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THE CURRENT STATUS OF RELATED PARTY DISCLOSURE IN INDIA: A LONGITUDINAL ANALYSIS

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ABSTRACT

Purpose – This study investigates the status of related party disclosure in an emerging economy, that is, India. The reason behind concentrating on India is due to its opening of the economy in 1991 to attract foreign investment. Hence, it is significant that investors are provided with credible information. The accounting value of ‘secrecy’ underlying India and the voluntary nature of detailed reporting about related parties in this country further motivated the present study.

Methodology/Approach – The research method includes a content analysis of the ‘related party disclosure’ section of annual reports of a sample of Indian companies for the financial years 2002–2006.

Findings – Indian companies disclosed more than the required minimum level of related party disclosure as required in the Indian accounting standard. No association between related party disclosure with market capitalization, industry affiliation and foreign listing was found for the year 2006. However, when the scores of all the five years 2002–2006 were considered manufacturing and automotive companies disclosed more about related parties than diversified, service and technology.

Research Limitations – The limitations of our findings rests upon the fact that we have not examined the effect of factors such as the composition of management of each company and the presence of Indians/Non-Indians in management.

Originality/Value of the Paper – Most studies exploring disclosure practices are directed towards developed countries. The disclosure practices in developing countries is an under researched area. This paper contributes towards the existing literature by taking the case of an emerging economy, that is, India.

1. INTRODUCTION AND BACKGROUND

Financial reporting and disclosure are critical for corporate firms across countries as investors increasingly require credible information. From positive accounting perspective, disclosure of financial information provides a means of communication between the management and outside parties, including investors and regulators. There are regulations in almost all developed countries as well as emerging countries such as India and china to protect investors’ rights so that agency cost is minimized with the reduction of information asymmetry. Financial disclosure includes highly regulated financial statements, corporate governance-related reporting and the disclosure of voluntary information by executives. Credibility of corporate disclosures now a days has become crucial due to recent high-profile corporate scandals and fraud cases resulting from material misstatement in their financial statements. In most cases, they are closely linked to undisclosed and unreported ‘related

party transactions' (off balance sheet items for US companies) as evidenced in the cases of Enron, Adelphia and Tyco. Given such state of disclosure in developed economies having more regulation in place, concern arises about the status of financial reporting specially about related party(ies) by companies in emerging economies such as India. Hence the present study investigates the status of related party disclosure in an emerging economy, that is, India. The reason behind selecting India is due to it has opened its economy in 1991 (Arun and Turner) and welcoming foreign investments.

There are significant regulations governing corporate reporting and disclosure in all countries around the world, and there is economic rationale that justifies regulating corporate disclosure (Healy & Palepu, 2001). Recently most countries are either adopting International Financial Reporting Standards (IFRSs) 1 or harmonizing their domestic accounting standards (ASs) towards IFRSs. Therefore, users of financial reports can expect a certain degree of transparency in regard to financial information from companies. However, most often users need more information than what is required to be reported by regulation. For example, financial analysts or industry experts need more information on management forecasts while environmentalists need more (voluntary) disclosures relating to the environmental and social impact of companies' activities. There are similarities in financial reporting by companies among IFRS adopting and/or harmonizing countries. However, the degree of voluntary disclosure differs between companies and countries. Several factors such as regulatory framework, institutional structure, societal environment and culture influence the accounting systems/disclosure practices of various countries including the degree of voluntary disclosure (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980; Schoenfeld, 1981; Harrison & McKinnon, 1986; Gray, 1988; Doupnik & Salter, 1995; Mathews & Perera, 1996). Voluntary financial disclosure has profound information value in different capital markets. Empirical evidence show that voluntary disclosure has increased with globalization (Gray, Kouhy, & Lavers, 1995a; Gray, Meek, & Roberts, 1995b; Cahan, Rahman, & Perera, 2005). Healy and Palepu (2001) contend that firms have incentives to optimally trade off the costs and benefits of voluntary disclosure and to produce the efficient level of information for investors. The benefit of voluntary disclosure is it decreases the cost of capital by reducing information asymmetry (Milgrom, 1981, and Verrecchia, 1983, cited in Webb, Cahan, & Sun, 2008).

Doupnik and Salter (1995) argue that accounting practice is considered to be the result of a complex interaction between a society's external environment, cultural norms and values, and institutional structures. Similarly, Burchell et al. (1980) state that accounting is embedded in organizations and society. These authors suggest that the actual practice of accounting can be implicated with the persistence of various sets of human and social ends. Accounting, after implementation, becomes the phenomenon of organizations and society, there to be used for different ends by a range of actors in an organization. The disclosure of accounting information is related to firm and country characteristics (Alford, Jones, Leftwich, & Zmijewski, 1993). Schoenfeld (1981) argued that accounting has adjusted to local business and economic requirements throughout history, and hence national differences have resulted in the diversity in accounting practices. These studies suggest that the degree of financial disclosure including voluntary ones will vary between different countries depending on a particular country's socio- cultural norms. Recent move of IFRS is to provide financial statements' users a fair comparison of financial statements and reports across countries. In India the AS-18, which is adapted from the International Accounting

Standard (IAS)-24 does not state the details to be reported in regard to related party transactions. Hence it is voluntary for Indian companies to disclose more than the required minimum information required under AS-18. The voluntary nature of related party disclosure in India further motivates this study.

The following section presents an overview of literature about related party transactions followed by the description of accounting regulation in India and the Indian Accounting Standard in regard to related party. This is followed by research method, data analysis and results. The paper ends with the conclusion section.

2. RELATED PARTY TRANSACTIONS: AN OVERVIEW OF LITERATURE

‘Related party transactions’ refers to transactions between a company and its related entities such as subsidiaries, associates, joint ventures, substantial shareholders, executives, directors and their close family members or entities owned or controlled by its executives, directors and their families. A related party is a party that is related to an entity directly or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control of the entity (parent, subsidiaries); has an interest in the entity that gives it significant influence over the entity (associates); has joint control over the entity (joint ventures); the party is a member of the key management personnel of the entity or its parents; the party is a close member of the family of the key management personnel (IAS 24). The AS-18 states that parties are considered to be related if one party has the ability to control the other party or if one party can significantly influence the other in making financial and/or operating decisions in a particular reporting period.

