INVESTOR PERCEPTION OF CORPORATE DISCLOSURE AND ITS INFLUENCE ON INVESTMENT DECISIONS IN INDIA

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ABSTRACT

Corporate disclosure is critical towards informed investment decisions by mitigating on information asymmetry, and increasing transparency between firms and investors. The empirical research allows investigating how Indian investors regard the corporate disclosure practices, as well as to what degree these disclosures affect their investment decisions. The study based on descriptive research design and survey data collection of 200 investors of various categories in the Indian capital market discloses that most of the investors are moderately or highly aware of the corporate disclosure norms and use financial statements, annual reports, and stock exchange filing substantially to make investment decisions. Although the financial performance metrics are still the most favored form of disclosure, the significance of non-financial disclosures, including governance practices and sustainability reports are slowly rising. The research points out at the importance of more convenient, understandable and investor-friendly disclosure forms. On the basis of these findings, the paper presents practical suggestions to corporates, regulators, and financial advisors, regarding facilitation of the overall efficacy of disclosure practices in India. The study adds to the extant literature in the field by providing information on the behavioural reaction of Indian investors to corporate transparency and recommending prospective avenues of enhancing corporate-investor communication.

Keywords: Corporate Disclosure, Investor Perception, Investment Decision, Financial Transparency, etc.

1. INTRODUCTION

The modern financial environment is very dynamic and corporate disclosure is taking a pillar in the successful operation of capital markets. The quality, transparency and timeliness of information disseminated by listed companies is important to the ability of investors to make informed decisions. The usefulness of corporate disclosure in influencing investment decision is also becoming topical in India where both retail and institutional investors are becoming more prominent in the capital market. Corporate disclosure refers to the process of communication by companies to stakeholders of financial and non-financial information, asregulatory frameworks including those issued by Securities and Exchange Board of India (SEBI), require timely, fair, and full disclosures.

As investors become more financially literate and markets become more digitalized, they are becoming more diligent in their annual report, sustainability statement, management discussion and analysis (MD&A) sections and other voluntary disclosure analyses. Although this kind of transparency is supposed to work by decreasing information asymmetry to increase investor confidence, how it actually works in relation to investor perception and behavior with regard to the Indian environment is an aspect that needs to be explored through empirical research. Since the investor population in India is wide and varied, consisting of retail and high-net-worth individuals, mutual funds, and foreign

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institutional investors, their attitudes to disclosures and the degree to which the latter affect their investment decisions can provide invaluable information about the effectiveness of corporate reporting. Thus, this study attempts to empirically analyze the perception of the investors regarding the corporate disclosure practices and the impact of such a perception on investment behavior in the Indian capital market.

1.2. OBJECTIVES

The main aim of the research will be to study the perceptions of the investors on corporate disclosure practices and also to determine how these perceptions affect the investment decision in the Indian capital market. It also seeks to determine the importance of quality, transparency and relevance of disclosed information on investor confidence, investor behaviour in decision making and investment patterns as a whole.

2. LITERATURE REVIEW

Corporate disclosure has been widely understood as a necessary tool in minimizing the asymmetry of information between investors and firms. Healy and Palepu (2001) stressed that transparent disclosures coordinate the interests of management and investors, which result in more efficient capital allocation. In the case of emerging markets, such as India, disclosure plays an even greater role because, in the past, the enforcement and corporate governance systems were weaker (Patel & Sharma, 2014). It has been shown that the credibility of the financial statements to investors plays a key role in determining the level of participation in the market as well as the cost of capital (Graham, Harvey, & Rajgopal, 2005).

A number of empirical studies have examined the association between quality of disclosure and the behavior of investors. In India, Bhat (2008) determined that there is a positive relationship between the extent of corporate disclosure and the valuation of firms, as well as the confidence of investors, particularly institutional investors. In the same breadth, Das, Samanta, and Roy (2016) examined the NSE-listed firms and noted that high-quality voluntary disclosures result in long-term investment due to the reductions of the perceived risk. Elsewhere, Singhania, Sharma, and Yagnesh (2020) found that prompt disclosures on governance, financial health, and future perspectives have a major impact on the retail investor emotions and trading intentions.

Moreover, the sector-specific perceptions have been investigated. As another instance, Joshi and Dash (2013) determined that in banking and financial sector, risk disclosures are valued more highly by investors whereas in manufacturing, sustainability reporting is coming to the fore. Ghosh and Moon (2010) presented evidence that comparative and quarterly disclosures provide more stability in the behavior of the investors in the volatile market.

Other regulatory measures by SEBI like introduction of Listing Obligations and Disclosure Requirements (LODR) have positively influenced the quality of disclosure in the Indian context. But reality is different, as disclosed in a study by Carney, on how investors use and perceive such disclosures. A survey-based research by Jindal and Kumar (2012) showed that there is a difference between the disclosed information availability and its actual use, particularly, among small investors. In addition, Kaur and Gill (2015) emphasised that despite the fact that the annual reports are regarded by the majority of investors as the main source of information, only a small part of them is able to comprehend the financial information; otherwise, they rely on media interpretations or analyst reports.

