Determinants of Disclosure Quality in Pakistani Corporate Culture

Abstract

Purpose- Transparency and disclosure are important components of corporate governance. The main purpose of this paper is to examine the corporate governance attributes that explain the level of disclosure quality of the firms listed on Karachi Stock Exchange.

Design/Methodology/approach- For estimating the relationship between corporate governance attributes and disclosure quality, we used the multiple regression technique in this study. The corporate governance attributes are audit committee independence, CEO / chair duality, shareholder's concentration, keeping the size and market to book value as control variables.

The sample consists of 198 non-financial companies listed on Karachi stock exchange for the period 2010. Information has taken from the annual reports of the firms.

Findings- There is the positive relationship between audit committee independence, firm size, Market to book value and disclosure quality; on the other hand, there is a negative relationship between disclosure quality, CEO / chair duality and ownership concentration.

Research Limitations- The data covers year 2010 only, consisting of 221 companies listed on the Karachi Stock Exchange covering different sectors other than financial.

Practical implications- This study provides a measure of disclosure quality by constructing a disclosure index for Pakistani listed firms. The study sees the impact of various corporate governance variables that may influence the quality of disclosure practices. Findings of this study contribute to an understanding of disclosure behavior of the publicly listed firms in Pakistan. This study has some policy recommendations with regard to corporate governance practices, and it helps to develop the disclosure strategies as a tool to improve disclosure quality for the publicly listed firms. The Pakistan Institute of corporate governance (PICG) incorporates these findings in reviewing the code of corporate governance for Pakistani listed firms. This research study also provides a basis for further research in this area. To refine the results more one can use the data for several years and adding more variables in the model.

Introduction

Transparency and disclosure are important components of corporate governance. The limited transparency or firm opacity to outside investors has been a subject of serious concern and, consequently, has raised the awareness of the importance of sound corporate governance systems as a way to protect outside shareholder rights (Byun et al., 2008). Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholders (equity and bondholders), mitigating the agency problem in corporate governance (Standard & Poor's Transparency and Disclosure, 2002). The focus of this study will be to investigate whether the disclosure practices adopted by the listed companies in their annual reports are of sufficient quality that satisfies the information needs of the investors. In this study, the relationship between corporate disclosure that is integral to corporate governance and other governance attribute for publicly listed firms on Karachi Stock Exchange is determined.

After the promulgation of the corporate governance act in Pakistan, this study attempts to investigate, the governance factors that cause high quality disclosure practices in Pakistani context. The estimated equation formed based on 221 sample companies strongly indicate that audit committee independence and chairperson duality matters for disclosure practices even though results could not support that ownership concentration have strong influence on disclosure practices. This suggests that audit committee independence and duality serve as an important governance mechanism to ensure high quality disclosure practices, which ultimately helps firms to improve their disclosure practices.

At the beginning of 21st century, notorious corporate frauds were considered as proof of failure of then prevailing models of corporate governance, and of the dangers of lack of disclosure. Disclosure, whether voluntary or mandatory, would have the virtue of reducing information asymmetries and of allowing effective oversight of managers, and re-establishing good governance.

If a company discloses more information that facilitates the monitoring of management decisions by shareholders, this will reduce monitoring costs and in return company's cost of capital will also reduce. Investors' desire transparency, companies can receive a premium for more disclosure on a voluntary basis, and investors will charge a lower price on providing the capital.
Shah and Butt (2009) discussing about the Pakistani corporate culture say that in Pakistan, the business sector traditionally dominated by family-owned companies and non-professional boards of directors. Many such families often expropriate the dues of other stakeholders. This means that for a family controlled company to become a truly public company, a very high level of agency costs is involved, pushing up the company's weighted average cost of capital. The high cost of equity is a severe deterrent for the managers and serious impediments to attempts to raise additional funds. If companies succeed in gaining, sustaining the confidence of the investing

public, their cost of equity will shrink, and this will bring down the threshold of internal rate of return sought from new projects, thus opening the door for expansion and diversification with positive consequences for the company, its stakeholders, and the country.

