

**A Reform of Corporate Sector Statistics:
Some Suggestions**

A Note Submitted to
the National Statistical Commission

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Joint stock company is the most dominant business form for organised and large industrial and commercial activities. The corporate and industrial sectors are in a sense inseparable as a substantial part of organised industrial activity is conducted by joint stock companies. Questions like what to produce, how much to invest, where to raise finances from, how much to spend on R&D and advertisement, where to get technology from, at what price to sell and in which markets, how to diversify, etc. are decided at company level and not by the factory management. For understanding the trends in the industrial sector, corporate data, therefore, has a distinct advantage over factory level data. Joint stock companies also undertake a variety of services ranging from transport, distribution, finance, health and media. The corporate sector is important for mobilizing and utilising household savings for making new investments. It is a major recipient as well as supplier of foreign investment.

Indian economic policy framework has been undergoing rapid changes. Given the trends of liberalization, privatization and globalization, the corporate sector is bound to account for an increasing proportion of economic activity in the Indian economy. The new policy environment throws up many challenges and opportunities. How the corporate sector responds to the new challenges is of vital importance to those responsible for policy planning, implementation and monitoring of the process of industrialization. The withdrawal of direct regulatory functions by the government such as industrial licensing, import licensing, exchange controls and capital issues control means that a number of avenues of collection of data have ceased to exist while the need for them has grown.

Besides enabling measurement of the sector's contribution to national income and related parameters such as saving and capital formation, a statistical system on the sector should be such as to enable evaluation of the impact of on-going policies and empirical verification of theoretical and policy assumptions, apart from yielding reliable trends in other important aspects like employment, technology development and contribution to net foreign exchange earnings. A closely related aspect is the understanding of behavioural patterns of different types of companies categorised according to ownership and management characteristics. To meet the demands of the new regime, the monitoring system should be made more transparent, efficient and object-oriented than in the past. Better reporting

standards of certain parameters representing the national performance and future outlook in the new economy are also fundamental for the private sector to make right decisions.

In spite of its importance, surprisingly very little is known about the characteristics of the Indian corporate sector whether they are financial, physical, organisational, ownership or technological. Even the actual number of companies in operation in the economy is not known with a fair degree of accuracy. It is due to this uncertainty about the universe of the corporate sector in the country that studies about the whole corporate sector or estimation of important macro-economic aggregates on the basis of a scientifically designed sample survey have become impossible. While there are more than 5 lakh registered companies, some minimum data are available only for a very limited number of companies. The compliance level in respect of filing annual returns and balance sheets by the registered companies is quite low at about 50 per cent. The Company Directory CD-ROM released by the Department of Company Affairs (DCA) in October 1999, does not have even the registration numbers in respect of a large number of companies. While in the earlier Quinquennial Censuses, attempts were made to offer some minimum data on the companies, the CD-ROM does not contain even data on paid-up capital, which has been the basis for blowing up the sample study estimates to arrive at aggregates for the corporate sector. Availability of data on the corporate sector has been so limited that what one gets from the Department of Company Affairs are the Factsheets of large¹ non-government (both public and private limited) companies. These covered only about 7,000 companies for 1996-97 and 1997-98. For 1998-99 the number is likely to go up to 10,000. Since the Reserve Bank of India (RBI) bases its company finance studies on these sets of companies, its scope is constrained even to start with. It is relevant in this context to note that the Company Finance Studies of public limited companies by RBI for 1997-98 covered 148 and 697 non-financial and financial companies respectively. The latest study of large² public limited companies for 1998-99 covered 820 companies. It should also be noted that the coverage of RBI has declined overtime in terms of paid-up-capital (PUC). For instance, during the 'nineties, while the number of non-financial public limited companies analysed remained in the range of 1800 to 1900, the coverage in terms of the corresponding population PUC declined from about 52 per cent in 1989-90 to about 30 per cent by 1998-99. Thus the estimates of saving and investment of private corporate sector suffer from both low representation as also from errors arising out of not being based on appropriate sampling methods. Being residual in character, the estimates for household in turn become undependable.

