

## CHAPTER 9

### RESULTS OF THE SECOND EMPIRICAL STUDY

#### 9.1 Introduction

In chapter 7 the research methodology used to capture the data for the second research study was discussed and explained. In this chapter the resultant findings are analysed with the focus on the relative importance and utility that users and compilers place on voluntary information as disclosed in annual and interim reports. The nature and extent of perception consensus between users and compilers is also identified so that recommendations for improvements in the reporting system can be made and shortcomings (deficiencies) in the current accounting process can be highlighted.

The two questionnaires (annexures 7 and 9) used to obtain the information necessary for the second research study were each divided into three sections, as follows:

Section 1: The biographical profile of the respondent groups. The resulting descriptive statistics were discussed in chapter 7.

Section 2: Various aspects of voluntary disclosed items in general. It was discussed and referred to in the relevant paragraphs of the foregoing chapters except for items 2.7 and 2.8, which will be discussed in this chapter.

Section 3: Specific voluntary disclosed items. The results will be analysed and discussed in this chapter.

## 9.2 Formulation of hypotheses

As a follow up on the three hypotheses tested in chapter 8, the data gathered from questionnaires A and B will be used to test the following two hypotheses:

### Hypothesis 4:

There is no difference in overall perception consensus between users and compilers with regard to the price informative value and importance of voluntary disclosed items in the annual and interim reports of industrial listed companies in South Africa.

In the analyses of the perceptions of compilers and users, similarities and differences of significance regarding the price informative value of various voluntary disclosed items are highlighted.

### Hypothesis 5:

There is a significant difference in the extent of voluntary disclosure in the annual and interim reports of industrial listed companies and the voluntary information needs of constituents of corporate reports.

This hypothesis is tested in order to justify recommendations for disclosure or non-disclosure of voluntary information in corporate reports by measuring the level of importance of different items for decision-making purposes.

## 9.3 Results of the second empirical study

In order to test the two hypotheses, various voluntary disclosed items perceived to be price informative are individually reviewed under separate headings. Each heading also contains the code in brackets that had been used in the questionnaires for data capturing purposes.

3.4.1 Segmental reporting (n=25)

Two methods of analysis were used to test the hypotheses. Firstly, the perceptions of compilers and users were analysed to determine whether the null hypothesis could be rejected, that is statements refuting that “there is no difference between the perceptions of compilers and users towards the importance of disclosing certain voluntary items”. An analysis of variance (ANOVA) test, in which the mean scores of two or more groups are compared was used to determine whether there are statistically significant differences between the perceptions of the two sample groups. The 1% level of statistical significance, being the most common level used in practice, was also used here for determining whether the null hypothesis could be rejected.

Secondly, the extent of disclosure of each voluntary item was analysed in order to test the second hypothesis. The method used to quantify the level of disclosure of the various voluntary disclosure items on the evaluation score sheet is detailed (annexure 1) and the results are compared with the needs of the constituents of corporate reports.

As various items from section 2 of the questionnaires have already been identified and discussed in chapter five, the remaining two items, that is item 2.7 concerning the importance of various sections of a corporate report, specifically segmental reports, and item 2.8 relating to committees appointed in accordance with the King Report on corporate governance, will be discussed before moving onto section 3.

The results are shown in table 9.1.

**9.4 Results from section 2 of questionnaire A and B**

Table 9.1 Level of disclosure of segmental reporting of sample companies

Most of the items in section 2 were discussed in chapters 2 and 3. However, it was deemed necessary to discuss segmental reports covered under section 2.7 and corporate governance covered under section 2.8 in this chapter. As these two items were dealt with separately in the disclosure scoresheet, the level of disclosure can be compared with perceptions of compilers and users.

	1996	1997	1998	Average
1996	10	53	33	20.7
1997	10	15	33	17.8
1998	21	11.2	25	13.3
Average	64	8.3	106	14.0

### 9.4.1 Segmental reporting (V25)

In section 2.7 compilers and users were asked to rank segmental reporting on a scale of importance relative to other statements and reports contained in the annual report of companies. Respondents were given a list of 12 sections and asked to select five for ranking purposes. The summarised results are given in tables 3.8 and 3.9 in chapter 3. The results showed that no compilers ranked segmental reports as the most important section of the annual report. On the other hand, 3,8% of users regarded segmental reports as the most important section.

Item 18 on the evaluation scoresheet was used to measure the level of segmental disclosure and a maximum of seven marks were awarded as follows:

Item 18: Segmental reporting	Marks
No disclosure in accordance with AC 115 (issued in December 1998)	0
Divisional contributions of various activities are matched with	
profits: operating profit as a percentage or actual figures disclosed	1
turnover: percentage contribution or actual figures disclosed	3
assets: percentage contribution or actual figures disclosed	2
Other information, such as geographical contribution to various activities	1

The results are shown in table 9.1.

**Table 9.1 Level of disclosure of segmental reporting of sample companies for the period 1993 to 1998**

Year	No disclosure		Partial disclosure		Full disclosure	
	No.	%	No.	%	No.	%
1993	15	8.0	18	9.6	155	82.5
1994	17	9.0	20	10.6	151	80.3
1995	15	8.0	23	12.2	150	79.8
1996	10	5.3	39	20.7	139	73.9
1997	16	8.5	33	17.6	139	73.9
1998	21	11.2	25	13.3	142	75.5
Average	94	8.3	158	14.0	876	77.7

On average, 77,7% of the 188 companies were disclosing segmental reports and providing a break-down of sales, total assets and profits for each activity. The extent of disclosure remained fairly consistent over the six-year period and more than satisfied the needs of users in view of the fact that segmental reports were not very high on the compilers' and users' list (see tables 3.8 and 3.9 in chapter 3). The information was still considered to be as important for analysis purposes and for assessing the future prospects and risks of a diversified entity.

Segmented information is disclosed more frequently by larger enterprises than by smaller enterprises, according to Boland and Gordon (1992:38) and the reason given is that larger companies rely on external and public financing to a greater extent and segmental disclosures may be less costly for large companies. The low disclosure level of South African companies prior to 1 July 1999 may be attributed to the unjustifiable clause included in the first AC 115 (April 1986 paragraph .02) which allowed non-disclosure of segmental information, if such disclosure is regarded as seriously prejudicial to the interests of the company. Apart from South Africa, this option was only permitted in six European countries, namely Denmark, France, Ireland, Netherlands, Spain and the United Kingdom (Hemus, Everingham & Sonnenberg 1994:10).

Huddart (1992:29) stated that multi-segment firms claimed that disaggregated disclosure of segment profits harmed their competitive position and that the exercise of extracting segmental information was also time consuming, costly and difficult. Another reason for non-disclosure given by Hemus *et al.* is that prior to the release from prison of Nelson Mandela in February 1990, sanctions and business boycotts often forced South African parent companies to obscure their connections with foreign companies deliberately. However, it is difficult to generalise as only the top 100 Financial Mail companies were used in their survey.

In conclusion, the quality and quantity of segment information reporting should be improved and standardised so as to enhance comparability and consistency of segmental disclosures. It will be interesting to note the effect of the implementation of the revised AC 115 on segmental reporting. According to Cardillo (1994:6), as much as

14% of a company's overall positive performance in terms of market value was related to generous geographic segment reporting. Financial analysts are now requesting disaggregated information in quarterly and half-yearly reports in order to assess the value of the company, enhance inter company comparability and ensure consistency of segmental disclosure.

#### 9.4.2 Corporate governance (V30)

Item 2.8 in section 2 of the questionnaires contained different questions, although it related to committees appointed in accordance with the King Report on corporate governance in both cases. In questionnaire A, compilers were asked: "Has your company appointed the following committees in accordance with King Report on corporate governance?" Respondents were required to answer no or yes and if yes, whether the names are disclosed. Table 9.2 sets out the responses.

**Table 9.2 Compilers' responses to the question: Has your company appointed the following committees in accordance with the King Report on corporate governance?**

Type of committee appointed	Committee not appointed		Committee appointed but no names published		Disclosure of names of committee members	
	No.	%	No.	%	No.	%
Executive committee	35	31.0	29	25.7	49	43.3
Management resources committee	92	82.1	13	11.6	7	6.2
Remuneration committee	12	10.6	36	31.9	65	57.5
Audit committee	7	6.2	34	30.1	72	63.7
Retirement funds committee	53	47.7	47	42.3	11	10.0

Of the total of 129 replies received, 16 respondents left the question unanswered. This may be due to the fact that they had little knowledge about the contents of the King Report on corporate governance. More than half of the respondents confirmed that their companies had complied with the King Report requirements as far as the appointment of an executive committee (69,%), a remuneration committee (89,4%), an audit

committee (93,8%) and a retirement fund committee (52,3%) were concerned but had failed to establish a management resources committee (17,8%).

In the case of questionnaire B the users were asked: "Is it important to you as a user of annual reports for a company to appoint the following committees in accordance with the King Report on corporate governance?" Respondents were required to answer no or yes and if yes, whether names of committee members should be disclosed. Table 9.3 shows the results of the survey.

**Table 9.3** Users' responses to the question: Is it important to you as a user of corporate reports for a company to appoint the following committees in accordance with the King Report on corporate governance?

Type of committee appointed	Appointment of committee is not important		Appointment of committee is important		Appointment and disclosure of names of members are important	
	No.	%	No.	%	No.	%
Executive committee	15	19.7	10	13.2	51	67.1
Management resources	36	47.4	9	11.8	31	40.8
Remuneration committee	30	39.5	15	19.7	31	40.8
Audit committee	12	15.8	18	23.7	46	60.5
Retirement funds committee	43	56.6	10	13.2	23	30.2

Of the 102 users in the sample, 26 respondents left the question unanswered and this may also be due to the fact that they had not heard of the King Report or were not familiar with the contents of the report. Users gave preference to the appointment of an audit committee (84,2%), followed by an executive committee (80,3%), a remuneration committee (60,5%), a management resources committee (52,6%) and a retirement fund committee (43,5%).

From the information in the questionnaires it was apparent that companies were still failing to disclose information on board performance, terms of directors' appointments and remuneration, risk management and implementation of a code of ethics in

accordance with the King Report. Risk management entails the implementation of programmes aimed at identifying business, operating, financial and systems risk to protect assets and earnings against exceptional financial losses and legal liabilities. Financial risk may be subdivided into the management of treasury risk, foreign currency risk, interest rate risk, credit risk and liquidity risk.

## 9.5 Results of section 3 in questionnaires A and B

In the analysis of the results of section 3, the introductory instruction which was addressed to compilers and users for the completion of section 3 of questionnaire A and B, had to be borne in mind:

***“Rank the level of importance of the following voluntary information disclosure items appearing in any quoted company annual report in terms of what you personally consider will have an effect on the market price of the shares of the company.”***

The following ranking scale was to be used where relevant:

Very important - 5

Fairly important - 4

Moderately important - 3

Slightly important - 2

Unimportant - 1

The procedure for analysing the results of the second empirical study was firstly to test the first hypothesis by analysing and tabulating the frequency of responses. The results are shown in aggregate and as a percentage.