The second aspect of the literature is the psychological and behavioral reactions of investors. Kumar and Goyal (2016) state that behavioral biases tend to affect disclosure interpretation, with overconfidence and herd behavior being the moderators of objective use of the disclosed data. This observation supports the idea that investor education should be improved so that disclosures could fulfill their purpose making rational decisions.

Although an extensive body of research facilitates the critical role of corporate disclosures in the investment decision-making process, the level of such influence is still dependant on the literacy levels, perceptions, and context of the investors. The contribution of the study is that it empirically tests these relationships in Indian capital market where a literature gap existed since most of the studies have focused on firm-based analyses and hardly any studies focused on investigating these relationships through an investor-based perspective in India.

3. METHODOLOGY

The research design used in this study was descriptive research design to examine the perceptions of investors with regard to corporate disclosure and its impact on investment decision. The structured questionnaire was used in collecting primary data where a sample of 200 investors who are actively involved in Indian capital market were administered. A purposive sampling technique was applied in selecting the respondents in order to have both retail and institutional investors. The survey contained close-ended and Likert-scales-based questions to obtain fine details about the awareness, use, and perceived usefulness of disclosure in the process of investment decision-making.

4. DATA ANALYSIS

In order to check the impact of corporate disclosure on investment decision 200 investor responses were taken and analyzed. The data has been given frequency table, percentages and later analyzed descriptively through measures such as mean and standard deviation. The important results of some chosen variables are as follows.

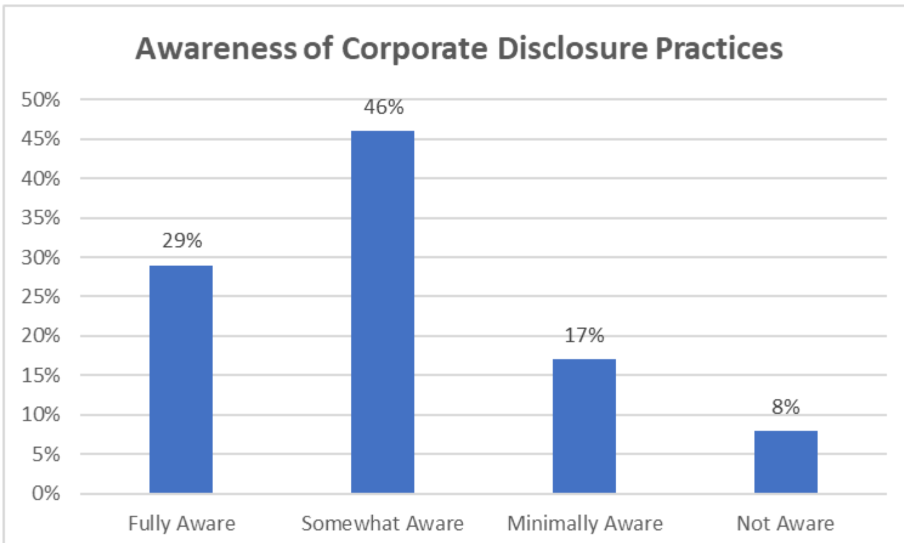

Figure 1 Awareness of Corporate Disclosure Practices

46 percent of those interviewed were somewhat familiar with disclosure practices by corporations, with 29 percent professing to be very much aware. This depicts an average informed investor population, which implies that there exists the possibility of further investor education concerning corporate reporting standards.

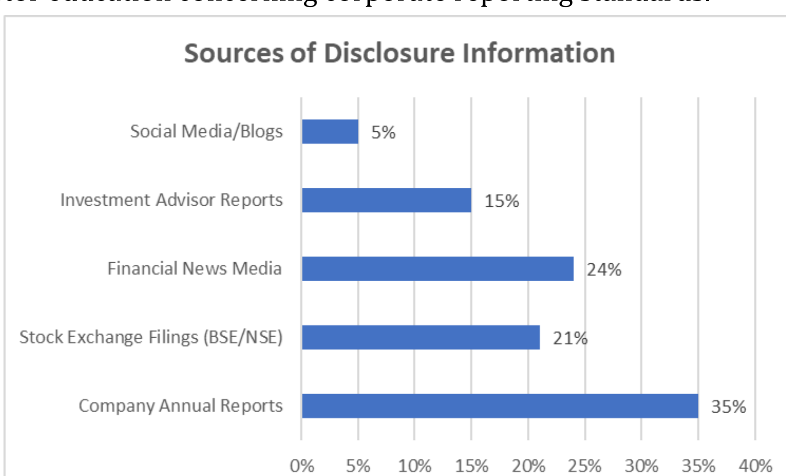

Figure 2 Sources of Disclosure Information

The most frequently utilised source of corporate information is annual reports (35 per cent), followed by financial news media (24 per cent). Just 21 percent use official exchange filings, showing a tendency towards interpreted or summarized information as opposed to primary disclosures.