Related party relationship is a normal feature of business. It has sufficient effect on profit/loss and financial position of an entity. Such effect may exist even if related party transactions do not occur (IAS 24). For financial reporting purposes, parties are considered to be related if one party has the ability to significantly influence or control the activities of another, or if both parties are under the common influence of another party (Deegan, 1999). As the requisite conditions of competitive and free-market dealings may not exist, transactions involving related parties cannot be presumed to be carried out on an arm’s-length basis, which may lead to transactions occurring at a price other than fair values. It is conceivable that there are legitimate economic reasons for having transactions between related parties. For example, transactions between the parent and the subsidiary companies are common. These transactions must be eliminated in the consolidated group financial statements, as there is no real resource transfer for the group as a whole. However, these transactions need not to be disclosed as per IAS 24. Problem lies with this type of transactions when they are not eliminated but used for overstating income and equity and understates debts of the group companies, as established in the case of Enron in regard to its unconsolidated subsidiaries. Other types of related party transactions are in general similar to non-related party transactions though the transaction values of the former are unreliable when transaction differs in value from an arm’s-length transaction. Deegan (1999) points out that the existence of a related-party relationship may expose a reporting entity to risks or provide opportunities, which would not have existed in the absence of such a relationship. Deegan (1999) further argues that in extreme cases, related party transactions may be undertaken to defraud other parties with a claim against the firm. For example, a director may sell some of the firm’s assets to a related entity for a price

significantly below their market price. Hence, it is important that companies disclose detailed information about their related party transactions.

Prior research indicates that most companies are engaging in related party transactions. Details of such transactions need to be reported in details as 'related party transactions' have been used to provide misleading accounting figures by companies such as Enron. In case of no disclosure or inadequate disclosure or misleading disclosure, one can term related party transactions as self-dealing transactions due to conflicting incentive and/or information or 'lemons' problem. While from 'capital market' research perspective both problems are economically harmful to the company, incentive problem relates to principal–agency conflicts where management may have incentives not to disclose related party transactions and information problem assumes that as insiders to the firm, management has more information about related party relationships than any outsiders such as investors, minority shareholders and auditors. If 'related party transactions' are not reported in detail that can affect firms' value negatively resulting from information asymmetry between the management and outside stakeholders. Gordon, Henry, Louwers, and Reed (2007) contend that transactions between related parties may have deceptive or fraudulent purposes instead of genuine business purposes. However, it cannot be discarded that some related party transactions efficiently fulfil economic needs of the company (Gordon, Henry, & Palia, 2004a). To reduce or mitigate such risks/costs, the role of disclosure and reporting regulations have enormous effect in protecting investors/ users rights, as enforced in accounting and auditing standards. From 'value relevance' research perspective, it is evident that most recent standards generate accounting information that is value relevant although the value of regulated accounting data may vary systematically based on firm characteristics and country-specific institutions (Healy & Palepu, 2001). McKinsey & Co. (2002) reports that 70% of global investors rate accounting disclosures as being important when evaluating foreign investments (Webb et al., 2008).

Although prior research provides evidence of weak association between related party transactions and fraud, recent high-profile accounting fraud scandals demonstrate how related party transactions can be used to mislead users of financial statements (Bell & Carcello, 2000; Gordon et al., 2007). In addition to nondisclosure risk of related party transactions, there is exposed risk even when the existence of such transaction is disclosed, as found in Enron who did disclose related party transactions. Therefore, related party relations have enormous implication for auditing and companies' corporate governance that is, to ascertain directors' independence and monitoring effectiveness. Prior research found that related party transaction is the root cause of other problems as it has significant positive association with firm's earnings management, abnormal accruals, inflated earnings and window dressing (Ming & Wong, 2003; Aharony, Yuan, & Wang, 2005; Gordon & Henry, 2005). Previous research also found a negative association between 'related party disclosure' with firm's abnormal returns, current and future market prices (Gordon, Henry, & Palia, 2004b; Cheung, Rau, & Stouraitis, 2006).

3. ECONOMIC CHANGES AND ITS EFFECT ON ACCOUNTING REGULATION IN INDIA

The Government of India (GOI) has followed the principle of 'mixed economy' since 1951. A 'mixed economy' refers to the presence of both the private and the public sectors. The public sector played a central role in the process of planned economic development of the country. However, in the 1980s, the concept of 'privatization' came into India. The industrial

policy of 1991 reduced the future priority areas for the public sector to essential infrastructure, goods and services, exploration and exploitation of oil and mineral resources, technical development and the development of infrastructure capabilities in areas that are significant in the long-term development of the economy and where private sector investment is not adequate, and manufacture of products where strategic considerations dominate, such as defence equipment (Mukherjee & Mukherjee, 1998).

India had a tightly controlled economy that permitted insignificant foreign investments until the 1990s. Policies concerning industries and investment have become gradually simpler, more liberal and more transparent since July 1991. The restrictions on foreign banks endeavouring to enter the Indian market have been removed and many foreign institutions were allowed to own up to 20 percent of the equity in Indian banks. The change in India's economy from protective to competitive was partly in response to its commitments in the World Trade Organization (WTO), under the General Agreement on Trade in Services (Arun & Turner, 2002). Approvals for Foreign Direct Investment (FDI) have augmented sharply since the introduction of reforms in July 1991. In 1999 more than US \$6.7 billion in FDI was approved. The United States continues to be a notable source of FDI in India, accounting for 12.6 percent of investments approved, and there was an estimated inflow of US \$4,016 million in 1999, which accounted for about 59 percent of total FDI approval (India Country Review, 2003).

Before the 1980s most Indian companies used to publish the legally required minimum financial statements when reporting. These companies concealed various facts and figures from users. Some of these companies violated the provisions of the law as well. However, only a few Indian companies such as the ITC Limited, Hindustan Lever Limited and the Tata group of companies used to report more than the minimum requirements (Dasgupta, 1977 cited in Banerjee, 2002). The change in India's economy had an immediate impact on the companies' accounting. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) started to issue mandatory ASs only in 1991, which can be attributed to the changing economic policy of the GOI, as Indian economic policy became liberal in regard to industries and investment in the same year. The ASB gives due consideration to IFRSs while formulating ASs. This provides an indication that India took the policy of making its accounting system globally acceptable with the globalization of its economy.

The Securities and Exchange Board of India (SEBI) (Amendment Act) 2002 resulted in the establishment of the SEBI: for the purposes of protecting investors' interests in securities, to facilitate the development of the securities market, to regulate the market of securities and to provide for incidents or matters connected with these. The SEBI was established according to the structure of the Securities and Exchange Commission (SEC) of the United States. The SEBI has initiated to curb speculative forces at work in various stock exchanges in India. The SEBI directly regulates the disclosure to be made by companies at the time of vetting their prospectuses (Banerjee, 2002). The earlier evidences suggest that with the change in the economy of India, the country started to stress the development of accounting practices, and a higher level of disclosure leading to the establishment of the ASB and SEBI, to attract foreign investments.