¹ Having PUC of at least Rs. 50 lakhs.

² Having PUC of at least Rs. 1 crore.

The problems extend to many other areas. For instance, there is considerable ambiguity in the case of important aspects like capital issues and foreign investment. Various public and private organizations are coming out with widely differing estimates of capital raised in a year. Similarly, in spite of the considerable importance attached to inflow of foreign direct investment, neither companies with foreign equity are identified nor their operations are studied systematically. In the absence of global estimates, one is not in a position to assess their role and place in different segments of the economy. It is important to note in this context that even after easing the criteria from foreign controlled rupee companies to FDI companies, and in the face of increasing participation of foreign direct investment in the economy, the number of companies covered in RBI studies remained in the vicinity of 300 throughout the 'nineties. In the face of increasing importance of mergers and acquisitions, what one gets from official sources is a simple list of companies merged/amalgamated. No details as to their relative sizes, the transaction amount, etc. find a place in these lists. Ownership pattern which is an important aspect for understanding corporate performance is another area needing considerable attention. Besides, the manner of reporting of a number of important aspects of corporate behaviour and performance needs to be improved considerably for these to be of practical relevance.

There are nearly 10,000 companies in India whose shares are traded on the stock exchanges. While data availability in respect of these companies is somewhat better than the unlisted ones, and some improvements have been introduced of late in their case, there is need to bring in uniformity in respect of reporting financial and physical performance by the listed and unlisted ones. This is because the unlisted sector is quite large and it is likely to become more important in the years to come as a large number of FDI companies would not be listed on the stock market. Indeed, there is even the possibility of a good number of listed foreign subsidiaries might get delisted. It is thus likely that a good part of the industrial sector would not be represented if studies are confined to the listed segment.

There is a view that companies would be forced to disclose more *voluntarily* in order to attract capital from abroad. This view has certain limitations. First, it is only a few especially large Indian companies which can raise capital in international capital markets. Any amount of detailed data regarding them would not be useful in conducting broad-based studies. Second, it is almost impossible that a foreign subsidiary would seek to list abroad. Hence, information on such companies' operations would be limited. Third, there is and there would continue to be a large unlisted segment comprising both Indian and FDI companies for whom the argument of enhanced disclosures is irrelevant.

The DCA and the Companies Act seem to be concerned only with the narrow perspective of protection of minority share holders' interests. However, greater transparency resulting from the improved system of reporting and collection of statistics on the sector that we suggest below will also serve the share holders' interests better besides facilitating monitoring of the key aspects of the economy. In the absence of a reliable information base, policy changes are often made (or not made) due to pressure, lobbying or just by following international trends. The size of the sector is so large that it is humanly impossible and administratively wasteful to resort to physically go through lakhs of corporate documents. Efforts should be made to get the required information in a standardised format directly from corporate bodies so that monitoring would be easy, fast and reliable and further policy changes would be based more on empirical evidence.

Some Proposals

In the context of extensive default by companies in filing annual returns and balance sheets, it is heartening to note that the Company Law Settlement Scheme 2000 (CLSS 2000) introduced early this year 2000 offering companies immunity from prosecutions for violating various provisions of the Companies Act 1956 met with considerable success. A total of 1,27,083 defaulting companies are reported to have availed of this scheme. It is also understood that efforts are being made to speed up winding of the remaining companies by introducing the 'Fast Track Section 560 Scheme'. One hopes that this will pave the way for bringing out reliable population parameters on a number of important aspects and that future studies could have a reliable sampling frame. The next important step would, therefore, be to improve and expand the data and information reported in company annual reports and making them available to the user community in a readily usable form. Since it is proposed to weed out defunct companies, steps need to be taken quickly to collate the data of companies that have filed their balance sheets for the latest years and treat that as the universe. The same may be made use of to provide a basis for population estimates as also to enable application of sampling techniques. In the context of some of the problems cited above and the ongoing process of amending the *Companies Act, 1956* a few suggestions are made in the following which could be introduced along with the other amendments.

A) Standards of Disclosure

The disclosure norms defined in the Companies Act may be refined to cover the following items in view of the current trends of globalization and knowledge based development.