Thereafter the second hypothesis was tested by arranging the level of disclosure of each voluntary disclosed item for the period 1993 to 1998 in tabular format. The



arithmetic average for the six year period was then used to compare the extent of disclosure with the information needs of users in order to ascertain whether their needs were being met by reporting practices current at the time. Where the weighting of the items were elementary, i.e. no marks were awarded if the item was not disclosed and maximum marks were awarded if disclosed, the statistical results of each voluntary disclosed item was grouped together and summarised in a table at the end of the chapter.

This section of both questionnaires consisted of nine sections and covered the following voluntary disclosure items:

- 3.1 Additional reports and statements in the annual report
- 3.2 Presentation of value added statements
- 3.3 Fixed and intangible assets
- 3.4 Table of comparative statistics
- 3.5 General voluntary disclosure items
- 3.6 Role of voluntary disclosure in the decision-making process
- 3.7 Publication of separate reports
- 3.8 Directors' profile, group structure, shareholdings and directors' and chairman's report
- 3.9 Contents of directors' and chairman's report
- 3.10 Interim reports

The results of the empirical analyses of each section are discussed under separate headings. The codes used in the questionnaires themselves are again given in brackets.

### 9.5.1 Additional reports and statements in the annual report (V37 - V42)

The following reports and statements are included in section 3.1:

- Inflation adjusted financial statements(V37)
- Employee/social reports (V38)
- Environmental reports (V39)
- Tax reconciliation statement (V40)
- Statement of money exchanges with government (V41)
- Managements' operating and financial review (V42).

#### 9.5.1.1 *Inflation adjusted financial statements (V37)*

Section 2.7 of questionnaire A and B contained a preliminary question to section 3.1 in which compilers and users were required to choose five out of a possible 12 sections of an annual report, of which the current cost statement was one, and then to rank them in order of importance. The results were summarised in table 3.8 and 3.9 in chapter 3. Neither compilers nor users regarded a current cost statement as very important. In fact only 8,9% of users and 0,9% of compilers chose the statement as one of the five most important sections of an annual report.

The lack of importance attached to inflation adjusted statements was borne out by the results of section 3.1 concerning the disclosure of additional reports and statements in the annual report. Compilers and users were required to rank the disclosure of inflation adjusted financial statements on an importance scale related to its price informative value. The results are summarised in table 9.4.

It appears that there is little support by compilers and users for inflation accounting in South Africa, with a mean score of 3 (moderately important) for both compilers and users. However, their importance ranking was significantly different at the 1% level. When comparing the results of past surveys such as Firth (1978) in the United Kingdom, inflation adjusted accounts obtained a mean score out of a possible maximum of five

(very important) as follows: finance directors 3,81, auditors 4,42, financial analysts 4,16 and bank loan officers 4,00. In the United States of America, Benjamin and Stanga (1977) found that in general, inflation adjusted financial statements were perceived as unimportant. Almost 20 years later the situation was very different: the results of a survey of Anderson and Epstein (1996:82) showed that 58% of shareholders in the United States, 45% in Australia and 40% in New Zealand regarded the disclosure of restated financial statements using current value as necessary for decision-making purposes.

**Table 9.4 Respondents' perceived price informative value of inflation adjusted financial statements**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	2	1.8	10	12.7
Fairly important	27	23.9	25	31.6
Moderately important	58	51.3	32	40.5
Slightly important	22	19.5	9	11.4
Unimportant	4	3.5	3	3.8
Mean	3.009		3.380	
Standard deviation	0.807		0.978	
F-value Probability	8.23 0.0046 (SD)			

SD = Significantly different at 0,01 level.

In order to measure the extent of disclosure of current cost statements, item 25 on the evaluation scoresheet was used and marks were awarded as follows:

<b>Item 25: Inflation reporting and current cost statements</b>	<b>Marks</b>
No disclosure of an inflation adjusted statement	0
Reasons given for not incorporating inflation accounting	2
Disclosure of an inflation adjusted statement in the form of Guideline AC 201	5

**Table 9.5** Level of disclosure of inflation adjusted financial statements for the period 1993 to 1998

Disclosure		1993	1994	1995	1996	1997	1998	Av.
No disclosure	No. %	141 75.0	144 76.6	138 73.4	134 71.3	136 72.4	136 72.3	829 73.5
Reason given for non-disclosure	No. %	21 11.2	21 11.2	22 11.7	24 12.7	26 13.8	27 14.4	141 12.5
Full disclosure	No. %	26 13.8	23 12.2	28 14.9	30 16.0	26 13.8	25 13.3	158 14.0

It is apparent that on average, only 14% of the company reports analysed over the period 1993 to 1998 included inflation adjusted statements and that there was minimal improvement over the six-year period. In 1991, only six of the top 100 companies in the *Financial Mail* survey published inflation adjusted statements (Steele, Farber & Dickinson 1992:87).

Since the 1960s South Africa has experienced inflation varying between single and double digit figures and management had been pressurised since that time to disclose more realistic accounting figures. A number of South African listed companies, specifically capital intensive entities, did accordingly start to prepare current cost financial statements in which changes in the value of assets and liabilities are recognised and their current value is disclosed. However, inflation in South Africa is now below 10% and therefore price adjustments in financial statements are no longer considered meaningful.

Most compilers are reluctant to publish current cost financial statements because of the unfavourable effect it has on headline earnings per share. Until consensus is reached on a reliable system to replace the traditional historical cost system, the choice of an inflation accounting method remains in the hands of the compilers of annual reports.

### 9.5.1.2 Employee and social reports (V38)

In section 3.1 compilers and users were also required to rank the level of importance of employee/social reports appearing in annual reports in terms of the effect they personally would consider it will have on the market price of shares of the company. The results are set out in table 9.6.

In general, compilers (39,8%) and users (38,0%) perceived employee reports as fairly important with only 3,5% of compilers and 7,6% of users regarding them to be very important. This is confirmed by the mean scores of both compilers and users. There was furthermore very little difference between their perceptions on the matter.

**Table 9.6 Respondents' perceived price informative value of employee/social reports**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	4	3.5	6	7.6
Fairly important	45	39.8	30	38.0
Moderately important	48	42.5	27	34.2
Slightly important	16	14.2	13	16.5
Unimportant	0	0.0	3	3.7
Mean	3.327		3.291	
Standard deviation	0.761		0.963	
F-value Probability	0.08 <b>0.7712 (NSD)</b>			

NSD = Not significantly different at 0.01 level.

In order to measure the extent of disclosure of employee reports in annual reports of the sample companies, the following marks were allocated to item 26 on the evaluation scoresheet:

<b>Item 26: Employee reports</b>	<b>Marks</b>
No disclosure of an employee report	0
Partial disclosure (one mark was awarded for each of the items mentioned under full disclosure)	2 - 5
Full disclosure of an employee report containing more than six of the items mentioned in paragraph 5.9.3 of chapter 5	6

From table 9.7 it is clear that there was a slight improvement in the level of employee reporting during the period 1993 to 1998. However, full disclosure is still a low average of 23,8%. This may be because constituents did not attach sufficient importance to this item and therefore did not pressurise companies to improve their disclosure. In 1981 Trotman and Bradley (1981) investigated company characteristics they hypothesised may have been associated with the decision to disclose social responsibility information. They concluded that companies that provided this information were on average larger in size, had a higher systematic risk and placed stronger emphasis on the long term compared to the immediate future in making decisions than those that disclosed little or no information on this topic.

**Table 9.7 Level of disclosure of employee reporting of sample companies for the period 1993 to 1998**

Level of employee reporting		1993	1994	1995	1996	1997	1998	Average
No disclosure	No.	96	69	71	79	45	68	428
	%	51.1	36.7	37.8	42.0	23.9	36.2	37.9
Partial disclosure	No.	57	76	73	59	89	74	432
	%	30.3	40.4	38.8	31.4	47.4	39.4	38.3
Full disclosure	No.	35	43	44	50	50	46	268
	%	18.6	22.9	23.4	26.6	26.7	24.4	23.8

Employee reporting could in the future become a most powerful tool in ensuring good industrial relations between management and employees. As employees are increasingly considered to be the most important asset of the company and are becoming shareholders through share participation schemes, investors and the general public will increasingly force companies to show a more positive consideration of issues

relating to employees and social values by disclosure of their social accountability.

### 9.5.1.3 Environmental reports (V39)

One of the items that compilers and users were required to rank according to the level of importance was the disclosure of environmental reports in annual reports. The ranking concerned the importance they personally considered it would have on the market price of the shares of a company. Table 9.8 gives the results of the survey.

**Table 9.8 Respondents' perception of the price informative value of environmental reports in corporate reports**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	2	1.8	10	12.7
Fairly important	28	24.8	24	30.4
Moderately important	62	54.9	34	43.1
Slightly important	16	14.2	7	8.9
Unimportant	5	4.3	4	5.1
Mean	3.053		3.367	
Standard deviation	0.800		0.989	
F-value Probability	5.88 0.0162 (NSD)			

NSD = Not significantly different at 0,01 level.

The perceptions of compiler and users were not significantly different and the mean score showed that they regarded the disclosure of environmental information as moderately important and therefore not particularly price informative. This may be attributed to the fact that they are not often exposed to this type of disclosure as evidenced by the low extent of disclosure by South African companies, namely an average of 9,2% (table 9.9) over the six-year period.

In order to measure the extent of disclosure of environmental reports in the annual reports of the sample companies the following marks were attached to item 27:

Item 27: Environmental reporting	Marks
No disclosure of an environmental report	0
Partial disclosure - marks depended on extent of detail	3
A full narrative and quantitative environmental report disclosed	6

**Table 9.9 Level of disclosure of environmental reports in annual reports of sample companies for the period 1993 to 1998**

Level of disclosure		1993	1994	1995	1996	1997	1998	Average
No disclosure of an environmental report	No. %	145 77.1	135 71.8	133 70.7	130 69.2	127 67.6	126 67.0	796 70.6
Partial disclosure	No. %	29 15.5	38 20.2	42 22.4	42 22.3	37 19.7	40 21.3	228 20.2
A full environmental report disclosed	No. %	14 7.4	15 8.0	13 6.9	16 8.5	24 12.7	22 11.7	104 9.2

Reporting of environmental information may have a positive effect on the share price of a company as a result of the improved image the company has in the eyes of society. By improving pollution prevention and increasing standards of safety and health, greater productivity may be obtained from the workforce and this in turn will lead to higher profits. Environmental management should be closely linked to finance, development, population growth, politics and economics and additional accounting guidelines are required in this area.

#### 9.5.1.4 Tax reconciliation statement (V40)

Compilers and users were required to rank the importance of disclosing a tax reconciliation statement in section 3.1 of questionnaire A and B and the results are given in table 9.10. The mean level of importance for both compilers (3.8) and users (3.7) indicated that both groups viewed a tax reconciliation statement as fairly important and there was no significant difference in their perceptions.