The remainder of this paper is structured as follows. In the next section, we review the literature on corporate disclosure. The following section provides a discussion on hypothesis development. The third section explains the methodology used to test the hypothesis developed for this study. The fourth section reports the results leading to a conclusion, implication and limitations of the study.

Review on Previous Research

Corporate disclosure is one of the most important elements of corporate governance. Availability of information is essential to minimize the information asymmetry between insiders and outsiders, and to allow general investors to assess company's performance. Auditors, standard setters and capital market intermediaries enhance the credibility of the financial disclosure by the managers.

Cheung et al., (2010); Marston and Shrives (1991) describe the two forms of information disclosure, required disclosure and voluntary disclosure. Required disclosure lay down by statute, professional regulations and the listing requirements of stock exchanges. The extent to which companies comply with legal and regulatory requirements depends on the strictness of laxity of the government, professional and other regulatory bodies. Marston and Shrives (1991) define voluntary disclosure as, the disclosure in excess of the minimum; it arises where corporate perceptions of the benefits arising to outweigh the costs. Voluntary disclosure increases the transparency of the company and reduces information asymmetry between insiders and outsiders. That can promote management accountability and reduce the monitoring costs of investors. Investors give reward companies for more disclosure, particularly for voluntary disclosure.

Demand for financial reporting and disclosure arises from information asymmetry and agency conflicts between managers and outside investors; three potential solutions for information asymmetry suggested by (Healy and Palepu, 2001). One is optimal contracts between entrepreneurs and investors; this will provide incentives for full disclosure of private information, thus eliminating the mis-valuation problem. Another potential solution is regulations, which requires a manager, to disclose their private information fully. Finally, effective information intermediaries, such as financial analysts and rating agencies, who engage in private information production to uncover managers' superior information, can resolve the problem.

The voluntary disclosure literature discusses various factors that determine the manager's decision of disclosure. Healy and Palepu (1993, 1995) suggest that managers which anticipate making capital market transactions have incentives to provide more disclosure to reduce the information asymmetry problem; thereby reducing firm's cost of external financing. Boards of directors and investors hold managers accountable for current stock performance; therefore, managers use corporate disclosure to reduce the possibility of under valuation and to justify poor earnings performance. Stock-based compensation plans provide incentives for managers to engage in more disclosure. First is the restriction on insider trading provides managers with incentives to make voluntary disclosure to correct any perceived under valuation and to increase the liquidity of the firm stock prior to expiration of stock option awards. Second is firms that use stock compensation extensively are therefore, likely to provide additional disclosure to reduce the risk of mis-valuation otherwise managers will demand additional compensation to reward them for bearing any risk associated with mis-valuation.

Trueman (1986) argues that talented managers have an incentive to make earnings forecast to reveal their type. The earlier the investors infer that manager has received information, the more favorable will be their assessment of manager’s ability to anticipate future changes and higher will be the firm’s market value. Managers are also concerned about that the increase disclosure can damage their competitive position. In this, situation firms have incentives not to disclose information that will reduce their competitive position, even if it makes it more costly to raise additional equity.

Holthausen (1981) discusses about the economic consequences of changes in disclosure described that both the positive accounting theory and voluntary disclosure research have examined the economic consequences of changes in disclosure. The former has focused on the effects of changes in accounting standard or methods while the latter has focused on the capital market response to changes in corporate disclosure. In the positive accounting theory literature, there is generally no significant relation between stock return at the announcement of the accounting standard change and contracting or political cost explanations.

The voluntary disclosure literature studies argue that there are three potential outcomes for firms making extensive disclosure: improved liquidity (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994; Healy et al., 1999; Welker, 1995). Reduction in cost of capital (Botoson, 1997; Botoson and Plumlee, 2000) or increased information intermediation (Lang and Lundholm, 2000; Healy et al., 1999; Francis et al., 1998).