- 1) **Employment:** An important lacuna of the existing norms of disclosure is that companies are not required to report the number of persons employed by them. Number of

employees and their functional composition (e.g.: production, marketing and sales, administration and finance, R&D, etc.) needs to be reported. A similar functional break-up of the employee compensation may also be provided. Although disclosure of employment has been included in the SEBI's recent Code on Corporate Governance, the Code is applicable only to stock exchange quoted companies. To bring in uniformity all the companies should be required to report this information.

- 2) **Certain Important Heads of Expenditure:** Certain heads of expenditure such as R&D expenditure, advertisement expenditure are required to be reported only if they exceed one per cent of the sales turnover. Hence, many companies in spite of spending considerable sums on R&D choose not to report it as it is within one per cent of their turnover. It is important that these heads of expenditures are reported irrespective of their proportion due to their importance in the knowledge-based and competitive economy. Furthermore, R&D expenditure should be broken up into capital and current expenditure. It is interesting to find that while this information is reported as part of the Directors' Report, often it does not find a place in the profit and loss account. Even if it is reported at both the places, one finds it extremely difficult to reconcile the two figures. As is the current practice, an annexure should continue to summarize the focus of R&D activity and notable achievements including the attempts towards absorption of imported technology. In addition, it should require the companies to report any patents obtained in India and abroad.
- 3) **Overseas operations:** Although exports are required to be reported, sales through overseas affiliates is not required to be reported. Under Section 212 of the Companies Act 1956, companies are required to provide profit and loss accounts of their subsidiaries (including overseas ones). However, activities of joint ventures and other affiliates are not available. Overseas investments are important channels of globalization of a company's operations. Hence, a block of Annual Report needs to be devoted to the overseas operations providing details of exports (their break-up into exports to related companies and others), identifying foreign affiliates of the reporting company in different countries and their sales. Similarly, data on imports should be broken up into imports from affiliated sources (such as foreign parents or associates in the case of FDI companies) and others.
- 4) **Foreign Collaboration and FDI:** In one block, the reporting company should provide information on the foreign collaborations entered into by it and currently in force. This will cover name of the collaborator and country, date of agreement, products/ technologies covered in the collaboration, foreign equity involved if any, official approvals, period of validity of the agreement, and the status of implementation. This

information will help in reconciling the foreign collaboration approvals and their implementation. Currently, very little follow-up is possible after a collaboration is approved by the Government. Finally, total foreign ownership in the company along with its detailed break-up between foreign collaborators, foreign institutional investors, foreign nationals, non-resident Indians, overseas corporate bodies (OCBs) owned by NRIs. At present, the extent of foreign ownership is disclosed only if dividend is to be remitted abroad in the reporting year. Given the growing importance of FDI in the globalizing Indian economy, this information has become vital, even though it may add to the length of the Annual Report slightly.

- 5) **Foreign Assets & Liabilities:** Periodical surveys on India's Foreign Liabilities and Assets are conducted by RBI. The relevant particulars are sought from the identified corporate units along with a copy of their balance sheet. Non-response is said to be one of the problems faced in conducting these surveys. In this context, there is need to strengthen the secondary data sources for filling-in the response gap. One such major secondary source is the balance sheet of the companies. The balance sheet, however, does not explicitly state the foreign component in both the sources and application of funds. If the balance sheet shows explicitly the figures of foreign participation in equity capital and borrowings and also those of assets held abroad, loans and advances to foreign parties and investments made abroad, it would immensely help to improve the coverage of the census/surveys, as such data can be substituted for missing information pertaining to the non-responding companies. Repatriability details relating to the non-resident components may be incorporated in the concerned schedules
- 6) **Capital Issues:** With the repeal of *Capital Issues Control Act*, the availability of official data on capital raised by companies from the market has become tentative. One has now to rely on private agencies without knowing their reliability. Hence, companies may be required to indicate capital raised during the reporting period, separately indicating share premia, in their annual reports. In case of capital issues by listed companies, close cooperation should be established between SEBI, DCA and RBI.
- 7) **Mergers & Acquisitions:** The process of liberalization is leading to industrial restructuring in the country. Hence, a large number of mergers and acquisitions (M&As) of companies and sales and purchases of industrial units are taking place. It is important that Annual Reports provide information on the acquisition of a substantial interest in another undertaking, or acquisition of a substantial interest in the reporting company by another group/company, should be identified. If the acquirer happens to be an existing shareholder of the company, then total shareholding after the new acquisition should also be reported. Although SEBI has a Take-over Code, a large number of M&A deals do not