**Table 9.10 Respondents' perceived price informative value of tax reconciliation statements in corporate reports**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	20	17.7	18	22.8
Fairly important	61	54.0	31	39.2
Moderately important	27	23.9	20	25.3
Slightly important	4	3.5	9	11.4
Unimportant	1	0.9	1	1.3
Mean	3.841		3.709	
Standard deviation	0.786		0.989	
F-value Probability	1.06 0.3055 (NSD)			

NSD = Not significantly different at 0,01 level.

For item 29 on the evaluation scoresheet, marks were attached as follows:

Item 29: Taxation	Marks
No mention	0
Use of tax concessions mentioned	1
A tax reconciliation statement	4

**Table 9.11 Level of disclosure of a tax reconciliation statement in the annual reports of the sample companies for the period 1993 to 1998**

Level of disclosure		1993	1994	1995	1996	1997	1998	Av.
No disclosure	No.	7	15	14	11	7	8	62
	%	3.7	8.0	7.5	5.9	3.7	4.3	5.5
Partial disclosure of tax concessions	No.	28	20	24	14	13	6	105
	%	14.9	10.6	12.7	7.4	6.9	3.2	9.3
Tax reconciliation statement disclosed	No.	153	153	150	163	168	174	961
	%	81.4	81.4	79.8	86.7	89.4	92.5	85.2

The majority of companies (on average of 85.2%) presented a note in which the tax reconciliation was set out in detail. This means that most satisfied the needs of user groups.

#### 9.5.1.5 Statement of money exchanges with government (V41)

In section 3.1 of questionnaire A and B compilers and users were required to rank the level of importance of a statement of money exchanges with government in terms of what they personally considered its effect would be on the market price of the shares of a company. The results are given in table 9.12.

**Table 9.12 Respondents' perceived price informative value of a statement of money exchanges with government in corporate reports**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	6	5.3	6	7.5
Fairly important	30	26.6	20	25.3
Moderately important	50	44.2	27	34.2
Slightly important	26	23.0	19	24.1
Unimportant	1	0.9	7	8.9
Mean	3.124		2.987	
Standard deviation	0.857		1.080	
F-value Probability	0.95 0.3308 (NSD)			

NSD = Not significantly different at 0.01 level.

44,2% of compilers and 34,2% of users regarded the disclosure of money exchanges with government as moderately important and there were no significant differences in their perceptions.

Item 30 on the evaluation scoresheet was used to award the following marks for disclosure of a statement on money exchanges with government:

Item 30: Money exchanges with government	Marks
No disclosure of a statement of money exchanges with government	0
A statement of money exchanges with government stipulating PAYE, VAT, company tax, rates and similar levies, licences, social security, registration fees, UIF and workmens' compensation and receipt of government grants or subsidies	4

The results are shown in table 9.13.

**Table 9.13 Level of disclosure of a statement of money exchanges with government of sample companies for the period 1993 to 1998**

Extent of disclosure		1993	1994	1995	1996	1997	1998	Average
No disclosure	No.	135	127	121	113	114	108	718
	%	71.8	67.6	64.4	60.1	60.6	57.5	63.7
Statement disclosed	No.	53	61	67	75	74	80	410
	%	28.2	32.4	35.6	39.9	39.4	42.5	36.3

On average, only 36,3% of the sample companies published information on money exchanges with government over the six-year period from 1993 to 1998. There has been a gradual improvement in this area from 28.2% in 1993 to 42,5% in 1998. As compilers and users generally regard the information to be moderately important, the extent of disclosure was in line with their needs.

#### **9.5.1.6 *Managements' operating and financial review and long-term corporate planning (V42)***

Respondents were required to rank the importance of disclosing management's operating and financial review in which the long-term strategies of the company are discussed and investors are given the opportunity to examine the company through the eyes of management. The review provides a historical and prospective view of the company's financial position and results. Table 9.14 shows how the respondents rated such reviews.

**Table 9.14 Respondents' perceived price informative value of the disclosure of management's operating and financial review in corporate reports**

Level of importance	Compilers		Users	
	No.	%	No.	%
Very important	89	78.8	64	81.0
Fairly important	23	20.4	13	16.5
Moderately important	1	0.9	0	0.0
Slightly important	0	0.0	1	1.3
Unimportant	0	0.0	1	1.3
Mean	4.779		4.747	
Standard deviation	0.438		0.650	
F-value Probability	0.17 <b>0.6846 (NSD)</b>			

NSD = Not significantly different at 0.01 level.

A high number of compilers (78,8%) and users (81,0%) regarded the disclosure of a managements' operating and financial review as very important and their perceptions were not significantly different. Although the evaluation scoresheet did not include an item specifically on a separate report or review as such, companies were awarded marks under item 6 for disclosing the long-term strategies and mission statements of the company.

Item 6	Long-term corporate planning	Marks
Financial objectives, targets or strategic plans:		
	No mention	0
	Discussed in general	2
	Fully discussed, disclosing quantitative details of	
	- the budgeted income or expense amount; and	2
	- the budgeted capital expenditure amount analysed by period	2

**Table 9.15** Level of disclosure of long-term corporate planning for the sample companies for the period 1993 to 1998

Year of disclosure	No mention		Discussed in general		Full disclosure of quantitative details	
	No.	%	No.	%	No.	%
1993	98	52.1	59	31.4	31	16.5
1994	53	28.2	108	57.4	27	14.4
1995	37	19.7	129	68.6	22	11.7
1996	32	17.0	135	71.8	21	11.2
1997	31	16.5	130	69.1	27	14.4
1998	37	19.7	129	68.6	22	11.7
Average	288	25.5	690	61.2	150	13.3

Overall, companies appeared to be reluctant to disclose their long-term strategies in detail or divulge any future-oriented information and this certainly does not satisfy the needs of constituents of corporate reports. However, there had been an improvement, with companies offering no disclosure dropping from 52,1% in 1993 to 19,7% in 1998. Discussion of strategies in general improved from 31,4% in 1993 to 61,2% in 1998.

### 9.5.2 The value added statement or statement of wealth created (V43-V46)

In section 3.2 of both questionnaire A and questionnaire B, compilers and users were asked to rank the price informative value of the desired format and number of years covered by the value added statement. The results of the survey are shown in table 9.16 for compilers and for users.

If the format of value added statements are taken into account it would seem that both compilers (22,3%) and users (34,2%) prefer the statement format rather than the pie-chart format. As far as the desired number of years covered by the value added statement are concerned, 18,6% of compilers and 22,8% of users regarded a two-year statement as very important, while 29,2% of compilers and 34,2% of users considered a two-year statement to be fairly important. Their perceptions on the format and number

of years covered did not differ significantly.

**Table 9.16 Respondents' perceived price informative value of the format of and number of years covered by the value added statement in corporate reports**

Level of importance		Format				Number of years covered			
		As a statement		As a pie-chart		One year		Two years	
		Comp	Users	Comp	Users	Comp	Users	Comp	Users
Very important	No %	25 22.3	27 34.2	10 8.8	9 11.4	14 12.5	9 11.4	21 18.5	18 22.8
Fairly important	No %	47 42.0	17 21.6	34 30.1	20 25.3	38 33.9	26 32.9	33 29.2	27 34.2
Moderately important	No %	31 27.7	26 32.9	51 45.1	32 40.5	43 38.4	32 40.5	43 38.1	22 27.8
Slightly important	No %	8 7.1	8 10.0	15 13.3	17 21.5	13 11.6	9 11.4	14 12.4	10 12.7
Un-important	No %	1 0.9	1 1.3	3 2.7	1 1.3	4 3.6	3 3.8	2 1.8	2 2.5
Mean		3.777	3.772	3.292	3.241	3.402	3.367	3.504	3.620
Standard deviation		0.908	1.074	0.903	0.964	0.972	0.963	0.992	1.054
F-value Probability		0.00 <b>0.9743 (NSD)</b>		0.14 <b>0.7055 (NSD)</b>		0.06 <b>0.8076 (NSD)</b>		0.60 <b>0.4388 (NSD)</b>	

NSD = Not significantly different at 0.01 level.

In order to measure the extent of disclosure of value added statements in the annual reports of companies, item 24 on the evaluation scoresheet was used to award marks as follows:

Item 24: Value added statement or statement of wealth created	Marks
No value added statement published	0
Full disclosure by means of a value added statement	4

**Table 9.17 Level of disclosure of value added statements in the annual reports of the sample companies for the period 1993 to 1998**

Extent of disclosure		1993	1994	1995	1996	1997	1998	Average
No value added statement published	No. %	84 44.7	74 39.4	70 37.3	67 35.6	67 35.6	60 31.9	422 37.4
Full disclosure of value added statement	No. %	104 55.3	114 60.6	118 62.7	121 64.4	121 64.4	128 68.1	706 62.6

In South Africa the extent of disclosure of value added statements in the annual report of listed industrial companies steadily increased from 55,3% in 1993 to 68,1% in 1998. The improvement may have been influenced by the fact that the item was introduced in the *Financial Mail* rules in 1988 and that companies are endeavouring to meet the needs of users. These statistics point to a marked improvement when compared with a survey conducted by Cohen and Uliana (1990:10) where only 16% of the 80 industrial company reports published in 1987 contained a value added statement. In a survey, Stainbank (1997:72) found that the number of South African companies in the top 100 that included a value added statement increased from six in 1977 to 86 in 1995.

In promoting guidelines on value added statements, the following aspects should be considered: Value added statements ensure consistency and therefore make comparisons more meaningful. Apart from providing additional information, they could serve to improve employee communications. Factors to be considered against making value added statements compulsory are that it is not essential to an understanding of the company's performance or financial position; additional disclosure requirements may lead to complexity thereby reducing its value; and it is meaningless in a diversified organisation.

### 9.5.3 Fixed and intangible assets (V47-V50)

Section 3.3 of both questionnaires dealt with disclosure on fixed and intangible assets, and respondents were requested to rank the price informative value of the following:

- disclosure of the insurance or replacement value of fixed assets other than property;
- disclosure of the availability of a list of fixed property for inspection by the general public;
- details of movements in fixed assets shown in the cash flow statement; and
- disclosure of the depreciation method and amounts written off on intangible assets.

The results are shown in table 9.18.

**Table 9.18 Respondents' perceived price informative value of the disclosure of information on fixed and intangible assets**

Level of importance		Insurance or replacement value of fixed assets other than property		List of fixed property disclosed or available		Movement in fixed assets shown in the cash flow statement		Depreciation of tangible assets disclosed	
		C	U	C	U	C	U	C	U
Very important	No. %	9 8.0	22 27.8	7 6.3	8 10.1	17 15.2	27 34.2	22 19.6	28 35.4
Fairly important	No. %	46 41.1	36 45.5	27 24.1	22 27.8	69 61.6	29 36.7	54 48.2	30 38.0
Moderately important	No. %	46 41.1	16 20.3	60 53.5	32 40.5	20 17.8	15 19.0	30 26.8	17 21.5
Slightly important	No. %	11 9.8	4 5.1	15 13.4	13 16.5	6 5.4	5 6.3	5 4.5	2 2.5
Unimportant	No. %	0 0.0	1 1.3	3 2.7	4 5.1	0 0.0	3 3.8	1 0.9	2 2.6
Mean		3.473	3.937	3.179	3.215	3.866	3.911	3.813	4.013
Standard deviation		0.782	0.896	0.841	1.009	0.729	1.064	0.833	0.954
F-value Probability		14.4 <b>0.0002 (SD)</b>		0.07 <b>0.7853 (NSD)</b>		0.12 <b>0.7272 (NSD)</b>		2.37 <b>0.1254 (NSD)</b>	

C = Compilers

U = Users

SD = Significantly different at 0.01 level

NSD = Not significantly different at 0.01 level.