Related party disclosure is guided by AS-18 in India, which was made mandatory from 1 April 2001. Disclosure of related party information by companies in a secretive culture like India (Hofstede, 1980, 1984; Gray, 1988) is a sensitive issue. However, the ICAI adapted the IAS-24 as AS-18 and made it mandatory for the companies to comply. The requirements of

AS-18, related party disclosure, are explained in Table 1.

Table 1. AS-18: Related Party Disclosure

| Item No. | Particulars | Details |
|----------|--|---|
| 1 | Effective date | 1 April 2001 |
| 2 | Disclosure of related party transactions | Disclosure of related party transactions is <i>not</i> required under AS-18, if such disclosure conflicts with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regular or similar competent authority |
| 3 | Significant influence | An enterprise is assumed to have 'substantial interest' in another enterprise under AS-18, if it holds <i>20 per cent or more</i> interest in the voting power of the other enterprise |
| 4 | Disclosure requirements | Disclosure of the name of the transacting party, a <i>description</i> of the relationship between parties and amounts written off or written back in the period in regard to the debts due from or to related parties if there have been transactions between related parties, during the existence of a relationship between a related party is required under AS-18 |

AS-18 is not very specific. For example, the second disclosure requirement under item 4 in Table 1 mentions 'a description of the relationship' but it is not specific about information items to be reported. In fact, the nature of a country's accounting systems/disclosure practices is dependent on a number of country-specific factors (economic, non-economic). Although various economic and institutional factors determine disclosure practices, some non-economic factors also play a role. Hence, considering the accounting value of 'secrecy' in India, it is expected that Indian companies will provide the minimum possible information under this category.

4. RESEARCH METHOD AND DATA COLLECTION

To measure the compliance of Indian companies with the AS-18, a content analysis of the 'related party disclosure' section of annual reports of a sample of Indian companies for the financial years 2002–2006 was conducted. Content analysis has a strong foundation in the social disclosure literature (see, e.g., Guthrie & Parker, 1989; Gray et al., 1995a, 1995b; Buhr & Freedman, 2001). These companies were selected from the list provided by www.indiainfoline.com on the basis of their market capitalization. The annual reports were downloaded from the respective companies' websites. The list provided by www.indiainfoline.com included the list of top 50 companies by market capitalization. The rationale behind the selection of the top 50 companies was that larger firms possess the resources and expertise required for the production and publication of financial statements to meet the diverse requirements of many shareholders and creditors (Ahmed & Nicholls, 1994). Market capitalization as a method to select top companies has been used in previous

studies (Beattie & Jones, 2000; Beattie & Jones, 2001). Of these 50 companies, nine companies that belonged to banking, finance, insurance or electricity companies were excluded as they are required to comply with special rules and regulations in India (D' Souza, 2002), leaving a final sample of 41 companies.

Disclosure on related party transactions from these annual reports were identified and listed. As disclosure in regard to 'a description of relationship' under AS-18 is mandatory, it is expected that these companies would disclose some information about their related party transactions, meeting the minimum compliance requirement of AS-18. On the contrary, as the Indian standard is not specific about the particulars of such disclosure, it is expected that these companies would disclose only the required minimum number of information items about their related parties. In order to get an overall picture of the degree of disclosure of related parties by these companies, a disclosure index was set out. If a company disclosed more than one related party disclosure item, then each additional disclosure was assigned one additional point. The points were then added to count whether a particular company had obtained more than one point, indicating more than the required compliance under AS-18. There is an extensive use of disclosure indexes in the accounting literature (see, e.g., Wallace & Naser, 1995; Inchausti, 1997; Depoers, 2000). The following section provides the data analysis and results.

5. DATA ANALYSIS AND RESULTS

The analysis section of this paper has been divided into two sub-sections. In the first section, we provide the results of analysis obtained from the related party disclosure section of 2006 annual reports. In the second sub-section, the results of a content analysis for the period from 2002 to 2006 is reported to establish a disclosure trend that supplements the results provided in the first sub-section.

5.1. Results of Content Analysis – Related Party Disclosure in 2006 Annual Reports

Appendix A provides the detailed content analysis of related party disclosures for some companies, and Table 2 provides indexed scores of all companies computed similarly. Of the 41 sample companies, the 2006 annual report for 15 companies could not be obtained, leaving a sample of 26 companies. As can be observed from the analytical table, all companies in the list disclosed more than one information item. The lowest score is 3, the highest is 59, and the mean score is 26.88. Hence, our analysis shows that the level of compliance of all these companies with AS-18 is high. Considering the underlying accounting value of 'secrecy' in India, if company disclosed more than two information items as 'a description of relationship' this was considered to be a high level of compliance.

We also tested for the relationship of related party disclosure of these 26 sample companies in 2006 with market capitalization, industry affiliation and foreign listing of respective companies. To observe the correlation between disclosure score and market capitalization of all companies, we conducted parametric and non- parametric correlation test by using SPSS. Pearson correlation shows correlation coefficient of 0.50 while Spearman correlation shows a correlation coefficient of 0.000 and Kendall's tau correlation shows a correlation coefficient of 0.012 between related party disclosure score and market capitalization of these 26 companies in 2006. None of the correlation coefficients is statistically significant.

This implies that related party disclosure in India has no association with company market capitalization.

The related party disclosure score of sample companies in 2006 shows a mean of 26.88 and median of 26.00. Thirteen of 26 companies have disclosure score above the mean of 26.88 and mode of 26.00. Of these 13 companies, most (10) are not listed in any foreign exchange(s). This provides evidence that related party disclosure is not related to foreign listing. These 13 companies belong to diverse industries such as automobile, manufacturing, energy, service, technology and diversified. This indicates that disclosure is not industry sensitive in India that is disclosure is not correlated to industry sector for Indian companies.