Hypothesis Development

Corporate governance is said to promote corporate transparency and accountability, is predicted to have a significant association with voluntary disclosure. Jensen (1993) argues that board composition and board leadership structure are associated with the board monitoring incentives. Audit committee is one of the main committees of the board. Following hypothesis is proposed to see the influence of audit committee independence on disclosure quality:

Hypothesis 1: Audit committee independence leads to better quality disclosure practices.

The composition of audit committee with insiders and outsiders is an important factor in examining level of disclosure. Ho and Wong (2001) find the existence of an independence audit committee a determinant of level of voluntary disclosure, describes the presence of an audit committee a main factor that significantly influences the magnitude of corporate disclosure. Foker (1992) regards the audit committee as an effective monitoring tool to improve disclosure and reduces agency costs, although he failed to document evidence concerning the influence of audit committee on firm's disclosure quality for UK context. Collier (1993) argues that an independent audit committee helps to ensure that the financial accounting and control system work well. Pincus et al., (1989) says that the establishment of audit committees aims to assist the outside directors of the board to fulfill their statutory duties in financial reporting. The incentives of audit committees to perform their oversight functions are largely determined by the independence of their members and their qualifications. This also reflected in the Cadbury report (1992) that emphasizes the importance of having at least three non-executive directors with written terms of references of audit committee. Empirical studies on the monitoring incentives of audit committees by (Abdullah and Nasir, 2004; Salleh et al., 2004) fail to show the significant influence of audit committee independence on earnings management and accrual management in Malaysian context. The evidence of the influence of audit committee independence on quality of disclosure is mixed. For observing the role of CEO role duality on disclosure quality in Pakistani context, the following hypothesis is formed for testing;

Hypothesis 2: CEO role duality negatively influences disclosure quality.

Khodadadi et al., (2010) referring that Cadbury report (1992) recommends that, there should be balance of power among board members. No one allowed to have "unconstrained" control over the decision process in the firm. To assure the balance of power and the liabilities of board members, it is required that responsibilities splitting in senior levels of the firm to be clearly identified. Regulatory bodies and investors prefer separation of the role of CEO and chairperson of board of directors. Separation of role duality is to curtail the monitoring position of CEO. Boards of directors are expected to have a positive impact on company performance (Yuen et al., 2009) if CEO monitors board because of his role duality, board will not be expected to improve the performance of the company. A dual role is expected to contribute to ineffective monitoring.

Lakhal (2003); Gul and Leung (2004) conclude the negative impact of CEO duality on disclosure practices of firms. Mir and Nishat (2004); Hasan and Butt (2009) in evaluating corporate governance structure and firm performance in Pakistan conclude that if CEO also acts as the chairperson of the board the firm performance is adversely affected. In Pakistan, corporate sector is characterized by the concentration of ownership, to observe the effect of the ownership concentration on disclosure quality we can thus form the following hypothesis and test in the Pakistani context that;

Hypothesis 3: Concentration of ownership negatively affects disclosure quality.

According to the efficient monitoring hypothesis, increased outside ownership serves to monitor managers' actions and reduces the possibility that managers will withhold information for their self-interest. Jensen and Meckling (1976) point out potential agency problems are associated with concentration of ownership. Hossain et al., (1994) mention that information disclosure is likely to be greater in firms where ownership is widely dispersed. Firms with concentrated shareholdings should have greater control over minority shareholders. Yuen et al., (2009) describe that controlling owners are likely to be less dependent on transparency and information disclosure, and they can obtain information directly from informal channels. Hence, a company with a centralized ownership structure will be reluctant to disclose additional information.

