	

A close look at the above table reveals that the disclosure scores have varied a great deal across the companies. The mean disclosure score of companies vary between 10.42 and 38.69.It may be said that after introduction of new Companies Act, 2013 the scope of narrative disclosure has been widened and consequently the listed companies have started to show their willingness to disclose more and more information in their directors' reports. The top 5 positions are occupied by the major PSUs in all the years under study. Even the ranking on the basis of mean disclosure score also supports the fact that the PSUs have shown more responsibility and commitment towards transparency in reporting. Only one company from the service sector (Wipro) has appeared in the top 5 in 2014-15. Majority of banking companies have appeared at the bottom. These banking companies are: SBI, BOB, PNB, ICICI Bank and Axis Bank. First three banks are public sector banks. Only one PSU (BHEL) has appeared in the bottom 5 in 2014-15 and 2015-16.

Table -5

		Category-wise variability in disclosure score			
		PSUs	**Banks & NBFCs**	**Other PLCs**	**Overall**
2011-12					
Mean		29.35	13.36	18.72	19.35
SD		6.986	4.289	2.81	6.2
Coefficient of variation		23.80	32.10	15.01	32.05
2012-13					
Mean		31.25	13.88	19.994	20.57
SD		6.566	7.008	4.599	7.44

Coefficient of variation		21.01	50.49	23.00	36.18
2013-14					
Mean		27.73	15.82	19.18	19.87
SD		4.35	3.56	4.108	5.37
Coefficient of variation		15.69	22.50	21.42	27.03
2014-15					
Mean		35.34	23.91	29.72	29.45
SD		6.399	6.2995	4.6898	6.18
Coefficient of variation		18.11	26.35	15.78	20.99
2015-16					
Mean		35.11	23.45	30.1191	29.59
SD		7.288	7.453	6.1223	7.3
Coefficient of variation		20.76	31.78	20.33	24.66

A comparison of disclosure scores of three categories of companies very clearly highlights the wide differences in the disclosure scores. Results shown in the above table have also lent support to the assertion that variation in the levels of disclosures is significant across the companies. It is observed that the mean level of disclosure of each category of companies has shown significant growth after 2013-14. Moreover, the mean disclosure scores of PSUs have been the highest in all the years under study, while banks and NBFCs have the lowest mean disclosure scores with highest coefficient of variation.

F test has also been applied to find out whether the three categories of companies differ significantly or not in disclosing the items of information in the Directors' report. The following null hypothesis has been formulated and tested:

Ho: There are no significant differences among the mean disclosure scores of the three categories of companies in their Directors' reports.

To test this hypothesis, one way ANOVA (Analysis of Variance) has been used. The ANOVA table is presented below:

Table- 6

ANOVA Table

Year	**Sources of Variation**	**df**	**Sum of squares**	**Mean of squares**	**F Ratio**	
					Calculated	**Tabulated**
					Value	**Value**
2011-12	Between Groups	2	1170.4308	585.215	36.5762	$F_{0.05}$ =3.15
	Within groups	47	751.9947	15.9999		$F_{0.01}$ =4.98

	Total	49	1922.4255			
2012-13	Between Groups	2	1370.9925	685.496	23.0216	$F_{0.05}$ =3.15
	Within groups	47	1399.4816	29.7762		$F_{0.01}$ =4.98
	Total	49	2770.4741			
2013-14	Between Groups	2	673.3342	336.667	20.5554	$F_{0.05}$ =3.15
	Within groups	47	769.789	16.3785		$F_{0.01}$ =4.98
	Total	49	1443.1232			
2014-15	Between Groups	2	586.9476	293.474	10.4052	$F_{0.05}$ =3.15
	Within groups	47	1325.6136	28.2045		$F_{0.01}$ =4.98
	Total	49	1912.5612			
2015-16	Between Groups	2	628.3356	314.168	7.2606	$F_{0.05}$ =3.15
	Within groups	47	2033.7092	43.2704		$F_{0.01}$ =4.98
	Total	49	2662.0448			

Since the calculated values of F for all the years under study are greater than tabulated values of F at both 5% and 1% level of significance, the null hypothesis is rejected. It may be concluded that there are statistically significant differences among the mean disclosure scores of the companies under three categories.

