THE EXTENT OF VOLUNTARY DISCLOSURE IN CORPORATE REPORTS OF SOUTH AFRICAN LISTED INDUSTRIAL COMPANIES

by

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LIST OF ABBREVIATIONS

AC	Accounting Standard
ASRB	Accounting Standards Review Board
APB	Accounting Principles Board
AICPA	American Institute of Certified Public Accountants
AIMR	The Association for Investment and Management Research
BFA	Bureau of Financial Analysis
CICA	Canadian Institute of Chartered Accountants
DP	Discussion Paper
ED	Exposure Draft
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Practice
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants of England and Wales
JSE	Johannesburg Stock Exchange
SAICA	South African Institute of Chartered Accountants
SEC	Securities and Exchange Commission
SFAC	Statement of Financial Accounting Concepts
SFAX	Statement of Financial Accounting Standards

CHAPTER 1

INTRODUCTION

1.1 Background

In order to make rational investment decisions, users of corporate annual and interim reports require an extensive range of financial and non-financial information, whether mandatory or voluntary, in order to assess the market value of an investment in shares. Rath (1977:36) describes accounting as a socio-techno-economic process which is highly influenced by the environment. He argues that the basic objective of an accounting system is to provide information that presents the true financial picture of a company which will enable users of financial statements to make wise investment decisions.

In South Africa, the extent of current traditional methods of financial reporting is restricted to a mandatory form of accountability by the directors to the users, that is shareholders and investors, of corporate annual reports. This form of disclosure decreases the value relevance of accounting information. Furthermore, the current system of financial reporting presents mainly historical and factual financial information, neglecting relevant economic, political, environmental, ethical and social issues. Such issues are usually not recorded or covered in annual corporate reports, as they are regarded as immeasurable in monetary terms. Gray (1994:27) noted that accounting should be a social rather than a strictly economic concept and that a broader concept of accountability would recognise a wide range of groups or individuals with potential rights to information.

The voluntary disclosure policies of companies tend to be controversial and companies need to make decisions in favour of or against the disclosure of certain informative items. The annual report of a corporation is a potentially powerful mechanism for imparting the superior knowledge and expertise of top management regarding the corporation's present and future strategies and operations to outside investors. It follows therefore that management are in a position to enhance the effectiveness of their chosen tool of communication, namely the annual report, by developing and improving voluntary disclosure policies and strategies that have a positive impact on the company's standing, as perceived by investors, and, as a consequence, influence the market price of the company's shares. However, reporting excellence is no guarantee of a favourable market rating by investors, particularly if financial performance is weak. Hence, there is a great deal of controversy as to whether a company's voluntary disclosure policy has any impact on its share prices.

What types of voluntary information should be disclosed? And how does this disclosure affect the market price? Gray (1994:33) proposed the development of a reformed system of voluntary information disclosure which is decision critical in satisfying the needs of those it is serving by making an impact on the users' wealth arising from capital gain (whether man made or natural). Employees, customers, the community and society have a right to financial and non-financial information and if they voice their opinions and apply pressure on compilers of annual reports, a more valuable form of accountability and stewardship would emerge. Kim (1993:747) deduced from his model that there is no optimal voluntary disclosure policy. This can mainly be ascribed to the heterogeneous nature of shareholders. He believes that firstly, better informed shareholders prefer less disclosure than their less well-informed counterparts and secondly they have different risk tolerances. Enterprises, too, have to weigh up the adverse risk-sharing effect against the beneficial cost-saving effect that disclosure has on shareholders. They then have to balance this against information acquisition cost functions.

1.2 Objectives and scope of the study

The usefulness and value of the voluntary or discretionary disclosures made in the annual reports of South African listed companies, measured in terms of its impact on share prices, is continually subjected to extensive research. The main focus and objective of the research presented in this study was to examine the extent and importance of voluntary disclosure practices in the annual reports of corporations, thereby contributing to and complementing previous studies.

Obviously, voluntary disclosure is a huge field of study and it would have been practically impossible to include all areas of voluntary disclosure. Therefore this study of the desirability and importance of voluntary information disclosure in corporate reports was limited to only certain aspects of voluntary disclosure and the nature of those aspects. This study also did not attempt to deal with issues on accounting method choice or address information made available through any other formal or informal external communications media, such as press releases, brochures, exhibition stands, newsletters, product launches, event management, packaging or advertising.

The purpose of this research was, firstly to briefly review the evolution of corporate disclosure in general in annual and interim reports, secondly to highlight and define the concept of voluntary information disclosure, thirdly to outline the historical development of voluntary disclosure items and, finally to analyse its current-day extent and importance as well as its effect on share prices.

To achieve these objectives, the study was conducted in two parts. In the first part, the actual extent of voluntary disclosure in practice is examined and empirically tested to show the association between firm characteristics and level of disclosure. In the second part of this study, the results of an empirical investigation into the importance and price informativeness of voluntary disclosure as perceived by compilers and users of annual reports, is presented. The investigation takes the form of a perception survey, in which the opinions of compilers and users were obtained by means of a postal questionnaire. The survey was performed in order to substantiate whether the needs of investors are met by the extent of disclosure of companies.

1.2.1 Hypotheses formulation

The research tests the hypothesis that there is an association between firm characteristics, market price volatility and the extent of voluntary information disclosure in the annual and interim reports of listed industrial companies on the Johannesburg Stock Exchange. The research addresses the question of whether identifiable and measurable factors can be associated with the extent to which firms disclose voluntary information. Independent variables such as the structural and performance characteristics of companies were used to explain differences in the levels of voluntary disclosure. A stepwise regression model is used to determine which variables best explain the extent of voluntary disclosure and its association with share prices.

The following aspects were discussed in the testing of the hypotheses:

- the technical theory of voluntary disclosure in annual reports;
- past and current voluntary disclosure practices of South African listed companies;
- evaluation and extent of current voluntary disclosure techniques;
- perceptions of compilers and users regarding the price informative value of voluntary disclosure in annual reports and interim reports; and
- proposals for enriched alternatives.

1.3 Methodology and data base

The data and research methodology are discussed fully in chapter 7 and the empirical results and their implications are discussed in chapters 8 and 9. Briefly, the extent of both quantitative and qualitative voluntary disclosure, was measured by means of a weighted index of disclosure items similar to ones used in the studies of, amongst others, Cerf (1961), Singhvi and Desai (1971), Buzby (1974, 1975), McNally, Eng and Hasseldine (1982), Firer and Meth (1986), and Malone, Fries and Jones (1993). The annual reports of 188 companies were examined in order to identify and evaluate various voluntary disclosure items provided by companies. The disclosure items were then evaluated by financial directors, being the compilers of annual reports and users to determine their perceptions of the importance of each disclosure item in an investment decision. Compilers and users of annual reports were approached so as to validate any material differences that might have arisen from cross-sectional data analysis.

The study included the following steps:

- identification of voluntary disclosure items and discussion of their importance to investors;
- review of prior research and relevant literature on voluntary disclosure by corporations;
- development and preparation of an annual and interim report evaluation scoresheet aimed at examining the extent of voluntary disclosure in annual reports published by industrial companies listed on the Johannesburg Stock Exchange from 1993 to 1998;
- design and drafting of questionnaires that were sent out to compilers (financial directors) and users (shareholders and security analysts) to determine their perceptions of the relative importance of each voluntarily disclosed item and its effect on the market price of a company's shares;
- testing of the research hypotheses by implementing a multiple stepwise regression and correlation analysis; and
- drawing of conclusions and making recommendations.

1.4 The importance of the study

Electronic access to business information via links between providers of capital and the data bases of companies for instance on the internet, has revolutionized the dissemination of information and reduced the informative value of annual reports. Unless the present company reporting model, is improved, the annual report will lose its information relevance completely.

The research conclusions of this study may help compilers of annual reports to formulate effective voluntary disclosure policies which would in turn serve to improve communication. The recommendations may help accounting standard setters to prioritise the information items required by users.

1.5 Limitations of the study

For the purposes of this study, only companies listed in the industrial sector of the Johannesburg Stock Exchange was used, because the reporting policies and requirements of mining, banks and insurance companies are not comparable with those of industrial companies. The databank of the Bureau of Financial Analysis of the University of Pretoria was used as the primary source of information.

1.6 The structure of the study

The following is a synopsis of the 10 chapters of this study:

Chapter 1 *Introduction*

This chapter covers the objectives and scope of the study, the research methodology, the importance of the research, limitations and the structure of the study.

Chapter 2 *The evolution of corporate disclosure*

This chapter focuses on the earliest forms of financial disclosure, the historical development and emergence of reporting legislation world-wide and the influence of the Johannesburg Stock Exchange and reporting awards on voluntary disclosure practices.

Chapter 3 *Constituents in the financial information market*

The informational needs of internal and external users of annual reports are investigated.

Chapter 4 *Voluntary disclosure in corporate annual reports*

The nature, characteristics, benefits and cost of voluntary disclosure are examined. Aspects of market efficiency, investor behaviour and factors affecting share price volatility are identified.

Chapter 5 *Voluntary disclosed items perceived as price-informative to compilers and users*

Voluntary disclosed items used in the survey are identified in this chapter and their importance is discussed.

Chapter 6 *Prior research on voluntary disclosure in corporate reports*

A literature study was conducted to ascertain the extent of previous studies on voluntary disclosure and the methodology implemented and to evaluate the findings of the various studies. These past empirical studies formed the basis of further research on this debate.

Chapter 7 *Research methodology*

In this chapter the research methodologies employed in the two studies are discussed more fully with the focus, firstly on the design and development of the disclosure index used to measure the extent of voluntary disclosure and secondly on the two questionnaires used to extract the perceptions of users and compilers of the price-informative value of voluntary disclosed items in corporate reports. Selection criteria for the sample groups are detailed and the response rate is discussed. Hypotheses are stated, followed by a discussion of the statistical analysis used to test the hypotheses.

Chapter 8 *Results of the first empirical study*

The research findings of the first empirical study are presented and conclusions are reached.

Chapter 9 *Results of the second empirical study*

The research findings of the second empirical study are analysed and conclusions are reached.

Chapter 10 *Summary of conclusions and recommendations*

This chapter contains a brief summary of the preceding work as well as recommendations. Future research areas are also identified that could fruitfully be researched further.

1.7 Conclusion

The goal of this study is to make a meaningful contribution and add value to the future development and fundamental reform of voluntary disclosure practices of listed industrial companies in South Africa. In order to satisfy the growing information needs of users and compilers of annual reports of the 21st century, greater emphasis must be placed on the usefulness, value and relevance of annual reports. However, there is a fine balance between the provision of useful information and an information overload. Therefore future accounting standard setters will have to be wary of falling into the trap of changing voluntary items into requirements. Such a situation would contribute to disclosure overload without adding value to annual reports.

CHAPTER 2

THE EVOLUTION OF CORPORATE DISCLOSURE

2.1 Introduction

This chapter contains a brief discussion of the history of corporate disclosure from its first inception during the period from 4000 BC to AD 1000, through the Renaissance and the Industrial Revolution of the Western world to present-day reporting systems. The archaeological approach provides an understanding of the nature of disclosure and the role played by accountants and other individuals in the development and evolution of voluntary disclosure practices.

2.2 The earliest form of informational disclosure

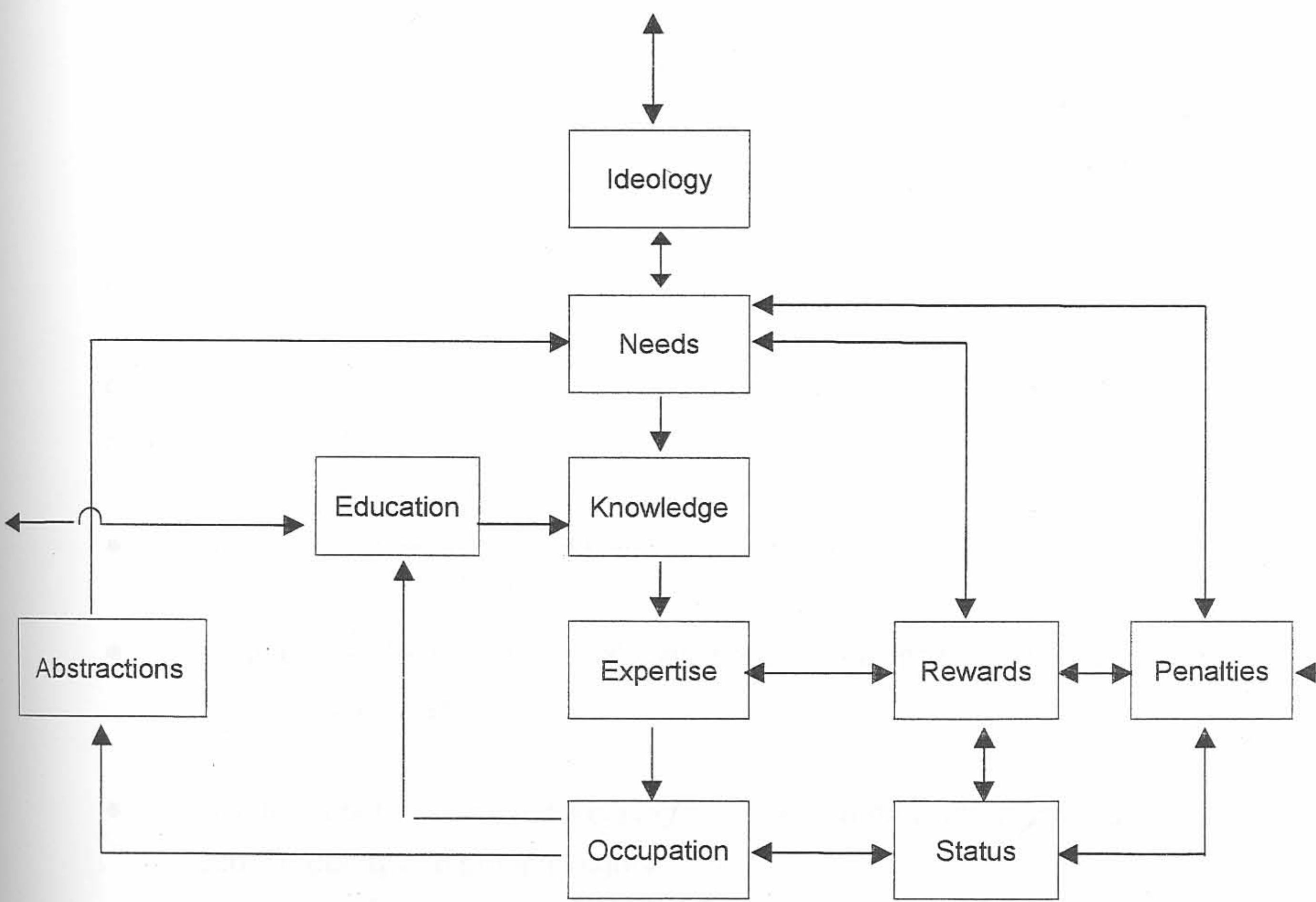
As far back as 4500 BC, the Mesopotamians took the first steps towards financial accounting. Symbols were used to record trading transactions of entrepreneurs on clay tablets of various shapes, shades and sizes, depending on the type of transaction. These tablets were also used as "source documents," as a hole was punched in a corner of the tablet that was attached to the commodity to be dispatched. After the transaction was completed, the tablets were "filed" or stored (Lee 1990:78).

The Babylonian system of notation, dating from 2600 BC, resembled the Roman system which the present-day Arabic system later replaced. For identification and legality, the writer used a personalised seal buried with him upon his death. Educated scribes were instructed to record the transactions and these scribes can be regarded as the predecessors of today's accountants (Chatfield 1968:3 & Lee 1990:80).

It appears that accounting even at its earliest stage required a form of specialized education to understand the meanings of the symbols used to record transactions. The stewardship role of accounting in its earliest form was based on record-keeping or self-reporting by an accountant. The accountant was also the manager or owner, and often these accounting recordings were subject to verification by a third party, who was either an auditor or the owner.

Figure 2.1 is a representation of the system of accounting in its earliest state (Lee 1990:59). This closed system of self-reporting depicts how the accountant or manager, with the introduction of a formal system of education and training, obtained the necessary knowledge and expertise to maximise rewards and thus his status. However, Lee (1990:62) maintains that the system remained open to its environment, in that new ideas and knowledge were constantly introduced.

Figure 2.1 The occupation of an accountant



Bookkeeping was first described in 1494 when a Franciscan monk, Frater Lucas Bartolomes Pacioli, published his *Summa*. While the *Summa* mainly dealt with algebra, it included a chapter on bookkeeping, namely *De computis et scripturis*. Pacioli's treatise on double-entry bookkeeping was the answer to an insistent economic demand for a standardized system for recording business transactions. Pacioli's aim was to devise a system of bookkeeping to give the trader information about his assets and liabilities at a glance. Pacioli is regarded as the father of modern accounting (Chatfield 1968:14). This system, which was based on the so-called "Method of Venice" and introduced in 1406 (Brown 1968:111), required considerable expertise and training to use. The result was a breakdown of the previous self-reporting closed loop, as the owner-management function was now split. The treatise of Pacioli has been the foundation on which practically all subsequent writings concerning double-entry bookkeeping have been based and consists of a detailed discussion of the memorial, the journal and the ledger.

A second book, dated 1518 and authored by Grammateus, a German mathematician was immediately followed by a third book written by Jerome Garden. Regarding these developments Chatfield (1968:14) concludes that "bookkeeping appeared not as a chance phenomenon, but distinctly in response to a world need" and also directly as a result more and more partnerships being established.

Chatfield (1968:21) identified seven necessary conditions for the existence of the double-entry bookkeeping system, as follows:

- "the art of writing, since bookkeeping is first of all a record;

- arithmetic, since the mechanical aspect of bookkeeping consists of a sequence of simple computations;

- private property, since bookkeeping is concerned only with recording the facts about property and property rights;

- money, since bookkeeping is unnecessary except as it reduces all transactions in properties or property rights to this common denominator;

- credit, since there would be little impulse to make any record whatever if all exchanges were completed on the spot;

- commerce, since a merely local trade would never have created enough pressure (volume of business) to stimulate men to coordinate diverse ideas into a system; and

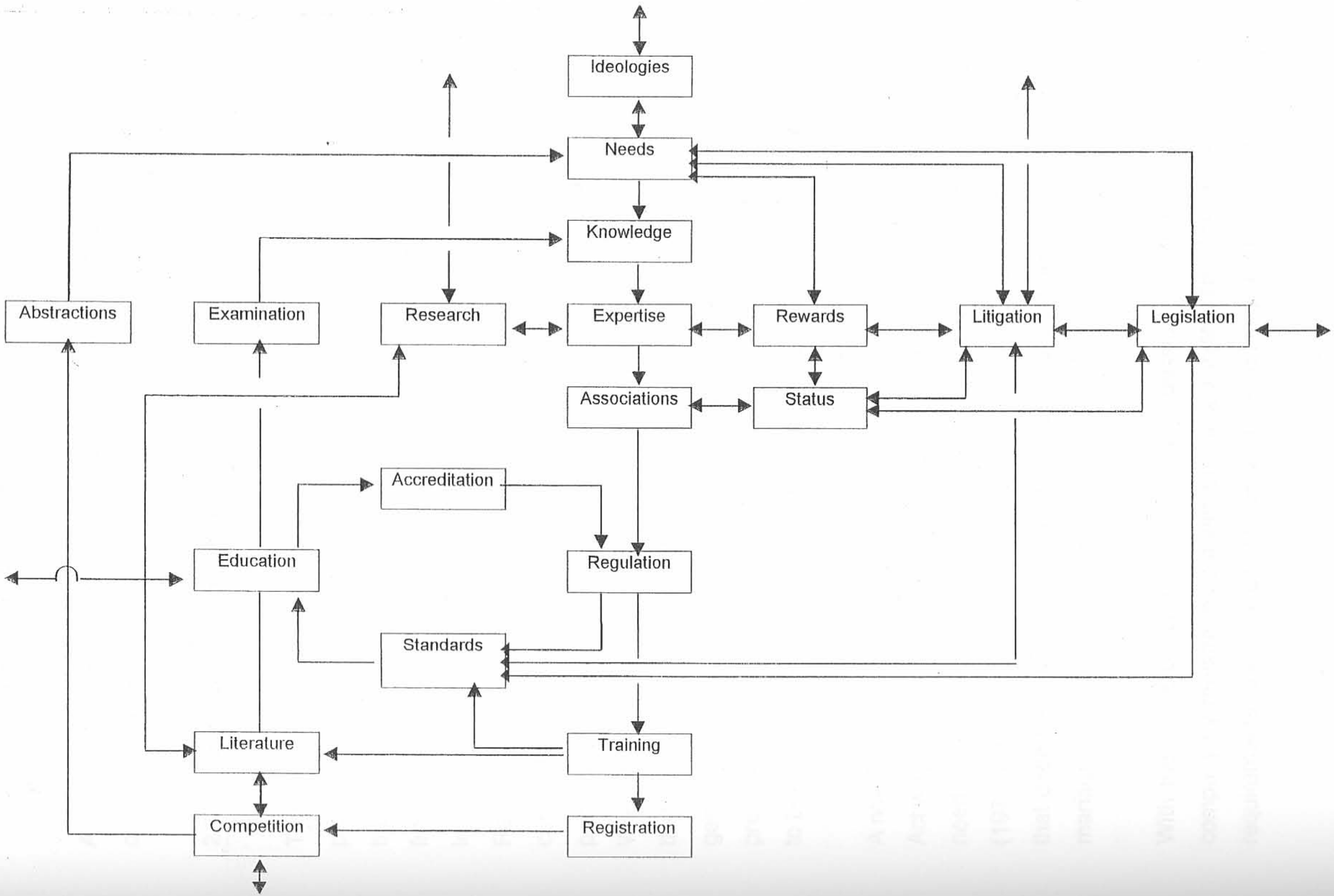
- capital, since without capital commerce would be trivial and credit would be inconceivable."