Methodology

Target Population of the Study

Target population of the study is the non-financial companies listed on the Karachi Stock Exchange for the period 2010. Currently 651 companies listed on the Karachi Stock Exchange spanning over different sectors, as at June 2009 the Market capitalization of the Karachi Stock Exchange was US $26.48 billion.[1]

Data Collection Methods

Firm level data about the corporate governance attributes and the firm characteristics is collected from the annual reports of the companies. Annual reports are downloaded either from the company's websites or from the Karachi Stock exchange website. Some are directly requested from the SECP. 221 non-financial companies are used for this study.

Table 2 provides the information about the selected variables for this study, as well as their sources of information.

[1] www.kse.com.pk

Table: 2

Variable	Acronym	Measurment	Source of information
Disclosure Quality	Discl.	Disclosure index	Company annual report for financial year ending 2010
Audit Committee independence	ACI	Proportion of non executive Directors to total directors in audit committee	Company annual report for financial year ending 2010
DUALITY	Dual.	1 with role duality and 0 with no role duality	Company annual report for financial year ending 2010
Ownership concentration	Conc.	Sum of the ownership ratio of the largest shareholders possessing equal to or more than 10 % of shareholding.	Company annual report for financial year ending 2010
Size of the firm	Size	Log of the total assets	Company annual report for financial year ending 2010
Market to book value	MB	Market value of equity by the book value of equity	Company annual report for financial year ending 2010

To provide evidence of the impact of governance attribute on disclosure practices this study used the following multiple regression equation:

$$\text{Discl.} = \alpha + \beta_1 \text{ ACI.} + \beta_2 \text{ Dual.} + \beta_3 \text{ Conc.} + \beta_4 \text{ Size} + \beta_5 \text{ MB} + \varepsilon i$$

where,

Discl. = Disclosure Quality
α = inception of the regression line
β = Coefficient (Slope of the regression line)
ACI = Audit Committee independence
Dual. (Dummy variable) = CEO Duality
Conc. = Concentration of ownership
Size = Natural log of Total assets used as a proxy of size of the company.
MB= Market to Book value
εi = standard sample error

Measurements:

Dependent Variable

Disclosure Quality: Disclosure index developed for the study is used as a measure of disclosure quality. The maximum score that a company can obtained on this index is 100. The aggregate score obtained by summing the score obtained in five sub- categories: Corporate Objectives (6 points) Directors' Report (24 points), Disclosure Score (18), Stakeholders' Information (20 points), Corporate Governance (32 points). The appendix presents the detailed of the index used to compute disclosure quality score by the companies.

Explanatory Variables

Audit committee independence is measured by the percentage of non-executive directors in audit committee (number of non-executive directors on audit committee divided by the total number of directors on audit committee (Shah, Butt, & Hasan, 2009; Shah & Butt, 2009).

CEO Duality A dummy variable is used for this variable i.e., CEO is also the chairperson = 1; 0 otherwise.

Ownership concentration is measured by the sum of the ownership ratio of the largest shareholders who possess equal to or more than 10 % of shareholding.

Control Variables

Firm level characteristics that may affect the disclosure level are controlled based on literature review that are;

Firm Size: Log of total assets (i.e., Abor, 2007; Pham et al., 2007; Haat et al., 2008; Botoson, 1997; Botoson and Plumlee, 2000; Ashbaugh et al., 2004).

M/B ratio: Ratio of market value of firm to book value of firm (i.e., Pham et al., 2007; Ashbaugh et al., 2004).

Results and Analysis

Descriptive Statistics

Table 3 shows the descriptive statistics of all the variables. It is noticeable from the table that average score of the disclosure is 40.82. The range of the disclosure is from 20 to 92.6, with standard deviation 16.5. The result indicates that none of the companies discloses all the information items determined in this study. That is, no company has a disclosure score of 100. Moreover, a few companies possess disclosure score 20 that reveals their very low level of disclosure.