7. Conclusion

In recent years, particularly since the advent of the global financial crisis, the relevance of traditional annual reports has come under question. The debate has grown over, how far annual reports prepared according to regulatory guidelines are relevant to the investors and other stakeholders in making proper decision on company's prospects. To bridge the perceived information gap and to satisfy the information need of the standard setter, regulators and analysts, narrative reporting has come to the fore.

In the backdrop of the above, the present study has examined the extent of disclosure in Directors' reports of listed companies in India. Both mandatory and voluntary items have been considered for measuring the quality of disclosure. The major findings of the study are:

a. There are statistically significant differences between disclosure scores of mandatory and voluntary items of information. The disclosure scores of mandatory items are significantly higher than that of voluntary items. Thus, the listed companies in India are more concerned about complying with the statutory requirements regarding disclosure in Directors' reports.

b. The mean disclosure scores of financial items have always been higher than that of non-financial items. Majority of financial items are mandatorily required to be disclosed in the Directors' report. Comparatively, a large number of non-financial items have been disclosed voluntarily.

c. The disclosure scores have varied a great deal across the companies. After the introduction of new Companies Act, 2013 the scope of narrative disclosure has been widened significantly. The listed companies in India have started to disclose more and more information in their Directors' reports.

d. There are statistically significant differences among the mean disclosure scores of the sample companies under the three categories. The mean disclosure scores of PSUs have been the highest in all the years under study, while Banks and NBFCs have the lowest mean disclosure scores.

e. Very few companies (on an average 11.6% companies) have provided detailed item-wise analysis of their financial performance. The reasons behind the growth or decline of key items, new business drivers, impact of various strategic initiatives have been discussed in details. Majority of sample companies have complied with the statutory requirements by providing summarized income statement with previous year's figures.

f. Half of the sample companies are found to have followed the practice of disclosing their operational performance over the years consistently. On an average 30% companies have provided detailed segment-wise discussion in respect of their operational performance. It is also found that a handful of companies referred to the MD&A section for detailed information on their operational performance.

The basic objective of narrative reporting is to help the investors in informed decision making. If we compare, keeping in mind the basic objective, the regulatory guidelines prescribed in India with that of developed countries like USA and UK, we will find that Indian regulators are way behind the developed countries. In UK, a Directors' report must contain, inter alia, a fair, balanced and understandable review of the business including an analysis of key performance indicators (KPIs), a description of the principal risks and uncertainties, the main trends and factors likely to affect the future development, performance and position of the company's business at the end of the year, a description of company's strategy and a description of the company's business model. These items have not yet been accommodated in the regulatory guidelines in India.

Disclosure of forward-looking information are considered highly relevant in equity markets worldwide. Like SEC's Regulation S-K, EU's Fourth Directives also states that the annual report should include an indication of the company's likely future developments (Choi and Meek, 2009). SEBI, the capital market regulator in India, has tried to fill the gaps in the reporting regulation. As per Clause 49(IV)(F) of Listing Agreement of SEBI, a Management Discussion and Analysis report (MD&A) should form part of the annual report to the shareholders. This MD&A report, as complimentary to the Directors' report,s should include discussion on certain matters prescribed in the clause within the limits set by the company's competitive position. It covers industry structure and developments, opportunities and threats, segment-wise performance, outlook, risks and concerns, internal control systems, financial and operational performance and human resource including industrial relations. Still there are many dots to be linked and many pieces are to be brought together to present a "Big Picture". The overall story of the organization should be told in clear and understandable language. Company's strategy, performance and activities should be described in such a manner that allows the stakeholders to assess the ability of the company to create and sustain value over short, medium and long term, based on financial, social, economic, environmental systems and the quality of its relationship with its stakeholders.

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