

CORPORATE REPORTING IN MODERN ERA: A COMPARATIVE STUDY OF INDIAN AND CHINESE COMPANIES

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ABSTRACT

The present research paper investigates the utilization of web-based facilities for communicating corporate information by companies in India and China. The sample consists of fortune 500 companies in India and China from various sectors of the economy.

Relevant characteristics of the fortune 500 companies listed in Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in India and Hong Kong Stock Exchange in China have been collected through the extensive survey on the websites of the sample units.

The survey reveals that of the fortune 500 companies in India 416 (83.20%) had active websites out of this 409 (98.31%) distributed their current year annual reports on their websites and 125 (30.05%) also included auditors' reports of the previous year. While 402 (80.40%) of fortune 500 companies in China had active websites out of this 400 distributed their current year annual reports on their websites and 23 (5.72%) also included auditors' reports of previous year.

A scoring scheme has been developed to measure the level of online corporate reporting and check the degree of corporate reporting across the various sectors. The study shows that web based corporate reporting is relatively high in the two emerging economies of Asia.

Keywords: Corporate Reporting, Financial Information, Online Reporting, Fortune 500 Companies

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I. INTRODUCTION

One of the most rapidly growing areas of internet technology is the World Wide Web, which is used for business communication in various forms. It has the potential to be used in almost all the functional areas of management and business. Recently, the companies have started reporting their financial results and other information relating to the business on their website. The internet technology provides a new platform for disseminating all this information. It is a technology that has the potential to exhibit distinctive and attractive features of information which makes it an efficient and cost effective measure as compared to the traditional methods of printed media. It offers users the facilities to access documents containing multimedia mixtures of text, graphics, sound and video in a standard format which is open to everyone. It is a fast, cheap and increasingly used media of information in business world today.

Corporate reporting is the process of communicating both financial and non financial information relating to resources and performance of a company. In present times, the increased economic, market and regulatory pressures are forcing companies to accumulate and publish information regarding financial performance, social and environmental issues, corporate governance, and marketing ads well as other information with more frequency, detail and a variety of formats. Web based corporate reporting has become quite popular during present times. Almost every company maintains its website. It has rather become mandatory with every organization to disclose information on website with the implementation of Right to information act 2005. However, the information disclosed in the website is yet to be standardized in format and content and different companies are adopting different practices in this regard.

II. OBJECTIVE OF THE STUDY

1. To survey the availability of websites for the fortune 500 companies in India and China.
2. To make a content analysis on the basis of disclosures on the websites
3. To compare the extent of on-line corporate reporting across various sectors in India and china.
4. To draw conclusion and offer recommendations.

III. REVIEW OF LITERATURE

A number of descriptive and explanatory studies have assessed the use of the Internet for communicating corporate information to stakeholders but most of these studies have focused only on on-line financial reporting. Flyn and Gowthorpe (1997) analyzed the reporting practices of the top 100 of the fortune global 500 companies and found that companies develop their voluntary reporting practices (via internet) in different way depending upon the economic and cultural background in which they are grounded.

Lymer (1997) analyzed the 50 largest UK listed companies and reported that 92% had websites with 68% of them including financial information.

Lymer and Tallberg (1997) analyzed all 72 listed companies in Finland and found that 90% had websites with 32% of them including financial reports, 11% having full reporting and 71% having partial reporting.

Gray and Debreceeny (1997) reported that in December 1996, of the top 50 fortune 500 companies in UK 49 (98%) had websites out of this 34 (68%) distributed their annual reports on their websites and 18 (36%) also included auditors reports

Xiao et-al. (1997) investigates whether contingent factors could explain the degree and pattern of IT impact on corporate financial reporting. Specifically, it examined the relationship between IT use and CFR under different levels or aspects of contingent factors, user type, listing status, gearing ratio and management compensation plan.

Matson and Leow (1998) tested the relationship between company characteristics and internet disclosure of FTSE-100 companies in UK in 1996. The evidence suggested that there was a significant positive relationship between firm size and the like hood of disclosing some financial information on the internet.

However, when the sampled companies were classified according to whether they disclosed summary and full financial information, industries classification was found to be significant variable.

Petravick and Gillet (1998) examine how quickly US companies manage to make earnings information available through the internet. They discovered that 99 out of 125 Fortune 150 companies they monitored during the first months of 1998 placed their earnings announcements on their websites the day following their announcement. This meant that in the majority of cases the internet was now as effective in communicating this information as newspapers.