The idea of establishing a corporate enterprise originated from trade guilds, venture partnerships and the impact of foreign trade. This organisational change resulted in the notion of mutual association with limited liability and the recognition of the going concern concept. Some of the first companies were the Russia Company (chartered in 1555), the East India Company (chartered in 1600), the Hudson's Bay company (chartered in 1670) and the Bank of England (chartered in 1694) Lee (1979:16).

Accountancy theory changed little between 1494 and 1840 considering the fact that no distinction was made between fixed capital and working capital. Only in the mid-nineteenth century, accountants recognised the need for an organized accounting profession. The development of the accounting profession is illustrated in figure 2.2 (Lee 1990:75).

However, this formal system of accounting has resulted in an autopoietic state or "ordered chaos" (Lee 1990:78). In other words, the world of accounting as a social system is exercising selectivity as far as change is concerned, in that it is accepting change which does not alter its state of equilibrium, but rejecting change which has the potential to do so.

Figure 2.2 The Accounting Profession



2.3 The development of disclosure and the emergence of reporting legislation in various countries

A brief discussion of the events that affected the history of financial reporting in various countries follows.

2.3.1 Historical development

The company as a form of business developed out of shortcomings in rules governing partnerships and culminated in the formation of the first recognised company, the East India Company in 1600 (Gover 1975:24). However, as a result of the emergence of fraudulent and corrupt undertakings, the British Parliament passed strict and limiting legislation which dampened the growth of corporations. With the impact of the Industrial Revolution on the economy and the railway boom between 1830 and 1870, British corporations gained strength, and forced the Parliament to pass acts recognising the principle of limited liability and the business entity theory. In one of these acts, the Great Western Railway Act of 1835, recognition was given to investor needs by the provision that half-yearly financial statements had to be presented to the shareholders at the general meeting. This was later replaced by the Railway Regulations Act of 1868, which prescribed a uniform presentation for railway company financial statements. According to Lee (1979:17), this formed the basis for all company reporting up to the mid 1940s.

A new form of corporate structure was introduced in 1844 by the Joint Stock Companies Act which recognised the separation of ownership from active control and as a result the need arose to draft separate reports to the suppliers of capital. According to Lee (1979:15), the traditional stewardship role of directors was based on the assumption that directors were under a moral obligation to periodically report to shareholders on management's use of company resources and achievement of company goals.

With the promulgation of this Act, it was possible for the first time to incorporate a company by registration but with unlimited liability. The Act also extended disclosure requirements, and an audited balance sheet had to be prepared and presented at every ordinary meeting of shareholders and then filed with the Registrar of Joint Stock Companies. However, there were no minimum disclosure requirements regarding the form and contents of the balance sheet, no mention was made of a profit and loss account and the auditors were not required to be professionally qualified accountants.

This Act was later replaced by the Joint Stock Companies Act of 1856 which introduced general registration with limited liability (Cilliers & Benade 1973:13) and a standard form of the balance sheet, in which the capital, liabilities, property and assets had to be analysed and classified in substantial detail. Company reporting and auditing practices nevertheless remained a purely voluntary action of directors and did not become mandatory until the companies Act of 1908 was introduced. This Act required all public companies to file annual audited balance sheets and introduced the distinction between private and public companies.

During the 1920s, reporting standards declined. Companies were experiencing financial difficulties with the result that compilers of annual reports tended towards a narrow interpretation of statutory reporting obligations. Fortunately this trend was reversed by the British Companies Act of 1929. This Act had a significant influence on financial reporting trends, and for the first time a profit and loss account became compulsory. The Act also required that a distinction be made between fixed and floating assets, and that goodwill and investments in subsidiary companies be stated separately. However, the Act had some limitations. One of the most serious was that it did not provide definitions of either the nature or the requirements, so that companies could omit important items such as depreciation and thereby rendering the statements meaningless. Lee and Parker (1979:282) for example refer to the case of the Cheshire United Salt Co Ltd where a disagreement between the shareholders and the directors resulted in an amendment of the profit and loss account to show proper depreciation. As a result, reported profits decreased by 20%. A further limitation of the Act was related to reserves, as no disclosure of their extent or existence was required.

In 1948, a new Companies Act was promulgated in an attempt to improve reporting standards and arrest the decline that ensued during the post-war years. Some of the major changes were that group accounts became compulsory, a distinction was required between reserves and provisions, new disclosure requirements were introduced and an auditor's report stating that the accounts were "true and fair" rather than "true and correct" was required.

The Companies Act of 1967 required turnover to be added to the profit and loss account and greatly expanded the information required in the directors' report and notes to the financial statements. The information included the number of employees, charitable and political donations, market values of investments and property and directors' interests had to be disclosed in considerable detail.

There were no references to mandatory accounting standards for the preparation of financial statements in any of the companies acts until 1970. At that time the Institute of Chartered Accountants in England and Wales formed the Accounting Standards Steering Committee, later known as the Accounting Standards Committee, to develop standards for financial reporting. By 1990, this committee had recommended 34 statements on accounting practice.

2.3.2 Present-day voluntary disclosure

2.3.2.1 The United Kingdom

The present-day company financial reporting system developed in Britain over a period of 150 years. Nor can it be said to have been completed. Indeed an amended Act was promulgated in 1989, which further formalised presentation and disclosure. The Act requires compliance with accounting standards of the Financial Reporting Council where the Accounting Standards Board issues the standards, the Urgent Issues Task Force deals with urgent matters of interpretation of existing standards and the Review Panel ensures fair presentation of information in financial statements (Van Wijk 1997:3).

2.3.2.2 *The United States of America*

Accounting regulations in the United States of America were mainly based on English company law till 1887 when the American Institute of Accounting was founded. In 1889 the New Jersey Corporation Law was amended to allow companies to make investments in other companies. America was the first country to publish consolidated statements, and example of which is the statements of the U S Steel Corporation, published in 1901 (Robson 1973:45). The Securities and Exchange Commission requires public listed companies to submit financial reports complying with accounting standards issued by the Financial Accounting Standards Board.

2.3.2.3 *Canada*

In terms of the Canada Business Corporation Act, corporate financial statements must be prepared in accordance with the standards of the Canadian Institute of Chartered Accounts (Van Wijk 1997:4).

2.3.2.4 *Australia*

An amendment of the Corporations Act in 1991 made compliance with accounting standards a prerequisite. In addition, directors are required to add information and explanations if they are of the opinion that adherence to the standards would not result in the financial statements providing a true and fair view (Van Wijk 1997:4). Today, financial reports of Australian companies are controlled by the Australian Securities Commission, Australian Accounting Standards Board, Australian Accounting Research Foundation and the Australian Stock Exchange.

2.3.2.5 *New Zealand*

The Financial Reporting Act of 1993 gives legal backing to accounting standards for entities regulated by this Act. The Act requires that financial statements be prepared in compliance with generally accepted accounting practice which is embodied by the accounting standards issued by the Accounting Standards Review Board. In addition, financial reporting is monitored by the New Zealand Stock Exchange and the New Zealand Society of Accountants.

2.3.3 The Republic of South Africa

The first official legislation relating to companies was the Companies Act No. 46 of 1926, which was based on the Companies Act of 1908 in Britain. It was replaced by a new act in 1939, again following the British lead, namely the promulgation of the British Companies Act of 1929. The new Act amongst others contained a provision requiring holding companies to present the aggregate amount of shares held in subsidiary companies, loans to or from subsidiaries, profit and losses of subsidiaries pertaining to holding companies if not incorporated in group accounts and definitions of “holding”, “subsidiary” and “sub-subsidiary” companies.

The Companies Act of 1952 incorporated further improvements particularly those stemming from the implementation of the Eighth Schedule. This part of the Act prescribed the format and contents of the balance sheet and income statement and made consolidated financial statements compulsory. The 1952 Companies Act was replaced by the 1973 Companies Act No. 61 and the Fourth Schedule was amended in 1992 to incorporate all disclosure requirements contained in statements of generally accepted accounting practice.

2.3.4 International standardization

The International Accounting Standards Committee was formed in July 1973 from 16 accounting bodies from nine countries. Its purpose was to develop and publish a comprehensive set of accounting standards in order to produce high quality financial statements. It also aimed at serving as an international example to encourage improvement and harmonisation of accounting standards set by standard setters of the different member countries. In April 1974 it issued its first exposure draft on disclosure of accounting policies and this first IAS statement was applied from January 1975.

The Urgent Issues Task Force was established in March 1991 to provide guidance on the accounting treatment of new issues, such as goodwill on disposal of a business and accounting for backdated supplemental interest on convertible bonds, restructuring costs and post-retirement benefits other than pensions.

2.4 The influence of the Johannesburg Stock Exchange listing requirements on reporting practices

The Johannesburg Securities Exchange South Africa is referred to throughout this research as the Johannesburg Stock Exchange as the name change only took place in November 2000. The Johannesburg Stock Exchange was established in November 1887 by Benjamin Woollan after the discovery of the Witwatersrand goldfields. It is the largest emerging market in the world and at the end of November 1996, it ranked 16th (by market capitalisation) among the 42 exchanges of the Federation of International Stock Exchanges.

A brief summary of the requirements applicable to companies listed on the main board of the Johannesburg Stock Exchange for the period up to the end of September 2000, are as follows:

- a subscribed capital, excluding re-evaluations of assets, of at least R2 million in the form of not less than one million shares in issue;
- a satisfactory profit history for the preceding three financial years, the last of which reported an audited profit before taxation of at least R1 million;
- a minimum of 10% of each class of equity shares to be held by the public;
- a minimum of 300 public shareholders for equity shares; and
- the minimum initial issue price of shares to be no less than 100 cents per share.

In April 2000, the Johannesburg Stock Exchange brought out new listing requirements to promote international investor confidence in South Africa's equity market and for companies wishing to list on foreign exchanges. The aims were to raise standards of transparency and corporate governance, to bring the JSE in line with international best practice and to encourage fuller disclosure of shareholders' identities and directors' salaries. The purpose was thus to adhere to international best practice.

The following reforms were implemented between October 2000 and January 2001:

- stricter rules for brokers sponsoring new listings, and listing sponsors are extended to corporate, legal and other advisers;
- the minimum number of shareholders is raised from 300 to 500;
- the minimum public float in listed companies is raised from 10% to 20%;
- disclosure of beneficial interests is now required;
- the directors of new listings will be subject to a fit and proper test and be required to disclose their background;
- companies listed on the main board will have a three-year period to achieve a pretax profit of R8 million from R1 million which was previously required, while new main board listings will have to comply immediately;
- subscribed capital from main board listings is raised to R25 million from R2 million;
- a new growth enterprise market will replace the venture and development capital sectors;
- company directors must disclose share dealings in their companies;
- directors must disclose their remuneration;
- the listing of pyramid companies is banned;
- the listing of N shares will not be allowed;
- listed companies must comply with generally accepted accounting practice;
- financial reports are to include a modified auditors' opinion; and
- companies are no longer required to publish notices in newspapers, and this will be phased in over two years to October 2002 (Business day, 31 August, 2000).

2.5 The influence of financial reporting awards on voluntary disclosure

2.5.1 Awards for best annual reports

A great deal of the impetus for promoting quality financial reporting practices can be attributed to the existence and stimulus of competitions for best reporting practices. Financial reporting awards were traced back over 30 years by Beattie (1988:37) to the United Kingdom, with the first occurring in 1954 when *The Accountant* published the stock exchange awards for the best annual reports issued by United Kingdom public companies. The aim of the annual competition was to encourage public companies to prepare clearer and more informative annual reports and accounts.

In South Africa the Southern African Institute of Chartered Secretaries and Administrators introduced an annual report awards competition, also in 1954. This competition was held biennially to give companies the opportunity to incorporate the adjudicators' recommendations.

The annual reporting award of the South African Institute of Chartered Accountants was aimed at companies listed in the industrial and development capital sectors of the Johannesburg Stock Exchange. Only company reports disclosing more than the following information qualified (Singer 1994:3):

- an unqualified auditor's report;
- a chairman's report;
- a value added statement;
- segment information, where applicable;
- some recognition of the effects of inflation; and
- a cash flow statement as opposed to a source and application of funds statement.

Another competition that had a marked effect on reporting standards in South Africa was the *Top Twenty Annual Report Award* of the Financial Mail which was conceptualised and initiated in 1964 to mark the magazines fifth birthday. The objective of the competition was to motivate companies to improve their reporting standards. Reports of the time were on the whole totally inadequate. Massey-Ferguson was the leader for five successive years in the field of quality reporting and was later succeeded by Protea Holdings in the sixth year of the competition. In recognition of their achievement, Massey-Ferguson donated a floating trophy, known as the Massey-Ferguson Award for the best report. The system of judging the annual reports remained constant for seven years and was limited to industrial and commercial companies listed on the Johannesburg Stock Exchange.

With the enactment of the 1973 Companies Act, many items of disclosure were made mandatory which improved the overall extent of disclosure in annual reports. In addition, the publication of half-yearly interim reports became compulsory for all listed companies. Over the years, the rules for the Financial Mail competition became more stringent and are adjusted biennially to encourage higher reporting standards. Since 1977 the rules are published annually in the Financial Mail. Copies of the completed score sheets and relevant rules are posted to the respective companies since 1984, for verification and if necessary the score sheets are appropriately amended by the researcher before processing.

As a further incentive to compete for this prestigious award, a role of honour list was introduced in 1986, listing those companies that had won the floating trophy three or more times. Management may influence users' image of the company by referring to their achievements in the various reporting awards competitions in their annual report. In the 1997 (page 8) annual report of President Medical Investments Ltd for instance, the chairman states: "We were pleased to have been recognised by the Financial Mail for their annual accounts award and to be selected as one of the 20 most improved annual reports of all Johannesburg Stock Exchange listed industrial companies. We will endeavour to improve our standard of reporting to our shareholders." The directors of many listed companies have noted that their success in these rankings serve as a useful marketing and financial tool which improves the company's ratings with bankers and prospective investors.

Two more examples of references to competition results illustrate the value and influence of the competition to voluntary disclosure: The preface page of the 1998 annual report of Seardel Investment Corporation Ltd contains the following statement: "Seardel was the winner of the prestigious Institute of Chartered Accountants Annual Financial Statements Reporting Awards Competition in 1984, 1990 and 1991, and was consistently placed in the top 10 of that competition. The Investment Analysts Society of South Africa also adjudged the 1991, 1992, 1993, 1994, 1995 and 1996 reports as the best in their category. In 1995 the Chartered Institute of Secretaries and Administrators, in conjunction with Rapport, elected Seardel's report as the overall winner and also adjudged the 1996 and 1997 reports as the best in their categories. Seardel has also consistently featured in the top 20 of the Financial Mail annual reports competition and was the overall winner of the competition in 1996." In their 1997 annual report (page 12), under their compliance with the code of corporate practices and conduct, Morkels Ltd now Fashion Africa Ltd, refer to the fact that "... shareholders are kept informed through formal communication of results at the interim and final stages, but principally through the annual report, which was adjudged by the Financial Mail as the best financial report for three consecutive years from 1991. Having been elected to the 'roll of honour', the annual report was no longer eligible for the award, but was still regarded as one of the best of its kind."

A marketing technique used by companies which could be regarded as a form of voluntary disclosure, is the inclusion of a question and answer section in the annual report which the company anticipates enquiries following the publication of the report or to avoid confrontation. An example is the chairman's statement in the 1996 annual report of Plate Glass and Shatterprufe Industries Ltd, which contains a seven-page question and answer section. Another technique is to include a transcript of a press meeting in the annual report, such as that of the chairman of Yorkor Ltd in its published annual report of 1996.

In 1969, the Investment Analysts Society introduced an award for best reporting and communication and at their 30th anniversary celebrations in 1999, Billiton won the award for the second time in a row (Business Day 12 August 1999). In the 1998 annual report of Dorbyl Ltd, they referred to winning this competition in 1997.

2.5.2 Awards for employee, environmental and other voluntary reports

In 1991, the Chartered Accountant/Anglo Alpha Employee Report Award was instituted for the company producing the best annual employee report containing financial and other information. The award came about because the prevailing opinion was that employee reports in South Africa demonstrated too much evidence of simply being "down loaded" from the annual report. In other words, insufficient attention was paid to matters of real importance to the employee (Everingham 1994:30).

An interesting development that also took place in 1991, was the establishment of an Environmental Reporting Award Scheme. The scheme was the brain child of the Chartered Association of Certified Accountants in England and the aim was to improve environmental reporting by quoted companies. In 1994 the World Wildlife Fund launched the Environmental Annual Report Award, which was aimed at improving environmental reports, and to encourage businesses in South Africa to report voluntarily and transparently on their environmental performance. The winner of the 1995 award was Umgeni Water and the 1996 award was given to Eskom for their report entitled *Using resources effectively*. Both reports were highly rated for their credibility, open acknowledgment of achievements and weaknesses and details of targets for future years.

The following judging criteria were used:

- *Completeness*: The report should cover the full spectrum of the organisation's environmental performance and impacts, both the good and the bad;
- *Credibility and clarity*: All claims should be objective and be substantiated. Specific information should be given in context to aid credibility, while vague or

excessively technical information detracts from it;

- *Commitment*: There should be evidence of top level commitment;
- *Continual improvement*: The organisation's should demonstrate a commitment to the ongoing improvement of its environmental performance. This could for example be done by reporting on year-on-year progress against specific objectives and targets;
- *Accountability to the community*: An environmental report should address the organisation's management of its social impact and the methods used to consult interested and affected parties; and
- *Employee awareness and involvement*: The report should reflect the work being done to raise employees' level of environmental awareness and gain their commitment to good environmental management.

The focus has also shifted to the needs of ordinary users as is evidenced by the introduction of an annual report award called Personal Finance in 1998. It is sponsored by a communications company, Plain Business Writing. Its purpose is to recognise excellence in communication in plain language, by studying various documents such as policy documents, promotional material and reports to investors.

2.5.3 Awards by accountancy firms

In 1995, Deloitte & Touche introduced a corporate governance award which is endorsed by the Institute of Directors, the South African Institute of Chartered Accountants and the South African Institute of Chartered Secretaries and Administrators. The first award was presented to NBS Ltd and it was won by Eskom Ltd in 1997.

In 1997, Ernst & Young in conjunction with the University of Cape Town introduced an annual award known as the "Excellence in financial reporting award". The aim was to measure the quality of reporting in terms of four key criteria, namely financial disclosure, performance review, forward-looking information and presentation. The winner for 1997 was Edgars Ltd with South African Breweries Ltd in second place (Business Day, 12 February 1998:19)

The question of whether competitions for best reporting practices affect a company's voluntary disclosure policy was included in section 2.9 of questionnaire A (see Annexure 7) mailed to compilers of corporate reports. The aim was to ascertain whether companies considered these competitions to be meaningful and valuable. The results are included in this chapter as they were relevant at this stage. Table 2.1, shows that 4 (3,5%) of the compilers strongly agreed and 48 (42,5%) agreed that competitions did affect their company's voluntary disclosure policy.

Table 2.1 Compilers' responses to the question: Do competitions for best reporting practices affect your company's voluntary disclosure policy?

