
CONSENSUS BETWEEN PREPARERS AND USERS OF ANNUAL REPORT

*Y.V. Reddy

**R. Antony Sathish

ABSTRACT

The basic purpose of corporate disclosure is to communicate information about the financial performance of the company to the persons who are concerned with the company. As an information system, the accounting process serves persons both inside and outside the organisation. The information needs of various users differ from one another. Every effort has to be made through the financial statement to communicate as much information as possible to the interested parties. Every company makes the best possible efforts to "disseminate" information such that the actual supply of information matches with the "expectations" of the users of annual reports. The specific objectives of the study are; to analyse the consensus between the companies and users of the annual report; to examine the consensus among the various user groups of annual report and to analyse the consensus among the various selected categories of shareholders, regarding the various items of corporate disclosure. The present study covers a sample of 125 public Ltd companies as preparers and 200 respondents as users of information.

INTRODUCTION

In recent years, the scope of corporate reporting has undergone a remarkable change. It is now widely agreed that a company is a socio-economic entity. Therefore, accountability of a company in the new regime has two distinct aspects. One is 'Legal' and the other is 'Social'. Importantly, in this new regime, the accountability of a company extends to such other "public" as the employees, suppliers, customers, government and public at large. In short, a company is at present accountable for its performance and affairs not only to the shareholders but also to the other "stakeholders". The information needs of various users differ from one another.

*Head, Department of Commerce, Goa University, Goa.

**Sr. Lecturer in Commerce, Govt. College, Quepem, Goa.

THE OBJECTIVES OF THE STUDY ARE

1. To study the consensus between the companies (preparers) and users of the annual report regarding the various items of corporate disclosure.
2. To examine the consensus among the various user groups of annual report regarding the various items of corporate disclosure.
3. To analyse the consensus among the various selected categories of shareholders regarding the various items of corporate disclosure.

METHODOLOGY

In order to achieve the aforesaid research objectives:

- a) A sample of 125 public ltd companies from various industries in India have been selected as preparers or suppliers of information.
- b) For measuring user's preferences regarding information disclosure, a sample size of 200 respondents, consisting of shareholders (104), financial institutions (26), financial analysts (39) and suppliers (31) were interviewed.

a. PRIMARY DATA

The required primary data for the study was collected through interview schedule. Using a 4 (four) - point scale, responses on the perceived importance of items have been obtained from a sample of 200 different users.

The questionnaire consists of two parts. Part I, consists of information on six main categories, viz i. General information, ii. Financial information, iii. Personnel information, iv. Marketing information, v. Production information, vi. Reports, Part II, consists of Item-wise information on 55 items. The maximum score (weight) applicable to an item for the sample size of 200 users is 600.

b. SECONDARY DATA

The secondary data is drawn from the annual report of the companies. An "Index of importance of items disclosed by the companies" was prepared. The number and nature of the items are identical to the one used for different users (part II). The only difference here is that, the information from the companies was collected in an objective manner. Part I: details on main information disclosed by the companies have been computed from the 'index of disclosure'. The required data is collected for the year ended 31st March 2000.

All the items included in the index of importance of items disclosed by the companies have been assigned a score of either zero or 1 (one). If an item is disclosed in an annual report, it has been assigned score 1. In case an item is not disclosed, score zero has been given.

Further, for the purpose of comparative analysis both the weighted and unweighted scores are converted into per cent.

ANALYSIS OF DATA

For the purpose of analysis of data and testing various hypotheses, the following statistical techniques have been used.

- a) To find out whether the importance of items as perceived by the companies and the users are significantly different from each other t-test and F-test have been applied.
- b) To ascertain the relation between the two groups on importance of items perceived by them, Spearman's rank correlation has been applied.

CONSENSUS BETWEEN PREPARERS AND USERS OF ANNUAL REPORT

Every *company* makes the best possible efforts to "*disseminate*" information such that the actual supply of information *matches* with the "*expectations*" of the *users* of annual reports. The objective of this area of research study is to investigate the degree of consensus between the preparers and users of annual reports on the information disclosed in the annual report of a company.