come under its purview because either they are not listed on stock exchanges, the acquisition involves the majority shareholder, or acquisition is a result of an overseas M&A between the foreign parents of the companies concerned. There is need for a more systematic and purposive reporting on the M&A activity in the Indian corporate sector.

- 8) **Shareholding Pattern:** The present format for reporting the shareholding pattern needs to be modified to reflect the ownership and control characteristics better. Given the level of aggregation and classification it is not possible from the present format to identify controlling interests and their the stake in the risk capital. Shareholding of controlling interests should be identified separately in each of these categories namely, foreign shareholding, inter-corporate investments and top 50 individual shareholders. It could be usefully done in the form of a short table which gives the controlling and non-controlling interests in each of these categories. This is in addition to what is presently being reported under the Shareholding of Directors and their Relatives. The foreign shareholding should be reported separately for foreign collaborators, foreign nationals, holders of ADRs/GDRs, foreign institutional investors, Non-Resident Indians, etc.
- 9) **Directors Report:** In addition to the other items, the Directors' Report could provide a statement on major litigations relating separately to taxes, duties, labour, Company Law, environment, etc.

B) **Standardization of Format**

In order to facilitate electronic processing of the Annual Report data, the reporting format needs to be redesigned and standardized. For this various formats for data collection issued by the Bureau of Economic Analysis (BEA) of the US Department of Commerce, may provide a useful guide. In addition, the ambiguities in reporting of installed capacities, production and sales should be removed if the data has to be more meaningful. For instance, some pharmaceutical companies report this information in the form of tablets, injectibles etc. rather than broad therapeutic groups e.g. antibiotics, anti-TB etc. It should be standardized and not left to the discretion of the company to choose the reporting format.

C) **Industrial Activity Code**

A codified identity of the company needs to be created to facilitate electronic data processing and to avoid additional efforts at the user end. In order to facilitate pooling and reconciling of data from different sources such as SIA, RBI, customs (on foreign trade), tax authorities, Department of Scientific and Industrial Research (concerning R&D activity), financial institutions, among others, it would be desirable that one single code is used throughout. Very

often companies are assigned wrong industry classification because of lack of transparency regarding their activities. Although the balance sheet abstract requires companies to list 3 principal commodities/ services and their ITC codes, the proportion of turnover accounted for by the company is not known. Although the break up of sales in profit and loss statements is required under the Schedule VI, very few companies, if at all, provide that. The annual report should list top ten of a company's activities and their relative importance in terms of share of sales along with the industrial classification code.

D) Corporate Identity Number (CIN)

The introduction of a Corporate Identity Number (CIN) by the DCA with its main components as (a) listing status, (b) Industrial activity as per the National Industrial Classification, (c) State of Registration, (d) year of incorporation, (e) ownership type, and (f) Sequential Registration Number is extremely important. It should be noted that some of the attributes like, listing status, ownership, industrial activity and state of registration are likely to change over a period of time. More thought needs to be given to maintain continuity in information at individual company level. From a reading of the DCA circular one gets an impression that the number would be a continuous one with no characters separating the different attributes. This is likely to cause serious problems at the time of data entry. It is suggested that for all practical purposes the number should be treated as comprising of distinct components (the information stored in separate fields on the computer). One is also perplexed by the proposed ownership classification. It is said that FLC would stand for Public limited foreign company incorporated in India and FTC means a Private limited foreign company incorporated in India. It is our understanding that under the *Companies Act*, only branches of foreign companies are treated as foreign companies and companies incorporated in India, irrespective of the extent of foreign equity, are treated as *Indian Companies* only. The department, however, used to bring out statistics on subsidiaries of foreign companies in India. By foreign companies if it is meant control there would be (are) many more companies which are controlled through the articles of association. This phenomenon was highlighted in the context of foreign equity dilution by FERA companies. Further, sources in RBI point out that since there is more than one ROC in a state, the sequential numbers generated by each of the ROCs combined with the state code many not uniquely identify a company. The Ghosh Working Group also discussed this issue at length. It does appear that more thought should go into the 'design' of CIN.