Compilers' opinion	No.	%
Strongly agree	4	3.5
Agree	48	42.5
Disagree	45	39.8
Strongly disagree	10	8.8
No opinion or uncertain	6	5.3
Total sample	113	100.0

2.6 Conclusion

The subdivision of ownership and the severance of ownership from control as well as the enormous amounts of fixed capital invested, contributed to the practical and theoretical importance of modern-day accounting. The development of company financial reporting was further influenced by a succession of Companies Acts, particularly in the United Kingdom and the Securities Act of 1933 and the Securities Exchange Act of 1934 in the United States of America. In South Africa the Companies Act of 1973 can be regarded as the most important piece of legislation on reporting and disclosure.

Although South Africa's accounting standards are rated as good as those applied by the Financial Accounting Standards Board in the United States and are often shorter, simpler and more easily applied (Singer & Blumberg, Financial Mail, 8 May 1998:35), they do not have legal backing. Because of this lack of enforcement, they receive little international recognition. However, the lifting of sanctions has led to increasing pressure on South African companies to produce financial statements based on accounting standards in line with those issued by the International Accounting Standards Committee.

CHAPTER 3

CONSTITUENTS OF THE FINANCIAL INFORMATION MARKET

3.1 Introduction

Historically, annual reports were compiler-oriented and not user-oriented. Users of financial reports did not play an important part in the preparation of annual reports. Traditionally, users neither voiced their opinions on value reporting nor put pressure on compilers to conform to the changing needs of both financially sophisticated and less financially sophisticated users. Present-day users are more sophisticated and their increased access to electronic databases enables them to perform a higher level of analysis of financial reports. Their survey lead Epstein and Pava (1993:19) to conclude that more sophisticated investors tend to use financial statements more thoroughly than less sophisticated investors. They suggested that compilers should attempt to simplify financial statements so that less sophisticated users might find the annual reports more useful for investment and credit decisions. The implication of these divergent needs is that more attention should be given to the different preferences and needs of users and the information required by them.

In defining useful and relevant information to execute informed decisions, users of annual reports and their compilers must be identified and the extent and nature of their needs must be examined. In respect of users, Ogan and Ziebart (1991:403) point out that corporations are artificial entities created to serve the interests of people. In serving the interests of users, namely to increase earnings and capital, the objectives of compilers of financial statements should be examined to understand the context in which the financial statements are prepared. It is left to the compiler of annual reports to decide whether to take a negative approach and only provide the minimum information required by statute, or positively present the corporation's financial performance in the most favourable way by disclosing more information than the required statutory minimum. However, in striving to satisfy the needs of all stakeholders, annual reports often fail to be of use to any one specific user group.

Necessary changes to improve and evolutionise financial reports so as to adjust to the rapid advance in technology and increased competition, should immediately be implemented. This will also have the effect of enhancing the efficiency of the national and international capital markets. Participants involved in the preparation and utilisation of annual reports should be motivated collectively to introduce reforms in the reporting system that will benefit all stakeholders and bring about increased usefulness of financial reporting.

Ogan and Ziebart (1991:387) contend that the accounting profession, in order to fulfil their public responsibility, must assume a more active role in determining precisely what information the constituents need. They must act as leaders in the quest for enhanced responsibility in the markets for information. Just as Gloeck and de Jager (1993:1) identified the "expectations gap" in the auditing profession in South Africa, the problem of an expectations gap or perhaps a communications gap between the users of information and the compilers of information in annual reports has been identified. Compilers and users need to get together and draft a conceptual framework that will satisfy the different and often conflicting needs of both groups. It is imperative that the accounting profession takes an insightful viewpoint by considering the various constituencies of the firm rather than assuming, myopically, that there exists a single "general" user of financial statement information (Ogan & Ziebart 1991:389).

In order to explore the nature and size of the communications gap, Eccles and Mavrinac (1995:14) conducted a survey in which the attitudes of corporate managers, financial analysts and portfolio managers towards disclosure and communication were examined. Their survey supported critics' contentions that the communications systems of the capital markets are imperfect and that fundamental changes should be made to ensure that information disclosure strategies are incorporated. Their results showed that one third of the managers perceived themselves as working actively to anticipate concerns and questions of external constituencies. This group attempted to maintain a continuous dialogue with analysts and investors. On the other hand, only 6% of the analysts and 4% of portfolio managers believed that companies adopted this strategy. Nearly 40% of the analysts and almost 65% of portfolio managers believed that companies merely complied with legal requirements and only offered additional information if the companies considered it relevant to themselves for the sake of their image.

Various constituencies or stakeholders require information on whether a company is operating effectively and efficiently. These groups base their findings on an examination of annual reports. Therefore these stakeholders should be involved in decisions on what should be disclosed. However, companies will only be able to accomplish this if they know who the users are and what they need.

3.2 Definition of a constituent or user

Gotlob (1985:16) defines the critical constituencies as "those groups within the environment of an organization having the ability to affect the continued well-being (and even survival) of the focal enterprise, either by withholding important resources from the organization or by imposing unilateral sanctions upon it's price".

3.3 Types of users

Individuals may be classified either as financially sophisticated users, such as corporate shareholders, financial analysts, financial representatives of institutions and brokers or financially unsophisticated users, consisting of employees, small investors and the public in general. Sophisticated users require voluntary information of a more technical nature and base their economic decisions on financial ratios and performance figures, whereas the less sophisticated user, who is becoming more prevalent in South Africa, can only interpret information expressed in layman's terms.

Discussion Paper 12, issued in March 1994 by SAICA refers to three user groups. *Primary stakeholders* are those with an ownership interest in the company who have a right to appoint directors of the company and receive reports from them. They are further classified into private investors and institutional investors (SAICA 1994, par.23). *Secondary stakeholders* are those with a financial but not an ownership interest in the company such as loan creditors, employees, business contacts and authorities responsible for the assessment and collection of direct and indirect taxes (SAICA 1994, par.24). Finally, *tertiary stakeholders* are users without a direct financial interest in the company but who are affected by the way in which the company's resources are managed, such as environmentalists (SAICA 1994, par.25).

In a study conducted by the Special Committee on Financial Reporting (1994:8), the AICPA identified the following types of users and their reasons for using financial reports:

Type of user	**Reason for using financial reports**
Investors	Aids in investment decisions
Creditors	Aids in credit decisions
Management and board members	Aids in decisions about managing the business
Employee groups	Helps to understand compensation policies and a company's ability to meet compensation and benefit commitments
Competitors	Helps with evaluation of competitive strengths and weaknesses and business strategy
Regulators	Helps with assessment of compliance with regulations
Academics	Provides data for research
The press	Provides data for articles
Users concerned with social causes	Helps with assessment of a company's involvement in areas of concern

Different researchers have also classified users of annual reports and recognised present and potential investors, creditors and suppliers, employees and customers. Ogan and Ziebart (1991:391-394), on the other hand, identified six groups of constituents, namely society, owners, creditors, employees, government and customers.

Their illustration of the market for corporate information is reproduced in figure 3.1.

3.3.1 Internal users

There are two main groups of internal users, namely directors and top management and auditors. Their needs will be briefly discussed.

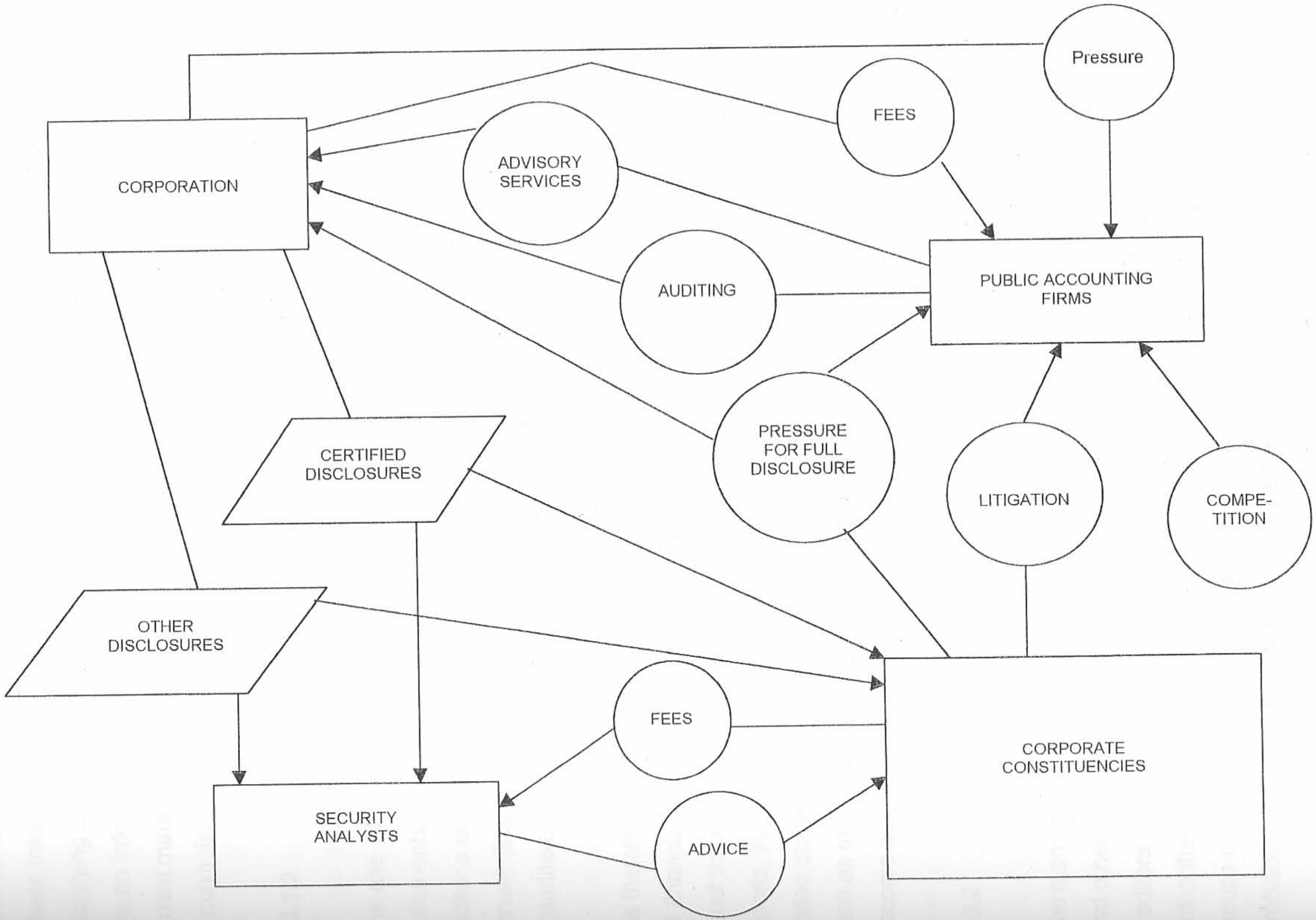
3.3.1.1 Directors and top management

Shareholders of a company appoint the directors who in turn appoint the top management of the company. The competence and independence of the directors and top management is continuously scrutinised and monitored by persons with a vested interest in the business, such as suppliers, employees and customers. Therefore managers continually strive to improve their reputation with external parties by implementing "value-maximising disclosure policies" (Dye 1986:333). However, at the same time they have to bear in mind the trade-off between the achievement of value maximisation and the protection of proprietary information. A questionnaire survey conducted by Hall (1998:153) showed that 44% of the management of the sample companies pursued as their goal value maximising.

Corporate communication processes and disclosure policies are based on corporate strategy, professional norms, price sensitive information, decision processes and internal and external mediators. This disclosure position of the company is influenced by internal and external stimuli, with the responses resulting in a wide variety of disclosure outputs. By developing internal responsiveness to the needs of users, corporations develop positive information systems which maximises the information flows to the market (Holland & Stoner 1996:301).

Figure 3.1

The market for corporate information



Researchers such as Feltham & Xie (1992), have developed models of the interaction between factors that influence managers' voluntary disclosure decisions with regard to private information, such as a firm's future profitability. Three of the most important underlying assumptions of these models are: that the manager cannot disclose that he has no information (Dye 1985), that the informed manager seeks to maximise the current market value of his firm's equity (Verrecchia 1983) and that the manager seeks to maximise the expected end-of-period cash flow to equity holders.

3.3.1.2 Auditors

The role of the auditor is to provide an external and objective report on the annual statements thus acting as a link between directors and shareholders. However, the auditor's opinion on the fair presentation of the financial information is confined to the annual financial statements and most of the voluntary information disclosed is unaudited.

It is therefore suggested (SAICA 19.33) that the auditor's duties be extended to a review all financial information included in annual reports. This will improve the assurance about the relevance and reliability of the entire range of information contained in annual reports, including aspects such as the chairman's report, segmental information, value added statements and ratio analysis. The suggestion is that other public documents, such as interim reports and preliminary announcements issued by companies should become subject to an auditor's review.

3.3.2 External users

The many groups of external users have diverse information needs for decision-making and other purposes. These groups include shareholders, financial analysts, bankers, creditors and suppliers, employees and labour organisations, government and tax authorities, customers, social interest groups and the general public. These diverse groups utilise annual reports for information to measure past performance in terms of profitability and viability in order to evaluate the present position, not only as a basis for future economic predictions, but also for future decisions. Though their needs have in the past not received the necessary attention, despite the fact that each decision they make impacts not only on the individual enterprise, but also the economy as a whole. Therefore each of these user groups and their information needs will be discussed below.

3.3.2.1 Shareholders/owners, investors and potential investors

Arnold and his co-authors (1991:6) reason that improved disclosure may lead to improved shareholder understanding and loyalty. This would in turn provide an environment in which management could concentrate on long-term strategy without being diverted by the need to improve short-term profitability. The improvement in performance that is likely to result, would be of benefit to all. Shareholders who are adequately informed of the risk dynamics and risk management processes of a company are also more likely to remain loyal and supportive to a company experiencing an unstable financial period.

Shareholders require information in order to make decisions on whether to buy, hold or sell their shares in the corporation by assessing the long-term profitability and solvency of the company. Information is also required for decisions on who to vote for as directors, as they are the people who will be held responsible for determining the return on their investment. Communication between shareholders and management is mainly influenced by information obtained from annual reports, investor presentations and technical analysts. The benefit to the company of effective communication with the shareholders is a lower cost of capital as informed shareholders are better able to assess the market value of a share.

When considering the needs of shareholders, that is dividend and capital growth, all shareholders should be considered and not only majority shareholders. Holders of 50% of the issued share capital of a company (plus one share) will, by and large, control the destiny of the company, a fact that investors take into consideration in deciding whether to invest in the company. He quotes the case of Micor Ltd where the directors accepted an offer by a consortium to purchase the core assets of the company: only when a former director pointed out to the minority shareholders that the proposed sale price would only benefit the members of the purchasing consortium (who turned out to be the majority shareholders of the company), did the minority shareholders take steps to defend their position.

3.3.2.2 Financiers and creditors

Bondholders and banks require interest security and information on the ability of the company to service debts and meet its obligations with regard to current or future debt while creditors require a profitable trading relationship. They thus need information on the solvability and liquidity position of the company in order to decide whether to lend funds to the company or not. If risk is minimised as a result of good disclosure policies, the cost of loans and credit facilities will decrease too. Furthermore, suppliers will be attracted by the growth potential and long-term sustainability of the company. In the view of Lee and Parker (1979:277) "legislative provisions are primarily designed to fulfil the needs of the shareholder" while the creditor carries the biggest share of the risk associated with the activities of the company.

Unfortunately, bondholders are not entitled to receive an annual report after the bond has been granted to the company and therefore cannot keep track of the performance of the company. In contrast, banks may demand that they receive a copy of the annual report on an annual basis to enable them to assess the corporation's financial status. Even though banks and creditors are first in line when a company is declared insolvent, they are normally the last to be informed of the insolvency of the company.

On the positive side, the fact that standard setters have assisted in setting of uniform standards with regard to financial ratios and in addition, the maintenance of certain minimum levels of solvability and liquidity, has enabled creditors and lenders to be better informed of their own risk situations. The end result is a more cost-effective allocation of capital and assets.

3.3.2.3 Employees

Corporate managers are realising on the one hand that employees have a greater stake in the company's future performance than the shareholders and on the other hand that employees' information requirements differ from those of investors. Employees are mainly interested in the long-term sustainablility of the company, as this has a bearing on their personal for job security and financial wealth. The ability of the company to provide remuneration, retirement benefits and employment opportunities are also important considerations. Employee reporting is discussed in detail in paragraph 5.9 of chapter 5.

3.3.2.4 Government and official bodies

The government is interested in the contribution that the company is making to the economic growth and stability of the country and its involvement in international markets. It is also responsible for company adherence to its laws concerning taxes, import and export duties and employment regulations.

3.3.2.5 Customers

Customers require information about the quality, price and supply of products and services offered by the company as well as after-sale services and guarantees in order to decide whether to purchase the product or make use of the services rendered by the company. Promotional reporting to attract loyal customers is often found in annual reports in the form of glossy photographs of the products, brand names, geographical areas where the services are rendered and contact points.

3.3.2.6 Financial analysts

Analysts, brokers and portfolio managers are used by investors who have a limited understanding of financial matters. The role of the professional financial analyst is therefore vital and they should be free to voice their opinions on the form and content of annual and interim reports. They are recognised for their ability to critically assess information released by corporations and by their ability to analyse the link between share prices and earnings. They are informed users who form an opinion about the future growth prospects of a corporation and have the ability to assess the value of a security. Although they do use financial statement information, analysts often have access to management and senior executives of corporations. Such personal contact allows them to negotiate additional information, placing them in a superior position with regard to information and giving them a unique insight into corporate dealings.

Investor advisors include analysts from large and small institutions, brokers, accountants, portfolio strategists and industry consultants. Their greater access to information helps them to mitigate misvaluation problems that may arise from imperfect auditing and accounting standards. Healy and Palepu (1993:7) reason that the advantage of financial analysts is that they concentrate on the development of firm- and industry specific knowledge which enables them to assess a firm's current performance and future prospects and provide incremental information to investors for evaluating their securities.

Such advantage stems from the fact that analysts add value in three ways. Firstly, financial analysts assess the quality of a firm's reported numbers and are able to adjust these as they see fit. Secondly, analysts evaluate a firm's current performance by means of ratios, cash flow analysis and incorporate non-financial factors and thirdly, analysts forecast a firm's future prospects and estimate its value using modern finance theory and valuation techniques.

As they continually seek price discrepancies the opinions and recommendations of financial analysts may substantially affect share prices. Brokers are the professionals who deal directly with individuals and institutional investors.

3.3.2.7 Competitors

Competitors require information on the relative strengths and weaknesses of companies in similar lines of business so as to assess their own future market penetration.

3.3.2.8 Society in general

The public is interested in the activities of a corporation, firstly because its financial well-being impacts on the whole economy. Social interest groups, such as environmental lobby groups seek information on company policies with regard to environmental protection, affirmative action, donations and sponsorships, bursaries, housing schemes, loans and training.

In section 2, item 2.5, of questionnaire A (annexure 7) and B (annexure 9) compilers and users were required to choose five most important users of financial reports from a list of 9, and to rank the users in order of importance on a scale of 1 to 5. Tables 3.1 and 3.2 illustrate how compilers and users rank users of corporate reports. According to the responses, 24 (30.8%) users and 40 (35.1%) compilers ranked shareholders as the most important users of financial reports. Users ranked security analysts (23.1%) and stockbrokers (20.5%) in second and third place while compilers ranked institutional investors (28.9%) and stockbrokers (15,8%) in second and third place.

Table 3.1 Users' responses to the question: Who do you regard as the most important users of financial reports?

Users of annual reports	Level of importance										Ranking
	5	%	4	%	3	%	2	%	1	%	
Shareholders (individual investors)	24	30.8	6	7.7	8	10.3	11	14.1	14	17.9	1
Stockbrokers	16	20.5	26	33.3	13	16.7	8	10.3	3	3.8	3
Security analysts	18	23.1	7	9.0	11	14.1	9	11.5	7	9.0	2
Institutional investors	12	15.4	19	24.4	19	24.4	11	14.1	8	10.3	4
Investment bankers and underwriters	2	2.6	7	9.0	12	15.4	13	16.7	15	19.2	6
Bank loan departments	2	2.6	3	3.8	4	5.1	9	11.5	8	10.3	6
Academics	1	1.3	2	2.6	1	1.3	4	5.1	2	2.6	7
Employees and unions	0	0.0	2	2.6	4	5.1	2	2.6	9	11.5	8
Editors of financial periodicals	3	3.8	6	7.7	6	7.7	9	11.5	9	11.5	5
Other, specify	0	0.0	0	0.0	0	0.0	2	2.6	3	3.9	8
Total responses	78	100	78	100	78	100	78	100	78	100	

Scale: 5 = Most important
1 = Least important

Table 3.2 Compilers' responses to the question: Who do you regard as the most important users of financial reports?