To study the consensus between the attitudes of companies and those of different users towards the main information disclosed in the annual report, the following null hypothesis has been formulated, which has been tested by applying 't- test', 'F-test' and spearman's' rank correlation co-efficient at 5 per cent level of significance.

H₀ 1.1 - There is no difference in the disclosure of main information in annual report and the expectations of users of annual report.

It is noteworthy that the highest disclosed item by the companies is 'production information' (mean rating of 78.4 %) and that by users is 'financial information' (mean rating of 97%). On the other hand, the lowest disclosed item by the companies is 'marketing information' (mean rating of 45.37%) and that by users is, 'personnel information' (mean rating of 35.50%).

The hypothesis has been rejected at 5 per cent level of significance for 4 out of 6 main items. The value of observed correlation co-efficient is as low as 0.13. These findings, therefore, imply that the *degree of association* between the views of preparers and users of annual reports is *very low*.

To study the consensus between the attitudes of companies and those of different users towards item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.2 - There is no difference in the disclosure of item-wise information in annual report and the expectations of users of annual report.

The hypothesis of no difference in the disclosure of item-wise information in the annual reports of companies and the expectations of users of annual reports has been *rejected* at 5 per cent level of significance *for 39 items out of 55 items*. This implies that there exists significance difference in the disclosure of 39 items.

In order to examine, the inter-group association in terms of a vertical analysis, spearman's rank correlation co-efficient has been calculated. The value of observed correlation co-efficient is only 0.269 and is found to be statistically non-significant at 5 per cent level of significance.

CONSENSUS AMONG THE VARIOUS USER GROUPS OF ANNUAL REPORT

To study the consensus among the various user groups of annual reports towards main information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.3 - There is no difference among the various users of the annual report regarding the main information disclosed in the annual report.

The highest rated main information by 'shareholders', 'financial institutions, and 'financial analysts' is "financial information" (mean rating of 99.68%, 100% and 96.58% respectively) followed by "general information" (mean rating of 84.62%, 98.72% and 88.89% respectively) and that by suppliers is "production Information" (mean rating of 100%) followed by "financial information" (mean rating of 86.02%).

The lowest rated main information by 'shareholders', 'financial institution' and 'financial analysts' is "personnel information" (mean rating of 16.99%, 92.31% and 42.74% respectively) and that by suppliers is 'report' (mean rating of 38.71%).

The t-test and F-test in case of shareholder (SH) & financial institution (FI), financial institution & financial analysts (FA) and financial institution & suppliers (SLR), reveals the null hypothesis, viz., "there is no significant difference among the various users of the annual report regarding the main information disclosed in the annual report", has been rejected for 4 items out of 6 items. In case of SH & FA and FA & SLR, the null hypothesis has been rejected for 3 items out of 6 items at 5 per cent level of significance. In case of SH & SLR, the null hypothesis has been rejected for 5 items out of 6 items at 5 per cent level of significance.

It is obvious from the above findings that there is no general consensus among the attitudes of various users of annual report (examined individually).

To study the consensus among the various user groups of annual reports towards item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H_0 1.4 - There is no difference among the various users of the annual report regarding the item-wise information disclosed in the annual report.

It can be observed from the t-test and F-test value for all the 6 possible user group combinations. The results of these tests reveal that the hypothesis of no difference among the various users of the annual report regarding the item-wise information disclosed in the annual report has been rejected at 5 per cent level of significance for only 20, 18, 24, 5, 17 and 14 items respectively for SH & FI, SH & FA, SH & SLR, FI & FA, FI & SLR and FA & SLR.

It is very clear from the above analysis that *there is general consensus* among the attitudes of various users towards the items disclosed in the annual report (examined individually). Spearman's rank correlation co-efficient has clearly shows that there exists a very positive, strong and statistically significant association at 5 per cent level between different possible user group combinations, except between shareholders and suppliers. So it can be concluded that there *exists a great degree of consensus* between the two groups of various combinations of user groups.

CONSENSUS AMONG THE VARIOUS SECTIONS OF SHAREHOLDERS

To study the consensus among the various age groups of shareholders towards main information disclosed in the annual report, the following null hypothesis has been formulated.

H_0 1.5 - There is no difference among the various age groups of shareholders towards the main information disclosed in the annual report.