Table 2. Analysis for 2006.

| Serial No. | Name of Companies | Score | Nature of Industry | Market Capitalization in 2006 (Rs mm) | Foreign Listing in 2006 |
|------------|------------------------------------|-------|--|---------------------------------------|-------------------------|
| 1 | Reliance Industries Ltd | 41 | Manufacturing | 1,902,322.10 | No |
| 2 | Oil & Natural gas corporation Ltd | 3 | Manufacturing | 1,306,570.50 | No |
| 3 | Tata Consultancy Services Ltd | 39 | Service | 1,299,482.94 | No |
| 4 | Bharti Airtel Ltd | 39 | Service | 1,253,866.64 | No |
| 5 | Infosys Technologies Ltd | 13 | Service | 1,251,621.90 | Yes |
| 6 | Wipro Ltd | 7 | Service | 1,142,414.03 | Yes |
| 7 | ITC Ltd | 37 | Diversified | 644,001.22 | No |
| 8 | Indian Oil Corporation Ltd | 17 | Manufacturing | 558,892.79 | No |
| 9 | Bharat Heavy Electricals Ltd | 12 | Manufacturing | 543,771.05 | No |
| 10 | Steel Authority of India Ltd | 5 | Manufacturing | 412,420.44 | Yes |
| 11 | Suzlon Energy Ltd | 43 | Energy | 365,428.88 | No |
| 12 | Tata Motors Ltd | 24 | Automotive | 364,063.54 | No |
| 13 | Satyam Computer Services Ltd | 29 | Technology | 327,685.06 | Yes |
| 14 | Tata Steel Ltd | 48 | Manufacturing | 282,031.42 | No |
| 15 | Bajaj Auto Ltd | 47 | Automotive | 279,939.77 | No |
| 16 | Maruti Udyog Ltd | 40 | Automotive | 261,718.18 | No |
| 17 | Grasim Industries Ltd | 24 | Manufacturing | 260,715.93 | Yes |
| 18 | Mahindra & Mahindra Ltd | 59 | Automotive | 224,907.31 | Yes |
| 19 | Tech Mahindra Ltd | 16 | Technology | 216,443.25 | No |
| 20 | Siemens Ltd | 28 | Technology | 199,959.60 | No |
| 21 | Hindalco Industries Ltd | 21 | Manufacturing | 170,085.00 | Yes |
| 22 | I-Flex Solutions Ltd | 39 | Technology | 164,425.84 | Yes |
| 23 | Jaiprakash Associates Ltd | 19 | Diversified (Manufacturing and Service) | 157,341.50 | Yes |
| 24 | Hero Honda Motors Ltd | 29 | Automotive | 146,499.92 | No |
| 25 | Ultra Tech Cement Ltd | 17 | Manufacturing | 139,017.98 | No |
| 26 | Container Corporation of India Ltd | 3 | Service | 137,408.36 | No |

5.2. The Disclosure Trends – Content Analysis of Related Party Disclosures in Annual Reports from 2002 to 2006

This section analyses the trend of disclosing about related parties from 2002 to 2006. Scores for disclosures from 2002 to 2005 have been computed in a similar method to that used for 2006. The details of these scores are provided in Appendix B. The 2006 annual report could not be obtained for 15 companies nor could the 2005 report be obtained for 9 companies, the 2004 report for 12 companies, the 2003 report for 20 companies, and the 2002 report for 20 companies, leaving a sample of 26 companies in 2006, 32 in 2005, 29 in 2004, 21 in 2003 and 21 in 2002. The lowest score in 2006 is 3, 2005 is 5, 2004 is 5, 2003 is 5 and in 2002 is 6, and the highest in 2006 is 59, 2005 is 53, 2004 is 67, 2003 is 74 and in 2002 is 69. The mean score in 2006 is 26.88, 2005 is 24.75, 2004 is 29.62, 2003 is 32.29 and in 2002 is 28.52. Hence, in all these years Indian companies disclosed more than the minimum required related party disclosure as required by the standard. Thus, our finding suggests that the accounting value of 'secrecy' in India is unable to explain this high level of 'related party' disclosure by Indian companies.

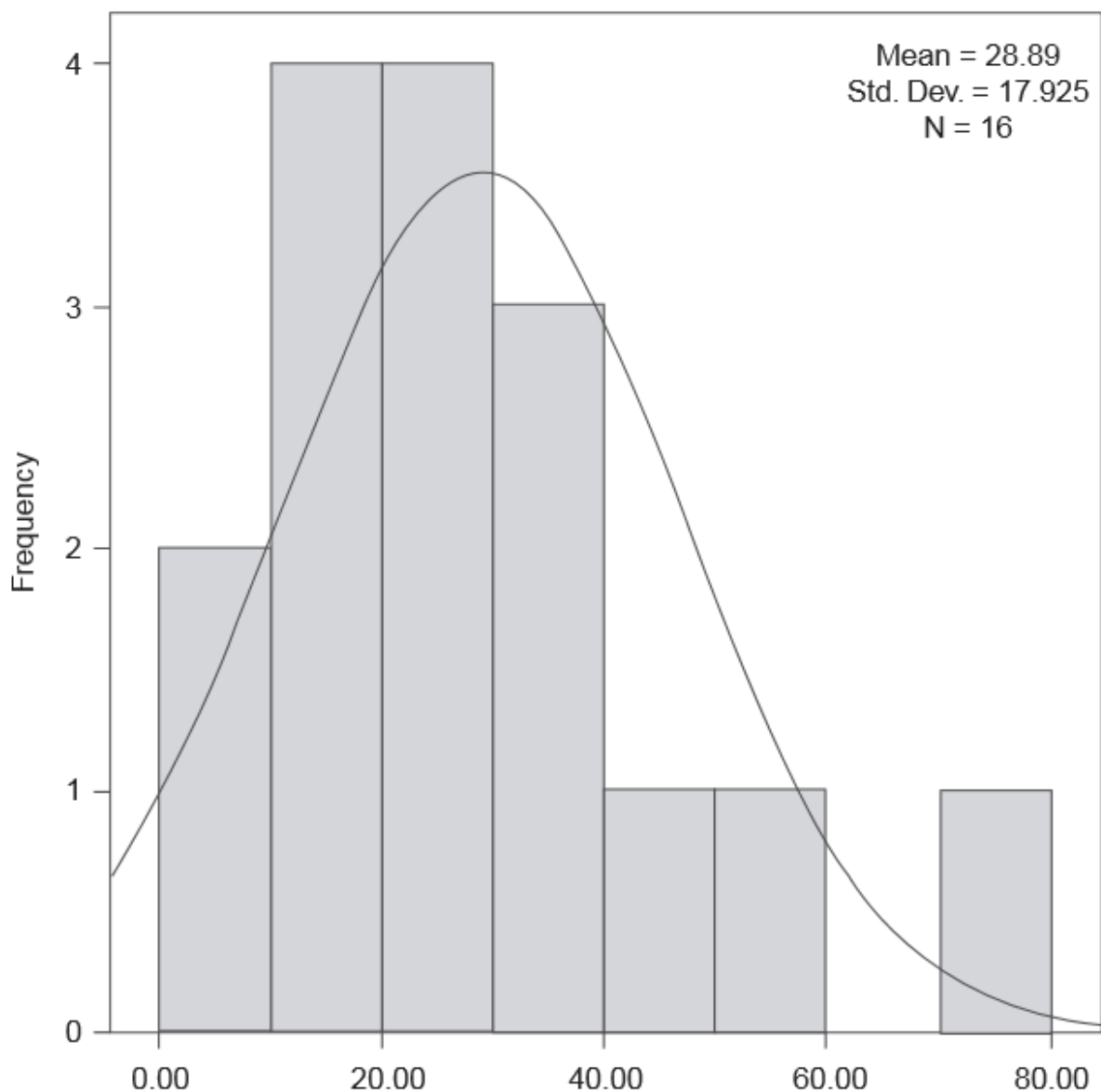
We have also analysed the disclosure trend of companies. To conduct the analysis only those companies whose annual reports for all the years 2002 to 2006 were available were selected. A total of 16 companies had annual reports for all these years. Of these 16 companies, 6 are in manufacturing, 3 in service, 3 in automotive, 3 in technology and 1 in diversified industry sector. Using Microsoft Excel, trend values of each company is calculated and provided in the right extreme column of the Table 3. The trend values of these five industry sectors indicate that overall manufacturing and automotive companies have been disclosing more information on related party, followed by diversified, service and technology. On the contrary, the minimum level of disclosure was also reported by a manufacturing company. Now, using the SPSS, we analysed the trend values in a graph (Fig. 1) below, which reports the disclosure mean value of these 16 companies for the period of 2002–2006 is 28.89 with standard deviation of 17.925.