Compilers of annual reports	Level of importance										Ranking
	5	%	4	%	3	%	2	%	1	%	
Shareholders (individual investors)	40	35.1	11	9.6	18	15.8	18	15.8	13	11.4	1
Stockbrokers	18	15.8	36	31.6	23	20.2	19	16.7	5	4.4	3
Security analysts	12	10.5	21	18.4	22	19.3	12	10.5	8	7.0	4
Institutional investors	33	28.9	26	22.8	20	17.5	16	14.0	7	6.1	2
Investment bankers and underwriters	3	2.6	4	3.5	14	12.3	13	11.4	24	21.1	6
Bank loan departments	7	6.1	10	8.8	8	7.0	14	12.3	11	9.6	5
Academics	0	0.0	2	1.8	0	0.0	2	1.8	6	5.3	8
Employees and unions	0	0.0	1	0.9	5	4.4	6	5.3	15	13.2	8
Editors of financial periodicals	0	0.0	2	1.8	3	2.6	13	11.4	25	21.9	8
Other, specify	1	0.9	1	0.9	1	0.9	1	0.9	0	0.0	7
Total responses	114	100	114	100	114	100	114	100	114	100	

Scale: 5 = Most important
1 = Least important

3.4 Value relevance of qualitative characteristics of voluntary disclosure to users

The value of information disclosure in annual reports, as an essential component in the effective functioning of capital markets is based on the qualitative characteristics of annual reports. According to Wallman (1995:83) accountants are the "gatekeepers" of financial markets and as such they have the function of assuring the continued utility and integrity of financial reporting. These qualitative characteristics are based on the broad ethical goals of truth, justice, and fairness and consist of:

- relevance, encompassing timeliness and predictive and feedback values for present and potential investors;
- reliability, entailing representational credibility;
- verifiability; and
- comparability.

Users play an important role in the financial reporting process, as they may specify the form, content and extent of the information they require in annual reports and have a right to object if the information does not satisfy their need for relevant, comparable, credible and reliable information. Gigler and Hemmer (1998:121) designed a model to how the qualitative characteristics affect market prices and on the one hand and how these prices respond to the release of audited financial statements, on the other.

According to AC000 issued by the Accounting Standards Board, the four principal qualitative characteristics of voluntary information disclosure that are important in assessing a company's financial position and expected future cash flows are understandability, relevance, reliability and comparability. A brief discussion of these qualitative characteristics follows.

3.4.1 Understandability

When preparing annual reports and deciding on what voluntary information should be disclosed, the compilers assume that the users have a reasonable knowledge and understanding of accounting and business activities and a willingness to study the information with reasonable diligence. The complexity of the information should not be a deciding factor in deciding whether to include the information or not.

Understandability refers to the ability of the various users to interpret the information in the annual report in the same way as the compilers intended it to be interpreted. Therefore, information needs to be disclosed in a format that is accessible to those for whom it was designed.

3.4.2 Relevance

Relevance refers to the usefulness of information in the decision-making process to form predictions about the outcomes of past , present and future events. Kirk and Siegel (1996:55) define relevance as the capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present and future events or to confirm or correct prior expectations. For example, historical cost is often regarded as irrelevant to the decision-making process while current/fair value or net realisable value which is based on subjective estimates and assumptions, is often biased and could therefore be misleading while it is customary for corporations to revalue assets at current market values, very few if any revalue liabilities.

The relevance of voluntary information may be further enhanced by its feedback value or predictive value and its materiality. McBride (1977:20) suggests voluntary information should be both backward-looking, to assist in evaluating past performance, and forward-looking, to assist in assessing future performance.

3.4.3 Reliability

Although financial statements have to conform to generally accepted accounting practice to enhance reliability, there is no unambiguous nor uniform interpretation or application by compilers. Indeed, they may exercise considerable freedom in selecting an accounting procedure to maximise income or alternatively use an income smoothing technique. That this practise is all to common was evidenced in an experiment conducted by Prinsloo, Ramsay-Slogrove and Rowlands (1996). They concluded that profit smoothing is practised extensively in the industrial sector of the Johannesburg Stock Exchange, with the management of companies with a low variability in reported profits being the most likely to use the technique.

Voluntary information is perceived as reliable when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent (Kirk & Siegel 1996:55). However, Lee (1987:20) argues that the apparent insistence of management and reporting accountants that the disclosed information should be expressed in conservative terms, that is to understate rather than overstate, results in a dilution and distortion of the truth.

Reliability is dependent on the quality of internal controls that are in operation and the effective functioning of audit committees. Therefore auditor independence is vitally important to the integrity of financial reporting (Wallman December 1996:96). If users have to sift through and correct information in annual reports, time is wasted and uncertainty of the market's pricing function is increased.

Reliability of voluntary information also depends on verification procedures and management's integrity in the presentation of information. Users want information to be conservative, neutral and unbiased and therefore to them the credibility of information contained in an annual report is a function of the degree to which it is correct, complete and objective.

To be reliable, voluntary disclosed information must faithfully represent the transactions and events it purports to represent, it must be neutral and the disclosure of information must be selected with prudence.

3.4.4 Comparability

Comparability refers to the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (Flynn 1987:10). Consistency of disclosure is obtained through harmonisation of South African accounting standards with international accounting standards. By limiting choices of alternative accounting treatments and presentational techniques and insisting on consistency, the scope for uncertainty and manipulation is limited. Users require data over periods of five to ten years in order to make inter-firm comparisons and to identify performance trends, which means that the information must relate to the same aspects and have been compiled on the same basis if it is to be comparable. The data should maintain a degree of conformity from period to period, that is accounting policies and treatments should not change.

3.4.5 Timeliness

Timeliness of mandated financial reports plays a critically important role in the utility of financial reports. The Johannesburg Stock Exchange requires all listed companies to report timeously or face various sanctions for non-compliance. A further requirement is that they must report on a continuous basis any information which might materially affect the share price. Only when information is disseminated with speed and accuracy and reaches all constituents simultaneously, may one regard information as useful. If the release of information is delayed or made available to a select user group only, it may lead to dishonest practices, such as insider trading.

Compilers and management normally have real-time information on call whereas the external users have access to aggregated information concerning a company only once a year or to a very abbreviated version on a half-yearly basis. With the present-day advances in technology, corporations can avail themselves of electronic distribution networks to keep users informed on a day-to-day basis. In the United States, computerised systems have been developed for distributing financial information. Two of these are the SEC's Electronic Data Gathering and Retrieval system (EDGAR) or a commercial vendor, such as LEXIS/NEXIS (Wallman 1995:88). In South Africa, Real-Time African Investments Databank (JRaid) is a Java-based financial investment application designed specifically for the corporate market which provides real-time information. It furthermore dynamically updates pricing information via the internet or satellite. Together with McGregor BFA, fundamental and historical data is supplied for ten other African exchanges and top unlisted South African companies. If used effectively, these direct on-line systems will enhance the usefulness and timeliness of information.

Gigler and Hemmer (1998:121) observe that increasing the required frequency of financial reports may increase the ability to explain stock price changes with accounting information while reducing the information efficiency of prices. The latter is a function of the fact that an increase in the frequency of the mandated disclosures, with its concomitant disclosure costs, could make it optimal to eliminate the manager's voluntary disclosures. This could result in the prices becoming a function of the mandatory disclosures only, leading to a strong relationship between price and earnings. This in turn would imply that the relationship between stock prices and earnings would not capture the success with which a particular accounting regime induces price efficiency.

In this study the views of users and compilers were elicited with regard to the extent to which these qualitative characteristics enhance the usefulness of information obtained from corporate annual reports. In section 2, item 2.6 of questionnaire A and questionnaire B, users and compilers were asked to rank four annual report characteristics, namely relevance, reliability, understandability and comparability, on a scale of importance ranging from 1 to 5. The results of the survey are set out in tables 3.3 and 3.4.

Of the four characteristics mentioned, both users 65 (83,3%) and compilers 100 (89,3%) considered reliability to be the most important characteristic while relevance was the second most important characteristic. Understandability and comparability were placed on the same level of importance but only 47 (60,3%) of users and an average of 65 (58,0%) of compilers perceived these characteristics to be very important.

Table 3.3 User perceptions of the importance of corporate report characteristics that enhance the usefulness of information disclosed

Level of importance to users	Relevant		Reliable		Understandable		Comparable	
	No.	%	No.	%	No.	%	No.	%
Very important	54	69,2	65	83,3	47	60,3	47	60,3
Fairly important	22	28,2	10	12,8	25	32,1	20	25,6
Moderately important	52	2,6	2	2,6	5	6,4	9	11,5
Slightly important	0	0	0	0	0	0	1	1,3
Unimportant	0	0	1	1,3	1	1,3	1	1,3
Total	78	100,0	78	100,0	78	100,0	78	100,0

Table 3.4 Compiler perceptions of the importance of corporate report characteristics that enhance the usefulness of information disclosed

Level of importance to compilers	Relevant		Reliable		Understandable		Comparable	
	No.	%	No.	%	No.	%	No.	%
Very important	75	67,0	100	89,3	66	58,9	64	57,1
Fairly important	32	28,6	11	9,8	40	35,7	42	37,5
Moderately important	5	4,5	1	0,9	6	5,4	5	4,5
Slightly important	0	0	0	0	0	0	0	0
Unimportant	0	0	0	0	0	0	1	0,9
Total	112	100,0	112	100,0	112	100,0	112	100,0

3.5 Other sources of voluntary information

Apart from the annual report, there are other information sources available to users such as the following:

- prospectuses;
- company interim reports;
- articles in newspapers and business publications;
- economic periodicals, industry publications and government reports;
- information from financial analysts, brokers, investment advisors;
- personal contact or consultations with management, competitors and customers;
- investment information services such as banks and financial institutions
- electronic information sources such as the internet;
- radio and television;
- company press releases;
- friends who are employees of companies;
- accountants and auditors;
- attorneys; and
- stock exchange reports.

Naturally, not one of the sources mentioned above can encompass all the quantitative and qualitative information required to make a valid investment decision. A survey conducted by the Securities and Exchange Commission in the USA involving individual investors, for example indicated that only 17% relied on their broker's advice in reaching decisions (Cohen, Zinbarg & Zeikel 1987:84) . In the same survey, when questioned on the usefulness of financial statements, 86% found corporate financial statements extremely useful or moderately useful.

Similar results were found in this study when users and compilers were asked how useful they perceived annual and interim reports to be. As shown in table 3.5, the same question was included as question 1.5 in section 1 of questionnaires A and B. In South Africa 83.1% of users and 94,6% of compilers also found annual and interim reports essential, very useful or moderately useful. These results are consistent with those from other countries. In their study on investors, Anderson and Epstein (1996:37) found that 74% of United States respondents, 72% of Australian respondents and 68% of New Zealand respondents found the annual report to be very useful or moderately useful.

Table 3.5 Perceptions of respondents on how useful they find annual and interim reports for investment decisions

Usefulness of annual and interim reports	Users		Compilers	
	No.	%	No.	%
Essential	28	27,7	27	20,9
Very useful	20	19,8	49	38,0
Moderately useful	36	35,6	46	35,7
Of little use	15	14,9	5	3,9
Useless	0	0	1	0,8
No opinion	3	2,5	1	0,8
Total	102	100,0	129	100,0

As a follow-up on this question users and compilers were asked (see section 2, item 2.2 of questionnaires A and B), to list the five most important sources of information they used when making an investment decision and to rank the sources in order of importance. The purpose was to establish whether the needs of users and compilers were being fulfilled and if not, how management could respond to ensure that communication resources were more effective.

The respondents listed a total of 13 sources of information and the results are shown in table 3.6 and table 3.7.

Table 3.6 User responses to the question: Which *five* most important sources of information are used by you when making an investment decisions?

Information source used for investment decisions	Level of importance									
	5	%	4	%	3	%	2	%	1	%
Prospectus of a company	6	5.9	7	6.9	2	2.0	3	3.0	10	9.9
Annual and interim report of a company	18	17.8	17	16.8	13	12.9	17	16.8	10	9.9
Press releases in general and business newspapers	15	14.9	11	10.9	15	14.9	17	16.8	8	7.9
Financial periodicals, e.g. Financial Mail, Finance Week	11	10.9	19	18.8	14	13.9	8	7.9	10	9.9
Financial analysts and stockbrokers	27	26.7	14	13.9	18	17.8	15	14.9	7	6.9
Personal contact with the management/ employees of the company	3	3.0	4	4.0	8	7.9	4	4.0	10	9.9
Investment services of financial institutions	5	5.0	10	9.9	7	6.9	9	8.9	7	6.9
Television and radio announcements	0	0.0	1	1.0	1	1.0	3	3.0	4	4.0
Accountants or auditors	3	3.0	1	1.0	3	3.0	5	5.0	2	2.0
Attorneys	0	0.0	1	1.0	0	0.0	0	0.0	1	1.0
Technical analysis and public forums	1	1.0	3	3.0	3	3.0	4	4.0	7	6.9
Friends, family, tips or rumours	1	1.0	1	1.0	4	4.0	4	4.0	7	6.9
Your own analysis and accumulated information	10	9.9	9	8.9	11	10.9	10	9.9	16	15.8
Other	1	1.0	2	2.0	2	2.0	2	2.0	2	2.0
TOTAL	101	100	101	100	101	100	101	100	101	100

Scale: Most important = 5
Least important = 1

Table 3.7 **Compiler responses to the question: Which *five* most important sources of information are used by you when making an investment decision?**

Information source used for investment decisions	Level of importance									
	5	%	4	%	3	%	2	%	1	%
Prospectus of a company	13	10.2	5	3.9	4	3.1	3	2.4	10	7.8
Annual and interim report of a company	24	18.8	21	16.5	30	23.6	20	15.7	11	8.7
Press releases in general and business newspapers	10	7.8	19	15.0	17	13.4	20	15.7	20	15.7
Financial periodicals, e.g. Financial Mail, Finance Week	9	7.0	20	15.7	21	16.5	22	17.3	13	10.2
Financial analysts and stockbrokers	43	33.6	28	22.0	17	13.4	14	11.0	6	4.8
Personal contact with the management/employees of a company	9	7.0	7	5.5	9	7.1	11	8.7	9	7.1
Investment services of financial institutions	6	4.7	12	9.4	6	4.7	10	7.9	7	5.5
Television and radio announcements	0	0.0	0	0.0	1	0.8	1	0.8	2	1.6
Accountants or auditors	0	0.0	2	1.6	1	1.8	0	0.0	3	2.4
Attorneys	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Technical analysis and public forums	2	1.6	0	0.0	4	3.1	3	2.4	8	6.2
Friends, family, tips or rumours	2	1.6	2	1.6	5	3.9	6	4.7	13	10.2
Your own analysis and accumulated information	9	7.0	10	7.9	12	9.4	16	12.6	23	18.0
No opinion	1	0.8	1	0.8	2	1.6	1	0.8	1	0.8
TOTAL	128	100	128	100	128	100	128	100	128	100

Scale: 5 = Most important
1 = Least important

In establishing whether users and compilers have similar views with regard to the perceived importance of the various sources of information, the data provided in the two tables were compared. Financial analysts and stockbrokers were the main source of information for both users (26.7%) and compilers (33.6%) when making investment decisions, with annual and interim reports (17,8% and 18,8% respectively) as their second most important source of information. Users (14.9%) relied on press releases in general and business newspapers as their third choice while compilers (10.2%) selected the prospectus of the company as their third choice. These findings are consistent with those of Anderson and Epstein (1996:36) who found that shareholders in Australia (45.5%) and New Zealand (38.6%) relied on stockbrokers for making investment decisions.

Results from a similar survey conducted by Flynn (1987:4) indicated that "communication with management" was a sensitive issue when questioning institutional investors on their most important sources of information for making decisions about buying, holding or selling ordinary shares. This may be ascribed to regulations of the Johannesburg Stock Exchanges on insider trading and publication of information, and as a result institutional investors may have downplayed the importance of communication with management as an information source. Chang and Most (1979:75) conducted a similar survey in which the most important and dominant source of information proved to be company announcements and reports.

It is interesting to note the findings of Barker (1998:3) on preferred information sources of finance directors, fund managers and analysts. He found that all three types of respondents were in agreement that the company itself is of central importance as a source of information. For analysts, direct contact with the company provides timely, focused, forward-looking information while fund managers stated that formal meetings offer an opportunity to assess the company's strategy and the ability of management.

In this survey, the matter of the source of information was further refined by adding a further question (in section 2.7 of questionnaires A and B) to determine their opinions on which sections of a corporate report they regarded as the most important. A total of

12 sections were specified and users and compilers were requested to rank the items in order of importance on a scale of 1 to 5. The results are reflected in tables 3.8 and 3.9.

Table 3.8 User responses to the question: Which *five* sections of a corporate report are the most important?

Section of corporate report	Level of importance									
	5	%	4	%	3	%	2	%	1	%
Income statement	27	34.2	26	32.9	10	12.7	4	5.1	3	3.8
Balance sheet	21	26.6	23	29.1	8	10.1	13	16.5	4	5.1
Notes to the statements	2	2.5	4	5.1	18	22.8	14	17.7	7	8.9
Cash flow statement	5	6.3	11	13.9	17	21.5	14	17.7	4	5.1
Value added statement	1	1.3	1	1.3	2	2.5	3	3.8	5	5.2
Current cost statements	0	0.0	0	0.0	2	2.5	1	1.3	4	5.1
Financial highlights	4	5.1	0	0.0	4	5.1	2	2.5	7	8.9
Table of contents	2	2.5	2	2.5	2	2.5	6	7.6	3	3.8
Segmental report	3	3.8	2	2.5	2	2.5	4	5.1	2	2.5
Chairperson's report	7	8.9	4	5.1	5	6.3	9	11.4	15	19.0
Director's report	1	1.3	4	5.1	4	5.1	2	2.5	12	15.2
Auditor's report	6	7.6	2	2.5	5	6.3	7	8.9	13	16.5
Total	79	100	79	100	79	100	79	100	79	100

Scale: 5 = Most important
1 = Least important

Table 3.9 Compiler responses to the question: Which *five* sections of a corporate report are the most important?

Section of corporate report	Level of importance									
	5	%	4	%	3	%	2	%	1	%
Income statement	50	44.6	22	19.6	10	8.9	7	6.3	8	7.1
Balance sheet	10	8.9	35	31.2	27	24.1	10	8.9	8	7.1
Notes to the statements	3	2.7	3	2.7	18	14.1	27	24.1	10	8.9
Cash flow statement	15	13.4	21	18.7	15	13.4	14	12.5	10	8.9
Value added statement	0	0.0	0	0.0	2	1.8	3	2.7	7	6.3
Current cost statements	0	0.0	0	0.0	0	0.0	1	0.9	0	0.0
Financial highlights	5	4.5	6	5.4	7	6.3	3	2.7	4	3.6
Table of contents	6	5.4	11	9.8	9	8.0	6	5.4	15	13.4
Segmental report	0	0.0	5	4.5	6	5.4	9	8.0	10	8.9
Chairperson's report	15	13.4	8	7.1	11	9.8	22	19.6	17	15.2
Director's report	3	2.7	1	0.9	4	3.6	5	4.5	14	12.5
Auditor's report	2	1.8	0	0.0	3	2.7	5	4.5	9	8.0
Other	3	2.7	0	0.0	0	0.0	0	0.0	0	0.0
Total	112	100	112	100	112	100	112	100	112	100

Scale: 5 = Most important
1 = Least important

Once again the perceptions of the users and compilers were compared to establish whether the two groups had similar views. Both users (34.2%) and compilers (44.6%) perceived that the income statement to be the most important section of the annual report for investment decisions. However, as second choice users (26.6%) selected the balance sheet while compilers selected the cash flow statement (13.4%) and the chairperson's report (13.4%). In the survey conducted by Flynn (1987:6) he found that institutional investors ranked the balance sheet first and the income statement second, while company management and regulators ranked forecasts as the primary source of information. From these perceptual differences it is clear that compilers place more emphasis on lower priority areas than in those areas that users consider to contain the most useful information.

3.6 Conclusion

In viewing the implications of the limitations of financial statements, Pijper (1993:124) stresses that the reliability of financial statements cannot be taken for granted. Indeed, it is doubtful whether the integrity of financial statements can ever be guaranteed. Compilers of annual reports must realise that financial reporting systems must change if it is to remain relevant to decision making of its users. In their pursuit of reporting excellence, and taking into account the heuristic nature of accounting compilers must furthermore endeavour to satisfy the needs of users.

CHAPTER 4

VOLUNTARY DISCLOSURE IN CORPORATE REPORTS

4.1 Introduction

The annual report is considered to be the most important document published by a company. To the compiler it is regarded as a powerful marketing tool that can be used to communicate information to the end user. It is perceived world-wide as the primary means for communication of relevant, reliable and understandable financial information to investors for decision-making purposes. Although corporate reports have undergone dramatic transformations during the past decade, there is a growing need for further refinement in the future particularly as a result of the globalisation of capital markets.