The highest rated main information by all the age groups is, 'financial information' (mean rating of almost 100%). The lowest rated main information by the age group of 20-30, 30-40 and 40-50 is, 'personnel information' and that by 50 and above age group is, 'production information' (mean rating of 13.33%).

It can be observed that, there is complete consensus among the different age groups of shareholders on all the items of main information. This can be proved from the ranking of different main items by different age groups. Almost all the ranks assigned to each of the main items by the different age groups is the same.

In order to examine research hypothesis numbered H_0 1.5, t-test and F-test has been applied on horizontal basis (on an item by item basis). The results of these tests reveals that the above stated *hypothesis has been accepted* at 5 per cent level of significance for all the main items. The value of observed correlation coefficient is almost 100 per cent. So it can be concluded that there is *complete association* and that a *consensus* exists among the different *age groups of shareholders* regarding main information.

To study the consensus among the various age groups of shareholders towards the item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.6 - There is no difference among the various age groups of shareholders towards the item-wise information disclosed in the annual report.

The highest rated item-wise information by all the age groups are, "details on dividend, earning per share, market value of share, net profit and shareholders information" (mean rating of 100%). The lowest rated item-wise information by the age group of, 30-40, 40-50 and 50 and above is, 'details of social activities' (mean rating of 4.27%, 2.08% and 0% respectively) and that by 20-30 age group are, 'conservation of energy and details about employees' (mean rating of 1.85% each).

It can be observed that there is complete consensus, agreement among the different age groups of shareholders on almost all the item-wise information. This can be understood from the fact that the rank assigned to each of the item-wise information by the different age groups is almost identical.

The results of t-test and F-test clearly show that the above stated *null hypothesis has been verified and accepted* at a level of 5 per cent significance, for all the items by different age groups of shareholders.

The value of observed correlation coefficient clearly reveals that there exists an almost 100 per cent inter-group association among the various age group combinations. It implies that *there is complete consensus* among the different age groups of shareholders regarding the item-wise information disclosed in the annual report.

To study the consensus among the shareholders from different shareholding categories towards the main information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.7 - There is no difference among the shareholders from different shareholding categories towards the main information disclosed in the annual report.

It appears that the overall picture of the results of 1.7 hypotheses is similar to the results of the 1.5 and 1.6 hypothesis. The t-test and F-test results at 5 per cent level of significance for all the main items *justify and accepts the null hypothesis*.

The observed values of spearman's rank correlation coefficient are almost equal to 100 per cent for all the possible combinations.

To study the consensus among the shareholders from different shareholding categories towards the item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.8 - There is no difference among the shareholders from different shareholding categories towards the item-wise information disclosed in the annual report.

The results of t-test and F-test at 5 per cent level of significance for all the items of information *prove and accept the null hypothesis*. It is obvious from the above that there is

complete consensus among the attitudes of various shareholding categories of the shareholders regarding the item-wise information disclosed in the annual report. It can be concluded that *there exists a strong, positive, statistically significant association* as also a *consensus* among the different shareholding categories of the shareholders regarding items of information disclosed in the annual report.

To study the consensus among the shareholders from different years of shareholding towards the main information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.9 - There is no difference of opinion among the shareholders from different years of shareholding towards the main information disclosed in the annual report.

The result of t-test and F-test clearly indicates that at 5 per cent level of significance for all the main information, the *null hypothesis is accepted*. It implies that the opinion and attitudes of shareholders from different years of shareholding on main information is similar to each other.

The above stated null hypothesis has been tested in terms of a vertical analysis by using the results of spearman's rank correlation co-efficient. The value of observed correlation coefficient is as high as 0.9951. These findings, therefore, imply that the *degree of association* between the views of shareholders from different years of shareholding is *very high* and *there is consensus* between the groups on the relative value of main information.

To study the consensus among the shareholders from different years of shareholding towards the item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.10 - There is no difference of opinion among the shareholders from different years of shareholding towards the item-wise information disclosed in the annual report.