Audit committee independence ratio ranges from 0, means there is no non-executive director in audit committee to 1, when all the members in audit committee are non-executive. Ownership concentration ranges from 0%, when there is no shareholder holding more than 10% of the ownership right to 98%, when concentration of ownership is in few hands. The average size of the sample companies included in this study is Rs.12,291,103(in million) with the largest Asset value Rs.228,867,651(in millions) to smallest Assets value of Rs. 1,377(in millions). Market to book value ranges from -2.14 to 19.29, with mean value of 0.98.

Table: 3 Descriptive Statistics

Table 3 presents the descriptive statistics for firm characteristics of the sample companies. Discl.is the disclosure score, measured by the disclosure index developed for this study. The audit committee independence(ACI) is the ratio of the non executive directors by the total number of directors in the audit committee, ownership concentration(Conc.) is the sum of the 10% or more share holding by a single shareholder, size is the book value of the company's assets, MB is the ratio of market value to the book value of the company's equity.

Descriptive Statistics

	N	Min.	Max	Mean	Std. Deviation
Discl.	221	20	92.6	40.82	16.50
ACI	221	0	1	0.81	0.21
Conc.(%age)	221	0	98.1	50.07	24.95
Size (Rs. in 000)	221	1377	228867651	12291103	30604755
MB	221	-2.14	19.29	0.98	2.21

Hypothesis Testing

The data analysis is to test whether corporate governance mechanism is significant predictors of disclosure quality. Hypothesis developed from H1 to H3 states that corporate governance mechanism leads to higher level of disclosure quality.

Table 4 shows the correlation results among all the independent and dependent variables.

Test results show that all the correlation coefficients between the dependent and independent variables are less than 0.9, so there is no multicollinearity found between the selected variables.

Table: 4 **Correlations**

Table 4 presents the correlation co-efficient among the selected variables. Discl.is the disclosure score, measured by the disclosure index developed for this study. The audit committee independence(ACI) is the ratio of the non executive directors by the total number of directors in the audit committee,, CEO duality (Dual) is a dummy variable, it is equal to 1 if CEO is also the chairperson and 0 otherwise, ownership concentration (Conc.) is the sum of the 10% or more share holding by a single shareholder, size is natural log of the total assets of the company's assets, MB is the ratio of market value to the book value of the company's equity.

	Discl.	ACI	CEO Duality	Own. concentration	Size	M/B
Discl.	1					
ACI	0.236 (0.000)	1				
CEO Duality	-0.318 (0.000)	-0.179 (0.007)	1			
Own. concentration	0.122 (0.070)	0.097 (0.153)	-0.138 (0.040)	1		
Size	0.347 (0.000)	0.136 (0.043)	-0.166 (0.013)	0.188 (0.005)	1	
M/B	0.334 (0.000)	0.056 (0.408)	-0.126 (0.062)	0.189 (0.005)	0.106 (0.115)	1

To test the hypothesis developed for this study multiple regression technique is used.

Table 5 shows the regression results. The multiple correlation coefficient (R) is 0.581 ($R2=0.338$) and the adjusted R2 is 0.322, indicates that 33% of the variation in Disclosure Index can be predicted from the selected independent variable.

The regression results show that audit committee independence has significant and positive relationship with disclosure quality ($\beta = 10.988$, sig. <.05). It suggests that companies with more independent audit committee intend to disclose more information. It strongly supports the Hypothesis 1; Audit committee independence leads to better quality disclosure practices.

CEO duality has significant negative relationship with disclosure quality ($\beta = -6.479$, sig. <.01). these results are consistent with Lakhal (2003); Gul and Leung (2004) who also found that CEO duality and voluntary disclosre in Hong Kong are negatively related. Our results also depicts that companies with role duality will not disclose more information. It supports the hypothesis 2 that CEO role duality negatively influences disclosure quality.