In general the information relevant to fixed assets and intangible assets received a mean rating from compilers and users of between 3 (moderately important) and 4 (fairly important). There was a significant difference (.0002) in the perceptions of compilers and users in respect of the disclosure of the insurance or replacement value of property plant and equipment.

Item 15 on the evaluation scoresheet was used to measure the extent of disclosure of the valuation of fixed property and improvements. Marks were awarded as follows:

<b>Item 15: Valuation of fixed property</b>	<b>Marks</b>
No valuation	0
Valuation, but no indication of when it was revalued	1
Additional information such as insured value, municipal valuation or directors' valuation provided	3
Valuation of all property but valuation six to ten years old	5
Valuation of all property during last five years	6

The results of item 15 are shown in table 9.19. During the last five years of the survey, 74,3% of the sample companies valued all their properties. This high level of disclosure meets the needs of compilers and users, who perceived the information to be moderately important for decision-making purposes.

In order to provide incremental information to users of annual reports, the historical cost and current or market value of tangible or so-called "hard" assets should be disclosed. In addition, tangible or "soft" assets, such as intellectual property, trademarks and human assets, should be recognised and where possible be measured and disclosed in some reliable form. Examples of soft assets mentioned by Wallman (1995:85) are the Coca Cola trademark of Coca Cola Ltd and the human assets of Microsoft Ltd.

**Table 9.19** Level of disclosure of the valuation of fixed property of sample companies for the period 1993 to 1998

Year	Valuation of fixed property					
	No valuation mentioned		Valuation of all property six to ten years old		Valuation of all property during last five years	
	No.	%	No.	%	No.	%
1993	27	14.4	15	8.0	146	77.6
1994	30	16.0	18	9.6	140	74.4
1995	24	12.8	21	11.1	143	76.1
1996	38	20.2	10	5.3	140	74.5
1997	34	18.1	19	10.1	135	71.8
1998	35	18.6	19	10.1	134	71.3
Average	188	16.7	102	9.0	838	74.3

Item 17 on the evaluation scoresheet was used to measure the disclosure of a list of fixed properties either in the form of a complete list published in the annual report in cases where the sample company held a minor number of properties, or as a statement that a copy of the list would be posted on request to any member of the public for inspection. A maximum of two marks was awarded for this item and on average over the six-year period, 79,8% of the companies received the full score. Compilers and users were of the opinion that the availability of a list of fixed property was moderately important.

#### 9.5.4 Table of comparative statistics (V51-V61)

Section 3.4 was divided into two topics, namely the number of years the table of statistics covered and secondly, the contents of the table.

##### 9.5.4.1 Period covered by the table (V51)

In section 3.4 of questionnaire A and B, respondents were required to state whether

they preferred a table of comparative statistics which covered a period of less than five years, a period of five years or a period of more than five years. In order to measure the level of disclosure on this topic, item 9 on the evaluation scoresheet was used and marks were awarded as follows:

Item 9: Table of statistics	Marks
No table of comparative statistics	0
Disclosure of a table for less than five years if the company was operating for more than four years	2
Disclosure of a table for five years or reasons given for a shorter period	3
Disclosure of a table for six years or more or for the total period in operation	4

The results of the questionnaire survey and extent of disclosure are combined in table 9.20.

**Table 9.20 Respondents' preferred period to be covered by a table of comparative statistics and average level of disclosure of the sample companies for the period 1993 to 1998**

Number of years covered by table of statistics	Preferences of				Average level of disclosure 1993 - 1998	
	compilers		users			
	No.	%	No.	%	No.	%
Less than five years	3	2.7	5	6.5	149	13.2
Five years	63	56.2	53	68.8	337	29.9
More than five years	46	41.1	17	22.1	642	56.9
No opinion / Not applicable	0	0.0	2	2.6	-	-

From the questionnaires sent to compilers and users it was apparent that 63 (56,2%) of the compilers and 53 (68,8%) of users preferred a table of statistics covering five years, compared to 46 (41,1%) of the compilers and 17 (22,1%) of the users who preferred a table that covered more than five years. On average, 29,9% of the sample companies presented a five year table of statistics while on average 56,9% of the companies presented a table for a period of six years or longer. It would thus appear

that a five-year period is deemed to be adequate for investment decisions although companies are presenting tables for periods of more than five years (mainly because the figures are easily obtainable).

#### **9.5.4.2 Contents of the table of comparative statistics (V52-V59)**

In section 3.4 of questionnaire A and B, eight items were selected from various published tables of comparative statistics and constituents of annual reports were required to rank each disclosure item on a scale of importance. The following items were selected and reference to the tables are given in brackets:

- turnover figures, number of shares issued, net asset value per share and number of employees (table 9.21);
- financial ratios, that is profitability, productivity, liquidity and solvability, as well as definitions of ratios (table 9.22); and
- stock exchange performance statistics, that is volume and value of shares traded, lowest, highest and year-end prices and a comparison of the company's share price with the industry index (table 9.23).

Table 9.22 shows that additional information such as financial ratios and definitions of ratios scored a mean importance rating of between 4.0 (fairly important) and 5 (very important), proving that both groups considered this information to be important.

In table 9.23, stock exchange performance statistics was ranked between 3.97 and 4.19, which implied that constituents of annual reports viewed this information as fairly important. The following items were rated as very important by 50% or more of the compilers:

- turnover figures (71,7%)
- number of shares issued (54,9%)
- net asset value per share (67,5%)
- profitability ratios (72,6%)

- liquidity and solvability ratios (66,4%)
- productivity ratios (49,6%)
- definitions of ratios (52,6%).

However, less than 50% of the companies rated number of employees (19,5%), stock exchange statistics (37,2%), and comparison of share prices with industry indexes (31,9%) as very important.

**Table 9.21 Respondents' perceived price informative value of voluntary disclosed items included in the table of comparative statistics in corporate reports**

Level of importance		Turnover figures		Number of shares issued		Net asset value per share		Number of employees	
		C	U	C	U	C	U	C	U
Very important	No. %	81 71.7	57 72.2	62 54.9	40 50.7	65 57.5	49 62.0	22 19.5	8 10.1
Fairly important	No. %	25 22.0	20 25.2	41 36.2	25 31.6	42 37.2	18 22.8	48 42.5	28 35.4
Moderately important	No. %	7 6.3	0 0.0	9 8.0	9 11.4	5 4.4	8 10.1	38 33.6	33 41.9
Slightly important	No. %	0 0.0	1 1.3	1 0.9	2 2.5	1 0.9	3 3.8	4 3.5	6 7.6
Unimportant	No. %	0 0.0	1 1.3	0 0.0	3 3.8	0 0.0	1 1.3	1 0.9	4 5.0
Mean		4.655	4.658	4.451	4.228	4.513	4.405	3.761	3.380
Standard deviation		0.594	0.677	0.681	1.012	0.628	0.913	0.837	0.951
F-value		0.00		3.35		0.95		8.61	
Probability		0.9710 (NSD)		0.0690 (NSD)		0.3318 (NSD)		0.0038 (SD)	

C = Compilers

U = Users

SD = Significantly different at 0.01 level

NSD = Not significantly different at 0.01 level.

With the exception of number of employees (10,1%) the items that are disclosed in the table of statistics or corporate reports were weighted as very important or fairly important by users. Companies should therefore recognise these items when deciding on their voluntary disclosure policy. In general there was consensus on ranking between compilers and users with the exception of ratios and definition of ratios, where compilers considered these items to be on average 10% more important than users. The reason may be that users are not always familiar with the formulas used to calculate the ratios and thus their precise meaning.

**Table 9.22 Respondents' perceived price informative value of financial ratios included in the table of comparative statistics**

Level of importance		Financial ratios						Definitions of ratios	
		Profitability		Liquidity and solvability		Productivity			
		C	U	C	U	C	U	C	U
Very important	No. %	82 72.6	46 58.2	75 66.4	44 55.7	56 49.6	33 41.8	59 52.2	32 40.5
Fairly important	No. %	29 25.6	24 30.4	31 27.4	22 27.8	43 38.1	31 39.2	38 33.6	24 30.4
Moderately important	No. %	2 1.8	6 7.6	7 6.2	9 11.4	14 12.4	12 15.2	14 12.4	17 21.5
Slightly important	No. %	0 0.0	1 1.3	0 0.0	1 1.3	0 0.0	2 2.5	2 1.8	3 3.8
Unimportant	No. %	0 0.0	2 2.5	0 0.0	3 3.8	0 0.0	1 1.3	0 0.0	3 3.8
Mean		4.708	4.405	4.602	4.304	4.372	4.177	4.363	4.000
Standard deviation		0.494	0.885	0.606	0.992	0.697	0.874	0.768	1.062
F-value Probability		9.17 <b>0.0028 (SD)</b>		6.66 <b>0.0106 (NSD)</b>		2.93 <b>0.0884 (NSD)</b>		7.55 <b>0.0066 (SD)</b>	

C = Compilers

U = Users

SD = Significantly different at the 0.01 level

NSD = Not significantly different at the 0.01 level.

**Table 9.23 Respondents' perceived price informative value of stock exchange performance statistics included in the table of comparative statistics**

Level of importance	Volume and value of shares traded, lowest, highest and year-end prices				Comparison of company's share price with industry index			
	Compilers		Users		Compilers		Users	
	No.	%	No.	%	No.	%	No.	%
Very important	42	37.2	33	41.7	36	31.8	32	40.5
Fairly important	51	45.1	23	29.1	51	45.1	35	44.3
Moderately important	17	15.0	16	20.3	23	20.4	9	11.4
Slightly important	2	1.8	2	2.5	2	1.8	1	1.3
Unimportant	1	0.9	5	6.4	1	0.9	2	2.5
Mean	4.159		3.975		4.053		4.190	
Standard deviation	0.808		1.143		0.822		0.878	
F-value Probability	1.72 0.1913 (NSD)				1.22 0.2714 (NSD)			

NSD = Not significantly different at 0.01 level.

Items 10 and 11 on the evaluation scoresheet dealt with the contents of the table of comparative statistics and marks were awarded as follows:

Item 10: Contents of table of comparative statistics	Marks
Turnover figure published	1
Disclosure of number of shares issued	1
Disclosure of profitability, solvability, liquidity and productivity ratios	8
Disclosure of definitions of terms and financial ratios	1
Disclosure of number of employees	2
Stock Exchange performance statistics of the company (one mark was awarded for each of the following disclosures)	9
Closing price at year end	
The total number of transactions recorded on the JSE	

- The total number of shares traded
- The total value of the shares traded
- The average price or lowest and highest price per share
- The total volume of shares traded expressed as a percentage of the total issued shares of the company
- Comparison of the share price of the company with the industry index
- Price earnings ratio
- Dividend yield

Table 9.24 shows the extent of disclosure of the above-mentioned items in the table of comparative statistics of the sample companies. The majority of the companies had a disclosure score of above or close to 50% in 1998 for most of the items except for JSE statistics, where disclosure was at a low of 25,5% in 1998. Once again, stock exchange statistics are readily available to companies at the time of publication of the annual report and taking into account that the majority of users and compilers regard this information as very important or fairly important, companies should strive to satisfy their needs.