The highest rated item-wise information by all the categories of shareholder is, 'net profit' (mean rating of 100%). The lowest rated item-wise information by all the three categories of shareholders is, 'details of social activities', that by, below 1 year and 1 year to 5 years shareholding is, 'employees' welfare activities' and that by only 'below 1 year' shareholding is, 'brand value statement'. The results have shown that there is *very strong association* of opinion among the shareholders from different years of shareholding.

The results of t-test and F-test at 5 per cent level of significance for all the 55 items of information, *accepts the null hypothesis*. The inter-group association has been examined by applying spearman's rank correlation coefficient. There is *positive, statistically significant association* and that a consensus exists among the shareholders from different years of shareholding on the relative value of item-wise information.

To study the consensus among the shareholders from different educational qualifications on the relative value of main information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.11 - There is no difference of opinion among the shareholders with different educational qualifications on the relative value of main information disclosed in the annual report.

The results of t-test and F-test clearly indicates that at 5 per cent level of significance for almost all the main information, *the null hypothesis is accepted*. Few instances of exceptions where the null hypothesis is rejected are - 'personnel information' by 'below HSC & Degree' group of shareholders and "marketing information, personnel information and production information" by 'below HSC & Professionals' group of shareholders. In case of the above two combinations, the null hypothesis has been rejected at 5 per cent level of significance only for items 1 and 3 respectively. It implies that the opinions and attitudes of shareholders with different educational qualifications on the relative value of main information are similar to each other.

In fact, the value of observed correlation co-efficient has been placed from 0.9593 to 0.9990. These findings therefore, imply that the degree of association between the views of shareholders with different educational qualifications is very high and there is consensus between the groups on the relative importance of main information.

To study the consensus among the shareholders from different educational qualifications on the relative value of item-wise information disclosed in the annual report, the following null hypothesis has been formulated.

H₀ 1.12 - There is no difference of opinion among the shareholders with different educational qualifications on the relative value of item-wise information disclosed in the annual report.

The results of t-test and F-test clearly indicates that at 5 per cent level of significance for almost all the item-wise information, *the null hypothesis is accepted*. The only one item for which the null hypothesis is rejected is -'director's report' by 'below HSC & Professionals' group of shareholders. As per the 'below HSC qualified shareholders the director's report mean rating is 95.56 per cent and that by professional qualified shareholders mean rating for the same item of information is only 54.17 per cent. This clearly shows that the opinion and attitude of shareholders with different educational qualifications on the relative value of item-wise information is similar to each other.

In fact, the value of observed correlation co-efficient has been placed from 0.9639 to 0.9188. These findings therefore, imply that the *degree of association* between the views of shareholders with different educational qualifications is *very high* and there is *complete consensus* between the groups on relative importance of item-wise information.

To study the consensus among the users of annual report from different zones towards the main information disclosed in the annual report, the following null hypothesis has been formulated.

CONCLUSION

To sum up, the analysis of results in this section has led to the following inferences:

- i. There is no great degree of consensus between the attitudes of suppliers of the information [company] and the consumers of the information [users] towards disclosures in corporate annual reports. Stated alternatively, the results reveal that preparers [company] of annual report do not understand the informational needs of the users. The companies are not capable of meeting the corporate reporting obligations towards users. The results on the association of actual disclosure with the perception of users, suggest either a general corporate ignorance of users' informational needs or a lack of wit and will on the part of companies to fulfill the informational needs of different users.
- ii. There is a moderate level of consensus among the attitude of various users of annual reports towards disclosures in corporate annual reports. Stated alternatively, the results reveal that the level of importance placed on each and every item of information by different categories of users of the annual report are almost identical to each other.
- iii. There is a very high degree of association and consensus among the shareholders [users] from different categories [years of shareholding, educational qualifications, number of shareholding and age group] on the relative value of information disclosed in the annual reports.
- iv. There is a consensus among the users of annual report from different zones towards disclosures in corporate annual reports. The results reveal that there isn't a very high level of consensus with reference to a few combinations of zones. One of the likely reasons for a lack of consensus among these few combinations of zones could be the data, from a particular zone might have been collected dominantly from a specific group of users of annual report. This might lead to a lack of consensus among users of annual report from different zones.
- v. The results of hypothesis formulated for main information and item-wise information of an analysis has been almost similar to each other.