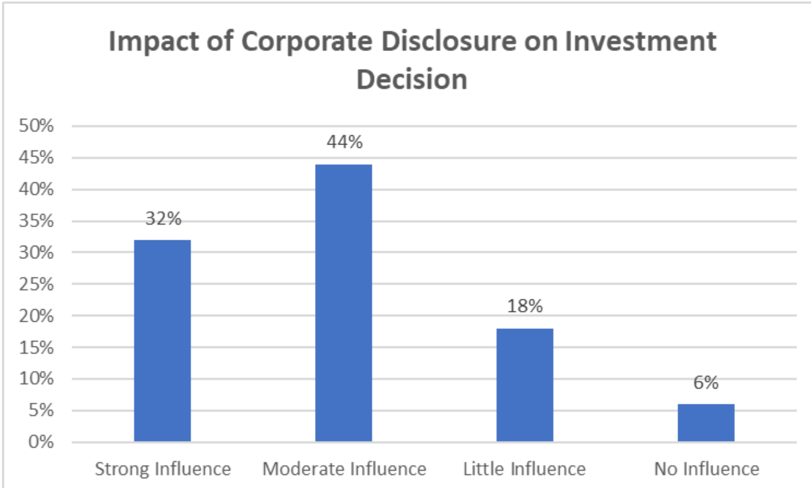

Figure 3 Impact of Corporate Disclosure on Investment Decision

An overwhelming 76 percent of the respondents said corporate disclosures exert a strong or moderate effect on their investment decisions. This reveals that transparent and timely disclosures are important in influencing investor behavior.

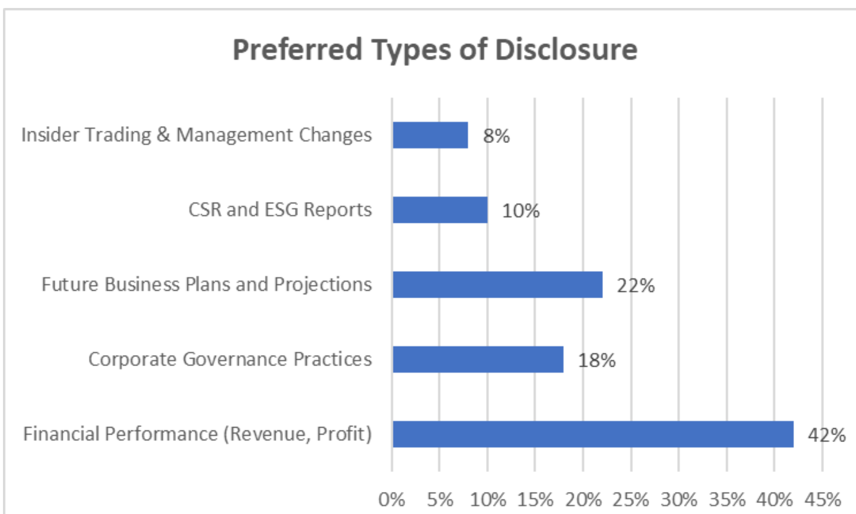

Figure 4 Preferred Types of Disclosure

Investors most treasured information is on financial performance (42%) and future business prospects (22%). Governance and CSR disclosures are still of a secondary nature indicating that Indian investors are still largely financially-focused in their analysis.

4.2. FINDINGS

- Awareness of disclosure practice is moderately high among most investors with annual reports and financial media relied on heavily.
- More than three-fourths of the respondents allow corporate disclosures to affect their investment decisions.

- Financial performance is still the most favored type of disclosure whereas non-financial disclosures are developing although they are not fully utilized.
- It is evident that quality corporate disclosure is a factor that is significant to investors which highlights its strategic value in investor relations.

5. CONCLUSION

The researcher comes up with a conclusion that Indian investors rely heavily on the corporate disclosure practices when making investment decisions. The high level of awareness on disclosure mechanisms has been observed to be moderate to high among a large percentage of investors who also use financial statements and annual reports to make their investment decisions. The results imply that though financial disclosure (revenue/ profit/ future outlook), are most preferred, non-financial disclosures (corporate governance/ CSR reports etc.) are also coming into focus especially with the informed and institutional investors. Another important finding of the study consists in the fact that even though the transparency of disclosure is guaranteed by the regulatory framework of SEBI, the availability of information and its comprehensibility are crucial problems to consider by retail investors. On the whole, the corporate disclosure, as a compliance requirement, works as a strategic solution in promoting investor confidence, making logical investment choices in the Indian capital market.

5.1. RECOMMENDATIONS

In order to increase the usefulness of corporate disclosures companies would be well served to be more investor centric in their approach by avoiding the use of technical language in reports and by making disclosures more readily available using visual summaries and electronic mediums. Regulatory authorities such as SEBI can enhance awareness and financial literacy development programs that will help to educate retail investors about the effective interpretation of disclosed information. Additionally, businesses ought to increase the areas of non-financial reporting, such as ESG factors, risks, and prognostications, which are growing in effect on the international investment patterns. Also investment advisors and analysts may be influential in reducing the information gap existing between corporate disclosures and investor understandings through offering independent unbiased evaluation of reported information. Enhancement of feedback systems between investors and companies will also enhance relevance and timeliness of disclosure practices.

CONFLICT OF INTERESTS

None.

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