The annual report consisting by mandate of the directors' report, financial statements, cash flow statement and auditors' report and is the end result of a company's financial accounting system. Its importance is in part due to the fact that it is the foremost and, method whereby information produced by the accounting process is communicated to various interested constituents. It is thus not surprising that the improvement of annual reports to enhance the decision-making process, has been central to accounting research. The characteristics of financial reporting have been increasingly criticised because corporate reports have failed to provide the required useful, relevant and credible information to investors.

Beattie (1988:37) lists the following improvements in annual reports: an appreciation of aesthetic qualities such as the use of illustrations and graphs; provision of glossaries of financial terms; special purpose reports, such as employee and environmental reports; and an increase in the disclosure in the areas of social responsibility. While, these developments and proposals for reform in the financial reporting environment are significant, they have nevertheless made it more difficult for users to make decisions.

This is mainly because the immediate effect of the improvements is that users are now continuously confronted with ever increasing mandatory and voluntary information. This bombardment of information on the unsophisticated user, which often requires dissemination by experienced financial analysts, may result in investors becoming indifferent to many sections of the annual report. The end result of the information overload is that annual reports become useless because of irrelevant or unreliable information. Frequently, the annual report is used to improve the corporate image of the company by extending voluntary management disclosures and consequently compilers may place more emphasis on voluntary information than on financial information.

Some of the improvements are as a result of demands by global stock exchanges and financial analysts for which enterprises often equate greater transparency with more information. Annual reports are now bulkier, more complex and therefore more difficult to interpret and understand by users. They in addition present a major challenge to compilers who are constantly being critically scrutinised by the public, media and political parties. Lee (1987:20) argues that the nature and extent of creative accounting today is just as destructive to rational economic decisions as it has been in any other previous form or period.

On the other hand, with exposure to international capital markets, South African companies have been forced to satisfy the information demands of foreign investors and provide them with more transparent, meaningful, reliable and relevant information in annual reports in order to facilitate the distribution of capital, assets and even human resources. There are thus two forces that need to be balanced: The need for more information, on the one hand, and the need for user-friendly disclosure on the other. The continuous pressure to improve, further develop and update corporate disclosure practices in order to harmonise these ever-increasing demands, has resulted in significant progress over the last decade.

4.2 Objectives of annual reports

A widely accepted objective of annual reports is to provide useful qualitative and quantitative information for decision-making purposes thus allowing both sophisticated and unsophisticated users to form rational expectations about a company's present and future performance. The Financial Accounting Policy Committee (1993:1) believe that financial reporting should be concerned with the presentation of the economic history of specific economic entities and that it is best done when managements are willing to disclose and discuss their strategies, proposed tactics and plans and expected outcomes.

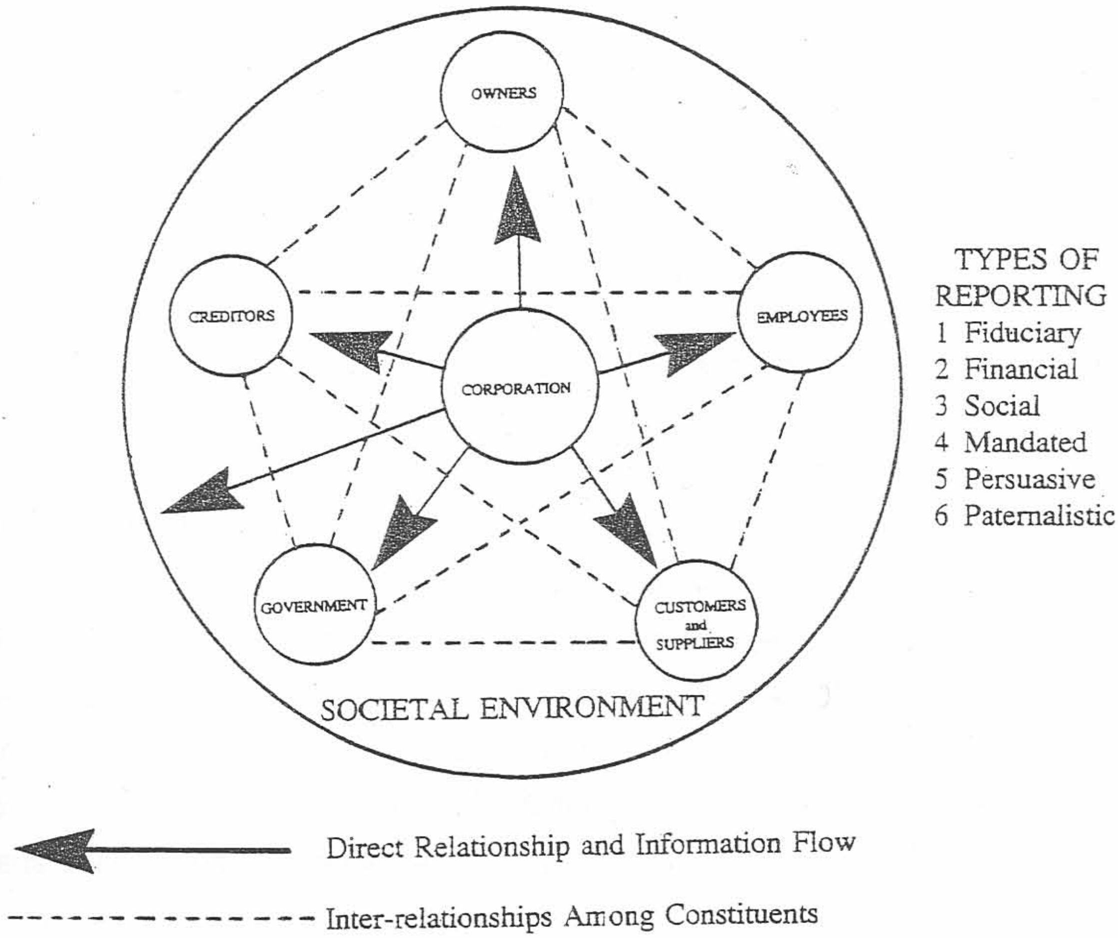
Annual reports give users a sense of security and assurance as to its authenticity. This is substantiated in the Commercial Code published in 1899 in Japan which declared that the underlying objective of financial statements was to protect creditors and current investors (Cooke 1992:229). Annual reports also provide investors with performance data and information on the company's financial standing. The purpose of the annual report is furthermore to provide a valid indication of the wealth created by a company, its value at a point of time or its wider performance over time (Allen 1990:25).

Joubert (1993:4) broadly states the objective of financial reporting as follows: "The communication of relevant and understandable financial and other information for decision making purposes, to users having a reasonable right to such information and who rely on external communications of the enterprise for their information. The reporting function should strive towards maximum benefit for the reporting entity over the long term."

Arnold and his co-authors (1991:4) identify two main purposes: "The first is to provide information to shareholders, lenders and others to appraise past performance in order to form expectations about an organisation's future performance and hence to inform their decisions concerning their relationships with the organisation. The second purpose is to enable the enforcement of contracts, the terms of which include reference to accounting information."

Figure 4.1 depicts a number of types of reporting, namely fiduciary, financial, social, mandated, persuasive and paternalistic (Ogan and Ziebart 1991:393).

Figure 4.1 An interpretive view of corporate reporting



(*Source*: Ogan & Ziebart 1991)

Take together, the purposes of financial reporting spelt out in these definitions could be classified into three distinct functions, namely the facilitation of the efficient allocation of capital, assets and other investments; the provision for contractual and *ex post* settling-up mechanisms; and the monitoring of corporate stewardship (Wallman June 1997:114).

4.3 The nature of voluntary disclosure

4.3.1 Definition of disclosure

Disclosure means to expose to view, make known or reveal something. Disclosure of information by a company may thus be regarded as a signal or set of signals from the compiler to potential information users which denote past events in the form of explanations on the one hand and expected probabilities in the form of predictions on the other. According to Gibbens, Richardson and Waterhouse (1992:16) disclosure "is a broad, multi-dimensional array of numbers and words, released at various times of the year in various media and connecting in various ways with other disclosures", and while financial disclosure is defined as "the release outside the organization of information concerning the economic performance, position or prospects of the organization, particularly as measured in monetary terms". Financial disclosure is perceived furthermore as "the result of the application of management decisions and actions to issues, conditioned by a variety of antecedent incentives, institutions and structures" (Gibbens, Richardson & Waterhouse 1992:ix).

4.3.2 Distinction between mandatory disclosure and voluntary disclosure

Disclosure may be classified into two types, namely mandatory and discretionary or voluntary disclosure. Mandatory disclosure refers to those aspects and information that is required by statutes, stock exchanges or standard setters from the accounting profession. Discretionary or voluntary disclosure refers to information made available at the discretion of the company. It is influenced by changing attitudes of society, economic factors and behavioural factors such as the particular corporate personality.

Voluntary disclosure items may be classified into historical, current and predictive items, depending on whether they are based on the past, present and expected future performance of the company. However, some items may cover all three time dimensions, such as for example earnings per share which is "a historical measure of performance, but may imply limitations on current dividends and may be predictive of future returns" (Gray, Meek & Roberts 1993:211).

Whilst companies are obliged to disclose certain information because of statutory provisions, most are presently voluntarily disclosing more information than is required. Thus historical financial statements are being supplemented with additional key information. Gibbins, Richardson and Waterhouse (1992:5) refer to disclosure as "a response to various incentives, environmental forces, economic issues and regulatory structures, and this response is moulded by the organization's position on disclosure, by internal structures, policies and politics, and by beliefs about the strategic value of disclosure to the organization".

Harrison (1993:74) identifies two types of disclosure policies that companies may adopt, being either a liberal or restrictive disclosure policy. His arguments in favour of a liberal disclosure policy are similar to those put forward by Atiase, Bamber and Freeman (1988:20), namely that it reduces the volatility of the company's share price and helps build credibility with the investment community. In addition, a liberal policy of frequent disclosure discourages the market from overreacting to any single announcement of an important event by the company, which in turn decreases the volatility of the company's share price. Arguments against a liberal disclosure policy are that it is costly and requires a great deal of time and effort and may reveal important information to competitors. Fishman and Hagerty (1989:643) agree that additional disclosure does increase the stability of prices, but the benefits do not justify the costs.

4.4 The merits and benefits of improved voluntary disclosure

The Companies Act and Accounting Standards normally prescribe minimum disclosure requirements but do not restrict companies in any way from providing additional information. A clear and consistent disclosure policy not only leads to greater shareholder loyalty but also enhances the company's credibility with investors. Such transparency is also reflected in the efficient operation of the capital market.

The benefits of disclosure can be measured in terms of expectations of cash flow consequences and increased share price efficiency. As the questionnaires in this survey did not specifically request respondents to comment on the benefits of additional voluntary disclosure, an extract of findings from the research paper of Eccles and Mavrinac (1995:23) on respondents' ranked impression of potential returns of improved corporate disclosure, is used to clarify this point in table 4.1.

Table 4.1: Survey respondents' ranked impression of potential returns of improved corporate disclosure

Potential returns of improved corporate disclosure	Corporate managers	Financial analysts	Portfolio managers and investors
Increased credibility	5.21	5.51	5.34
Increased share value	4.66	4.65	4.66
Increased number of potential investors	4.64	4.54	4.89
Increased analyst following	4.59	4.68	4.61
Improved access to capital	4.52	4.62	4.77
Increased price-earnings ratios	4.39	4.45	4.48
Decreased share volatility	4.33	4.30	4.54
Increased share liquidity	4.28	4.03	4.34
Improved relations with suppliers	3.67	3.59	4.11
Reduced political regulatory intervention	3.59	3.50	4.30

Responses were collected using a seven-point Likert scale with the following values:
1 = Very strongly disagree
4 = No opinion
7 = Very strongly agree

All three constituents, namely corporate managers, financial analysts and portfolio managers and investors, ranked increased credibility as having the highest potential return.

SAICA noted that wider disclosure was used for the following reasons:

- to prevent insiders from using information to their advantage;
- to improve the efficiency of the market for an entity's securities;
- to improve investors' control over the management of the corporations;
- to give investors a firmer foundation on which to base their judgments; and
- to enhance the reputation as forward-looking of the entities in question.

4.6 Statutory regulations governing disclosure

No annual report can be deemed perfect or absolute as it is not based on natural laws but on accounting conventions and standards formulated with the purpose of satisfying the different needs and objectives of its users and to assure its quality and reliability of annual reports. The special committee on financial reporting of the American Institute of Certified Public Accountants (1994:3) gave the following reasons for the important role of reporting standards in helping the market mechanism function effectively for the benefit of companies, users and the public:

- standards promote a common understanding of terms and alternatives that facilitate negotiations between users and companies about the content of business reporting;
- standards promote neutral, unbiased reporting which in turn builds credibility and confidences in the capital market place;
- standards improve the comparability of information across companies;
- standards permit audits of information; and
- standards facilitate retrievability of information by organising data according to a specified framework.

Flynn (1985:24) identified four general arguments for standard setting, namely to prevent reporting abuse, to coerce management to disclose, to promote even distribution of information and to prevent suppression of unfavourable information. He further identified the following objectives for statements of generally accepted accounting practice, namely to eliminate undesirable methods, to isolate "best" accounting treatment, to recommend a limited number of acceptable methods, to describe the methods currently used and to prescribe disclosure irrespective of the method used.

Accounting standards promulgated by the FASB and other standard-setting bodies have a twofold purpose, firstly to provide guidelines for managers on how to make accounting decisions and secondly to provide outside investors with a means of interpreting these decisions (Healy and Palepu 1993:3). In addition, the aim of uniform accounting standards is to reduce managers' ability to record similar economic transactions in dissimilar ways either over time or across firms. They suggest that further research should focus on understanding what types of standards are effective in facilitating managers' communication with investors and to settle the question of whether communication is more effective when standards are detailed but rigid, or when broader guidelines are provided that managers considerable reporting discretion.

In South Africa the following are institutional regulations and rules constraining and enabling disclosure:

- the Companies Act, 1973 (Act 61), as amended;
- Generally Accepted Accounting Practice issued by the Accounting Practices Board;
- the listing requirements of the Johannesburg Stock Exchange;
- professional bodies such as the FASB, Institute of Chartered Accountants and the Standing Advisory Committee on Company Law; and
- standard setters.

As this study deals with information disclosed voluntarily (beyond the levels of disclosure mandated by accounting standard) these legal and other constraints have not been dealt with formally.

Although annual reports have benefited from the regulations imposed on corporations, manipulation of legislation to maximise the bottom line and minimise the gearing ratio has impinged on the credibility and integrity of corporate reporting (Singer 1994:1). The enforcement of more and more regulations makes reporting inflexible and compounds the problem of the communication gap.

4.7 Inadequacies, limitations and problem areas of disclosure

One of the main inadequacies of annual reports is that they do not disclose future plans, budgets or forecasts such as profits, earning per share or cash projections. Neither are the risks and uncertainties facing the company discussed in any detail. The main reason for non-disclosure of future prospects is the reluctance of compilers to commit themselves to a forecast of the future because of the potential for error and the fear of litigation. However, in the United States of America, the enactment of the Private Securities Litigation Reform Act of 1995 has provided a safe harbour for forward-looking information and in so doing improved the quality of financial reporting.

Arnold *et al.* (1991:1) identifies five areas in which the present system of financial reporting is inadequate:

- it is based on historical rather than on current amounts;
- excessive emphasis is placed on a single earnings number;
- not enough attention is paid to the reporting entity's cash or liquidity position;
- it is essentially backward looking, involving the measurement of past performance and current position, and
- the legal form rather than on the economic substance of transactions are emphasised.

Knutson (1993:68) identified the following seven areas in annual reports that needed to be improved:

- contextual information on strategies, plans and expectations;
- development of a standard for reporting comprehensive income (by the Financial Accounting Standards Board);
- expanded disclosure of disaggregated data on annual and quarterly bases;
- disclosure of current value information for both assets and liabilities;
- development of high financial reporting standards that would be acceptable on a world-wide basis (International Accounting Standards Committee and the International Organization of Securities Commissions);
- simplification and standardisation of accounting rules for the treatment of leases and other executory contracts; and
- recognition that financial statement users are in the best position to judge what financial information is relevant and therefore needs to be disclosed, acknowledging cost/benefit considerations.

In a discussion on the qualitative characteristic of reliability of information namely to be free of error and bias and a faithful representation, Bushman and Indjejikian (1993:765) refer to "distorted accounting information which is characterized as information signals that are biased relative to the expected value of the firm or that measure the value of the firm with error [white noise]". Such bias and noise are representative of many of the inadequacies usually attributed to accounting information.

According to Healy and Palepu (1993:3) distortions in financial reports may be the result of conflicts of interest between managers and shareholders, while imperfect accounting standards and auditing may result in firm misvaluation even in an efficient capital market. They conclude that some firms are misvalued by public capital markets because of information problems. They recommend two potential mechanisms available to the firm's managers to make their financial reports more credible, namely the expansion of voluntary financial disclosure and adoption of appropriate financing policies.

The competitive dynamics of product and service markets also play a restrictive role in voluntary disclosure policies of companies. Managers are often forced to choose between maximising the corporation's product market advantage by not disclosing information that may harm its competitive position or disclosing information that aids capital markets in the effective valuation of the corporation's shares.

A final limitation is that annual reports in the past were geared to meet the needs of shareholders and not employees and the general public. Companies therefore need to re-examine their reporting contracts with unions and employees and pay more attention to the needs of those groups.

4.8 Factors influencing a company's voluntary disclosure policy

There are many factors and considerations that could influence a company's overall voluntary disclosure policy such as the extent, frequency and method of disclosure; the company's disclosure objectives; the size, listing status, culture and complexity of the company; the size, type and culture of the company's shareholders; the cost of disclosure; the favourableness of the news; and the intensity of competition, earnings margins and rate of return. Three of the major factors, namely the cost, the number of shareholders and listing status will be briefly discussed.

4.8.1 The cost of disclosure in corporate reports

The primary benefit of increased information disclosure is the more effective allocation of capital, nationally and internationally, which in turn is translated into a reduction in the cost of capital. By increasing the level of information disclosure, especially forward-looking information, companies can reduce the cost of capital (Healy & Palepu 1993:3) However, Thompson (1995:21) warns that undisciplined expansion of business reporting may result in large and unnecessary expenses.

The disclosure of voluntary information in annual reports involves additional cost and users' information needs must be weighed up against cost-effective ways of reporting.

The cost of providing each type of information must be balanced by its benefits, being that benefits exceed the cost of providing it.

Unfortunately, there is no accepted technique for measuring these costs and benefits and it is a difficult, complex, subjective and often inaccurate process. According to Malone, Fries and Jones (1993:251) firms that have an economic incentive to provide a broader base of disclosure will do so only when the marginal cost is exceeded by the marginal benefits of additional disclosure.

In a study to examine the cost/benefit perceptions of financial executives in the United Kingdom and the United States, Gray, Radebough and Roberts (1990:84) found that voluntary disclosure items which resulted in major increases in net costs were inflation-adjusted profits, quantified forecasts and narrowly defined segment information. Voluntary disclosure is therefore mainly constrained by the costs involved such as data collection, processing, production and auditing. Indirect costs also play an role, particularly the danger of providing useful information to both existing and potential competitors.

SAICA (1994:39) recognises three primary costs to the company, and ultimately the shareholder, for disclosing more information:

- the cost of developing (gathering, processing and auditing) and disseminating information;
- the cost of litigation attributable to disclosure that is misleading or insufficient; and
- the cost of competitive disadvantage resulting from the disclosure of technological and managerial innovation, strategies, plans and tactics and disaggregated information.

The cost factor is often used as a reason for limiting the extent of voluntary disclosure. Singhvi and Desai (1971:631) came to the conclusion firstly that the cost of accumulating certain information is higher for small companies than for large companies mainly because larger companies have a more extensive reporting system. Secondly they concluded that at higher levels of earnings, companies are better able to afford higher disclosure costs, which in turn leads them to reap the benefits of easier marketability of shares and greater ease in financing. The last conclusion was that smaller corporations were likely to endanger their competitive position by extensive disclosure.