Craven and Marston (1999) examined of financial information disclosure on the internet by the largest companies in the UK in 1998. They also investigated whether that information was in summary form or whether the full annual report was available. This study found a statistically significant positive relationship between the size of the company and the use and extent of disclosure on the internet. There was no significant association between industry type and disclosure.

Debreceeny and Gray (1999) studied financial reporting on the internet and its implications for external audit by surveying 45 large, listed UK, French and German corporations A total of 36 of these corporations published their annual financial statements in HTML, included the auditors report on their website. None of these reports linked back to the auditors own site. A number of issues arose when corporations provided their financial statement audits on the web.

Ettredge et al (1999) investigated companies' decisions to disseminate financial information at the corporate internet websites. Based on prior literature,

it was predicted which financial information items are likely to be preferred by analysts, proxying for sophisticated users. Consistent with the hypotheses, the results suggested that the information provided at website varies systematically with the companies' levels of analyst following and retail ownership. Higher levels of analyst following were associated with relatively objective, more abbreviated information.

Hedlin (1999) surveyed Swedish corporate websites. The survey findings showed that the companies of Stockholm Stock Exchange were well underway towards establishing a web.

Ettedje et al (2000) compared the website accounting content of 100 companies that received going concern opinions to a matched sample of companies with unmodified reports. The results indicated that the going concern opinion companies are less likely to present their audit report at their websites. However, most of them still provided accounting information of some sort; mainly unaudited quarterly reports that often include year-end results.

Hassan et al (2000) conducted the survey of Chief Financial Officers (CFOs) (or equivalent appointments) of all the companies listed in Kuala Lumpur Stock Exchange (KLSE) as the end of third quarter 1998, in order to examine the perceptions of companies on financial reporting via internet, in particular the issue of its usefulness, in addition to benefits, and cost. In total, there were 705 companies. The study observed that the benefits, both to the companies and users of financial information, are perceived to be greater than costs of adopting the internet as another means of disclosing and distributing corporate financial information. In addition, it was found that the firm's size and profitability are significant factors motivating the decision to have corporate website and to disclose financial information on such sites. Only an industry effect was found to significantly influence companies' decision to have a corporate website.

Owusu-Ansah (2000) reported on results of an empirical investigation of the timeliness of annual reporting by 47 non-financial companies listed on Zimbabwe Stock Exchange. The results of a descriptive analysis indicated that 98% of the companies in the sample reported promptly to the public. (i.e., submitted their audited annual reports to the Zimbabwe Stock Exchange by the regulatory deadline). A two-stage least squares regression identified company size, profitability and company age as statistically significant explanators of the differences in the timeliness of annual reports issued by the sample companies. No evidence was found to support the monitoring costs theory argument, which suggests that, highly-gearred companies are timely reporters.

Belal (2001) in his study reported the results of his survey of corporate social disclosures practices in Bangladesh. The main contribution of this paper was that in addition to measuring the extent and volume of disclosures by using content analysis, it explores the socio-political and economic context in which these disclosures take place.

Oyelere et al. (2001) examined the voluntary internet financial reporting practices of local authorities in New Zealand. Five variables associated with

voluntary disclosure-size, type of local authority, profitability (surplus), leverage and press visibility were examined. The result indicated that size, council type, and press visibility were associated with the local authorities' choice to report financial information on the internet. However, the result of multivariate analysis indicated that only size and type of council were associated with the quantity and type of financial disclosure on the internet.

Martson and Polei (2004) made a research of the 50 biggest German corporations for 2002 and 2003. Research for 2002 and 2003 showed that total internet site quality score was significantly and positively correlated with the listing of shares on foreign exchanges. After data transformation, the variable of percentage of free float of shares was also positively correlated with the level of financial reporting for both the years covered by the analysis.

IV. DATA AND METHODOLOGY

Sample

The sample includes the fortune 500 companies listed in both Bombay Stock Exchange and National Stock Exchange in India and fortune 500 listed in Hong Kong Stock Exchange in China. All the fortune 500 companies in India and China were given priority.

The companies were categorized into 15 sectors in order to measure the level of online corporate reporting and check the degree of corporate reporting across all sectors. The sector includes.

