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Impact of Transparency and Disclosure Index on the Performance and Valuation of Non-Financial Firms in India

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Abstract

The current study investigates non-financial enterprises' transparency and disclosure (TD) policies in India. The study considers S&P BSE 100 firms for the time period of five years, i.e., 2015-16 to 2019-20. An unweighted index with 145 items was applied to the selected sample of 78 firms. The current study attempts to explore many latest attributes for the disclosure index and the influence of the TD index on the firm performance. The performance of the non-financial firms has been measured using three different accounting measures operating margin (opmargin), efficiency (efficiency), and Tobin's Q (TQ). Both fixed and random effects and two-stage least square models are used to accomplish the hypotheses mentioned. From the empirical analysis, it is found that td as an exogenous variable does not impact the financial performance of the firms. Still, it shows a noteworthy impact on a firm's performance when interacting with li.

JEL Code : G32, G34, G38
Keywords : Transparency; Disclosure; Performance; Valuation; Accounting; Profit; Efficiency; Tobin's Q; Firms; India

I. Introduction

TRANSPARENCY AND DISCLOSURES (TD) are crucial aspects of corporate governance and to solve information asymmetries (Srivastava and Rastogi, 2010; Temiz, 2021). Corporate disclosures help connect information gaps between the external and internal stakeholders as an essential activity for stock markets. TD caught researchers' attention after the global financial crisis in 1997 and the Enron and other European countries' financial scandals in 2000 (Sharif and Lai, 2015; Mohammadi and Nezhad, 2015). There is

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VI. Conclusion, Limitations, and Future scope

There is a belief that disclosures will impact the performance and valuation of corporate firms, which the literature strongly supports (Douglas and Meijer, 2016; Mishra and Kapil, 2017; Nashier and Gupta, 2020). However, the empirical results of the current study are diverse from the facts proved in the literature. The authors aimed to determine the association between disclosures and the performance of corporate firms in India. The study uses three measures of performance (accounting profit, technical efficiency, and Tobin's Q) along with promoters, sales, and debt to equity as the control variables for analyzing the more explicit effect of disclosures on the performance of the firms. Using three diverse models and all three models are applied for all the proxies of performance. Model 1 is the base model that we had given prominence to the variables td and li to know the linear association and its impact on firm performance. Model 2, is the model for the Quadratic term. The authors used it to learn the non-linear effect of td on the firm's performance.

Similarly, we chose the interacting term of td_li Model 3 to understand how market competition impacts the td on the firm's performance. The results are unique compared to the existing studies. It is found that disclosures alone, neither linear nor quadratic, affect either of the performance's proxies (accounting profit, technical efficiency, and Tobin's Q). But does show a positive impact on the corporate firms in India when the variable competition is combined as the interaction term is consistently significant in all the applied models. The current research is not without its flaws. The study's scope is limited to the Sand P BSE-100 index, which includes 78 non-financial companies. As a result, the findings cannot be applied to small and mid-cap corporations or financial institutions. However, the authors believe that the thorough TD index they created may be useful beyond the current topic. It is possible to lay the groundwork for future work in other emerging markets and comparative research between other nations.

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