In the Jenkins Report of the AICPA (Thompson 1995:21) entitled "Improving business reporting - A customer focus: Meeting the information needs of investors and creditors", the following constraints to limit the costs of reporting were recommended:

a) business reporting should exclude information outside of management's expertise or for which management is not the best source, such as information about competitors;

b) management should not be required to report information that could significantly harm the company's competitive position;

c) management should not be required to provide forecasted financial statements, but rather concentrate on information that would help users to make their own forecasts about the company's financial future;

d) apart from financial statements, management should only report the information that it knows. That is, management should be under no obligation to gather information it does not have, or need, to manage the business;

e) certain elements of business reporting should be presented only if users and management agree on it thus, an element of flexible reporting should be introduced; and

f) companies should not have to expand reporting of forward-looking information until there are more effective deterrents to unwarranted litigation that discourages companies from doing so.

Gigler and Hemmer (1998:136) identified two types of costs of voluntary disclosure namely *proprietary costs*, that is, the disclosures could be useful not just to investors but to competitors, and secondly *legal costs*, that is even truthful disclosures could become the object of frivolous lawsuits. When balancing the benefits and costs of voluntary disclosure, "management would publicly disclose up to (or towards) the point where the perceived reduction in the agency costs of equity capital equalled the increased costs of public disclosure to markets and the public domain" according to Holland (1998:30).

Multinational corporations need to provide a wider variety of voluntary disclosure in order to successfully compete for funds on international capital markets and therefore these corporations must examine the cost-benefit trade-off of their voluntary disclosure decisions.

4.8.2 Number of shareholders

From empirical studies, such as that of Singhvi and Desai (1971:132) which empirically tested the relationship between the number of shareholders and extent of disclosure in annual reports, it would seem that the number of shareholders has a significant influence on the voluntary disclosure policy of a company. There are two main reasons for the positive relationship:

- corporations with a larger number of shareholders tend to be more in the public eye and therefore more subject to additional disclosure pressures from stakeholders and analysts; and

- corporations with a larger number of shareholders use fuller disclosure in order to promote the marketability of the shares, and because management is more aware of its stewardship role.

4.8.3 Listing status

Listing requirements of exchanges globally, has a significant affect on the extent of disclosure. A comparison of the quality and extent of disclosure between listed and unlisted corporations shows very clearly the impact of such listing requirements. This theory is supported by Singhvi and Desai (1971:133) and Cooke (1992).

From the above it should be clear that although numerous factors influence the disclosure policy of a company, cost is the overriding factor. However, the growth of information technology has resulted in a drop of disclosure cost as information becomes easier to access, thus narrowing the information gap. It is estimated that by the end of the 20th century over 200 million people will have access to the internet, which will enhance the flexibility and timeliness of the accounting and reporting system even more. (Wallman 1997:113).

4.9 The management of disclosure in annual reports

In terms of the Companies Act of 1973 it is the responsibility of the directors to prepare the annual report. This *stewardship role* for accounting information is also referred to by Ormrod and Cleaver (1993:431) as the contractual role of financial reporting. They define financial reporting as a stewardship function, in which management acts as the steward to whom suppliers of capital entrust control over their financial resources. The *information role* is seen as a secondary objective to the stewardship function and they are therefore critical of the Accounting Standards Board's statement on the objective of financial statements, namely: "to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users in making economic decisions". As an effective part of the overall management of a company, annual reports should be aligned with the company goals and strategies and in its preparation the cost and benefits, from the inception of the disclosure item to its incorporation in the annual report, should be taken into consideration.

Gibbens, Richardson and Waterhouse (1992:16) identify the following eight categories of managed disclosures:

- data content (the basic news or data);
- data organisation (e.g. format, classification);
- prior or concurrent interpretation by the discloser;
- medium (e.g. annual report, news release, phone call);
- timing (e.g. date, interval since last disclosure);
- redundancy (e.g. correlation with other disclosures);
- creditability (e.g. whether audited or unaudited); and
- subsequent interpretation by the discloser.

4.10 Disclosure and market efficiency

The quality, extent and informativeness of disclosures in annual reports may help the market mechanism to function efficiently. Arguments put forward by supporters of the efficient market hypotheses such as Fama (1970) is firstly that, earnings follow a random pattern, so that past earnings changes are not predictive of the future and secondly that if past earnings were predictive of future earnings, that past information would already have been discounted in share prices in an efficient market.

Harrison (1993:73) emphasises the fact that the communication policy of a company is of critical importance because of its potential impact on share prices. The Fishman and Hagerty model (1989) showed that market price efficiency is improved by disclosure that is only part of the information input into market prices as there are many other factors influencing share price. Their theory is substantiated by the investigation of Kwon (1993:172) on the variability of share prices associated with the release of voluntary information, which in this case, is inflation-adjusted information. He concluded that the addition of informative material such as inflation-adjusted data, leads to a transition from a coarser to a potentially finer information environment and consequently to less share price stability.

In examining the types of information that investors choose to observe, Paul (1993:1475) observed that one of the principal functions of stock markets is to provide incentives for users to gather economically relevant information that may impact on the market price of shares. Particularly in view of the major changes taking place in the real world on a global scale, financial reporting information flow is a critical component of our system of capitalism and democracy, for without appropriate information risk would increase dramatically and the cost of capital (Wallman 1995:84).

The matter of the stock market efficiency was central to various studies conducted in the eighties and nineties such as those of Bhana (1995/96) and Healy and Palepu (1993:1). The basis of current empirical research assumes that all equity markets are to a degree efficient and researchers conclude that investors "see through" the limitations of accounting.

In testing the efficiency of the Johannesburg Stock Exchange, Bhana (1995/96:47) concluded that efficiency in securities markets is based on the premise that investors are able to incorporate all relevant information into security prices in a rapid and unbiased manner, with the result that the market reacts to uncertain information in an efficient, if not instantaneous manner. However, the question of how efficient the stock market is, is not the aim of this chapter and for all intents and purposes the stock market will be assumed to be efficient.

The purpose of financial markets is to facilitate the transfer of capital between lenders (those who have an excess of funds) and borrowers (those who need funds for investment purposes) of long- and short-term funds. In an effectively functioning financial market, the premise is that the investors try to achieve their goal of the highest return on their capital with the lowest risk over the long term. On the other hand, the aim of borrowers or users is to make funds productive at the lowest cost. Consequently, both groups rely heavily on the credibility of the annual report as a communication medium.

According to Knutson (1993:12), information is the lifeblood of a financial market and capital markets are dependent on reliable and relevant financial information to operate efficiently. It is therefore imperative that decision makers perceive the financial reporting system to be sound.

As was mentioned earlier, two of the functions of a stock market are to incorporate relevant information into the price of shares and to provide incentives for investors to obtain all that information. This was tested by Paul (1993:1480) in his study on whether security markets provide investors with the incentive to collect the right type of information. He found that announcements of new information concerning shares are made on a random and independent basis over time. Any malfunction in the information system could lead to loss of corporate credibility and restrict the flow of capital resources. However, if the market is functioning efficiently, the forces of supply and demand will restore the share price to equilibrium as investors adjust the price to incorporate the unbiased effect of new information as it becomes available. Thus it would seem as if pricing efficiency is directly related to the quality of financial reporting and responsible corporate governance.

Most markets are governed by the forces of supply and demand as far as these regulations on the price of shares or commodities are concerned. The price of a share is determined by its intrinsic value, which in turn is influenced by the different "wealth, tastes and beliefs" (Beaver 1981:144) of individuals. However, because authorities regard stock exchange markets as inefficient, Stock Exchange regulations, the Companies Act and accounting standards are effected to enhance the extent of standardised disclosure. The result is an increase in the credibility and comparability of financial reports. Ideally the goal of these regulatory bodies should be to maintain a free market characterised by an equality of information so that all participants trade on equal terms.

In their explanation on how security prices react to information, Sears and Trennepohl (1993:195) drew the following conclusions:

- investors use information about future events to determine the present price of a security. This theory was substantiated by Hagaman (1994:18) who stated that all future returns derive from future earnings, either as dividends received or capital gains when the investment is sold; and
- because information flows continuously and randomly to the marketplace, investors continuously revise their expectations. Their related bids then result in security prices rising or dropping.

From the above it is clear that an efficient market is dependent on how fast and accurately the information, whether from press releases or other means, is reflected in security prices.

The new automated on-screen trading system or so-called Johannesburg Equities Trading (JET) system, which was introduced on the Johannesburg Stock Exchange in 1996, has enhanced the transparency of the market and transactions are executed more quickly. According to Anderson, president of the Johannesburg Stock Exchange, trade jumped 68% by volume and 88% by value during the first eight months of 1996, compared to 1995 as a result of the JET system and exchange membership increased from 45 to 51 firms from November 1995 to September 1996 (Business Day, 30 September 1996:15).

4.10.1 Basic definitions of market efficiency

Definitions of an efficient market by various authors differ in length and complexity, but in principle an efficient market may be defined as a market in which all new information is quickly interpreted by market participants and the information is immediately incorporated into the market price of shares. Another definition, based on the popular definition of Fama, is that an efficient capital market is one in which security prices correctly reflect all available information (Sears & Trennepohl 1993:195). This implies that for a market to be efficient, all available information has already been disseminated and reflected in the share prices. This is known as the efficient market hypothesis, which was originally formulated in the 1960s.

4.10.2 Forms of market efficiency

Market efficiency is a matter of degree and there are three major forms or levels of market efficiency, namely the weak form of the efficient market hypothesis (EMH), the semi-strong form of the EMH and the strong form of the EMH (see Fama 1970; Bodie, Kane & Marcus 1996; and Sears & Trennepohl 1993). However, this subject is a study on its own that has fostered continuous debate and a great deal of controversy and in this research the degree or limit of market efficiency will only be briefly described.

If markets are weak form efficient, such as the Johannesburg Stock Exchange because of the existence of closely held and thinly traded shares (Van Rhijn 1994:7), it implies that all historical information such as past prices and trading volumes are reflected in share prices and that only average profits can be expected. Semi-strong form market efficiency occurs when all publicly available information - such as earnings reports, annual reports, earnings forecasts by analysts and news announcements is reflected in the share price in addition to past prices. The strong form version of an efficient market is the most extreme form of efficiency and encompasses both of the other forms. It reflects all information, both public and private, that is known about the firm and prices adjust instantly to reflect new information. As a result, it does not allow above normal profits to be made from the possession of privileged information that is not public.

4.10.3 The nature and role of efficient capital markets

The function of capital markets is to set share prices and effect share transactions. According to the efficient market hypothesis, information is its lifeblood and is quickly incorporated in share prices. A critical factor for efficient markets, as identified by Sears and Trennepohl (1993:101), is that there should be a flow of free or low cost information to a sufficient number of market participants to ensure that security prices accurately reflect the economic value of the securities. With the rise of the proportion of shares owned by large financial institutions, transactions by a single institution may dramatically affect the market price of the shares of a particular company.

4.10.4 Investor behaviour

Hopwood (1976:170) noted that investors in general are efficient processors of information and react to accounting information in an informed manner. He found that investors do not only use the information publicly reported by accountants when evaluating the prospects of companies, and concludes that the annual reports, and increasingly the quarterly and half-yearly reports, may be a part of a complex financial ritual, encouraging and legitimising the appraisal and review of investors' expectations. This theory is substantiated by Hellman (1996:687), who noted that decisions on equity trades should be regarded as continuous processes, rather than single points in time. Furthermore it seems that accounting information is mainly used when an existing idea needs to be quantitatively evaluated. The fact that the performance of a company becomes incorporated in the market price of the company's shares, disciplines managers to pursue activities that will maximise shareholder value.

In section 2, item 2.1 of questionnaires A (annexure 7) and B (annexure 9), compilers and users were asked to state whether they believed that the share prices on the Johannesburg Stock Exchange react immediately to information when it is made public. Table 4.2 reflects the results of the survey.

Table 4.2 Users' and compilers' responses to the question: Do you believe that share prices on the Johannesburg Stock Exchange react immediately to information made public?

Response	Compilers		Users	
	No.	%	No.	%
Strongly agree	15	11.6	16	15.7
Agree	77	60.2	62	61.4
Disagree	32	25.0	13	12.9
Strongly disagree	2	1.6	3	3.0
No opinion or uncertain	2	1.6	7	7.0
Total sample	128	100.0	101	100.0

Table 4.2 shows that 11,7% of the compilers strongly agreed and 60,2% agreed that share prices react immediately to such information, while 15,8% of users strongly agreed and 61,4% agreed.

4.10.5 Factors affecting share price volatility

Volatility of share prices is associated with the "informativeness" of information. The relevance of market efficiency to financial reporting is a function of the relationship between market price and information disclosure in financial statements. Information is price sensitive if it will potentially have a significant effect on a company's share price. According to Beaver (1981:142), a securities market is efficient with respect to an information system if and only if the prices act as if everyone observes the signals from that information system.

The practice by companies or security analysts of disclosing price sensitive information to selected groups and not by public announcement was declared as unacceptable by the London Stock Exchange. It published a non mandatory guidance for listed companies to help them communicate effectively with the market and meet their regulatory obligations (Garside 1994:83). The guideline states that a company's principal obligation in avoiding a false market is to ensure that information provided to the market is sufficient, accurate and not misleading.

The effect of information on security prices is of vital importance to preparers of financial statements and may influence their behaviour in efforts to achieve a desired outcome or goal. In fact, it may lead preparers to manipulate financial statements to achieve their own objectives. For example, preparers of annual reports may create a favourable perception of the reporting company in the eyes of the investment community in order to improve its accessibility to the finance required for carrying on or expanding the business. The share prices of companies are reflections of the performance of the corporations and may affect the remuneration of preparers responsible for the financial statements, specifically in cases where share options or cash payments are linked to increases in share prices.

The following general economic factors affect the market price of shares:

- interest and discount rates of banks and the South African Reserve Bank;
- returns on government stock and corporate bonds;
- money supplies;
- the level of private consumption and personal savings;
- international market factors;
- gross gold and other foreign reserves;
- changes in foreign exchange rates and the gold price;
- the consumer price index; and
- fiscal and monetary policy.

Other factors such as the "January effect", the "weekend or Monday effect" and "public holiday effect" were investigated by Bhana (1994/95:88), and included psychological factors such as investor fads and computerised trading strategies. All these factors were found to affect the share price behaviour and could cause disruptions on the stock market, thus affecting the volatility of the market price and the trading volume of a share.

Empirical research has concentrated on various factors such as annual earnings announcements and management earnings forecasts. Atiase, Bamber and Freeman (1988:22) reported that security price reactions to the earnings announcements of small companies exceeded those announcements by large companies. He attributed this to the fact that reported earnings constitute a bigger slice of the total "information pie" for small companies than for large companies.

Harrison (1993:74) pointed out that the frequency with which a company communicates with the public, could also have a significant effect on how the market values the company. He added that frequent disclosure promotes a stronger understanding of the company by the market and discourages the market from overreacting to any single announcement. It would therefore also mean that infrequent disclosure of information could be a source of greater volatility in a company's share price, because undue emphasis is then likely to be placed on that single announcement. Certain weak areas in the functioning of capital markets, such as the inadequate disclosure and announcement of price-sensitive information, need to be rectified by encouraging increased communication between companies and the market.

4.10.6 Determining the value of a share

Various methods are used by financial analysts to determine the net worth of a share. For example, *net worth based on historical figures* in the balance sheet is the surplus of total assets over total liabilities, while the *dividend discount model* postulates the value of a share to be the present value of its expected future dividends plus its estimated residual price at some specified future date, discounted at a risk-adjusted rate of return (opportunity cost of capital) (Knutson 1993:17).

Disclosure is an essential component in the effective functioning of a capital market but it can only be efficient if all financial and other information concerning corporate behaviour is freely available. A well-informed market leads to a greater investor confidence. Since its introduction on 7 June 1996, the JET system with on-screen trading facilities has increased market efficiency, leading to enhanced quality of service, increased availability of international information, greater flexibility as a result of better matching of transactions and more foreign investors entering the market. Since 18 August 1997, the Stock Exchanges News Service (SENS) and access to the internet and intranet has ensured early and wide dissemination of all information that could be expected to have an effect on the price of securities that trade on the Johannesburg Stock Exchange.

4.11 Conclusion

Every company should compile a specific disclosure policy and strategy, streamlined to meet the needs of the company as well as the needs and preferences of individuals. According to Wallman (1997:103) accounting could be divided into two primary functions, namely "compiling" and "attestation". He suggests that with the advancement in technology (the primary driver of change) and with the current inadequate accounting system, the roles of accountants, auditors, standard setters and regulators should undergo substantial change and their innovation and creativity should not be stifled by inappropriate regulation. If the basic needs of users are taken into consideration and the sophisticated technology currently available is brought into play, a totally different and more flexible accounting system could evolve.

In their planning of a process for improving financial reporting for the year 2002, the FASB (Beresford 1996:6) decided on four strategies:

- to build broader acceptance of their process and its results among their constituents by better utilising their own resources, by making FASB standards easier to understand and implement and by being better communicators;
- to make standard setting more timely and efficient by issuing standards within three years;
- to enhance the financial reporting model as a tool for decision making in a rapidly changing economic and technological environment; and
- to promote the development and acceptance of superior international accounting standards by cooperating with other standard setters in an effort to reduce

differences in national accounting standards, to strengthen internal policies for international activities and to respond to the recent developments supporting the acceptance of International Accounting Standards Committee standards for cross border filings.

The following items of voluntary information are recommended: a statement of objectives and related strategic plans, a gains statement, information on future prospects, a report on control structure, a report on overall compliance with contracts and applicable laws and regulations, an operations report asserting resources were used efficiently and economically, a goals and objectives report on the progress made during the current year and a fraud deterrence report in which the status of activities preventing fraud is summarised.

Joubert (1993:6) suggests that a possible solution to the problem of reporting to sophisticated and unsophisticated users, would be to compile different reports based on user sophistication. Our present historical system of accounting needs to undergo a revolutionary change if it is to enhance its utility, reliability and credibility.

CHAPTER 5

VOLUNTARY DISCLOSED ITEMS PERCEIVED AS PRICE-INFORMATIVE

5.1 Introduction

This chapter identifies the nature and characteristics of voluntary disclosed items in annual reports. It is not a comprehensive study of all the voluntary disclosed items that may possibly be disclosed, but rather reviews those items that are regarded to be price-informative to both compilers and users. As was stated in chapter 3, information disclosed in annual reports should be relevant, reliable and if possible, measurable. Voluntary disclosed items may not always be measurable, but are deemed useful to the investment decision maker because of their dynamic nature.

In the discussion of the different voluntary disclosed items, the following aspects, where relevant, are investigated:

- identification of the item and a brief discussion of its historical background; and
- prior research on the voluntary disclosed item.

5.2 Biographical profile of the board of directors and top management

It is only during the last decade that theoretical research and analyses have been carried out on reputation building by executives and top management of corporations. As a result of this research, investigators came to realise that investment policies of corporations are significantly influenced by the incentives of top management to build on their own reputations as well as that of the corporation. Arnold *et al.* (1991:6) observed that "some managers are taking the view that their shares are undervalued by a market obsessed with short-term changes in single earnings figures, and a growing number of entrepreneurs are seeing a return to private ownership as the only means to sustain long-term growth".

The AICPA concluded from a survey that "quality of management did not emerge as one of the important types of information... Although management quality is extremely important to investors, they believe they can best understand it by evaluating performance, reputation, market position and other company characteristics. In other words, management quality is an inherent and inseparable aspect of the other types of information." This perception contrasts with the findings of Hirshleifer (1993:146) concerning managerial reputation and corporate investment decisions: he found that managers tended to manipulate investment decisions in an effort to influence perceptions about themselves or their company. He furthermore found a clear effect on investment decisions, in that reputational considerations will affect the price at which the firm can raise capital, hire employees and sell its products. This confirmed by the fact that head hunting that is, the employment of a management team respected by investors, has become a common and accepted practise of companies.

In addition, management does have an influence on the user's understanding of the data, as they are the people who interpret and analyse the data provided in the annual report. The chairman's statement or directors' report are prime examples and the interpretations send messages which may alter the perceptions of decision makers regarding the accompanying data. Take for example ratios disclosed in the table of statistics: Definitions may be added as may an analyses of the actual results, and as well as an outline of management goals. All these aspects will impinge on the interpretation of the user who would normally use his interpretation of the ratios on generally accepted standard measurements.

Voluntary information in respect of the quality, experience, calibre and composition of the board of directors and top management may be deemed useful for the prospective investors - after all, they are entrusting their funds to the abilities and creditability of these persons.

The following additional information may be provided:

- the age or date of birth of the directors and top management;
- the present position held in the company or a brief history of their progress in the company;
- academic and other qualifications or experience;
- directorships held in other companies;
- the date of the original appointment or length of term of appointment;
- shares held in the company by the directors or top management;
- photographs; and
- financial incentives, often in the form of compensation schemes and share options, offered to directors and top management.