Table 9.24 Level of disclosure of voluntarily disclosed items of sample companies in 1993 and 1998

Item disclosed	1993		1998	
	No.	%	No.	%
Turnover	160	85,1	161	85,6
Number of shares issued	175	66,6	128	47,3
Paginas	81	37,5	96	45,1
Definitions	17	39,5	91	47,1
Number of employees	50	47,3	96	45,1
JSE statistics	26	14,9	92	47,3

9.3.5 Sundry voluntary disclosure items (261-275)

Section 3.5 in questionnaire A and B dealt with voluntary disclosure items. The level of importance of each item in relation to the present study is indicated in the table below. The items that were considered to be useful, important but not very important are indicated in the table below.



**Table 9.24 Level of disclosure of voluntary disclosed items of sample companies in the table of comparative statistics for the period 1993 to 1998**

Item disclosed	1993		1994		1995		1996		1997		1998	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Turnover	160	85.1	161	85.6	166	88.3	167	88.8	171	91.0	170	90.4
Number of shares issued	129	68.6	128	68.1	138	73.4	138	73.4	144	76.6	147	78.2
Ratios	61	32.5	56	29.8	63	33.5	77	41.0	81	43.1	90	47.8
Definitions	72	38.3	81	43.1	94	50.0	102	54.3	103	54.8	111	59.0
Number of employees	89	47.3	92	48.9	96	51.1	105	55.9	107	56.9	106	56.4
JSE statistics	28	14.9	32	17.0	43	22.9	41	21.8	44	23.4	48	25.5

### 9.5.5 Sundry voluntary disclosure items (V64-V75)

Section 3.5 in questionnaires A and B dealt with voluntary disclosure items in general and compilers and users were required to rank the level of importance of each item in relation to its price informative value. Table 9.25 provides a summary of the remaining voluntary disclosed items that were considered to be useful information to investors for decision-making purposes.

Table 9.25 Respondents' perceived price informative value of sundry voluntary disclosed items

Voluntary disclosed items			Very important	Fairly important	Moderately important	Slightly important	Un-important	Mean	Standard deviation	F-value	Probability
Long-term dividend policy	Comp.	No. %	28 24.7	67 59.3	16 14.2	1 0.9	1 0.9	4.089	0.651	7.89	<b>0.0055 (SD)</b>
	Users	No. %	39 50.0	34 43.6	3 3.8	0 0.0	2 2.6	4.385	0.793		
Activities of all subsidiaries	Comp.	No. %	26 22.8	67 58.8	17 14.9	3 2.6	1 0.9	4.027	.7000	0.01	<b>0.9045 (NSD)</b>
	Users	No. %	24 30.8	35 44.8	17 21.8	0 0.0	1 2.6	4.013	.875		
Promotion of activities	Comp.	No. %	12 10.6	51 45.1	45 39.9	4 3.5	1 0.9	3.607	0.764	0.49	<b>0.4829 (NSD)</b>
	Users	No. %	10 12.8	26 33.3	38 48.8	3 3.8	1 1.3	3.526	0.817		
Illustrations and colour	Comp.	No. %	10 8.8	33 28.9	57 50.0	14 12.3	0 0.0	3.327	0.796	12.59	<b>0.0005 (SD)</b>
	Users	No. %	1 1.3	16 20.5	41 52.6	14 17.9	6 7.7	2.897	0.862		
Results presented graphically	Comp.	No. %	13 11.4	68 59.6	28 24.6	5 4.4	0 0.0	3.779	0.704	22.34	<b>0.0001 (SD)</b>
	Users	No. %	5 6.4	23 29.5	38 48.7	10 12.8	2 2.6	3.244	0.856		

SD = Significantly different at the 0.01 level

NSD = Not significantly different at the 0.01 level.

### 9.5.5.1 Dividend policy (V64)

The strong information content of dividend announcements and disclosure of a company's dividend policy has been empirically proved by Ofer and Siegel (1987) and Partington (1985). The results of the latter study demonstrated that dividend announcements conveyed valuable information over and above that contained in earnings announcements. Furthermore both positive and negative dividend announcements serve as indicators of dividend policies and may as such be used as a signalling device of managements' interpretation of the company's performance and future prospects.

Under general voluntary disclosure items in section 3.5, respondents were required to rank the importance of the disclosure of the long-term dividend policy of the company in its annual report. The results of the survey were that 28 (24,8%) compilers and 39 (50,0%) users ranked the information as very important while 67 (59,3%) compilers and 34 (43,6%) users perceived the information to be fairly important.

Item 7 of the evaluation scoresheet was used to measure the extent of disclosure of the dividend policy of the sample companies and 4 marks were awarded if the dividend policy was spelt out in terms of the percentage increase or decrease of future dividends or if the long-term dividend cover was mentioned. The results are given in table 9.26.

**Table 9.26 Level of disclosure of the dividend policy of the sample companies for the period 1993 to 1998**

Dividend policy		1993	1994	1995	1996	1997	1998	Average
No disclosure	No.	152	149	149	140	140	141	871
	%	80.8	79.3	79.3	74.5	74.5	75.0	77.2
Full disclosure	No.	36	39	39	48	48	47	257
	%	19.2	20.7	20.7	25.5	25.5	25.0	22.8

The evaluation scoresheet showed that for the period 1993 to 1998 an average of 22,8% of the companies in the survey disclosed their dividend policy. In view of the fact that more than 84% of compilers and 94% of users believed this information to be important, companies are not satisfying the disclosure needs of either group and should

increase their disclosure, particularly on policy aspects.

#### **9.5.5.2 Disclosure of activities of all subsidiaries (V65)**

In this section respondents were also required to rank the price informative value of companies disclosing information on the activities of each subsidiary in the company either in the form of a list or a discussion of the subsidiary's activities. The results are shown in table 9.25 dealing with voluntary disclosure items in general. This disclosure item is considered to be fairly important to very important, and the mean score of compilers was 4.027 and of users 4.013. There was no significant difference (0.9045) between the perceptions of the two groups.

Item 13 was used to measure the extent of disclosure of the activities of all the subsidiaries of the sample company. Two marks were awarded if the activities of only the main subsidiaries were disclosed while four marks were awarded if the activities of all the subsidiaries were disclosed. The results are shown in table 9.28 dealing with voluntary disclosure items in general. On average, 89.7% of the sample companies disclosed information on the activities of all the subsidiaries in detail, which means that the level of disclosure in this case far exceeds the needs of users and compilers.

#### **9.5.5.3 Promotion of products or services (V66)**

The third item in this section dealt with the promotion of products or services of the company in the form photographs of the products or brand names or other means of advertising. The results are shown in table 9.25 for respondents. There was a slight difference in perceptions of compilers and users regarding the use of a corporate report as a marketing tool, with 12 (10,6%) of the compilers and 10 (12,8%) of the users rating the promotion of products and activities as very important. There was no significant difference (0,4829) between the perceptions of compilers and users and the mean score of 4 implies that both respondent groups considered this item to be fairly important.

Table 9.27 Respondents' perceived price informative value of sundry voluntary disclosed items

Voluntary disclosed item		Very important	Fairly important	Moderately important	Slightly important	Un-important	Mean	Standard deviation	F-value	Probability	
Highlights	Comp	No. %	43 37.7	59 51.8	12 10.5	0 0.0	0 0.0	4.274	0.644	10.06	<b>0.0018 (SD)</b>
	Users	No. %	25 32.1	27 34.6	20 25.6	6 7.7	0 0.0	3.910	0.942		
Shareholder's diary	Comp	No. %	20 17.5	41 36.0	42 36.7	10 8.8	1 0.0	3.628	0.878	9.39	<b>0.0025 (SD)</b>
	Users	No. %	8 10.3	23 29.5	30 38.5	10 12.7	7 9.0	3.192	1.082		
Interest- and non-interest bearing current liabilities	Comp	No. %	41 36.3	59 52.2	8 7.1	5 4.4	0 0.0	4.223	0.732	0.11	<b>0.7438 (NSD)</b>
	Users	No. %	35 45.5	28 36.4	13 16.8	1 1.3	0 0.0	4.260	0.785		
Cost of sales and gross profit figures	Comp	No. %	36 31.9	53 46.9	18 15.9	6 5.3	0 0.0	4.053	0.833	18.5	<b>0.0001 (SD)</b>
	Users	No. %	48 61.5	25 32.1	4 5.1	1 1.3	0 0.0	4.538	0.658		
Statement that report complies with IAS	Comp	No. %	20 17.7	50 44.2	36 31.9	7 6.2	0 0.0	3.736	0.824	14.1	<b>0.0070 (SD)</b>
	Users	%	30 38.4	28 35.9	13 16.7	6 7.7	1 1.3	4.026	0.993		

Item 14 on the evaluation scoresheet was used to measure the extent of disclosure of the sample companies of the promotion of products or services and a total of two marks were awarded if the company used the annual report as a marketing tool. The results, which are shown in table 9.28, reveal that on average the majority of companies, that is 73,9%, took the opportunity of marketing their products and services in the corporate report.

**Table 9.28 Summary of extent of disclosure of voluntarily disclosed items in general of sample companies for the period 1993 to 1998**

Voluntary disclosed item		1993	1994	1995	1996	1997	1998	Average
Long-term dividend policy	No.	36	39	39	48	48	47	257
	%	19.2	20.7	20.7	25.5	25.5	25.0	22.8
Activities of all subsidiaries	No.	164	161	166	170	176	175	1012
	%	87.2	85.6	88.3	90.4	93.6	93.1	89.7
Promotion of activities	No.	132	138	141	143	137	142	833
	%	70.2	73.4	75.0	76.1	72.9	75.5	73.9
Illustrations and colour	No.	130	137	142	142	150	148	849
	%	69.2	72.9	75.5	75.5	79.8	78.7	75.3
Results presented graphically	No.	98	110	115	109	111	110	653
	%	52.1	58.5	61.2	58.0	59.0	58.5	57.9
Highlights	No.	140	147	152	152	159	149	899
	%	74.5	78.2	80.8	80.8	84.6	79.3	79.7
Shareholder's diary	No.	146	149	147	153	152	154	901
	%	77.7	79.3	78.2	81.4	80.9	81.9	79.9

There was a high level of disclosure for the following items:

- Activities of all subsidiaries (89,7%)
- Promotion of activities (73,9%)
- Use of illustrations and colour (75,3%)
- Highlights (79,7%)
- Shareholders (79,9%)

However, a fairly low level of disclosure was found for long-term dividend policy (22,8%) and graphical presentation of results (57,9%).