Table 3. Trend Analysis 2002 to 2006.

| Serial No. | Nature of Industry | Name of Company | Score in 2006 | Score in 2005 | Score in 2004 | Score in 2003 | Score in 2002 | Trend Value |
|------------|--------------------|------------------------------|---------------|---------------|---------------|---------------|---------------|-------------|
| 1 | Manufacturing | Reliance Industries Ltd | 41 | 53 | 57 | 62 | 52 | 59.2 |
| 2 | Manufacturing | Tata Steel Ltd | 48 | 49 | 60 | 47 | 43 | 47 |
| 3 | Manufacturing | Hindalco Industries Ltd | 21 | 24 | 25 | 20 | 20 | 20.8 |
| 4 | Manufacturing | Grasim Industries Ltd | 24 | 22 | 27 | 16 | 20 | 19 |
| 5 | Manufacturing | Bharat Heavy Electricals Ltd | 12 | 16 | 13 | 10 | 9 | 9.6 |
| 6 | Manufacturing | Steel Authority of India Ltd | 5 | 6 | 6 | 5 | 6 | 5.8 |
| 7 | Service | Bharat Airtel Ltd | 39 | 46 | 26 | 22 | 36 | 27.8 |
| 8 | Service | WIPRO Ltd | 7 | 27 | 22 | 22 | 18 | 22.6 |
| 9 | Service | Infosys Technologies Ltd | 13 | 16 | 17 | 15 | 15 | 15.8 |
| 10 | Automotive | Mathindra & Mathindra Ltd | 59 | 49 | 67 | 74 | 69 | 72.6 |
| 11 | Automotive | Maruti Udyog Ltd | 40 | 5 | 49 | 50 | 28 | 38.6 |
| 12 | Automotive | Bajaj Auto Ltd | 47 | 47 | 40 | 36 | 29 | 30.4 |
| 13 | Technology | I-Flex Solutions Ltd | 39 | 33 | 33 | 34 | 16 | 22 |
| 14 | Technology | Siemens Ltd | 28 | 28 | 26 | 26 | 16 | 19.6 |
| 15 | Technology | Satyam Computers Ltd | 29 | 28 | 30 | 30 | 9 | 17.6 |
| 16 | Diversified | ITC Ltd | 37 | 37 | 57 | 34 | 27 | 33.8 |

It implies variation in the disclosure about related parties between companies and variation of such disclosure by individual companies across these 5 year period. Fig. 1 indicates that majority of the companies fall below the score of 40. That means our trend analysis shows 'moderate level' of improvement between 2002 and 2006 for these 16 companies in their related party disclosures in annual reports.

Fig. 1. Trend analysis: 2002-2006



6. CONCLUSIONS

Accounting researchers posit that the nature of a country's accounting systems/disclosure practices is dependent on a number of country-specific factors (economic, non-economic). Although various economic and institutional factors determine disclosure practices, some non-economic factors also play a role. India ranks high on 'secrecy', and hence, it was expected that Indian companies would disclose the minimum possible information about related parties. Beyond this expectation, the results obtained in our study suggest that all the companies in our sample disclosed more than the minimum required information items. This can be explained by taking the information and agency theory as the basis. Companies are now willing to provide more information to the investors and users to reduce agency costs/rents and information asymmetry, so that investors can monitor and evaluate whether firm's resources are managed in the interests of owners.

The Indian economy shifted from protective to competitive in 1991. This resulted in the establishment of the SEBI and brought about more stress on the formulation of ASs by the ICAI and their implementation. Owing to privatization, companies started to be more dependent on investors (both local and foreign) to obtain funds for their operation resulting in more than the minimum required disclosure by Indian companies. The establishment of SEBI to protect investors' interests further stressed the fact that companies need to satisfy investors' information needs. The adaptation of IFRSs in India also emphasized the globalization of accounting practices that led Indian companies to disclose more than the minimum required related party information. With this unique change in the Indian economy, companies needed to focus on foreign investment as well, and this has also resulted in more than the minimum required disclosures by Indian companies. It is evident that the economic and political environments as well as cultural/value orientation of a country could influence the type of accounting systems/disclosure practices of the country. Following the results of this study, it can be claimed that accounting values/disclosure practices may be affected by a change in the economy where various economic and institutional factors determine disclosure practices. However, further research is required to explore the relationship between the change in the economic environment of a country and its underlying accounting values/disclosure practices.

No association between related party disclosure with market capitalization, industry affiliation and foreign listing was found for the year 2006. On the contrary, when the scores of all the five years 2002–2006 were considered manufacturing and automotive companies disclosed more related party transactions than diversified, service and technology. The reason behind such disclosure pattern needs further investigation.

Finally, the limitations of our findings rest upon the fact that we have not examined the effect of factors such as the composition of management of each company, the presence of Indians/Non-Indians in management. Future researches need to focus in this direction.