Table 1: Sample Distribution of Indian and Chinese Companies

Sector	No of companies	
	India	China
Banking and Finance	54	73
Engineering and electricals	67	28
FMCG and allied products	39	61
Fuel and power	8	13
Textile and clothing	53	42
Pharmaceuticals	35	15
Service and real estate	23	19
Information technology (IT)	47	50

Insurance	16	6
Cement	7	17
Jute	14	27
Ceramics	4	46
Tannery (footwear)	19	28
Paper and printing	12	9
Diversified	102	66
Total	500	500

Collection of Data

Data for this study were collected from the websites of fortune 500 companies listed in their respective stock exchange. Corporate websites of sample companies were browsed for collecting data relating to corporate reporting on the internet. In the first step, the location of corporate website of the sample companies were identified, the websites of Stock Exchange were used to locate the homepage of the respective companies, in case of unavailability of such link, popular search engines such as

Google, MSN, Yahoo etc were used to locate the homepage of the respective firms. The period for collecting data relating to corporate reporting on the internet was from 1st September 2008 to 5th November, 2008. MS Excel was used to analyze the data

Tools for Analysis

In the first stage of content analysis the document to be analyzed was decided. Corporate websites constituted the document to be analyzed for the present study. The corporate websites were analyzed during the period of data collection.

In the second stage, means of measuring the level of online corporate reporting was determined. To measure the level of online reporting quantitatively, a scoring scheme was developed.

A score of 1 was awarded if an item was reported; otherwise a score of 0 was awarded.

Finally a checklist instrument was developed which contained 20 attributes, consequently a firm could score a maximum of 20 points and a minimum of 0.

Table 2: Distribution of sample companies in India & China

SL No	Sector	No of companies with websites				No of companies without websites				Websites Not accessible/ under construction/ Not in use				Total			
		India		China		India		China		India		China		India		China	
		No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
1	Banking, leasing and finance	47	87.03%	66	90.41%	2	3.70%	2	2.74%	5	9.26%	5	6.85%	54	10.80%	73	14.60%
2	Engineering and electrical	62	92.54%	21	75.00%	3	4.78%	0	0.00%	2	2.99%	7	25.00%	67	13.40%	28	5.60%
3	FMCG and allied products	32	82.05%	55	90.16%	0	0.00%	4	6.56%	7	17.95%	2	3.28	39	7.80%	61	12.20%
4	Fuel and power	5	62.5%	9	69.23%	1	12.5%	0	0.00%	2	25%	4	30.77%	8	1.60%	13	2.60%
5	Textile and clothing	41	77.36%	33	78.57%	4	7.53%	7	16.67%	8	15.09%	2	4.76%	53	10.60%	42	8.40%
6	Pharmaceuticals	22	62.86%	7	46.67%	0	0.00%	0	0.00%	13	37.14%	8	53.33%	35	7.00%	15	3.00%
7	Service and real estate	16	69.57%	16	84.21%	4	17.39%	1	5.26%	3	13.04%	2	10.53%	23	4.60%	19	3.80%
8	Information technology (IT)	43	91.48%	47	94.00%	0	0.00%	0	0.00%	4	8.51%	3	6.00%	47	9.40%	50	10.00%
9	Insurance	12	75.00%	2	33.33%	2	12.5%	2	33.34%	2	12.50%	2	33.33%	16	3.20%	6	1.20%
10	Cement	4	57.14%	9	52.94%	0	0.00%	4	23.44%	3	42.86%	4	23.53%	7	1.40%	17	3.40%
11	Jute	11	78.57%	22	81.48%	1	17.14%	1	3.7%	2	14.29%	4	14.81%	14	2.80%	27	5.40%
12	Ceramics	3	75.00%	36	78.26%	0	0%	4	8.69%	1	25.00%	6	13.04%	4	0.80%	46	9.20%
13	Tannery(footwear)	17	89.47%	23	82.14%	2	10.53%	0	0.00%	0	0.00%	5	17.86%	19	3.80%	28	5.60%
14	Paper and printing	8	66.67%	5	55.56%	3	25.00%	1	11.11%	1	8.33%	3	33.33%	12	2.40%	9	1.80%
15	Diversified	93	91.18%	51	72.27%	0	0.00%	3	4.55%	9	8.82%	12	18.18%	102	20.4%	66	13.20%
	Total	416	83.20%	402	80.40%	22	4.40%	29	5.80%	62	12.4%	69	13.80%	500	100%	500	100%