E) Balance Sheet Abstract (BSA)

The Balance Sheet Abstract (BSA) serves as a useful function of providing summary information in a form suitable for EDI. One major problem with the present BSA is that it does not enable direct and easy computerization of the data. It does not enable automatic verification of certain financial data. It does not have even the number of months for which the report refers to. As a result direct comparisons could lead to misleading conclusions (say the sales of a company whose accounting period was extended to 18 months and that of a companies which closed accounts in 12 or 9 months). Nor one can get the total assets as the current assets are net reported net of current liabilities and provisions. While major products are reported their relative importance of for the companies is not available in the BSA. Companies do not know which coding pattern to follow in case of services.

Besides removing the deficiencies, the BSA could be expanded slightly to facilitate availability of timely and relevant aggregates for the corporate sector. While we do recognize the problems with the Company Identification Number (CIN), for the present, we are not proposing any modifications in it. The emphasis is more on removing the other deficiencies and incorporating more and often-used information. Some qualitative response variables *viz.* Yes or No type, are added to facilitate a purposive sorting of companies. Care has been taken so that the additional information sought would not add to the bulk of the annual report and could be accommodated either in the Directors' Report or Accounts. It should be noted that at present the BSA (with all its limitations) occupies one or 1½ pages depending upon the manner in which the companies decide to present the same. We do realize that there is a need to involve other agencies like the RBI in finalizing the BSA format. The one proposed by us is given in the Annexure. It is hoped that it would be useful as a starting point and would underline the importance of the format in containing more information in a limited space.

F) Deemed Listed Companies

In terms of access and norms of disclosure, there are three tiers of companies in the private corporate sector i.e. Listed Companies, closely held public limited companies, and private limited companies. Information on listed companies is relatively better accessible. Access to data on the other two groups is limited In the earlier period of regulations, a good number of the significant companies used to be listed on the stock exchanges except for a few family controlled holding companies. In the current liberalized regime towards FDI, however, many important companies opt to stay closely held making data accessibility a problem. Cases in point are automobiles and household appliances industries which have seen a number of new

entrants over the past five-six years, most of which are closely held. Since detailed data on these companies would not be easily forthcoming, studies based on listed companies would not be able to capture their true characteristics.

It is imperative, therefore, that for reporting and data access purposes all important companies are treated as *deemed listed* irrespective of their listing on the stock exchanges. A suggested criteria for defining a deemed quoted company could be: (a) sales or assets exceeding Rs. 50 crores; (b) market share over 10 per cent in a particular market segment; (c) controlling foreign interest. Any company attracting one or more of these criteria could be treated as a deemed public company and be subjected to disclosure and access to data norms applicable to them including the disclosure requirements under the SEBI's Code on Corporate Governance. In this case, it may be pointed out that BEA in the US also subjects larger and more important companies for more detailed disclosures.

G) Penalties for Non-Compliance

Currently the companies not complying with their obligation to submit Annual Reports etc. are subject to very small penalty. The penalty for non-compliance should be made heavier to force the companies to fulfil their obligations.

H) Population Estimates and Periodic Surveys

There is an acute problem of absence of reliable population estimates for important variables. Therefore, while working with the available sources of corporate data one is not sure what proportion of economic activity in a particular industry one is covering. Taking the Balance Sheet Abstract as starting point, efforts should be made to bring out every year (a) studies on trends in capital issues, employment, and transactions in foreign currencies and (b) detailed fact sheets on mergers, acquisitions, companies with foreign direct investments. The estimates at various levels of aggregation and related findings should be widely disseminated through official publications and the Internet.