NOTES

1. IFRSs were previously known as IASs. These terms have been used interchangeably in this paper.
2. Wherever a company discloses the purchase/sale of goods and services separately, these have been treated as two separate disclosures. Wherever disclosures are not separate, such as in case of Tata Engineering and Locomotive Company Ltd, there were no separate disclosures for associates and joint ventures; this has been taken as one set of disclosure. Wherever names and details in regard to whole-time directors have been given separately from key management personnel, these two have been considered to be separate disclosure headings.

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APPENDIX A. DETAILED CONTENT ANALYSES OF 2006 ANNUAL REPORTS²

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|------------|-------------------------|---|--|---|
| 1 | Reliance Industries Ltd | 1. Name of associates and joint venture companies 2. Names of key management personnel | 1. Details in regard to associate and joint venture companies (i) Opening and closing balances (ii) Investments in equity shares (iii) Investments in preference shares (iv) Loans (v) Loans given (vi) Loans received back (vii) Compensation charges (viii) Dividend received (ix) Sale of equity shares (x) Investments in warrants (xi) Miscellaneous income (xii) Advance against preference (xiii) ICD taken (xiv) Interest on ICD (xv) Interest payable on ICD (xvi) ICD (xvii) Purchase of materials (xviii) Sale of products (xix) Sundry Debtors (xx) Sundry creditors (xxi) Advances receivable in cash or kind (xxii) Premium receivable on preference shares (xxiii) Guarantee | |

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|--|--------------------|--|--|---|
| | | | (xxiv) Rental income | |
| | | | (xxv) Tower Sales | |
| | | | (xxvi) Telephone expenses | |
| | | | (xxvii) Conversion of preference shares to equity shares | |
| | | | (xxviii) Premium on redemption of preference shares converted to equity shares | |
| | | | (xxix) Investments in DDBs | |
| | | | (xxx) Interest receivable on DDBs | |
| | | | (xxxi) Loans repaid | |
| | | | (xxxii) Bandwidth, telephone, Internet and lease line charges | |
| | | | (xxxiii) Processing and hire income | |
| | | | (xxxiv) Other deposits | |
| | | | (xxxv) Bank guarantee commission received | |
| | | | (xxxvi) Income towards fuel management fee | |
| | | | (xxxvii) Claims received | |
| | | | (xxxviii) Job conversion income | |
| | | | (xxxix) Purchase of capital goods | |
| | | | (xl) Tug hire income | |
| Score = 40 | | | | |
| 2. Details in regard to key management personnel | | | | |
| (i) Payments to key managerial personnel | | | | |
| Score = 1 | | | | |
| Total score: 40+1 = 41 | | | | |

2 Oil & Gas Corporation Ltd

1. Name of Joint venture companies
2. Name of key managerial personnel

Score = 2

2. Details in regard to key managerial personnel
 - (i) Remuneration

Score = 1

Total score: 2+1 = 3

3 Tata Consultancy Services Ltd

1. Name of the holding company
2. Name of subsidiaries
3. Name of fellow subsidiaries
4. Name of associates and joint ventures
5. Name of key management personnel

1. Details in regard to Holding Company
 - (i) Issue of shares pursuant to amalgamation of Tata Infotech Ltd

Disclosure of material transactions with related parties

- (ii) Purchase of fixed assets
- (iii) Revenues
- (iv) Purchases of goods/services/facilities
- (v) Brand equity contribution
- (vi) Dividend paid

Balance at end of year:

- (vii) Debtors, loans and advances
- (viii) Creditors, advances from customers

Score = 8

2. Details in regard to Subsidiaries
 - (i) Purchase of fixed assets
 - (ii) Loans and advances
 - (iii) Purchase of investment
 - (iv) Revenues
 - (v) Interest income
 - (vi) Dividend income
 - (vii) Rent income
 - (viii) Purchases of goods/services/facilities
 - (ix) Bad debts written off

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|---------------|-----------------------|--|--|---|
| | | | (x) Provision for doubtful debts/advances (xi) Guarantees | |
| | | | Balance at end of year: | |
| | | | (xii) Debtors, loans and advances | |
| | | | (xiii) Creditors, advances from customers | |
| | | | Score = 13 | |
| | | | 3. Details in regard to fellow subsidiaries | |
| | | | (i) Purchase of fixed assets | |
| | | | (ii) Inter-corporate deposit | |
| | | | (iii) Revenues | |
| | | | (iv) Interest income | |
| | | | (v) Rent income | |
| | | | (vi) Purchases of goods/services/facilities | |
| | | | (vii) Provision for doubtful debts/advances | |
| | | | Balance at end of year: | |
| | | | (viii) Debtors, loans and advances | |
| | | | (ix) Creditors, advances from customers | |
| | | | Score = 9 | |
| | | | 4. Details in regard to associates and joint ventures | |
| | | | (i) Purchase of fixed assets | |
| | | | (ii) Purchase of investment | |
| | | | (iii) Revenues | |
| | | | (iv) Purchases of goods/services/facilities | |
| | | | (v) Provision for doubtful debts/advances | |

Balance at end of year:
 (vi) Debtors, loans and advances
 (vii) Creditors, advances from customers

Score = 7

5. Details in regard to key management personnel

- (i) Remuneration
- (ii) Dividend paid

Score = 2

Total Score: 8+13+9+7+2 = 39

Bharti Airtel Ltd

- 1. Names of subsidiaries
- 2. Names of entities where key management personnel exercises significant influences
- 3. Name of entity having significant influence
- 4. Names of joint venture companies
- 5. Names of key management personnel

1. Details in regard to Subsidiaries

- (i) Purchase of fixed assets
- (ii) Sale of fixed assets
- (iii) Rendering of services
- (iv) Receiving of services
- (v) Funds transferred/includes expenses incurred on behalf of others
- (vi) Funds received/includes expenses incurred on behalf of others
- (vii) Employee related transaction incurred on behalf of company
- (viii) Employee related transaction incurred on behalf of others
- (ix) Closing balance
- (x) Unsecured loans
- (xi) Creditors
- (xii) Loans and advances
- (xiii) Debtors