Source: annual reports of companies

Chart 1: Distribution of sample companies in India

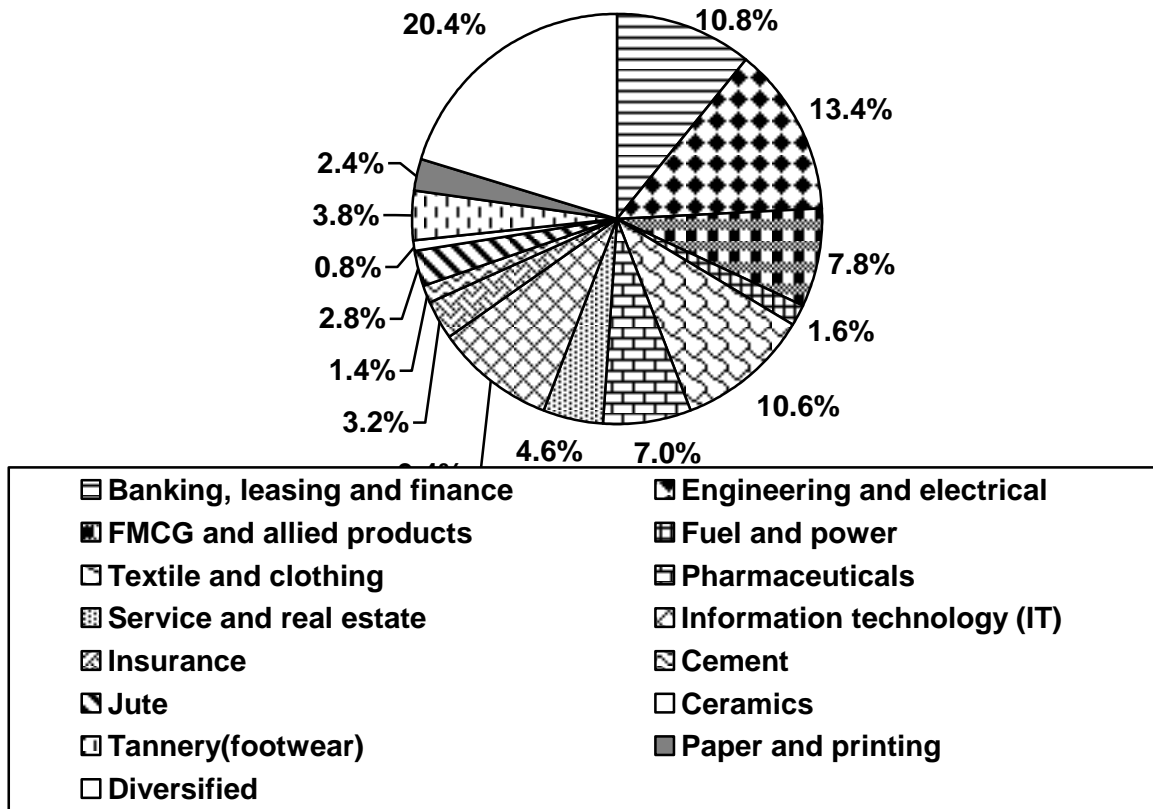
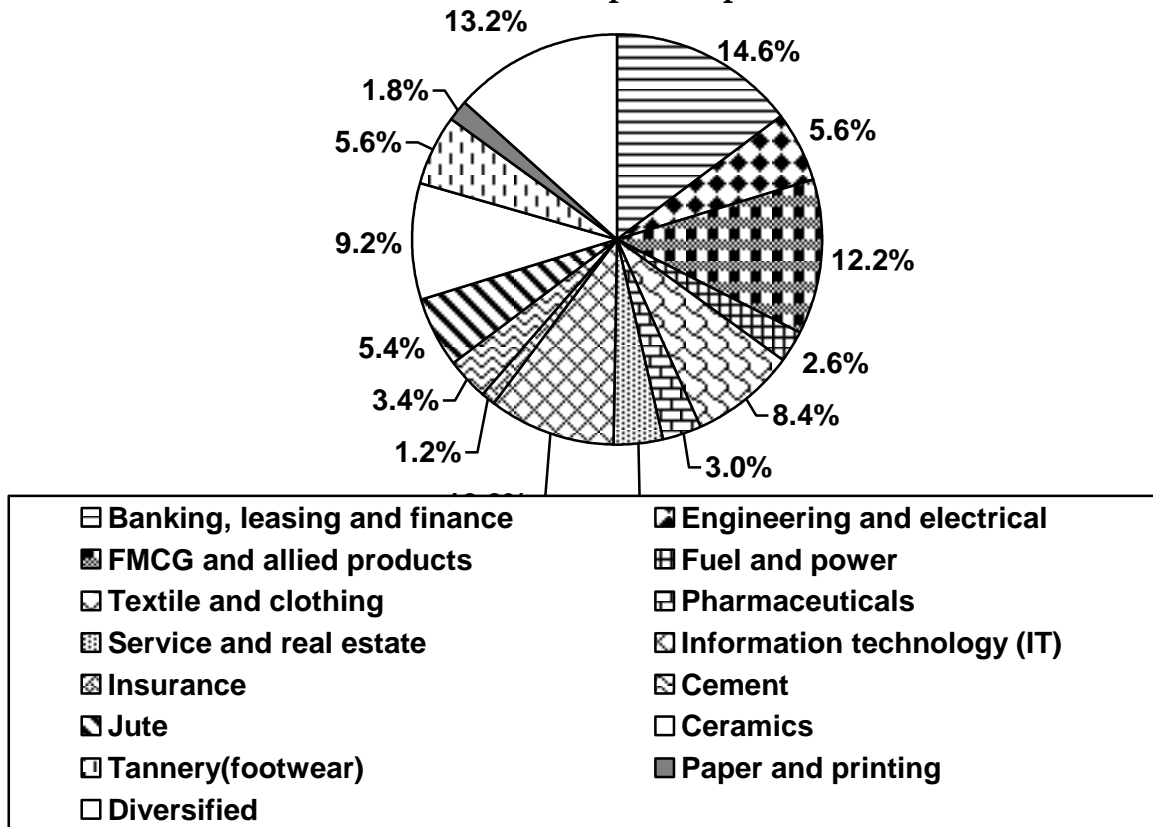


