

## The Effects of Disclosure Policies on the Performance of Companies in the Energy Sector

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**ABSTRACT:** Disclosure of annual reports is necessary for every company as mandated by IFRS as it provides information to various stake holders to take effective investment decisions. This paper measured the extent of disclosures made by companies belonging to the Energy sector in India. The most important objectives of the paper include determining disclosure scores for each selected company, to analyse the impact of disclosure scores on the performance of the company and to determine the variation of disclosure scores, if any, among the selected companies. This study was conducted by reviewing the reports published annually of the chosen companies for a term of 5 years by implementing the unweighted disclosure criteria method. The tests that were conducted in the study are correlation, regression and t-tests using SPSS software. The results show that Oil & Natural Gas Company has the highest score of disclosure while lowest score of disclosure is seen in the case of Power Grid. The paper finds a negative relationship between disclosure scores and performance of the selected Energy sector companies and a significant variation in the disclosure scores among the selected companies.

**KEY WORDS:** Disclosures, IFRS, Unweighted Disclosure Index.

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### I. INTRODUCTION

This study was chosen to determine the effects of disclosure policies, mandatory disclosure or voluntary disclosure, on the performance of companies and how it becomes necessary for every company to implement these policies due to an increase in corporate frauds. Disclosure score varies between firms in terms of the number of times they publish in a year, the type of content they disclose and types of news i.e. favourable or unfavourable. Disclosure is concerned with communicating material information which consists of information regarding the core business activities that are disclosed either on a mandatory or voluntary basis to necessary users.

### II. LITERATURE REVIEWS

(Popa Adina, 2012) This paper portrays the non-practical side of the type of disclosure patterns. Since this kind of reporting is a vital source of content for various investors, particularly listed firms, reporting is progressively reported depending upon the necessity. So as to make effective necessary opinions, users of company's reports need an intensive vary of data. The increase in desires of the decision makers influence completely different kinds of the multi-national bodies and who is involved in research to research the enhancements which will be exhausted in reporting. The findings of these studies were completely different from the usual.

(DEY, 2010) Disclosure of material information is a vital quality of their utility. The paper by trial & error method found and interpreted the quantity of disclosure criteria in Bangladesh which is still developing. The most important reason behind conducting this study is to determine the heights of revelations of annual reports done by the banking companies that are a part of the stock exchange in Bangladesh. Using 25% of chosen sample for a term of five years, the heights of disclosure was calculated through the method of unweighted disclosure index. So as to examine if there is vital distinction in the score of disclosure between the chosen sample firms, t tests were done by taking 2 samples at a time i.e. through SPSS Software Paired Sample t test was conducted. It was seen that the Arab Bangladesh Bank seemed to have disclosed the most while Standard bank seemed to have disclosed the least.

(Hussain, 2008) The author has found out the heights of each, mandatory and voluntary disclosure, by banks that are on the stock exchange in India. The criteria table consisted of total 184 items of which majority were mandatory. The study disclosed that in revealing necessary items, the score on an average was 88, while the score on an average for voluntary disclosure is 25. It was also found that banks in India show extreme compliance when it comes to mandatory disclosure. The paper has made a contribution to educational literature,

showing that the presence of a detailed watching set up by regulative bodies brings out the possibilities for prime adherence concerning revelation and transparency, a minimum in necessary situations.

### III. RESEARCH OBJECTIVES

1. To examine the extent of current disclosures of companies in Energy Sector.
2. To evaluate the effect of disclosures on the performance of companies.
3. To bring out the variation in disclosure scores among selected companies.

### IV. RESEARCH METHODOLOGY

#### 1. Method of research:

The method of research that is going to be adopted is known as the disclosure index method of measurement. Under this procedure, the score of disclosure is calculated by preparing a criteria that can be seen in the reports published annually of a company and the result is arrived at by assigning a '1' if the company has disclosed that particular item and a '0' if that item is not disclosed. The type of disclosure index method that is going to be followed is the unweighted disclosure index. Under this type of disclosure index, the variables are treated as dichotomous variables. The performance of the company is measured through market value of the share, P/E ratio and other profitability ratios.

#### 2. Sampling design:

The sample companies are listed on National Stock Exchange (NSE). There are a total of 50 companies listed in CNX Nifty. Out of these 50 companies, the sample size consists of 8 companies belonging to the energy sector.

#### 3. Data collection procedure and time:

#### 4.

The data is collected from the annual reports that are published by the company. The disclosure index contains both qualitative and quantitative items and these items are developed through literature review, as required by the Companies Act, 2013 and accounting standards. The data of the preceding five years of the annual reports are collected.