The regression result showing the negative relation between ownership concentration and disclosure quality (β= -.009) although the relationship is not significant (sig.> .05). Therefore, statistically it not supports the Hypothesis 3 that Concentration of ownership negatively affects disclosure quality. Consistent with Murica and Santos (2010) also got the positive relation with the less concentrated control and level of disclosure but results are not significant.

Size of the companies is showing the positive and significant relation with disclosure quality (β = 8.221, sig. <.01) suggests that greater the size the greater will be disclosure quality. M/B ratio is also depicting the positive and significant relation with disclosure quality (β= 1.903, sig. <.01).

Table: 5 **Regression Results**

Table 5 presents the regression results. Dependent variable is the disclosure quality that is measured by the disclosure index developed for this study. Among the independent variables are Audit committee independence, this is the ratio of the non executive directors by the total number of directors in the audit committee, CEO duality is a dummy variable, it is equal to 1 if CEO is also the chairperson and 0 otherwise, ownership concentration is the sum of the 10% or more share holding by a single shareholder, firm size is natural log of the total assets of the company's assets, M/B is the ratio of market value to the book value of the company's equity.

Coefficients				
	B	Std. Error	t statistics	Sig.
(Constant)	-0.688	9.214	-2.245	0.026
ACI	10.988	4.472	2.457	0.015
Duality	-6.479	1.995	-3.247	0.001
Own. concentration	-0.009	0.038	-0.231	0.817
Size	8.221	1.325	6.207	0.000
M/B	1.903	0.425	4.474	0.000
Dependent Variable: Disclosure quality				
R	0.581	R- square	0.338	
Adj. R-square	0.322	F Statistics	21.914	

Discussion

The regression outcomes indicate that quality of disclosure depends on the quality of the governance; specifically audit committee independence and chairperson duality. According to the regression results, audit committee independence significantly and positively influencing disclosure quality and CEO duality has negative relation with disclosure quality. Accordingly, audit committee independence leads to better disclosure practices by the firms and if CEO duality exist firms would not practice the better disclosure. Ownership concentration is also a hurdle to better disclosure but results are not significant.

The significant relation of audit committee independence and CEO duality to disclosure quality also supports the theory that more independence of board minimizes information asymmetry problems that leads to less agency problems. If a board include sufficient number of non-executive directors and is chair by the person other than CEO, the board will be more independent, have more control on the resources of firm and have more check and balance on the board decision.

In consistent with the findings of (Ho and Wong, 2001; Collier, 1993; Forker, 1992) presence of independent audit committee positively and significantly influence quality of disclosure. Presence of audit committee dominated by non-executive directors also signals the more independent board decision and less information asymmetry. This helps to minimize the agency problems between inside and outside stakeholders.

Supporting the Fama and Jensen (1983) that the role of chief decision management authority (CEO) should be separated from the role of chief decision control authority (chairperson); this separation facilitates the judicious utilization of firm’s resources. Presence of CEO/Chair duality signals the absence of separation of decision management and decision control and it ultimately leads to agency problems. This is also in consistent with (Gul and Leung, 2004; Lakhal, 2003). Mir and Nishat (2004); Hasan and Butt (2009) conclude the adverse impact of CEO duaity on performance in Pakistan, the same we can conclude that CEO duality is also a hurdle for providing quality information and causes information asymmetry between inside and outside stakeholders.

Shah and Butt (2009) highlight that family owned businesses elect their non-professional boards of directors based on their links with concentrated ownership. With company permanently controlled by one family with limited access to funds and restricted professional base, the decisions making process at the board level is apt to stagnate. Such companies are deemed to make decisions only to protect their own interest and fail to gain the interest of the investing public. This negatively intimates the market and outside investors are reluctant to put their money in such firms, and firms may face higher cost for raising funds through market.