5.3 Size and nature of shareholdings

It is important to disclose information on the ownership and control of the company so as to provide the investor equity group with a firmer foundation on which to base their investment decisions. Keasey and Wright (1993:293) refer to insider (controlled by shareholders) and outsider (controlled by managers and divisional managers) controlled companies. The greater the percentage shares held by outsiders, the greater the chances are that the goals of the shareholder s are not aligned with those of management.

The traditional entrepreneur, representing owner, capital provider, decision maker as well as risk bearer, has virtually disappeared as a result of the formation of large corporate enterprises. This separation of corporate ownership and control has given rise to a conflict of interests between the stakeholders of large companies and the management of these companies. While the value-maximising goals and activities of management may tend to depart from the interests of the other stakeholders (shareholders, employees, creditors, clients, the government and the public in general), performance activities of management are reflected and incorporated in the market price of a company's shares.

Extensive research had been conducted in South Africa, (see eg. Cohen & Uliana, 1990:7) on the agency theory. This is a body of theory dealing with the analysis of the control of incentive conflicts in contractual relations. The agency theory problem also arose as a result of listed South African companies on the whole being controlled by conglomerates and holding companies. In this regard Healy and Palepu (1993:6) noted that financial communication problems are mitigated if the firm's ownership is concentrated in a few hands and if these large shareholders actively participate in the corporate governance process.

In South Africa, the industrial sector of the Johannesburg Stock Exchange is divided into conglomerate controlled, owner controlled and foreign controlled groupings. In addressing the needs of all stakeholders by promoting application of the guidelines of the King Report, the Johannesburg Stock Exchange is encouraging wider share ownership through share incentive plans introduced by listed companies. As far as the company itself is concerned, the Cadbury Report (1992) recommended that the role and functions of the chairman and chief executive officer be separated to prevent too large a concentration of power in the hands of one director. Features of corporate governance structures are frequently complicated by the size and complex nature of organisations.

Definitions of corporate control put forward by Cohen and Uliana (1990:11) are the following:

- an *owner controlled company* may be defined as an entity that has at least one individual shareholder or closely related group, such as a family or members of a board of directors, who owns a minimum of 25% of that company's equity share capital;
- a *conglomerate controlled company* may be defined as an entity where a minimum of 25% of its equity share capital is owned by a conglomerate group; and
- a *foreign controlled company* is defined as an entity operating in South Africa that has at least one foreign shareholder owning a minimum of 25% of that company's equity share capital.

5.4 Table of comparative statistics

Statistical information is not mandatory but its inclusion enhances the understandability of financial statements and is often used for quick references. In a survey conducted by Benjamin and Stanga in 1977 (1977:189), comparative data were ranked as being the most essential information item for making an investment decision by financial analysts and for a term loan decision by bankers. Statistical tables are designed to accommodate unsophisticated investors that have difficulty in understanding annual reports, and therefore it is essential that the information contained in the statistical table be relevant and reliable. Users should be warned to take into account the effects of inflation on earlier reported figures, if these are not restated.

Eight items were selected from various published tables of statistics, based on their importance relative to investment decisions. These items were turnover figures, number of shares issued, net asset value per share, profitability, liquidity, solvability and productivity ratios, definition of ratios, number of employees, Johannesburg Stock Exchange statistics and comparison of the share price with the industry index.

5.5 Corporate governance

There has been a great deal of research and debate on the subject of corporate governance and management accountability, particularly as to whether this should be regarded as the primary purpose of financial reporting. For more than a decade, pressure from the public for greater corporate accountability and more credible and transparent financial reporting has dramatically influenced the roles of and relationship between boards of directors, shareholders, auditors and management. This has culminated in a revolutionary new concept, namely corporate governance.

Corporate governance has evolved into a complex form of disclosure of profound importance. While it enhances the image, credibility and reputation of corporations, it also explicitly recognises the roles played by each class of stakeholder, whether primary, secondary or tertiary. As a result of these changes corporate governance is now taken seriously by the corporate world and has become an important part of the annual report. It is a form of voluntary disclosure which entails structured communication with shareholders.

5.5.1 Definition of corporate governance

The primary aim of corporate governance is to tighten control over inefficient managers, thereby protecting all stakeholders and at the same time increasing the level of confidence in corporate reporting. Keasey and Wright (1993:301) view corporate governance as a "multi-faceted activity with each of the facets reinforcing the others" and define accountability as "involving the monitoring, evaluation and control of organisational agents to ensure that they behave in the interests of shareholders and other stakeholders".

Anderson (1995:2) refers to corporate governance as the whole system by which companies are managed and controlled with the flow of financial information between management and the shareholders, and the auditing of that information by external auditors lying at the heart of the system of corporate governance and accountability. According to Delorme (1993:42), corporate governance should encompass all the principles that guide those entrusted with the management of corporations and that govern their relations with those from whom they solicit capital and to whom they are thus accountable. He also emphasises the distinction between the responsibilities of the board of directors and the chief executive officer: the board of directors is mainly responsible for corporate governance, while management is responsible for corporate management. As defined in the Cadbury Report (1992:15), corporate governance is the system by which companies are directed and controlled. Effective corporate governance could thus be defined as the improvement of the board/management partnership to enhance stakeholder value.

5.5.2 Objectives of corporate governance

The annual report is the instrument by means of which managers inform constituents about the successful performance of their stewardship functions and fiduciary duties. Communication between all parties involved in the preparation of the annual report will enhance the quality of financial reporting over time. Accountability reporting should be aimed at identifying who is accountable, to whom and for what. In assessing the quality of accountability of managers, the fairness and efficiency of management should be reviewed taking into account the ethical and societal concerns of corporate governance. Managers should provide reasons for their actions, state their achievement objectives, disclose their performance standards performance results and finally explain any material deviation from planned results.

In the 1995 annual report of Adcock Ingram Ltd (1995:31) it is stated that the primary objective of any code of corporate governance must be "to ensure that directors and managers, to whom the running of large corporations has been entrusted by the shareholders, carry out their responsibilities faithfully, placing the interests of the corporation ahead of their own. In addition, such a code should establish structures and processes to evidence that management are meeting their responsibilities". This is a clear and succinct explanation of the objectives of corporate governance.

5.5.3 Background of corporate governance

The process of establishing corporate governance standards was first initiated by Sir Adrian Cadbury in May 1991. In December 1992 the Committee on the Financial Aspects of Corporate Governance published a report known as the Cadbury Report with recommendations focusing on the control and reporting functions of boards, and on the role of the auditor. The Committee's objective was to improve the standards of corporate governance and the level of confidence in financial reporting and auditing by providing a clear presentation of the respective responsibilities of those involved (Cadbury Report 1992:15).

The Committee based their recommendations on the principles of the Code of Best Practice, namely openness, integrity and accountability. All listed companies on the London Stock Exchange were obliged to comply with these principles or identify and give reasons for any areas of non-compliance. The arguments for compliance with the Code was that a clear understanding of responsibilities and an open approach by boards of directors would contribute to the efficient operation of capital markets. It would also mean that less reliance would be placed on statutory measures and legislation with regard to corporate governance.

In South Africa, the King Committee was constituted during June 1993 under the aegis of the Institute of Directors in Southern Africa (IOD) and the chairmanship of Mervyn King. Its mission was to prepare a code of best practice for corporate governance and business ethics encapsulating recommendations of the Cadbury Report, but incorporating aspects unique to the South African business environment, such as affirmative action. The King Report on Corporate Governance was published during November 1994. On the basis of this report the Johannesburg Stock Exchange issued a new listing requirement in respect of corporate governance, which was mandatory for companies with financial years commencing after 30 June 1995. The requirement is that quoted companies had to report on their level of compliance or non-compliance with the King Report's Code of Corporate Practices and Conduct. The primary motivation for compliance with the King Report was that companies whose standards of corporate governance are high, are more likely to gain the confidence of investors and support for the development of their businesses (Cadbury 1992:13).

KPMG has conducted two surveys on the disclosure of corporate governance practices of South African listed companies. These surveys had the following aims:

- to determine the extent of compliance with the disclosure practices recommended in the King Report;
- to establish the disclosure practices of the top 100 companies compared to other listed companies;

- to compare the difference in the level of disclosure between the first year (1996/1997) of compulsory corporate governance reporting with the previous year during which such reporting was "voluntary"; and

- to provide corporations with an objective yardstick for measuring their own disclosure performance against that of other listed companies (KPMG 1996/1997:1-8)

The survey highlighted the fact was that of the Top 100 companies ranked according to market capitalisation on 10 July 1997, 83% provided a list of compliance and non-compliance aspects, 9% disclosed an inadequate general statement, and 4% made no mention of corporate governance. Furthermore, a break-down of the elements of corporate governance in accordance with the King Report revealed a very low level of disclosure.

In 1995 the Deloitte and Touche introduced a corporate governance award competition with the primary aim of recognising achievement for good governance practices by South Africa's private and public organisations.

5.5.4 Items discussed in corporate governance reports

As the King Report which provides most guidelines on corporate governance, and is generally accepted as the most authoritative on this topic, the following sections are largely based on its criteria. Although environmental issues does form part of corporate governance, it has become such an important subject that it will be discussed under a separate heading (see paragraph 5.10) on environmental reporting.

5.5.4.1 Financial statements

In this section of the corporate governance report, the extent of compliance with GAAP, statements issued by the South African Institute of Chartered Accountants and the International Accounting Standards Committee are discussed. It also includes the responsibility of management to provide information in the annual report with integrity and objectivity. The growth in international capital markets and renewed international interest and investment opportunities in South Africa as a result of the democratisation here has heightened the need for comparability of accounting practices around the world. This is also dealt with in this section of the report.

5.5.4.2 Chairman and board of directors

According to the King Report the roles of chairman and chief executive officer should preferably be separated, and the chairman should be a non-executive director. It recommends a unitary board structure that retains full and effective control in monitoring management and requires that the board meets at least once a quarter. The Report also provides guidelines for directors with regard to their duties and responsibilities, emphasising the principles of duty of good faith and duty of care and skill.

5.5.4.3 Internal control

Democratic accountability as opposed to bureaucratic controls and the concept of organisational effectiveness is of vital importance to accountants as it forms the ultimate criterion for the design and implementation of accounting management information systems for control. Management is responsible for establishing and maintaining a cost-effective system of internal controls so as to provide reasonable assurance that transactions are executed and recorded in accordance with established policies and procedures. This in turn ensures the integrity and reliability of those financial records on which the financial statements are based.

The internal control system is the main line of defence against fraudulent financial reporting. Parties who demand uniform and effective standards for internal accounting control are: external auditors; management; audit committees; stockholders; government; and society as a whole.

The following internal accounting control measures could be implemented:

- planning controls;
- implementing controls;
- analytical controls; and
- an exposure management framework consisting of
  - exposure identification,
  - senior management planning and policy formulation,
  - policy implementation,
  - monitoring and evaluation of internal controls, and
  - checklists, cross-company reviews, and defalcation reporting procedures (Cadbury Report 1992:41).

5.5.4.4 Committees

Committees act as vigilantes over the corporation and are effective control mechanisms for examining in depth certain issues and making recommendations to the board of directors and management. Five committees are discussed briefly, namely the executive, management resources, retirement funds, remuneration committee, and independent audit committees.

(a) Executive committee

The executive committee is responsible to the Board for recommending the corporation's policies and strategies and their subsequent implementation. It deals with all executive business of the corporation not specifically reserved for the board, and co-ordinates and monitors the use of resources to achieve the aims of the corporation. Sub committees of the executive committee may be used, such as an administration committee, which is responsible for attending to the routine administrative matters of the corporation, once the principles have been approved by the executive committee.

(b) Management resources committee

The purpose of the management resources committee is to determine the remuneration of the company's senior executives by taking into consideration the success of each individual in meeting his or her objectives.

(c) Retirement funds committee

This committee is responsible for reviewing the company's policies and practices relating to the various retirement schemes for the benefit of employees. It therefore reviews rule changes and benefit improvements and authorises the establishment and termination of schemes.

(d) Remuneration or compensation committee

According to the best practice requirement of the King Report, the remuneration committee should consist mainly of non-executive directors and be chaired by a non-executive director. Its primary purpose is to determine and revise the remuneration and terms of employment of executive directors and senior employees of the company and to submit recommendations to the board. Activist shareholders are exploring strategies that would make executive compensation a key issue in the corporate governance arena. The Securities and Exchange Commission (SEC) is allowing compensation issues to be put to shareholder votes and thereby is encouraging corporate accountability of remuneration to executives.

The purpose of the remuneration committee is to attract, motivate and retain high calibre executives by ensuring their rewards are competitive and linked to both individual and business performance. Directors' packages are reviewed each year to ensure that they are in line with the company's business objectives and the creation of shareholder value. The committee is responsible for establishing reward criteria for various performance goals and bonuses in agreement with these strategies.

Items that should be covered in the report of the remuneration committee include details of the emoluments of directors (in terms of Section 297 of the Companies Act), disclosure of salaries and fees, benefits, profit-sharing schemes, profit-related incentive schemes, notional share option schemes, pensions and contracts.

In formulating the remuneration policy of the company, various limitations may complicate the task. For instance, it may be difficult to structure a compensation package that accurately measures the performance level of the individual executives, if the activities of those individuals cannot be easily defined or separated.

(e) Independent audit committee

The main function of auditors is to vouch for the credibility of annual reports. The primary role of the external auditors, who appointed by the board of directors, is to provide the shareholders with an external and objective check on the directors' financial statements. However, on the one hand a company has the right to choose the auditor, negotiate the size of the fee and make use of and pay for other management services offered by the auditor and on the other hand the auditor has the right to set rules and enforce them. Such an interactive relationship puts pressure on the credibility of the appointed auditors and has resulted in constituent groups demanding that companies appoint independent audit committees.

The credibility of the appointed auditors is also the most important criterium affecting the effectiveness of the audit committees. In 1978 it became a New York Stock Exchange requirement that all listed companies must have audit committees composed solely of independent directors. The critical role of the auditor in ensuring the integrity of United States company financial reports was confirmed by the report of the American Treadway Commission in 1987 (Cadbury Report 1992:27).

Broadly speaking, the purpose of the audit committee is to review internal accounting controls as well as auditing and financial reporting matters, including pending litigation and specific disclosures in the financial statements, and to review major audit recommendations. Its objective is to assist management in the effective discharge of its responsibilities. The scope of the internal audit function includes reviews of the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the efficient management of the company's resources and the effective conduct of its operations. It provides a forum through which both the external and internal auditors report to the board of directors.

The Cadbury Report recommended that this committee consist of a minimum of three members, who should be non-executive directors. They should be responsible for developing tighter accounting standards and establishing guidelines for rotating audit partners. In South Africa the King Report also recommended that the audit committee meet at least twice but preferably three times a year and be attended by the head of internal audit, the external audit partner and the financial director. The head of the internal audit department and the external auditors should have unrestricted access to the chairman of the audit committee and are required to bring all significant findings to the attention of the committee. The committee should in turn be free to consult independent professional experts.

The Public Oversight Board recommended that corporate governance responsibilities of independent auditors should not only include a review of the acceptability of a company's financial reporting, but also an assessment of its quality. Such assessment should be based on the appropriateness, aggressiveness or conservatism of estimates and elective accounting principles or methods, as well as the clarity of disclosures (Kirk & Siegel 1996:53). The intention was to have an informed audit committee and board of directors that would understand the quality of a company's financial reporting.

Companies should disclose the names of the members and chairman of the audit committee. To sum up, the primary responsibilities of the audit committee include a review of the following:

- annual financial statements with the external auditors prior to their approval by the board;
- co-ordination of audit coverage between internal and external auditors;
- accounting policies and practices adopted, or any changes made or contemplated;
- transactions which are significant and not a normal part of the company's business;
- effectiveness and adequacy of the internal and external control audit function and system;
- interim financial information;
- effectiveness and scope of the annual audit plan and results of the annual audit; and
- effectiveness of management information and other systems of internal control.

5.5.4.5 Management reporting

Management reports include the preparation of annual budgets and strategic plans of all operating divisions. Comparisons are made between budgeted projections and actual performance figures and reported regularly. Profit projections and forecast cash flows are updated and working capital and borrowing levels monitored on an ongoing basis.

5.5.4.6 Ethics

Free enterprise demands ethical behaviour on a national and international level and that a company is accountable for the highest standards of ethical behaviour. Consequently, directors and employees themselves are required to maintain the highest ethical standards and ensure that business practices are conducted in a manner which is beyond reproach. A company should disclose or make available a formal code of business conduct based on the King Report recommendations on best practice, that it follows in the control and reporting functions of the board of directors.

According to Armstrong (1995:19) the code of ethics adopted by a company should:

- commit an organisation to the highest standards of behaviour;
- be developed in such a way that it infuses its culture in all its stakeholders;
- receive total commitment from the board and chief executive officer; and
- be sufficiently detailed to provide a reasonably clear guideline for the benefit of all its employees of the organisation concerned.

A statement on ethics in the annual report of Fraser Alexander Ltd (1995:27), reads as follows: "The group is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders, including its directors, managers, employees, customers, suppliers, competitors, investors, financiers and society at large."

5.5.4.7 Affirmative action

An area that is currently receiving attention in South Africa is affirmative action programmes, which are aimed at increasing the number of previously disadvantaged persons on all managerial levels. With regard to affirmative action, the Adcock Ingram Ltd annual report (1995:31) disclosed the following: "The company is committed to providing equal opportunities to all its employees regardless of their ethnic origins or gender. It has also embarked on various programmes to ensure that its employee profile will be more representative of the demographics of the country."

A survey conducted in 1998 by KPMG (Business day, 26 February 1998) showed that 63 of the top 100 listed companies and 38 other companies out of the total sample of 200 companies referred to, or described their affirmative action plan, compared with respectively 56 and 28 during the previous year. The figures are expected to increase radically in the light of the Employment Equity Bill, which will monitor the progress of companies in implementing equitable employment practices.

5.5.4.8 Going concern

The fact that directors should satisfy themselves that the business is a going concern, that is, that they have a reasonable expectation that it will continue to operate, led to a recommendation by the Cadbury Committee that directors should state in the report and accounts that the business is a going concern, with supporting assumptions or qualifications as necessary. The auditors should furthermore also report on this statement.

5.5.4.9 Worker participation

The following statement, taken from the annual report of C G Smith Foods Ltd (1995:44) is typical of the disclosure on worker participation made by companies. It discloses that the group of companies "employs a variety of participative structures on issues which affect employees directly and materially, and which are designed to achieve good employer/employee relations through effective sharing of relevant information, consultation and the identifications and resolution of conflict. These structures embrace goals relating to productivity, career security, legitimacy and identification with the Group. Goals will be achieved through various organisations processes which already exist or may be developed". Worker participation in the governance of a company has improved as a result of the Labour Relations Act, which promotes such participation through workplace forums and other structures.

5.5.4.10 Fraud

Public confidence in the reliability of information in annual reports has been corroded by illegal financial activities and poor disclosure practices. In the United States of America, the independent auditor's responsibility to detect fraud has prompted the AICPA to endorse the Financial Fraud Detection and Disclosure Act of 1993. It felt that the Act would bolster public confidence in financial reporting systems, as it requires auditors to provide earlier public notification of possible misconduct.

The following are three main requirements of the Financial Fraud Detection and Disclosure Act (New York State Society of Certified Public Accountants, 1993:9):

- it obliges auditors to take reasonable steps to detect illegalities that have a material impact on a company's financial statements;
- it requires auditors to inform management of any such lapses and, if no remedial action is taken, to take the matter to the company's board of directors; and
- it requires an auditor to report the matter to the SEC following such notice to the board.

5.5.4.11 Insider trading

In 1998, there were some companies, such as Nampak Ltd (1998:34) and Iscor Ltd

(1998:49) that mentioned insider trading or disclosed their policy on price-sensitive information under corporate governance. The following example was extracted from the annual reports of Renaissance Retail Group Ltd (1998:6):

> "Group employees may not deal, directly or indirectly, in Renaissance shares on the basis of unpublished price-sensitive information regarding the business or affairs of the Group. No direct or management official may trade in Renaissance shares during embargo periods determined by the Board. This includes the period between the end of reporting periods and announcements of financial and operating results for such reporting periods, and other embargo periods such as prior to the release of price-sensitive information."

The news service, *Sens* was introduced by the Johannesburg Stock Exchange to curb insider trading by compelling companies to release price-sensitive information simultaneously to all investors. However, the limited reach of *Sens* disadvantaged the small investor, who relies upon the media. The solution to insider trading prevention may lie in an amendment of the Companies Act, so that companies are required to disclose beneficial ownership and major share dealings (Business Day, 1 June 1998).