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|---|--------------------|--|---|---|
| Score = 13 | | | | |
| 2. Details in regard to entities where key management personnel exercise significant influences | | | | |
| | | | (i) Purchase of fixed assets | |
| | | | (ii) Rendering of services | |
| | | | (iii) Receiving of services | |
| | | | (iv) Funds transferred/includes expenses incurred on behalf of others | |
| | | | (v) Funds transferred/includes expenses incurred on behalf of company | |
| | | | (vi) Employee related transaction incurred on behalf of others | |
| | | | (vii) Donation | |
| | | | (viii) Closing balances | |
| | | | (ix) Creditors | |
| | | | (x) Loans and advances | |
| | | | (xi) Debtors | |
| Score = 11 | | | | |
| 3. Details in regard to entity having significant influence | | | | |
| | | | (i) Rendering of services | |
| | | | (ii) Receiving of services | |
| | | | (iii) Closing balance | |
| | | | (iv) Debtors | |

Score = 4

4. Details in regard to joint venture companies

- (i) Receiving of services
- (ii) Funds transferred/includes expenses incurred on behalf of others
- (iii) Closing balances
- (iv) Creditors
- (v) Loans and advances

Score = 5

5. Details in regard to key management personnel

- (i) Salary
- (ii) Reimbursement and perquisites
- (iii) Performance linked incentive
- (iv) Commission
- (v) Sitting fees
- (vi) Total remuneration

Score = 6

Total score: $13+11+4+5+6 = 39$

5 Infosys Technologies Ltd

- 1. Names of subsidiary companies
- 2. Names of key management personnel

1. Details in regard to Subsidiary companies

- (i) Financing transactions
- (ii) Loans
- (iii) Rental deposit repaid
- (iv) Purchase of services
- (v) Purchase of shared services including facilities and personnel
- (vi) Sale of services
- (vii) Sale of shared services including facilities and personnel
- (viii) Loans and advances
- (ix) Maximum balances of loans and advances

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|------------|--------------------|---|---|---|
| 6 | Wipro Ltd | 1. Name of affiliate companies 2. Name of entity controlled by directors | Score = 9 2. Details in regard to key management personnel (i) Salary (ii) Perquisites and incentives (iii) Total remuneration (iv) Commission | |
| | | | Score = 4 Total score = 9+4 = 13 | |
| | | | 1. Details in regard to affiliate companies (i) Revenues (ii) Payment for services (iii) Purchase of printers (iv) Receivables (v) Payables | |
| | | | Score = 5 2. Details in regard to entity controlled by directors (i) Revenues (ii) Receivables | |
| | | | Score = 2 Total score: 5+2 = 7 | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

1. Names of enterprises where control exists
2. Names of associates and joint ventures
3. Names of key management personnel
4. Names of employees' benefit plans where there is significant influence

Score = 3

2. Details in regard to associates and joint ventures

- (i) Sale of goods/services
- (ii) Purchase of goods/services
- (iii) Sale of fixed assets
- (iv) Interest income
- (v) Rent paid
- (vi) Reimbursement of contractual remuneration
- (vii) Remuneration of managers on deputation recovered
- (viii) Dividend income
- (ix) Dividend payments
- (x) Expenses recovered
- (xi) Expenses reimbursed
- (xii) Loans given
- (xiii) Receipt towards loan repayment
- (xiv) Advances given
- (xv) Receipt towards refund of advances
- (xvi) Payments towards refund of advances
- (xvii) Deposits received during the year
- (xviii) Receipt towards refund of deposits

Balances as on 31 March

- (xix) Debtors/receivables
- (xx) Advances given
- (xxi) Deposits with (including deposits towards property options)
- (xxii) Deposits from

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|------------|--------------------|--|---|---|
| | | | (xxiii) Creditors/payables (xxiv) Dividend receivable (xxv) In addition, remuneration of managers on deputation, absorbed | |
| | | | Score = 25 | |
| | | | 3. Details in regard to key management personnel | |
| | | | (i) Interest income | |
| | | | <i>Remuneration to key management personnel</i> | |
| | | | (ii) Directors | |
| | | | (iii) Others | |
| | | | (iv) Rent paid | |
| | | | (v) Dividend payments | |
| | | | (vi) Receipt towards loan repayments | |
| | | | (vii) Loans given balance | |
| | | | Score = 7 | |
| | | | 4. Details in regard to employees' benefit plans where there is significant influence | |
| | | | (i) Contributions to employees' benefit plans | |
| | | | (ii) Advances given balance | |
| | | | Score = 2 | |
| | | | Total score: 3+25+7+2 = 37 | |

8 Indian Oil Corporation Ltd

1. Names of joint venture companies
 2. Names of whole-time directors
1. Details in regard to joint venture companies
 - (i) Sales
 - (ii) Interest received
 - (iii) Consultancy services/other income
 - (iv) Purchase of products
 - (v) Purchase of chemicals/materials
 - (vi) Handling expenses
 - (vii) Freight expenses
 - (viii) Reimbursement of expenses
 - (ix) Fixed assets purchased
 - (x) Investments made during the year
 - (xi) Provisions made during the year
 - (xii) Outstanding receivables
 - (xiii) Outstanding payables

Score = 13

2. Details in regard to whole-time directors

- (i) Remuneration
- (ii) Recovery of interest and furniture hire charges
- (iii) Outstanding loans/advances receivables
- (iv) Assets on hire

Score = 4

Total score: 13+4 = 17

9 Bharat Heavy Electricals Ltd (BHEL)

1. Names of joint venture companies
 2. Names of key management personnel
1. Details in regard to joint venture companies
 - (i) Purchases of goods and services
 - (ii) Sales of goods and services
 - (iii) Rendering of services
 - (iv) Receiving of services
 - (v) Dividend income
 - (vi) Royalty income
 - (vii) Amounts due to BHEL at end of the year

APPENDIX A. (Continued)

| Serial No. | Names of Companies | Nature of Related Parties for Whom Names Are Disclosed | Descriptions Provided for Each Related Parties | Other Information Disclosed that is Mandatory |
|------------|------------------------------|---|--|---|
| 10 | Steel Authority of India Ltd | 1. Names of joint venture companies 2. Names of key managerial personnel | (viii) Amounts due from BHEL at end of the year | |
| | | | (ix) Provision for doubtful debts | |
| | | | (x) Guarantees given on behalf of | |
| | | | Score = 10 | |
| | | | 2. Details in regard to key management personnel | |
| | | | (i) Amounts due to BHEL at end of the year | |
| | | | (ii) Payment of salaries | |
| | | | Score = 2 | |
| | | | Total score: 10+2 = 12 | |
| | | | 1. Details in regard to joint venture companies | |
| | | (i) Other loans/advances | | |
| | | (ii) Provision for loans and advances | | |
| | | (iii) Payments made against services rendered during the year | | |
| | | (iv) Dividend received | | |
| | | Score = 4 | | |
| | | 2. Details in regard to key managerial personnel | | |
| | | (i) Managerial remuneration | | |
| | | Score = 1 | | |
| | | Total score: 4+1 = 5 | | |