Chart 2: Distribution of sample companies in China



V. EMPIRICAL RESULTS

Of the fortune 500 companies in India, 416 (83.2percent) had active websites while 22 (4.6 percent) companies did not have any website and the websites of the remaining 62 (12.4 percent) companies were not accessible/under construction/not in use during the period of this study as compared to Chinese fortune 500 companies 402 (80.40 percent) had active websites, 29 (5.80 percent) did not have any website and the websites of 69 (13.80) companies were not accessible/ under construction / not in use during the study period. **Table 2**

The sample companies have been distributed into 15 sectors in each country. Of these 15 sectors Engineering and Electrical in India had the highest number of websites with 92.54 percent and the cement industry had the lowest number of websites 57.14 percent. While in China the Banking, Leasing and Finance had the highest number of websites with 90.41 percent companies having websites while the insurance sector had the least number of websites.

For companies not having websites in India (22 companies) include the local subsidiaries of 2 multinational companies (MNCs) as compared to 6 (MNCs) in China that do not have local websites but the parent companies of these (MNCs) have websites.

Table 3: Ranking of the sectors in India and China

S. No.	Sector	Reporting score		Sector-wise average reporting score		Rank	
		India	China	India	China	India	China
1.	Banking, leasing and finance	756	1033	16.09	15.65	4	6
2.	Engineering and electrical	1132	356	18.26	16.95	3	4
3.	FMCG and allied products	632	732	19.75	13.31	1	11
4.	Fuel and power	77	77	15.40	8.56	6	15
5.	Textile and clothing	651	421	15.88	12.76	5	13
6.	Pharmaceuticals	321	87	14.59	12.43	7	14
7.	Service and real estate	216	212	13.50	13.25	8	12
8.	Information technology (IT)	798	732	18.56	15.57	2	5
9.	Insurance	126	27	10.50	13.50	9	8
10.	Cement	32	121	8.00	13.44	12	10
11.	Jute	106	375	9.64	17.05	11	3
12.	Ceramics	16	514	5.33	14.28	14	7
13.	Tannery (footwear)	122	399	7.18	17.35	13	2
14.	Paper and printing	41	67	5.13	13.40	15	9
15.	Diversified	938	978	10.09	19.18	10	1

Source: Annual reports of companies

Table 4: Descriptive Statistics of Indian and Chinese companies

Item	Company		Sector	
	India	China	India	China
No of observations	416	402	15	15
Mean	14.34	15.25	397.6	408.73
Median	13.5	14.37	216	375
Standard of Deviation	14.86	11.65	380.05	331.19
Maximum	15	19	1132	1033
Minimum	1	3	16	27
Range	14	18	1116	1006

Source: Calculated Values

Table 4 provides a descriptive of 416 fortune 500 Indian companies and 15 sectors. The mean of the reporting score (RS) for the 416 listed companies for all 20 items is 14.34 points indicating a high level of online corporate reporting. While the mean of 402 Chinese companies is 15.25 points (Table 4), this indicates that online corporate reporting in China is relatively higher than India. The standard deviation for 416 Indian companies is 14.86 points and their reporting score ranged from 1 to 15 points as compared to Chinese companies having a standard deviation of 11.65 with a reporting score ranging from 3 to 19 points indicating a high variation in disclosure level of corporate information on corporate websites. (Table 4)

The mean of reporting score (RS) for 15 sectors of fortune 416 Indian companies is 397.6 points and 408.73 points in fortune 402 companies in China which indicates a high level of online reporting in different sectors in both countries. The standard deviation for 15 sectors is 380.05 in India and 331.19 in China their reporting score is ranged from 16 points to 1132 points and 27 points to 1033 points respectively, indicating a wide variation in disclosure level of corporate information on corporate websites.