### 9.5.6 Statement on research and development projects (V71 & V72)

AC 122 on research and development costs was withdrawn and replaced by ED 120 in December 1997 and later by AC 129 which was issued in June 1999. Despite the fact that an accounting standard had been in place for a long time, few companies are complying with the requirements. Accordingly it was felt that this item could be included in the questionnaires and evaluation. Therefore respondents were asked to rank the importance of disclosing details of research and development projects and results are set out in table 9.29.

**Table 9.29 Respondents' perceived price informative value of details of research and development projects in corporate reports**

Level of importance	Research and development projects							
	Discussed in general				Actual cost shown in the income statement			
	Compilers		Users		Compilers		Users	
	No.	%	No.	%	No.	%	No.	%
Very important	16	14.0	14	18.2	11	9.6	16	20.7
Fairly important	57	50.0	32	41.5	60	52.7	35	45.5
Moderately important	33	28.9	25	32.5	34	29.8	21	27.3
Slightly important	6	5.3	5	6.5	7	6.1	4	5.2
Unimportant	2	1.8	1	1.3	2	1.8	1	1.3
Mean	3.717		3.688		3.646		3.792	
Standard deviation	0.807		0.892		0.778		0.879	
F-value Probability	0.05 0.8192 (NSD)				1.45 0.2293 (NSD)			

NSD = Not significantly different at 0.01 level.

More than 50% of the compilers and users rated a discussion of research and development projects and disclosure of the cost in the income statement as very important or fairly important and their perceptions were not significantly different. On the other hand, the average level of disclosure of this item (see table 9.30) is very low at

14,5%. In this regard companies were thus neither meeting the needs of compilers and users nor complying with the accounting standard.

Item 28 on the evaluation scoresheet measured the extent of disclosure of a statement on research and development projects of the sample companies and marks were awarded as follows:

Item 28	Statement on research and development projects	Marks
	No disclosure of a statement	0
	Expense items shown in the income statement or capitalised	1
	Detailed discussion of the amount spent during the year, budgeted expenses and description of projects	3

The results are summarised in table 9.30.

**Table 9.30** Level of disclosure of research and development projects of sample companies for the period 1993 to 1998

Year	No disclosure		Expenses disclosed		Detailed discussion	
	No.	%	No.	%	No.	%
1993	134	71.3	36	19.2	18	9.6
1994	111	59.0	38	20.2	39	20.7
1995	118	62.8	50	26.6	20	10.6
1996	106	56.4	53	28.2	29	15.4
1997	98	52.1	52	27.7	38	20.2
1998	111	59.0	58	30.9	19	10.1
Average	678	60.1	287	25.4	163	14.5

Although 60,1% of the sample companies on average mentioned that they did have research and development projects, only 25,4% disclosed the expenses in the income statement and only 14,5% gave details of the projects. Furthermore, there has been little improvement in the level of disclosure over the six-year period.



## 9.5.7 Profile and shareholdings of directors and top management, distribution of shareholdings and group structure (V78-V81)

Section 3.8 of the two questionnaires dealt with the biographical profile of the directors and top management and disclosure of their individual shareholdings. The section also dealt with the disclosure of the distribution of the company's shares according to size of shareholding and type of shareholders.

### 9.5.7.1 *Biographical profile of directors and top management and their individual shareholdings (V78-V79)*

Compilers and users were required to rate the importance of voluntary information disclosed on the biographical profile of directors and top management and its effect on share prices. Examples of voluntary information pertaining to directors and top management were qualifications, age, photos and experience.

Respondents were also required to rank voluntary disclosed information on the individual shareholdings of directors and top management on a price informative importance scale. Table 9.31 gives a summary of the findings extracted from the two questionnaires. The table shows that 21,1% of the compilers and 27,8% of the users perceived the disclosure of the biographical profile of directors and top management to be very important and price informative with regard to their investment decisions. The mean score of 4 further implies that this information was fairly important to most respondents. Their perceptions were not significantly different.

Individual shareholdings of directors and top management were rated very important by users (54,4%) but fairly important by compilers (47,4%) resulting in a significant difference of opinion between the respondent groups. However, a mean score of 4 (fairly important) was measured for both groups.

Other major directorships

Position in the company or executive duties

Date of appointment or term of contract

**Table 9.31 Respondents' perceived price informative value of the disclosure of the biographical profile and individual shareholdings of directors and top management**

Level of importance	Biographical profile				Individual shareholding			
	Compilers		Users		Compilers		Users	
	No.	%	No.	%	No.	%	No.	%
Very important	24	21.1	22	27.8	35	30.6	43	54.4
Fairly important	65	57.0	38	48.1	54	47.4	27	34.2
Moderately important	23	20.1	17	21.5	24	21.1	8	10.1
Slightly important	1	0.9	1	1.3	1	0.9	1	1.3
Unimportant	1	0.9	1	1.3	0	0.0	0	0.0
Mean	3.956		4.000		4.071		4.405	
Standard deviation	0.724		0.816		0.741		0.777	
F-value	0.16				9.10			
Probability	0.6932 (NSD)				0.0029 (SD)			

NSD = Not significantly different at the 0.01 level

SD = Significantly different at the 0.01 level.

Item 1 and item 2 on the evaluation scoresheet used in the first empirical study addressed the extent of disclosure of the biographical profile of the board of directors and top management. A maximum of 4 marks were awarded for both items and it was broken down as follows:

Item 1: Board of directors	Marks
No additional disclosure, that is only names were disclosed in accordance with the requirements of the Companies Act	0
Partial disclosure, with one mark being awarded per item stated below:	1 - 3
Date of birth or age	
Qualifications or experience	
Other major directorships	
Position in the company or executive duties	
Date of appointment or term of contract	

Table 9.32: Photographs

Full disclosure meant that four or more of the above items had been disclosed 4

Item 2: Top management	Board of directors			Top management			Marks
	Full disclosure	Partial disclosure	No disclosure	Full disclosure	Partial disclosure	No disclosure	
No information							1
Partial disclosure, with one mark being awarded per item stated below:							1 - 3
Names of top management							
Date of birth or age							
Qualifications or experience							
Other major directorships							
Position in the company or executive duties							
Date of appointment or term of contract							
Photographs							

Full disclosure, that is 4 or more of the above items had been disclosed, or name of management consulting firm or statement that directors represent top management 4

The actual level of disclosure of the profile of directors and top management in the industrial reports analysed for the period 1993 to 1998 is presented in table 9.32. The average disclosure over the six year period was 49.4% for full disclosure of the profile of directors and 33,0% for full disclosure of the profile of top management. The implication of this was that more than half of the companies considered it unimportant to disclose such information. Taking into account that a further 57,0% of compilers and 48,1% of users perceived the disclosure as fairly important for investment decision-making purposes, it is obvious that companies should place greater emphasis on this voluntary disclosed item; investors are patently interested in the backgrounds and profile of those who control the affairs of the company.

**Table 9.32** Level of disclosure on the profile of directors and top management of the sample companies for the period 1993 to 1998

Year	Board of directors						Top management					
	No voluntary disclosure		Partial disclosure		Full disclosure		No voluntary disclosure		Partial disclosure		Full disclosure	
	No	%	No	%	No	%	No	%	No	%	No	%
1993	59	31.7	57	30.0	72	38.3	92	48.9	36	19.2	60	31.8
1994	56	29.9	52	27.6	80	42.5	84	44.7	32	17.0	72	38.3
1995	45	23.9	56	29.7	87	46.3	83	44.2	40	21.3	65	34.6
1996	38	15.4	50	26.6	100	53.1	88	46.8	35	18.6	65	34.6
1997	29	15.4	50	26.6	109	58.0	92	48.9	36	19.2	60	31.9
1998	26	13.8	53	28.2	109	58.0	90	47.9	37	19.6	61	32.5
Total	253	22.4	318	28.2	557	49.4	529	46.9	216	19.1	383	33.0

A JSE listing requirement introduced in 1974 was that all listed companies had to disclose information in respect of the directors' and alternate directors' holdings in the company's shares of distinguishing between beneficial and non-beneficial holdings but not necessarily individual shareholdings of directors and top management. The latest listing requirement of the JSE which came into effect on 1 October 2000, is that company directors must disclose all share dealings on a weekly basis.

Item 3 on the evaluation scoresheet was used to measure the level of disclosure in annual reports of the individual shareholdings of directors and top management and marks were awarded as follows:

**Item 3: Shareholdings of board of directors and top management** **Marks**

Combined percentage of direct and indirect holdings of directors 0

Partial disclosure, with two marks being awarded for each item stated below:

Names and individual shareholdings of directors 2

Names and individual shareholdings of top management 2

Full disclosure, with five marks being awarded if the following had been disclosed:

A statement that a register or list of interests of directors and top management in the shares of the company for the current year and previous year was available on request by the public

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**Table 9.33 Level of disclosure of the individual shareholdings of directors and top management of the sample companies for the period 1993 to 1998**

Year of disclosure	Companies Act requirement		Partial disclosure or list available		Full disclosure	
	No.	%	No.	%	No.	%
1993	151	80.3	6	3.2	31	16.5
1994	136	72.3	16	8.5	36	19.2
1995	137	72.9	15	8.0	36	19.1
1996	120	63.8	44	23.4	24	12.8
1997	114	60.6	55	29.3	19	10.1
1998	120	63.7	51	30.3	17	9.0
Total	778	69.0	186	16.5	163	14.5

Table 9.33 indicated that on average the full disclosure level of the individual shareholdings of directors and top management for the sample companies over the six year period was 14.45%. This is extremely low in view of the importance being a mean score of 4 (fairly important), that users attach to this information. Information of this nature is easily obtainable and the disclosure thereof would promote transparency and investor confidence and also limit share price manipulation. Such disclosure would further be in line with the JSE listing requirement that companies disclose weekly share dealings and beneficial interests of directors. As these later developments show, disclosure requirements on these issues have increased, resulting in greater agreement between disclosure requirements and the needs of users and compilers.

In an effort to improve corporate governance and transparency and as a result of the King Committee recommendations, public companies should be required to disclose the following:

- directors remuneration: a listing requirement on the London Stock Exchange is that companies provide complete disclosure of each item forming part of each director's remuneration. The JSE is proposing the introduction of a requirement that companies disclose individual director's remuneration to bring in line with international best practice; and
- a statement of director's share options: the Greenbury code, which is applicable to British companies, requires that the value of share options be shown as a cost against the remuneration of executives. However, problems are encountered in this regard when valuing share options arise as a result of the different valuation methods that could be used for the determination of the nominal value of the options.

#### **9.5.7.2 *Diagrammatical presentation of the distribution of total shareholdings according to size, type and group structure (V80-V81)***

The item that had to be ranked in this case related to the size and type of shareholding held by institutions, companies and private investors. The results of the perceptions, which are shown in table 9.34 indicate that respondents regarded the disclosure of the type and size of shareholding held by institutions, banks and the public as important. 79,9% of compilers and 88,5% of users ranked this item as very important or fairly important, with significant perception differences. The table also shows that companies are disclosing this information and meeting the needs of annual report constituents. Companies are now disclosing the names of the subsidiaries, the percentage shareholding of the company in the subsidiary, the main activities and geographical location of the subsidiaries. Diagrammatical disclosure of the group structure in the form of a chart or pyramid was rated as fairly informative by both respondent groups but there was no significant difference between their perceptions.