APPENDIX B

Scores of 2005

| Serial No. | Name of Companies | Score |
|------------|------------------------------------|-------|
| 1 | Reliance Industries Ltd | 53 |
| 2 | Oil & Gas Corporation Ltd | 5 |
| 3 | Tata Consultancy Services Ltd | 35 |
| 4 | Bharti Airtel Ltd | 46 |
| 5 | Infosys Technologies Ltd | 16 |
| 6 | Wipro Ltd | 27 |
| 7 | Reliance Communications Ltd | 13 |
| 8 | ITC Ltd | 37 |
| 9 | Indian Oil Corporation Ltd | 16 |
| 10 | Bharat Heavy Electricals Ltd | 13 |
| 11 | Hindustan Lever Ltd | 49 |
| 12 | Steel Authority of India Ltd | 6 |
| 13 | Satyam Computer Services Ltd | 28 |
| 14 | Tata Steel Ltd | 49 |
| 15 | Bajaj Auto Ltd | 47 |
| 16 | Maruti Udyog Ltd | 5 |
| 17 | Grasim Industries Ltd | 22 |
| 18 | Mahindra & Mahindra Ltd | 49 |
| 19 | Tech Mahindra Ltd | 10 |
| 20 | HCL Technologies Ltd | 10 |
| 21 | ACC Ltd | 22 |
| 22 | Cipla Ltd | 6 |
| 23 | Siemens Ltd | 28 |
| 24 | Gujarat Ambuja Cements Ltd | 31 |
| 25 | Hindalco Industries Ltd | 24 |
| 26 | I-Flex Solutions Ltd | 33 |
| 27 | Ranbaxy Laboratories Ltd | 26 |
| 28 | Jaiprakash Associates Ltd | 21 |
| 29 | ABB Ltd | 18 |
| 30 | Hero Honda Motors Ltd | 21 |
| 31 | Ultra Tech Cement Ltd | 17 |
| 32 | Container Corporation of India Ltd | 9 |

Scores of 2004

| Serial No. | Name of Companies | Score |
|------------|------------------------------------|-------|
| 1 | Reliance Industries Ltd | 57 |
| 2 | Oil & Gas Corporation Ltd | 8 |
| 3 | Bharti Airtel Ltd | 26 |
| 4 | Infosys Technologies Ltd | 17 |
| 5 | Wipro Ltd | 22 |
| 6 | ITC Ltd | 57 |
| 7 | Indian Oil Corporation Ltd | 15 |
| 8 | Bharat Heavy Electricals Ltd | 13 |
| 9 | Hindustan Lever Ltd | 62 |
| 10 | Steel Authority of India Ltd | 6 |
| 11 | Satyam Computer Services Ltd | 30 |
| 12 | Tata Steel Ltd | 60 |
| 13 | Bajaj Auto Ltd | 40 |
| 14 | Maruti Udyog Ltd | 49 |
| 15 | Grasim Industries Ltd | 27 |
| 16 | GAIL (India) Ltd | 13 |
| 17 | Mahindra & Mahindra Ltd | 67 |
| 18 | Tech Mahindra Ltd | 15 |
| 19 | HCL Technologies Ltd | 44 |
| 20 | ACC Ltd | 25 |
| 21 | Cipla Ltd | 5 |
| 22 | Siemens Ltd | 26 |
| 23 | Gujarat Ambuja Cements Ltd | 38 |
| 24 | Hindalco Industries Ltd | 25 |
| 25 | I-Flex Solutions Ltd | 33 |
| 26 | Ranbaxy Laboratories Ltd | 30 |
| 27 | ABB Ltd | 19 |
| 28 | Hero Honda Motors Ltd | 23 |
| 29 | Container Corporation of India Ltd | 7 |

Scores of 2003

| Serial No. | Name of Companies | Score |
|------------|------------------------------|-------|
| 1 | Reliance Industries Ltd | 62 |
| 2 | Bharti Airtel Ltd | 22 |
| 3 | Infosys Technologies Ltd | 15 |
| 4 | Wipro Ltd | 22 |
| 5 | ITC Ltd | 34 |
| 6 | Bharat Heavy Electricals Ltd | 10 |
| 7 | Hindustan Lever Ltd | 63 |
| 8 | Steel Authority of India Ltd | 5 |

Scores of 2003

| Serial No. | Name of Companies | Score |
|------------|------------------------------|-------|
| 9 | Satyam Computer Services Ltd | 30 |
| 10 | Tata Steel Ltd | 47 |
| 11 | Bajaj Auto Ltd | 36 |
| 12 | Maruti Udyog Ltd | 50 |
| 13 | Grasim Industries Ltd | 16 |
| 14 | Mahindra & Mahindra Ltd | 74 |
| 15 | HCL Technologies Ltd | 30 |
| 16 | Siemens Ltd | 26 |
| 17 | Gujarat Ambuja Cements Ltd | 43 |
| 18 | Hindalco Industries Ltd | 20 |
| 19 | I-Flex Solutions Ltd | 34 |
| 20 | Ranbaxy Laboratories Ltd | 23 |
| 21 | ABB Ltd | 16 |

Scores of 2002

| Serial No. | Name of Companies | Score |
|------------|------------------------------|-------|
| 1 | Reliance Industries Ltd | 52 |
| 2 | Bhart Airtel Ltd | 36 |
| 3 | Infosys Technologies Ltd | 15 |
| 4 | Wipro Ltd | 18 |
| 5 | ITC Ltd | 27 |
| 6 | Bharat Heavy Electrical Ltd | 9 |
| 7 | Hindustan Lever Ltd | 66 |
| 8 | Steel Authority of India Ltd | 6 |
| 9 | Satyam Computer Services Ltd | 9 |
| 10 | Tata Steel Ltd | 43 |
| 11 | Bajaj Auto Ltd | 29 |
| 12 | Maruti Udyog Ltd | 28 |
| 13 | Grasim Industries Ltd | 20 |
| 14 | Mahindra & Mahindra Ltd | 69 |
| 15 | HCL Technologies Ltd | 30 |
| 16 | Siemens Ltd | 16 |
| 17 | Gujarat Ambuja Cements Ltd | 44 |
| 18 | Hindalco Industries Ltd | 20 |
| 19 | I-Flex Solutions Ltd | 16 |
| 20 | Ranbaxy Laboratories Ltd | 27 |
| 21 | ABB Ltd | 19 |