There is also a need to launch periodic Censuses of Corporate Sector (say every five years) modeled on the Benchmark Surveys conducted by the BEA in the US. These surveys could be undertaken jointly by the Department of Company Affairs and Department of Statistics and could cover a number of important variables from balance sheets and profit and loss accounts and a few other important characteristics concerning technology, ownership, organizational,

and strategic characteristics. These Surveys could then become important source materials for analyzing the trends and patterns of industrial activity in the country and could be of strategic importance in the current globalized economy. To conduct such detailed surveys, the government might need to obtain mandatory powers for collection of data with heavy penalties prescribed for non-compliance, as BEA in the case of the US has.

Annexure

Balance Sheet Abstract & Company's General Profile

1. Name of the Company: _____

2. Corporate Identification No. (CIN)

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3. Registration No. of Parent Company, if any: _____

4. Balance Sheet Date: (dd/mm/yy) _____ / _____ / _____ 5. Accounting Period (No.of Months) _____

6. Capital Raised/Re-purchased During the year

Public	Rights	Bonus	Private Placement	Total (excl. GDRs)	Share Premium	GDR Issues	Buy-back

7. Sources & deployment of Funds

a. Liabilities:

Paid-up Capital	Reserves & Surplus	Secured Loans	Unsecured Loans	Current Liabilities & Provisions	Total Liabilities

b. Assets:

Gross Fixed Assets	Depreciation	Work-in-Progress	Investments	Current Assets	Misc. Expenditure	Total Assets	Revaluation

8. Foreign Assets & Liabilities

a. Liabilities

Direct Investment	
Portfolio Investment	
External Commercial Borrowings	
Remittable Dividends	
Interest	
Technology Payments	
Other Liabilities	
Total Liabilities	

b. Assets

Direct Investment	
Portfolio Investment	
Loans & Deferred Export Credit	
Dividends Receivable	
Balances held Abroad	
Exports Proceeds not Realised	
Other Assets	
Total Assets	

9. Performance of the Company & Appropriations

Raw Materials, etc.	
Finished Goods	
Excise Duty	
Salaries, Wages, etc.	
Energy	
Research & Development	
Technology payments, royalty etc.	
Advertisement, marketing etc.	
Interest	
Depreciation	
Other Expenditure	
Total Expenditure	

Sale of Products/Services	
Other Income	
Total Income	
Profit Before Tax	
Corporate Tax	
Dividend Tax	
Profit after Tax	
Accrual for earlier years	
Dividends	
Retained Earnings	

10. Generic Names of Five Principal Products/Services of the Company

Product/Service	Product/Service Code	Share in Turnover (%)

11. Employment

	Production	Managerial	Marketing/ Distn.	Finance & Admin.	R & D	Others	Total
Number							
Salaries, etc.							

12. Director's Compensation:

a. Salaries & Perks: _____ b. Commission _____ c. Share options: _____

13. Restructuring & Other Developments during the Year

Acquisition/Merger/Sale of Units	Y/N	Indirect Subsidiary of a Foreign Company/JV	Y/N
Change in Promoters of the Company	Y/N	Qualification of Accounts by Auditors	Y/N
Active Foreign Technical Collaborations	Y/N	New/Pending Environmental Litigations	Y/N
Acquisition of Patents (through inhouse R&D)	Y/N	Criminal Proceedings against Company/Directors	Y/N
Implementation of VRS, etc.	Y/N	Default on Repayment of Loans/Interest	Y/N
Strikes/Lockouts/Employee Unrest	Y/N	Initiation of Winding-up Proceedings	Y/N

14. Equity Shareholding Pattern (% Share)

Foreign Collaborator/Parent	Other Foreign Shareholders	Financial Institutions/ Indian VCFs	Mutual Funds	Banks	Other Corporate Bodies	Employees	Other Individuals	Total	Promoters & Associates

15. Transactions in Foreign Exchange

Transaction Type	Exports/ Imports		Dividends	Technology payments, Royalties, etc.	Interest	Others	Total
	Total	To/ From Affiliated sources					
Receipts							
Payments							