**Table 9.34 Respondents' perceived price informative value of the disclosure of the distribution of shareholdings and group structure**

Level of importance	Distribution of total shareholding according to size and type				Diagrammatical presentation of group structure			
	Compilers		Users		Compilers		Users	
	No.	%	No.	%	No.	%	No.	%
Very important	22	19.3	28	35.4	32	28.1	36	45.6
Fairly important	69	60.6	38	48.1	64	56.1	29	36.7
Moderately important	20	17.5	12	15.2	14	12.3	12	15.2
Slightly important	3	2.6	1	1.3	3	2.6	1	1.3
Unimportant	0	0.0	0	0.0	1	0.9	1	1.3
Mean	3.956		4.177		4.080		4.241	
Standard deviation	0.686		0.730		0.769		0.851	
F-value Probability	4.59 0.0333 (SD)				1.86 0.1739 (NSD)			

SD = Significantly different at the 0.01 level

NSD = Not significantly different at the 0.01 level.

In order to measure the extent of disclosure of the distribution of shareholdings, item 4 on the evaluation scoresheet was used and marks were awarded as follows:

Item 4	Disclosure of the distribution of shareholdings	Marks
	No disclosure	0
	Disclosure of major shareholders only	2
	Full disclosure according to size and type of shareholding	4

The results of the extent of disclosure of the distribution of shareholdings of the sample companies are shown in table 9.35.

**Table 9.35** Level of disclosure of the distribution of shareholdings of the sample companies for the period 1993 to 1998

Year of disclosure	No disclosure		Disclosure of major shareholders only		Full disclosure of size and type of holding	
	No.	%	No.	%	No.	%
1993	68	36.2	10	5.3	110	58.5
1994	66	35.1	8	4.3	114	60.6
1995	41	21.8	11	5.9	136	72.3
1996	29	15.4	4	2.1	155	82.5
1997	18	9.6	6	3.2	164	87.2
1998	19	10.1	3	1.6	166	88.3
Total	241	21.4	42	3.7	845	74.9

There was a vast improvement in the level of disclosure of the distribution of shareholdings, from 58.5% in 1993 to 88.3% in 1998. On average 74,9% of the companies provided a breakdown of shareholdings according to size and type and this additional disclosure seemed to satisfy the needs of the majority of respondents. More users, namely 35,4%, regarded this information as very important as against 19,3% of compilers, while 48,1% of users and 60,6% of compilers rate it as fairly important.

Item 23 on the evaluation scoresheet was used to measure the extent of presenting the group structure and marks were awarded as follows:

<b>Item 23: Diagrammatical presentation of group structure</b>	<b>Marks</b>
No group structure disclosed	0
General disclosure with only the names of the subsidiaries being disclosed	1
An additional point was awarded for disclosure of each of the following:	
Names of the management team of each subsidiary	1
Products or activities of the subsidiaries	1
Geographical location	1
Percentage shareholding of controlling companies	1



**Table 9.36** Level of disclosure of diagrammatic presentation of group structure provided by sample companies for the period 1993 to 1998

Year of disclosure	No disclosure		Partial disclosure		Detailed disclosure	
	No.	%	No.	%	No.	%
1993	62	33.0	40	21.3	86	45.7
1994	54	28.7	36	19.1	98	52.2
1995	50	26.6	33	17.6	105	55.8
1996	62	33.0	27	14.4	99	52.6
1997	42	22.3	35	18.7	111	59.0
1998	61	32.4	16	8.6	111	59.0
Average	331	29.3	187	16.6	610	54.1

On average only half the companies (54,1%) were disclosing all the required information relating to subsidiaries that formed part of the group. In view of the fact that constituents of annual reports consider this information to be important (mean score of 4, i.e. fairly important), companies should be encouraged to disclose the information and to do so with a fair amount of detail.

### 9.5.8 Contents of directors' and chairman's report (V82-V84)

Compilers and users were required to rank the importance of the contents of the directors' and chairman's report, giving special attention to disclosures such as a detailed comment on the various activities of the company by the chairman or managing director, reasons given for changes in performance results and whether the company specifically outlined its corporate goals and disclosed a separate mission statement.

Table 9.37 Respondents' perceived price informative value of the contents of the directors' and chairman's report

Voluntary disclosed item			Very important	Fairly important	Moderately important	Slightly important	Un-important	Mean	Standard deviation	F-value	Probability
Detailed activities of the company	Comp	No %	59 51.7	48 42.1	6 5.3	0 0.0	1 0.9	4.469	0.599	0.66	<b>0.4172 (NSD)</b>
	Users	No %	51 64.6	20 25.3	8 10.1	0 0.0	0 0.0	4.544	0.676		
Reasons for changes in results	Comp	No %	88 77.2	25 21.9	1 0.9	0 0.0	0 0.0	4.770	0.443	0.02	<b>0.8807 (NSD)</b>
	Users	No %	63 79.7	13 16.5	3 3.8	0 0.0	0 0.0	4.759	0.512		
Corporate goals and mission statement	Comp	No %	55 48.2	49 43.0	7 6.1	2 1.7	0 0.0	4.389	0.687	0.05	<b>0.8320 (NSD)</b>
	Users	No %	41 51.8	27 34.2	10 12.7	1 1.3	0 0.0	4.367	0.754		

NSD = Not significantly different at the 0.01 level.

From the data in table 9.37 it is clear that there was no significant difference in the perceptions of compilers and users on the price informative value of the contents of the directors' and chairman's report. Both compilers (51,8%) and users (64,6%) considered a detailed discussion of the activities of the company to be very important. A higher level of importance was attached to reasons for changes in results, and both compilers (77,2%) and users (79,7%) regarded this information to be very important. As far as corporate goals and mission statements were concerned, a mean score of 4 (fairly important) was obtained while 48,2% of compilers and 51,9% of users rated this item as very important.

Item 5 on the evaluation scoresheet was used to measure the level of disclosure of the contents of the directors' and chairman's report and marks were awarded as follows:

<b>Item 5:</b>	<b>Contents of the directors' and chairman's report</b>	<b>Marks</b>
Disclosure of activities of the company		
	Complied only with Companies Act requirements by stating activities	0
	General discussion of activities	1
	Detailed information on activities	4
Reasons for changes in results		
	No discussion	0
	Changes in profits or performance mentioned	3
	Reasons for changes in profits or performance discussed in detail	5
Statement of corporate goals or mission statement		
	None	0
	Company profile or mission statement	2

As far as a detailed discussion of the activities of the company were concerned, a fairly high average level of disclosure of 86,8% for the period 1993 to 1998 was attained. The same applies to a detailed discussion of the reasons for changes in performance results, with the average level of disclosure being 84,9%. In contrast, an average of 65,1% of the sample companies provided a statement in which their goals or mission were set out. Comparing the level of disclosure with the needs of compilers and users,

it would appear that all three of these items should be showing a disclosure level exceeding 80% as these items are very important to both compilers and users. Both groups would thus only be satisfied with very detailed information as well as discussions on it.

**Table 9.38 Level of disclosure of the contents of the directors' and chairman's report of the sample companies for the period 1993 to 1998**

Year of disclosure	Full disclosure of activities of the company		Full disclosure of reasons for changes in results		Full disclosure of goals or mission statement	
	No.	%	No.	%	No.	%
1993	143	76.1	135	71.8	118	62.8
1994	150	79.8	139	73.9	121	64.4
1995	161	85.6	156	83.0	126	67.0
1996	171	91.0	174	92.6	125	66.5
1997	177	94.2	176	93.6	117	62.2
1998	177	94.2	178	94.7	127	67.6
Average	979	86.8	958	84.9	734	65.1

### 9.5.9 Voluntary disclosure in interim reports (V85-V90)

Section 3.10 of questionnaires A and B covered aspects of voluntary disclosure in corporate interim reports and their effect on market prices. Users and compilers were approached to give their opinions on the importance of the following six voluntary disclosed items in the interim report.

- Turnover
- Cash flow statements
- Segmental results
- Detailed comments on results
- Future dividend and profit expectations
- Audited interim reports.

Table 9.39 Respondents' perceived price informative value of voluntary information disclosed in the interim report

Contents of the interim report			Very important	Fairly important	Moderately important	Slightly important	Un-important	Mean	Standard deviation	F-value	Probability
Turnover figures	Comp	No %	79 69.3	29 25.4	5 4.4	1 0.9	0 0.0	4.655	0.563	0.48	<b>0.4900 (NSD)</b>
	Users	No %	57 72.2	21 26.6	1 1.3	0 0.0	0 0.0	4.709	0.484		
Cash flow statement	Comp	No %	51 44.7	38 33.3	19 16.7	4 3.5	2 1.8	4.186	0.902	1.29	<b>0.2574 (NSD)</b>
	Users	No %	40 50.6	27 34.2	10 12.7	2 2.5	0 0.0	4.329	0.796		
Segmental results	Comp	No %	25 21.9	59 51.8	24 21.1	5 4.4	1 0.9	3.920	0.781	0.82	<b>0.3654 (NSD)</b>
	Users	No %	23 29.1	38 48.1	15 19.0	3 3.8	0 0.0	4.025	0.800		
Detailed comments on results for the year	Comp	No %	71 62.3	39 34.2	3 2.6	0 0.0	1 0.9	4.602	0.543	1.38	<b>0.2416 (NSD)</b>
	Users	No %	48 60.8	24 30.4	5 6.3	2 2.5	0 0.0	4.494	0.732		
Future dividend and profit expectations	Comp	No %	61 53.5	44 38.6	7 6.1	2 1.8	0 0.0	4.451	0.694	1.13	<b>0.2898 (NSD)</b>
	Users	No %	50 63.3	24 30.4	4 5.1	1 1.3	0 0.0	4.557	0.655		
Audited interim reports	Comp	No %	10 8.8	30 26.3	53 46.5	16 14.0	5 4.4	3.230	0.926	36.00	<b>0.0001 (SD)</b>
	Users	No %	31 39.2	32 40.5	10 12.7	3 3.8	3 3.8	4.076	1.010		

NSD = Not significantly different SD = Significantly different

Table 9.39 shows that 79 (69,3%) and 57 (72,2%) compilers and users respectively viewed the disclosure of turnover in the interim report as very important while the publication of cash flow statements in interim reports was perceived by 51 (44,7%) compilers and 40 (50,6%) users to be very important. There was little meaningful difference between the perceptions of the two groups as to the disclosure of segmental results in interim reports. The majority, namely 59 (51,8%) compilers and 38 (48,1%) users, felt that it was fairly important to include segmental results in the interim report.