#### 5. Framework of statistical analysis:

The statistical tools that are used in arriving at the conclusion are average, correlation, regression and t tests. T test will be conducted by taking two sample companies to see if there is variation in disclosure policies between them. SPSS software is used for all the analysis.

### V. RESEARCH HYPOTHESIS:

**H<sub>0</sub> (null hypothesis):** There is no significant relationship between disclosure index and performance of the company.

**H<sub>1</sub> (alternate hypothesis):** There is significant relationship between disclosure index and performance of the company.

### VI. ANALYSIS

Table I: Disclosure scores of selected companies

Company	2016-17	2015-16	2014-15	2013-14	2012-13	Mean
ONGC	81.42%	81.42%	81.42%	77.14%	77.14%	79.71
NTPC	71.42%	68.57%	64.82%	61.42%	61.42%	65.53
Reliance Power	80%	75.71%	68.57%	67.14%	65.71%	71.43
IOC	77.14%	74.28%	71.42%	71.42%	71.42%	73.14
Reliance Infrastructure	82.85%	80%	74.28%	71.42%	71.42%	75.99
Power Grid	68.57%	65.71%	62.85%	61.42%	61.42%	63.93
GAIL	71.42%	64.82%	64.82%	64.82%	64.82%	68.96
Tata Power	77.14%	74.28%	71.42%	68.57%	68.57%	71.20

The table shows the percentages of disclosure of each company during the period under study. The average of each company acts as an indicator of disclosure scores, in total, of the sample companies. When the means are compared, it can be seen that the highest level of disclosure of 79.71% is by ONGC while the lowest level of disclosure of 63.93% is seen in the case of Power Grid. The general trend that is seen in all the sample companies is that there is a rise in the level of disclosure year by year.

**Table II: Correlation between performance indicators and Disclosure scores**

Company	Disclosure scores and ROE	Disclosure scores and P/E Ratio	Disclosure scores and EPS
ONGC	-0.949	0.927	-0.946
NTPC	-0.884	0.871	-0.835
Reliance Power	-0.172	-0.150	-0.172
IOC	-0.243	-0.801	0.836
Reliance Infrastructure	-0.495	0.439	-0.352
Power Grid	-0.209	-0.990	0.977
GAIL	-0.315	0.325	-0.386
Tata Power	-0.769	0.938	-0.943

The above table 2 states the correlation of company's percentage of score and the performance of the company which is measured in terms of Return on Equity (ROE), P/E Ratio and Earnings per Share (EPS). The findings conclude that there exists negative correlation between disclosure level index and Return on Equity (ROE) for all the selected companies, the correlation between disclosure level index and P/E Ratio is positive for some companies such as ONGC, NTPC, Reliance Infrastructure, GAIL and Tata Power while it is negative in the cases of Reliance Power, IOC and Power Grid. The correlation between disclosure level index and Earnings per Share (EPS) is negative for all companies except for Indian Oil Corporation (IOC) and Power Grid.

**Table III: Regression Analysis of performance indicators and Disclosure scores**

Company	Disclosure level index and ROE	Disclosure level index and P/E Ratio	Disclosure level index and EPS
ONGC			
T value	-5.226*	4.295*	-5.039*
Standardized coefficient value	-0.949	0.927	-0.946
NTPC			
T value	-3.276*	3.076	-2.623
Standardized coefficient value	-0.884	0.871	-0.835
Reliance Power			
T value	-0.302	-0.263	-0.302
Standardized coefficient value	-0.172	-0.150	-0.172
IOC			
T value	-0.434	-2.321	2.637
Standardized coefficient value	-0.243	-0.801	0.836
Reliance Infrastructure			
T value	-0.809	0.847	-0.651
Standardized coefficient value	-0.495	0.439	-0.352
Power Grid			
T value	-0.370	-12.402*	7.849*
Standardized coefficient value	-0.209	-0.990	0.977
GAIL			
T value	-0.575	0.595	-0.724
Standardized coefficient value	-0.315	0.325	-0.386
Tata Power			
T value	-2.081	4.670*	-4.931*
Standardized coefficient value	-0.769	0.938	-0.943

From the above table 3, the t values that are marked with a (\*) state that there is a noticeable impact of scores of disclosure on the performance of the company, measured by ROE, P/E ratio and EPS. The coefficients of disclosure scores vary from 17% to 94% as a determinant of Return on Equity of the selected companies, the magnitude of disclosures impacting P/E ratio varies from 15% to 98%. Finally, disclosure score determines 17% to 94% of EPS of the selected companies. The findings are significant with respect to ONGC, power grid and Tata power. In most of the cases the relation established between disclosure scores and performance indicators are negative.