VI. REPORTING OF FINANCIAL INFORMATION

Out of 416 fortune 500 Indian companies 415 (99.76%) reported at least 1 financial item whereas 1 (0.24%) company did not report any single item (Table 6). While all 402 of fortune 500 companies in China with websites reported at least one financial information (Table 7).

As regards to the items relating to annual reports companies either published the full annual report or different annual report items separately (e.g. Balance sheet, Profit and loss account , Auditor's report etc) at their websites. The annual reports of current year and past years were provided online by 409 and 366 respectively by 416 of fortune 500 companies in India and 400 and 207 respectively by 402 of fortune 500 companies in China (Table 5).

Cash flow statements of current year and past years were made available online by 327 and 102 companies respectively in India and 334(83.08 percent) and 102 (25.37 percent) companies respectively in China.

Financial attributes of Indian and Chinese companies

Table 5: Financial attributes as on 1st September 2008 to 5th November 2008

ITEM	India		China	
	No	%	No	%
1. Balance sheet and profit & loss account of the current year	406	97.60%	398	99.00%
2. Interim statements of current year	288	69.23%	209	51.99%
3. Cash flow statements of current year	327	78.60%	334	83.08%
4. Notes to financial statements of current year	213	51.20%	156	38.80%
5. Auditor's report of current year	331	79.57%	331	82.34%
6. Annual reports of current year	409	98.31%	400	99.50%
7. Balance sheet and profit and loss account of past years.	354	85.10%	179	44.52%
8. Interim statements of past years	45	10.82%	147	36.57
9. Cash flow statements of past years	102	24.52%	102	25.37%
10. Notes to financial statements of previous year	97	23.32%	367	91.29%
11. Auditor's report of previous year	125	30.05%	23	5.72%
12. Annual report of past years	366	87.98%	207	51.49%
13. Financial ratios	17	4.09%	134	33.33%
14. Segment reporting	72	17.31%	213	52.99%
15. Financial reports of subsidiaries	111	26.68%	26	6.47%
16. Current share prices	216	51.92%	207	51.49%
17. Share price history	103	24.76%	18	4.48%
18 Press release of news	342	82.21%	188	46.77%
19. Reports of analysts	96	23.08%	2	0.50%
20. Analysts list	32	7.69%	0	0.00%

Source: Annual reports for various sample companies

Table 6: Number and percentage of fortune 500 Indian companies reporting at least one financial information

Item	Number	Percentage
Financial information (Reported at least one financial information)	415	99.76%
No financial reporting information	1	0.24%
Number of websites	416	100%

Companies belonging to Engineering and Electrical sector in India and Diversified sector in China were the best performers in terms of online reporting. While companies belonging to Paper and printing and Pharmaceuticals respectively were worst performers as most of them reported less than 5 financial items in both countries.

Ranking of sectors has been done based on sector-wise average reporting score. Table 3 provides the ranking of sectors.

Table 7: Number and percentage of fortune 500 Chinese companies reporting at least one financial information

Item	Number	Percentage
Financial information (Reported at least one financial information)	402	100%
No financial reporting information	0	0.00%
Number of websites	402	100%

VII. CONCLUSION

The present study investigates the situation of online corporate reporting practices by fortune 500 companies in India and fortune 500 companies in China. The study as used a sample of 1000 companies and found that out of 1000 companies (fortune 500 Indian and fortune 500 Chinese companies), 818 companies had active websites and most of the financial items were distributed on the websites.

A general conclusion of the study is that online corporate reporting in both the countries is relatively high. Only 18.20 percent out of the 1000 companies were found not to be having websites.

VIII. RECOMMENDATIONS

1. Companies should regularly update the information provided on the websites otherwise it will lose relevance for decision making

2. Most companies in both countries have provided the information only in English which not all consumers in India or China are familiar too. Therefore companies should provide information on their websites both in English and Hindi in India and English and Chinese in China to avoid companies losing potential consumer information.

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