Jensen and Meckling (1976) point out potential agency problems are associated with concentration of ownership. According to Hossain et al., (1994) information disclosure is likely to be greater in firms where ownership is widely dispersed. Yuen et al., (2009) also pointed the fact that controlling owners are likely to be less dependent on transparency and information disclosure and they can obtain information directly from informal channels. Hence, a company with a centralized ownership structure will be reluctant to disclose additional information. But these finding could not be supported. The Hypothesis that concentration of ownership negatively affects disclosure quality is not statistically proved.

Summary and Conclusion

After running the regression on the data set of 221 companies, we can infer that for improving the disclosure practices, in order to be more transparent, companies need boards that are more independent. Boards are independent when they avoid the duality of leadership, and the non-executive directors dominate its main committees such as the audit committee. In such a circumstance' information asymmetry problems are less, and all the stakeholders can easily assess the performance of companies for making better investment decision. The main source of information for the outsiders is annual reports of companies through which they can infer about the current position and future plan of the companies. Outsiders have more confidence on the reports of those companies whose boards include non-executive directors and CEO and chairperson of the board are separately performing their duties. Such boards signal the market that there are more check and balance on the financial decisions and the utilization of the company's resources is effective. One person cannot influence the board decisions because of its excessive power. In consistent with the previous research concentration of ownership is also a cause of poor-quality disclosure. To avoid this problem such firms can improve disclosure quality by hiring more professional and independent board members, not based on personal links but on the professional qualification basis, who could give their input for reforming the company performance not for the benefits of a specific group but for all the stakeholders. Furthermore, separating the responsibilities between CEO and chairperson can also minimize the disadvantage of concentrated ownership that penetrates in the corporate sector traditionally.

Implication of the study

Disclosure regards to how investors are taking the annual reports useful tool for information about the companies. The finding from this study suggest that by more independent board and audit committee leads to more better disclosure practices in annual reports of the companies. Investors may have more confidence on annual reports of the companies having boards that are more independent. Information asymmetry problem can be reduced by having independent boards. Thus, it is important for the regulators such as PICG to educate the companies, to improve disclosure practices by having independent boards, so that the investors may use the annual reports of the companies to look at the fundamentals of a company and other financial for making best investment decision.

The data covers only one-year period, which is for the year 2010. The purpose is to analyze the more recent publish reports. After the promulgation of the corporate governance act in 2002, a decent period has passed to analyze weather; firms are following the governance rules not only to improve their performance but also to facilitate the outside investors to access the useful information to reduce the information asymmetry problem. Future studies in this area might want to extend the scope of the data from only one year to a few years, so that one could have a better understanding of the issues of corporate governance and one can inference that how the corporations are improving their disclosure practices over the period of time after the promulgation of the code.

The regulators should take right steps to ensure the independence of audit committee in order to ensure that the audit quality is maintained and the board is also independent lacking the duality of leadership. This will be reflected in the reliable and credible annual reports, which are an important source of information for the investors and other users of the reports.

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Appendix 1

Disclosure Index

No	Title	SCORE
1	Corporate objectives	
1.1	Mission	1
1.2	Vision	1
1.3	Overall strategic objectives	1
1.4	Core values	1
1.5	Code of conduct /ethical principle/statement of ethics	1
1.6	History of the company/profile	1
	Total	6
2	Directors' Report/chairman's/ CEO overview	
2.1	Performance review of the company (for detailed disclosure more weight age should be given)	4
2.2	Disclosing the Business risks and challenges that company is facing and steps taken to mitigate such risks in future	4
2.3	A general review of the future prospects , outlook and plans for expansion	3
2.4	Business process reengineering/development activities	1
2.5	Disclosure of the contribution of the company to the national exchequer of the country	1
2.6	Contribution towards the development of human capital i.e. work force planning , staff training etc.	2
2.7	How corporate social responsibilities , environmental issues been met	2
2.8	Market share information	1
2.9	Disclosing how liquidity problems been solved and the company's plan to manage its repayment of debts and recover losses	2
2.1	Information regarding different segments and units of the company	2
2.11	Safety of the employees	2
	Total	24