**t – Test:**

Null Hypothesis: There is no significant variation in disclosure score among the chosen sample.

Alternate Hypothesis: There is significant variation in disclosure score among the chosen sample.

**Table IV: Value of significance levels of variation in disclosure scores**

Company	ONGC	NTPC	Reliance Power	IOC	Reliance Infra	Power Grid	GAIL	Tata Power
ONGC	-	0.000	0.017	0.002	0.082	0.000	0.000	0.001
NTPC	0.000	-	0.003	0.002	0.000	0.077	0.670	0.000
Reliance Power	0.017	0.003	-	0.359	0.001	0.006	0.050	0.649
IOC	0.002	0.002	0.359	-	0.089	0.000	0.000	0.178
Reliance	0.082	0.000	0.001	0.089	-	0.000	0.004	0.005

Infra								
Power Grid	0.000	0.077	0.006	0.000	0.000	-	0.056	0.000
GAIL	0.000	0.670	0.050	0.000	0.004	0.056	-	0.005
Tata Power	0.001	0.000	0.649	0.178	0.005	0.000	0.005	-

In order to determine the variation, if any, in the disclosure scores between each of the selected companies, a t-test is performed. It is found that there is significant variation of disclosure scores (index) between ONGC and NTPC, ONGC and Reliance Power, ONGC and IOC, ONGC and Power Grid, ONGC and GAIL, ONGC and Tata Power and that there is no significant variation between ONGC and Reliance Infrastructure. For NTPC, it has been found that there is significant variation between NTPC and ONGC, NTPC and Reliance Power, NTPC and IOC, NTPC and Reliance Infrastructure, NTPC and Tata Power and that there is no significant variation between NTPC and Power Grid and NTPC and GAIL. For Reliance Power, it has been found that there is significant variation between Reliance Power and ONGC, Reliance Power and NTPC, Reliance Power and Reliance Infrastructure, Reliance Power and Power Grid and that there is no significant variation between Reliance Power, Reliance Power and GAIL, Reliance Power and Tata Power. For IOC, it has been found that there is significant variation between IOC and ONGC, IOC and NTPC, IOC and Power Grid, IOC and GAIL and that there is no significant variation between IOC and Reliance Power, IOC and Reliance Infrastructure and IOC and Tata Power. For Reliance Infrastructure, it has been found that there is significant variation between Reliance Infrastructure and NTPC, Reliance Infrastructure and Reliance Power, Reliance Infrastructure and Power Grid, Reliance Infrastructure and GAIL, Reliance Infrastructure and Tata Power and that there is no significant variation between Reliance Infrastructure and ONGC and Reliance Infrastructure and IOC. For Power Grid, it was found that there is significant variation between Power Grid and ONGC, Power Grid and Reliance Power, Power Grid and IOC, Power Grid and Reliance Infrastructure, Power Grid and Tata Power and that there is no significant variation between Power Grid and NTPC and Power Grid and GAIL. For GAIL, it was found that there is significant variation between GAIL and ONGC, GAIL and IOC, GAIL and Reliance Infra, GAIL and Tata Power and that there is no significant variation between GAIL and NTPC, GAIL and Reliance Power and GAIL and Power Grid. For Tata Power, it was found that there is significant variation between Tata Power and ONGC, Tata Power and NTPC, Tata Power and Reliance Infrastructure, Tata Power and Power Grid, Tata Power and GAIL and that there is no significant variation between Tata Power and Reliance Power and Tata Power and IOC.

## VII. CONCLUSION

The aim behind conducting the study is to find out the effect of disclosures on performance of the companies, to determine the variation in disclosure scores of different companies and to determine the levels of disclosure of companies belonging to the same sector. The variation of disclosure scores between companies belonging to the same sector suggests that companies chosen to disclose few items and choose not to disclose a few. It indicates that investors are to consider the disclosures made in past annual reports and compare the same between prospective companies to make an informed investment decision. According to theoretical concepts, the performance of the company increases with higher disclosure levels but this study finds and concludes that for companies belonging to energy sector, the theoretical perception does not hold true. It could be inferred that prospective investors expect more disclosures than the requirements of accounting standards. Hence it is concluded that companies belonging to energy sector in India may achieve higher performance level if they choose to voluntarily disclose more information than the statutory requirements.

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