Once again the perceptions of compilers and users on the disclosure of detailed comments on results were similar, as 71 (62,3%) compilers and 48 (60,8%) users felt that it was very important. More attention should however be focussed on future-oriented information, which is often non-financial in nature, as this information could substantially enhance the value of the reporting corporation. For example, of the interim reports analysed of the sample companies, 70,7% contained no mention of earnings or dividend forecasts. Although 61 (53,5%) compilers and 50 (63,3%) users consider future-oriented information to be very important, it is only viewed as useful and meaningful if management provided an explanation of the business strategies that would be followed to attain these forecasted results.

Reasons for the disclosure of future-oriented information is that it is useful in the decision-making process and that all constituents receive the information at the same time. The type of information that should be disclosed should include sales, capital expenditure and earnings per share, a forecast of future dividends and expected debt to equity ratio. Reasons against disclosure of future-oriented information is that it is unreliable and could disadvantage the company's competitive edge.

Finally, compilers and users were asked whether it was important that interim reports should be audited. In other words, in view of the fact that auditor association or involvement with interim reports would enhance the quality, credibility and reliability of the report and prevent management from using various devices to smooth out earnings. From table 9.39 it is clear that the majority of compilers, namely 53 (46,5%), felt it was moderately important to have audited interim reports while 31(39,2%) and 32 (40,5%)

users felt it was very important or fairly important respectively to have audited interim reports. This is one of the few areas where the perceptions of compilers and users differed significantly.

The actual date of publication of the interim report is important as it impinges on the usefulness of the information. In this study it was found that for the period 1993 to 1998, only 38,3% of the companies published their interim report within 45 days of their financial mid-year and that this figure had remained fairly constant over the period.

In order to promote timely reporting practices and avoid revenue manipulation, it is recommended that quarterly reporting be mandated and furthermore that interim reports should include both disaggregated information consistent with the information provided in the annual report and cash-flow statements.

## 9.6 Conclusion

In this chapter the results of the research carried out to establish the extent of voluntary disclosure in annual and interim reports of quoted South African industrial companies were analysed and evaluated and the perceptions of compilers and users on the price informative value of voluntary disclosure items were determined. An analysis and interpretation of the perception consensus was obtained by cross-tabulation of the data obtained from two questionnaires. Hypothesis 4, stated at the beginning of the chapter, could be accepted as there was no overall significant perceptual differences between compilers and users regarding the price informative value of voluntary disclosure items. However, taken on an item by item basis, 17 significant perceptual differences were found among the 49 items that were analysed.

In order to test hypothesis 5, the findings were compared with the actual level of disclosure of each voluntary disclosed item. In general, the responses to the questionnaires indicated that both groups attached a high level of importance to the majority of the 49 voluntary disclosed items and consequently companies should strive to satisfy the needs of compilers and users. Hypothesis 5 was supported as the level

of voluntary disclosure did not always meet the needs of users.

To substantiate the conclusions and findings of this investigation of perception consensus between compilers and users, an item by item comparison of perception means, standard deviations and importance rankings were used as further analytical statistics. The means for each item represent overall measures of the degree of importance that respondents assigned to the items, within the context of the price informative value. A high mean score is associated with a high degree of importance. The means were then used to facilitate numerical rankings of the voluntarily disclosed items for each respondent group. The standard deviation for each item measures the variability of the price informative value assigned to the item by the respondent group. The larger the standard deviation, the less agreement exists between compilers and users regarding the perceived importance of the information item. The results of the examination are set out in table 9.40.

Table 9.40: Summarized Importance rankings of voluntarily disclosed items by user

Item	Mean	Standard Deviation	Ranking
M93 Reasons for changes in revenue	3.8	0.8	1
M94 Management's job/strategy	3.7	0.9	2
M95 Turnover or revenue increase in the current period	3.6	0.9	3
M96 Turnover or revenue decrease in the current period	3.5	0.9	4
M97 Future dividends and profit expectations in the next 12 months	3.4	0.9	5
M98 Detailed description of activities in the current period	3.3	0.9	6
M99 Cost of sales	3.2	0.9	7
M100 Detailed comments on results disclosed in the financial statements	3.1	0.9	8
M101 Net asset value disclosed in the current period	3.0	0.9	9
M102 Profitability ratio disclosed in the current period	2.9	0.9	10
M103 Individual shareholding of directors and management	2.8	0.9	11
M104 Late-year financial policy	2.7	0.9	12
M105 Company goals or financial statements	2.6	0.9	13



**Table 9.40 Summarised importance rankings of voluntary disclosed items by users and compilers**

Voluntary disclosed item	Respondents						Level of significance
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	
V83 Reasons for changes in results addressed by director or chairman	4.759	1	0.512	4.770	2	0.443	NSD
V42 Managements' operating and financial review	4.747	2	0.650	4.779	1	0.438	NSD
V85 Turnover or revenue disclosed in the interim report	4.709	3	0.484	4.655	4.5	0.563	NSD
V52 Turnover or revenue figure disclosed in the table of comparative statistics	4.658	4	0.677	4.655	4.4	0.594	NSD
V89 Future dividend and profit expectations in the interim report	4.557	5	0.655	4.451	10	0.694	NSD
V82 Detailed discussion of activities in the directors' or chairman's report	4.544	6	0.676	4.469	9	0.599	NSD
V74 Cost of sales disclosed in the annual report	4.538	7	0.658	4.053	22	0.833	SD
V88 Detailed comments on results disclosed in the interim report	4.494	8	0.732	4.602	6	0.543	NSD
V54 Net asset value disclosed in the table of comparative statistics	4.405	9.5	0.913	4.513	8	0.628	NSD
V55 Profitability ratio disclosed in the table of comparative statistics	4.405	9.5	0.885	4.708	3	0.494	SD
V79 Individual shareholding of directors and top management	4.405	9.5	0.777	4.071	21	0.741	SD
V64 Long-term dividend policy	4.385	12	0.793	4.089	19	0.651	SD
V84 Corporate goals or mission statement	4.367	13	0.754	4.389	12	0.687	NSD
							<i>continued</i>

Table 9.40 (continued)

Voluntary disclosed item	Respondents						Level of significance
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	
V86 Cash flow statement disclosed in the interim report	4.329	14	0.796	4.186	17	0.902	NSD
V56 Liquidity and solvability ratios disclosed in the table of statistics	4.304	15	0.992	4.602	6	0.606	SD
V73 Differentiation between interest bearing and non-interest bearing debt	4.260	16	0.785	4.223	16	0.732	NSD
V81 Group structure presented diagrammatically with detailed information	4.241	17	0.851	4.080	20	0.769	NSD
V53 Number of shares issued disclosed in table of comparative statistics	4.228	18	1.012	4.451	10	0.681	NSD
V61 Comparison of company's share price with the industry index	4.190	19	0.878	4.053	22	0.822	NSD
V57 Productivity ratios disclosed in the table of comparative statistics	4.177	20.5	0.874	4.372	13	0.697	NSD
V80 Distribution of total shareholding according to size and type	4.177	20.5	0.730	3.956	25	0.686	SD
V90 Audited interim report	4.076	22	1.010	3.230	45	0.926	SD
V75 Statement that report complies with International Accounting Standards	4.026	23	0.993	3.735	34	0.824	SD
V87 Segmental information disclosed in the interim report	4.025	24	0.800	3.920	27	0.781	NSD
V65 List of activities of all subsidiaries disclosed or available to the public	4.013	25	0.875	4.027	24	0.700	NSD
V50 Depreciation of intangible assets	4.013	26	0.954	3.813	30	0.833	NSD
V50 Number of employees							<i>continued</i>

Table 9.40 (continued)

Voluntary disclosed item	Respondents						Level of significance
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	
V58 Definitions of financial ratios	4.000	27.5	1.062	4.363	14	0.768	SD
V78 Biographical profile of directors and top management	4.000	27.5	0.816	3.956	25	0.724	NSD
V60 Volume and value of shares traded, lowest, highest and year-end prices	3.975	29	1.143	4.159	18	0.808	NSD
V47 Insurance or replacement value of assets other than fixed property	3.937	30	0.896	3.473	40	0.782	SD
V49 Movement of fixed assets shown in the cash flow statement	3.911	31	1.064	3.866	28	0.729	NSD
V69 Highlights disclosed separately in the annual report	3.910	32	0.942	4.274	15	0.644	SD
V72 Research and development cost	3.792	33	0.879	3.646	36	0.778	NSD
V43 Value added statements presented as a statement	3.772	34	1.074	3.777	32	0.908	NSD
V40 Tax reconciliation statement	3.709	35	0.989	3.841	29	0.786	NSD
V71 Research and development projects discussed in detail	3.688	36	0.892	3.717	35	0.807	NSD
V46 Value added statements presented for two years	3.620	37	1.054	3.504	39	0.992	NSD
V66 Promotion of activities	3.526	38	0.817	3.607	38	0.764	NSD
V37 Inflation adjusted financial statements	3.380	39.5	0.978	3.009	49	0.807	SD
V59 Number of employees	3.380	39.5	0.951	3.761	33	0.837	SD
							<i>continued</i>

Table 9.40 (continued)

Voluntary disclosed item	Respondents						Level of significance
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	
V45 Value added statement presented for one year	3.367	40	0.963	3.402	41	0.972	NSD
V39 Environmental reporting	3.367	41.5	0.989	3.053	48	0.800	SD
V38 Employee/social report	3.291	43	0.963	3.327	42	0.761	NSD
V68 Results presented graphically	3.244	44	0.856	3.779	31	0.704	SD
V44 Value added statement presented as a pie-chart	3.241	45	0.964	3.292	44	0.903	NSD
V48 List of fixed property available for inspection by the public	3.215	46	1.009	3.179	46	0.841	NSD
V70 Shareholders' diary	3.192	47	1.082	3.628	37	0.878	SD
V41 Statement of money exchanges with government	2.987	48	1.080	3.124	47	0.857	NSD
V67 Illustrations and colour	2.897	49	0.862	3.327	42	0.796	SD

Rank = Based on the mean score of each item

SD = Statistically significant at the 0.01 level

NSD = Not statistically significant at the 0.01 level

Number of significant differences in group means = 17 (out of 49).

According to the analysis in table 9.40, the following four items were ranked as being the most important for compilers and users:

- reasons for changes in results addressed by the managing director or chairman;
- management's operating and financial review;
- turnover or revenue figure disclosed in the interim report; and
- turnover or revenue figure disclosed in the table of comparative statistics.

Any significant differences in the opinions of compilers and users may be attributed to the fact that compilers are hesitant to disclose valuable information to competitors and that compilers bear in mind the cost of disclosing additional information. This view is supported by Gray, Radebaugh and Roberts (1990:606) who found that on average, financial executives tend to perceive most voluntary disclosure items in terms of their net cost. Consequently, the disclosure is dependent on the outcome of an assessment of the economic consequences of the proposed disclosure item. Gray and his co-researchers also found that there was general agreement by financial executives that the most important cost factor was the indirect cost of competitive disadvantage resulting from the disclosure of future-orientated information and defined segment information.

Compilers and users should be encouraged to communicate in order to obtain a higher degree of consensus regarding the extent and importance of voluntary disclosure. Until they do reach some consensus, the information content of annual reports will not totally satisfy the needs of all constituents. It will thus remain an imperfect mechanism in the communication process.