3	Disclosure	
3.1	Financial Reporting Results	1
3.2	Accounting standards used for the accounts	1
3.3	Comprehensive related party disclosure	1
3.4	Disclosure of all changes in corresponding figures	1
3.5	Adequate disclosure of significant judgment and estimates	1
3.6	Detailed disclosure of Financial instruments	1
3.7	Further disclosure of facilities provided to CEO and Directors	1
3.8	Detailed disclosure of all contingencies and commitments	1
3.9	Adequate disclosure of new accounting standard and their expected impact	1
3.1	Detailed capacity disclosure	1
3.11	Segmental analysis	1
3.12	Cash flow statement based on direct method	1
3.13	Disclosure of fair value of property , plant and equipment	1
3.14	Adequate disclosure of change in accounting policy	1
3.15	Expenditure on Research and development	1
3.16	Information on Auditors	1
3.17	Disclosure of How much is paid to Auditors for consulting and other work	1
3.18	Number of employees	1
	Total	18
4	Stake holders information	
	Information relevant for shareholders and other users of financial statements	
4.1	Investor information for 6 years	10
a	Gross profit ratio	0.4
b	EBITDA Margin to sales	0.4
c	Net profit to sales	0.4
d	Return on equity	0.4
	Return on capital employed	0.4
e	Weighted average cost of debt	0.4

f	Inventory turnover ratio/No of days in inventory	0.4
g	Debtor turnover ratio/ No of days in receivable	0.4
h	Creditor turnover ratio/ No of days in payables	0.4
i	Operating cycle	0.4
j	Total assets turnover ratio/ Fixed assets turnover ratio	0.4
k	Current ratio	0.4
l	Quick / Acid test ratio	0.4
m	Price earnings ratio	0.4
n	Cash dividend per share	0.4
o	Bonus shares issued	0.4
p	Dividend yield ratio	0.4
q	Dividend payout ratio	0.4
r	Dividend cover ratio	0.4
s	Debt: equity ratio	0.4
t	Interest cover ratio	0.4
u	Breakup value per share without including the effect of surplus on revaluation of fixed assets	0.4
v	Breakup value per share including the effect of surplus on revaluation of fixed assets	0.4
w	Market value per share at the end of the year	0.4
x	EBTIDA	0.4
	Total	10
4.2	Summary of cash flow statement for six years	1
4.3	Shareholders information:	
4.3	Shares held by sponsors / directors/ executives	1
4.4	Vertical horizontal analysis of balance sheet and profit and loss account for 6 years	4
4.5	Statement of value added distributed to employees, government, shareholders, creditors, society and business	4
	Total	20
5	Corporate Governance	
5.1	Date of authorization of financial statements by the Board of directors	10
	within 45 days (10 marks)	
	within 60 days (7 marks)	
	within 75 days (4 marks)	

5.2	Statement of compliance with the best practice of code of corporate governance (No marks in case of other than clean review report)	1
5.3	The board structure and its committees	1
5.4	Chairman of the board other than CEO	1
5.5	Information on the Board committees and their terms of references and number of meetings held	3
a	Information on the Board committees	
b	Terms of references	
c	Number of meetings held	
5.6	Role and function of the board of directors	2
5.7	Salient features of the audit committee charter/terms of reference	1
5.8	Name of independent Directors /Non executives directors to be disclosed	1
5.9	Disclose for all members of board of directors	2
a	Profile of each director	
b	Involvement /engagement of each director in other companies/entities as CEO, director, CFO, or trustee etc.	
5.10	Non executive directors on the audit committee (full marks if all are non- executive directors, else zero)	2
5.11	Name list of board attendance	2
5.12	Training and development activities for directors	2
5.13	Organizational chart	1
5.14	Disclosure of criteria to evaluate Board performance	1
5.15	CEO performance review	1
5.16	Event Calendar	1
	Total	32
	Grand Total	100