5.5.4.12 Conclusion

It is essential that the code of ethics and corporate governance practised by companies be continuously reviewed and its implementation actively monitored by a permanent committee comprised of shareholders, management, workers and professional bodies. Armstrong (1995:20) emphasises the importance of a code of corporate practice and conduct, specifically when taking into account the dynamic socio-political environment of South Africa.

Greater importance should be placed on the qualitative as opposed to the quantitative issues of corporate governance and Professor Katz (1998:35) recommends that companies focus on the promotion of the following values:

- the creation of an environment in which entrepreneurial flair and vision can flourish;
- attention to innovation;
- attention to succession planning; and
- attention to the interest of all stakeholders and not only those of shareholders.

5.6 Segment reporting

Segmental reporting emerged in the 1960s in the United States as a result of companies increasing in size, diversifying their activities and operating multi-nationally. Users and analysts found it very difficult to assess the profitability, future growth and risk to the various segments of these expanding companies if the information on the various segments simply formed part of the overall financial statements.

Following the voluntary disclosure of segmental reporting by a number of American companies, a statement on segment reporting (SFAS 14) was issued in 1976 by the FASB and adopted in 1981 as an international statement. It was revised in 1997 to incorporate requirements dealing with enterprise risks and prospective returns of such company segments so that industry segment reporting would approximate users' needs. Two major areas of concern were identified by the Financial Accounting Standards Committee, both stemming from the fact that the criteria of SFAS 14 were too vague and imprecise. As a result companies could in the first place exploit this flexibility and imprecision to obfuscate operating information by defining reportable segments too broadly. Secondly, it lead to inconsistency from one reporting period to the next, because of varying definitions by companies for reportable segments (Barth *et al.* 1994:75).

Segmental information provides users with information that could assist them with the assessment of these diversified operations of the company with regard to assets employed, profit contribution, turnover or other operating revenue and geographical areas where the operations take place. It thus equips the investor and analyst with information that could be used to predict growth and profit prospects. The "potential" usefulness and importance of disaggregated financial information to users and analysts has emerged from a number of empirical studies and surveys, such as those of Kochanek (1974), Barth *et al.* (1994), Cardillo (1994) and Boatsman, Behen and Patz (1993). Investors also use segmental reporting for risk assessment and a reduction of uncertainty, for forecasting future earnings and for reducing security price fluctuations. Users, too, have found that segment information is extremely useful and, indeed, vital and integral in their analyses, have exerted pressure on compilers of annual reports to disclose more information on a segmental basis.

In South Africa AC 115 *Reporting financial information by segment* was issued in 1986 and a revised statement, *Segment reporting* was issued in 1998. The aim of this statement, which is based on IAS 14 (revised), is to help users of financial statements to

- better understand the enterprise's past performance;
- better assess the enterprise's risks and returns; and
- make better informed judgements about the enterprise as a whole.

Boatsman, Behen and Patz (1993:62) observed that disclosure of the geographical composition of earnings is potentially valuable information from an investment point of view: Such earnings from different locales may differ in risk and/or persistence and would therefore be capitalised differentially and he concluded that geographical segment disclosures are therefore useful for the valuation of common stock.

5.6.1 Definition of a segment

An industry segment should be easy to identify and precisely and objectively specified. Huddart (1992:30) believes it is a matter of professional judgment, and should be left in the hands of the firm and its auditors. However, it has become apparent that if the decision of segment identification is left to the discretion of management, management define their segments so broadly that the information is misleading and mis-representational. Therefore additional guidance from the accounting standard-setting bodies was required on how that judgement should be exercised.

The revised AC 115 specifies three types of segments of an enterprise, namely business, geographical and reportable segments, and defines them as follows:

- a *business segment* is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

- a *geographical segment* is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment, and that is subject to risks and returns that are different from those of components operating in other economic environments.

- a *reportable segment* is either a business or geographical segment as identified by means of the foregoing definitions, for which segment information must be disclosed in terms of the statement.

Segmental reporting is also referred to as line-of-business reporting, or disaggregated reporting (Huddart 1992:29). Definitions of segments vary as a result of the classification basis, depending for instance on whether it is based on revenue, expenses, results, assets, liabilities or accounting policies. (SAICA AC 115, par.17)

The IASC defines a business segment as a distinguishable component of an enterprise that is engaged in providing a product or service, or a group of related products or services, that generates significant revenue from external customers, and that is subject to risks and rewards that are different from those of other business segments.

For this purpose, a segment generates significant revenue from external customers if

a) the greatest part of the segment's revenue is derived from sales to external customers; or

b) the segment's revenue from sales to external customers comprises 10% or more of total enterprise revenue.

From the above it would seem that accounting standards governing segmental reporting are widely adopted throughout the world and fairly uniform in their requirements (Hemus, Everingham & Sonnenberg 1994:4). A segment of a business may also be defined as a distinguishable component of an enterprise engaged in providing a product or service, primarily to customers outside the enterprise or in operations in a country, or within a particular geographical area as may be appropriate to the particular circumstances of the enterprise.

The AICPA study on user needs for information (Jenkins Report, 1994:24) showed that users use information about the company's operating activities to understand the relationship between those activities and the company's financial results, which in turn helps them to predict the financial impact of trends and to identify opportunities and risks that could result from those activities. It also enables them to identify companies that may be affected by the trends. Two economic consequences or benefits of segmental reporting are that segmental information:

- improves the accuracy of users' assessments of future sales, earnings, dividends, and capital gains forecasts; and
- improves users' assessments of risk.

The above consequences were supported by the study of Kochanek (1974:258) who investigated the effects of segmental financial disclosure by diversified corporations on earnings predictability and share price volatility. The evidence suggested that external financial reports containing segmental data do provide a useful source of information to investors in appraising the investment potential of a diversified corporation's shares.

5.7 The value added statement or statement of wealth created

The value added statement benefits all stakeholders and should therefore form an integral part of the annual report and acquire equal status to the income statement, balance sheet and cash flow statement. The statement depicts how wealth was created and how it was distributed, giving the user a broader perspective of the company's risk situation and performance.

In the new South Africa, with its changing socio-economic environment, annual reports should not only be prepared for the financially literate members of the community but also to satisfy the requirements of a much broader audience. Regardless of their backgrounds and circumstances, these users all share a common objective with every corporation, namely to add value and create wealth. The contribution the company has made to the wealth of the South African economy as a whole should received greater priority and disclosure should not concentrate only on the profit made by the company and which benefits solely the owners.

As the meaning of the concept "added value" implies, this aspects deals with the value added for the customer and in so doing the creation of economic wealth that can be shared by all stakeholders. The purpose of the value added statement shows the link between wealth creation and wealth distribution. The objective of the value added statement is thus to report on the allocation of value between the various stakeholders.

The value added statement contributes to the usefulness of annual reports in that it is an easy statement to interpret aimed specifically at the layman, especially when it is presented diagrammatically. This statement contains information for all user groups and not only one specific group. The only group for whom the value added statement does not reveal sufficient information, is the employees apart from the fact of the burden of salaries and wages is carried by the company.

Although a separate report is preferable, value added information may be incorporated in the income statement. Miller (1991:223) suggests that a subtotal in the income statement for value added will serve the purpose of putting profits into perspective.

5.7.1 The format of the value added statement

Apart from The Corporate Report (ICAEW 1975) which was issued in the United Kingdom and a statement of recommended accounting practice, which was issued by the Singapore Society of Accountants in 1984, there are no statutory requirements or standards dealing with the format of the value added statement. The value added statement usually consists of two sections, namely one dealing with wealth added and the other with wealth distributed. The amounts above the value added line are receivables from customers and suppliers, while those below the line are the amounts payable to employees, government, and providers of financial resources. These amounts are stated in the order in which the contributors are entitled to share in value added.

Wealth added consists of the following:

- sales, that is income received from the sale of services or products net of valued added tax in accordance with AC 111;
- cost of sales, that is money paid to suppliers for raw materials and services is subtracted;
- employee benefits, such as salaries (including tax), wages, pensions, medical and retirement benefits, related costs, employment costs, labour costs, bonuses, commissions, welfare and fringe benefits;
- providers of capital, namely the ordinary and preference shareholders, lenders of finance to the company and operating lease payments; and
- retentions, which include retained income, depreciation, minorities' share of earnings and deferred tax.

Wealth distribution consists of the following:

- salaries and wages to employees;
- payments of interest;
- payments to the government for taxation;
- payment of dividends to shareholders; and
- funds retained for future growth.

Stainbank (1997:69) found a great deal of diversity in the terminology, presentation and treatment of value added statements. As a result comparability between companies was limited. She recommended that a cash value added statement be used to solve the problem as it does not lend itself to such diversity of interpretation by companies.

5.8 Inflation reporting

The first principles of price adjustments in accounting were formulated in Holland during the First World War by a Prof. Theodore Limperg and the first company to apply these principles was the electronic giant, Philips, in 1946 (Vorster, Koen & Koornhof 1999:559). The basic principle underlying Limperg's theory was that the cost of an article is equal to the amount to be paid at the time of selling the article, and that it bears no relationship to the historical cost of the article.

To be of value to investors, a method of accounting for the effects of inflation should be generally accepted, widely implemented in practice, and yield meaningful results. It should furthermore allow valid comparisons of real performance between companies. Many listed companies in South Africa refrain from publishing inflation adjusted financial statements, because they are of the opinion that this principle is not yet widely accepted and there is no consensus on the application method.

Investors in shares also seek protection from inflation over the long term and therefore expect an additional return over and above the capital gain and dividends to compensate for the effects of inflation. Many traditional investors believe that shares were a good hedge against inflation because of the correlation between share prices and the cost of living and consequently invested a portion of their retirement funds in the stock exchange. According to Tinc and West (1979:512) this belief is supported by three propositions. The first is that the price of outputs of goods and services can be expected to increase with the general level of prices. The second is that wage rates are more "sluggish" and tend to lag behind price increases and finally, because price increases are on the whole not fully anticipated, holders of shares benefit at the expense of firms' creditors.

These suppositions were further researched by Elikai, Moriarity & Ayres (1993:218) and Kwon (1993), who both concluded that current cost information leads to improved investment decisions over historical cost when the realised and unrealised components are separately disclosed. In hyper inflationary economies, operating profits are overstated because operating assets and inventories are not taken into account at replacement value. Therefore investors cannot accept reported earnings at face value during periods of rapid inflation (Bhana 1992:124). It would thus seem that the demand for current value information is valid and that such information can prove useful to decision makers.

5.8.1 Advantages of inflation adjusted accounting

Comparisons over a number of years are impossible unless inflation adjusted statements are used. Certain adjustments on reported figures must be first be made to remove, as it were, the external factors that caused the change in market values.

The following reasons could be put forward in favour of inflation adjusted financial statements:

- they provide an estimate of a company's economic or market value;
- such statements disclose both realised and unrealised gains and losses;
- they provide a more timely indication of the effect of changes on the value of a corporation's assets; and

- they provide a consistent benchmark for establishing historical trends.

5.8.2 Disadvantages of inflation adjusted accounting

Most criticism is centred around the fact that market value varies from day to day and is continually being revised. Thus by the time the information in an annual report, which reflects market values at balance sheet date, and takes two to three months to publish reaches the user, it is already out of date. However, others see this as an advantage as the information is only slightly out of date and it is more relevant and comparable with other companies not using inflation accounting.

A further problem is the changing face of what was traditionally defined as an asset. An asset is shown in the balance sheet only if it complies with the following recognition criteria: it is an economic resource that the enterprise controls, it holds a future economic benefit for the enterprise and it exists as a result of a transaction that took place in the past. As a result of valuation difficulties and not meeting all the criteria for recognition, many intangible or so-called "soft" assets do not appear in the balance sheet. This omission obviously distorts the long-term utility of the financial statements.

The following are reasons for not favouring inflation adjusted financial statements:

- the market value is subjectively determined and open to measurement errors;
- it is difficult to assess a company's future performance and prospects by means of market value;
- the market value becomes outdated very quickly;
- market values are not always readily available; and
- users do not understand the current cost data that are presented.

5.8.3 Statutory requirements

In the United States of America, the Securities and Exchange Commission released Accounting Series no. 190 in March 1976 which require replacement cost disclosures.

Information on the current costs of financial resources thus had to augment that provided in historical cost. Kwon (1993:175) noted that the intention of AS No. 190 was to provide information that would assist users to better understand the current costs of operating the business. The empirical results of his survey on the informativeness to capital market participants of mandated inflation-adjusted data, provided evidence of increased stock price variability relating to the first mandatory replacement cost disclosures relative to the prior year. This phenomena was more pronounced for medium and large firms compared to small firms.

The Securities and Exchange Commission replaced ASR No. 190 issued with Statement No. 33 on financial reporting and changing prices, which was issued by the Financial Accounting Standards Board (FASB) in September 1979. In terms of this statement large public corporations had to supplement their financial statements with inflation-adjusted data. It was however withdrawn in 1987 because security analysts were ignoring the inflation-adjusted statements. FAS 107, which was issued by the FASB with effect from 1992, requires disclosure of the market value of financial instrument assets and related liabilities.

In South Africa, the first guideline on inflation accounting was issued in August 1978 by SAICA. The recommendations of AC 201, *Disclosure of effects of changing prices on financial results*, were based on a combination of the replacement value theory and the application of the general purchasing power technique. However, its recommendations were not compulsory and because the adjustments resulted in lower profit figures and were not recognised by the tax authorities, few companies applied it. Lack of compliance with AC 201 resulted in the issue of ED 77, *Disclosure of current value information in financial statements*, in September 1989. This document proposed current value financial statements using present value, market value, replacement cost or indexed historical cost. However, it too had a minimal impact on inflation reporting and has subsequently been withdrawn.

In general, financial statements are prepared using the historical cost method, whereby assets and liabilities are recorded at their original cost. Assets are usually only reported at market price in cases where the market price is lower than the historical cost price according to AC 123 applicable from January 1995. The result is an understatement of assets which divulges important information on asset impairments.

5.9 Employee and social reporting

In support of the credibility of the capitalistic system, and in striving to bridge the gap of understanding between first and third world groups, nationally and internationally, corporations must be held accountable for imparting relevant and understandable information to all parties sharing in the wealth created by the corporation, and specifically to the employee. Corporate social disclosure came about as a result of two assumptions, the first being that the corporation is not merely a maximiser of shareholder wealth but and active member of society (Lynn 1992:105) and the second that employees are invaluable assets to every organisation and its success depends largely on the skills and dedication of its employees.

Wallman (1995:85) stresses that service firms are the fastest growing segment of the South African economy and the most important assets of these firms are the intellectual capacity and physical skills of their employees, but these assets are not found anywhere on the balance sheet. Corporations are expected to make a contribution to the prosperity of society as a whole, in addition to providing a return to its shareholders and therefore the corporation should be held accountable to the workforce as well as to the stakeholders. Employees have a vested interest in the long-term growth and profitability of the corporation and a right to relevant information.

Schuitema (November 1988:337) examined changing trends in industrial relations and identified three fronts in response to the growing power of the unions and labour disruption, namely participative management, share participation and employee communications. He refers to participative action as "wooing the workforce to the ranks of management and owners", and warns that unless the workforce fully understands its valid, traditional role in an enterprise, it would be a waste of time to encourage participative management or ownership.

5.9.1 Historical background

Traditionally, employees were viewed by corporations as an expense item on the income statement, which had to be minimised in order to maximise profits. This view led to conflict between management and employees and social reporting concentrated mainly on problems that could result in labour strikes and increased wage demands. However, the introduction of the value added statement helped to enhance an awareness amongst both management and employees of labour as a valuable asset and not merely as a cost. Management's task no longer centred on solving problems, but on ensuring that the enterprise generates as much wealth as possible for maximum distribution to the workforce, as well as to the other stakeholders.

Demands for full corporate social reporting materialised in the 1970s, specifically in the United States of America where a number of surveys were conducted to determine the extent of corporate social disclosure. Social reporting practices of companies vary across countries, as evidenced from a 28 country survey of Roberts (1987:2). He concluded that the extent of social reporting is influenced by economic, political, legal and social factors unique to the various countries and noted that there was little or no consensus on what precisely is meant by the concept social information.

Employee reporting gained ground in the United Kingdom during the 1970s, when the Accounting Standards Committee published their Corporate Report. British companies lead the field in the number of employee reports produced, but not necessarily in effectiveness of communication (Schuitema December 1988:375). Disclosure of employee information was covered under various sections, ranging from an employee report to a social report and a statement of social responsibility.

Ogan and Ziebart (1991:391) described social reporting as the corporation's efforts towards fulfilling its general and specific obligations to society, and defines paternalistic reporting as corporate communications with employees. Social factors may affect investment decisions and may result in financial institutions investing solely in ethically sound or good companies. According to Beattie (1988:36) the characteristics of such companies included maintaining high employee welfare standards, environmental awareness, committed to community involvement and offering charitable donations. The extent of disclosure is dependent on management's opinion of the relevance and importance of this information in the decision making of and negotiations with employees.

5.9.2 Contents of employee reports

If it is to satisfy the needs of employees, quantitative and qualitative corporate social information must be disclosed in annual reports. Quantitative information includes aspects such as the following:

- number of employees, average or year-end figures including a breakdown based on geographical area, line of business, function/occupation, product-based divisions, gender and disabled persons;
- turnover per employee in rand;
- fixed assets per employee in rand;
- employment cost per employee in rand;
- wealth created per employee in rand;;
- wealth distributed to employees;
- wealth reinvested;
- pension costs;
- medical aid schemes;
- bursary schemes and donations to educational, research and social institutions;
- contributions to charities;
- employee remuneration;
- labour turnover rates;
- accident rate;
- absenteeism;
- cost of training and number of employees trained;
- cost of reconstruction and development programmes;
- production days or hours lost due to strikes or stoppages;

- number or cost of redundancies;
- total wage bill divided into occupational categories; and
- assistance with housing facilities and the provision of subsidised housing loans.

Qualitative or non-numerical information disclosed in annual reports covers the following aspects:

- training policy;
- community involvement, such as provision of sports and recreational facilities;
- health and safety;
- trade union relations and strikes;
- share participation schemes;
- statement of appreciation for employees' efforts;
- employment policies;
- affirmative action;
- reconstruction and development programmes; and
- redundancy policy.

There are no specific disclosure requirements for social reporting and therefore the lack of standardisation makes comparisons difficult.

5.10 Environmental reporting

Every business has an impact on the environment, and although environmental reporting or so-called green reporting is not directly related to the financial performance of a company and is not mandatory, dissemination of the company's environmental policies and actions may impact upon its share price. Companies are presently being scrutinised and judged on the social awareness and impact of their actions on the environment.

Bebbington, Thomson and Walters (1994:109) undertook a mail questionnaire survey which proved that accountants have low levels of involvement in their company's environmental activities and are relatively unaware of environmental issues. They apparently have little interest in incorporating this into corporate reports, which explains the absence of environmental accounting in practice. The survey aimed at exploring the extent to which accountants are involved in their organisation's environmental agenda, and developing "environmental accounting" and finally to shed some light on why accountants are not responding to the calls from the profession, business and politics.

As international investors contribute to the capital markets of South Africa, increased pressure is placed on South African companies to conform to international environmental standard, such as the ISO 14000 issued by the International Standards Organisation in Switzerland as well as a guideline by the South African Institute of Chartered Accountants issued in 1997. The concept of "ethical" business where investors shun companies with close links with oppressive regimes, that exploit live animals or are involved in contentious areas such as tobacco, gambling and armaments, has come to exercise a strong influence on business decisions (Beattie 1988:36). For example, a Canadian company called MD Management, and which is a financial subsidiary of the Canadian Medical Association, sold its entire Rembrandt Group shareholding because the company came to believe it was unethical to invest in tobacco firms. The vice-president instructed all its investment managers to refrain from purchasing securities of companies involved in the manufacture of tobacco products.

The South African National Council Against Smoking stated that the Canadian group's decision was part of a global trend not to invest in tobacco companies. In 1993, the South African Community Growth Fund rejected support from Rembrandt Ltd and the United Tobacco Company Ltd on the grounds that it was socially irresponsible to invest in tobacco (Business Day, 30 April 1996:3).

5.10.1 Statutory requirements

In 1991, the Chartered Association of Certified Accountants in England introduced a competition, known as the Environmental Reporting Award Scheme (ERAS) to encourage the development of corporate environmental reporting as there were no standards or legislation governing environmental reporting in the United Kingdom. Other international organisations that have made recommendations or guidelines are the Canadian Institute of Chartered Accountants in 1993, the Institute of Chartered Accountants in England and Wales in 1992 and the United Nations in 1998 (De Villiers, 1996:73).

In South Africa, there is no specific section of the Companies Act on disclosure requirements for environmental reporting, which could mainly be ascribed to the difficulty of quantifying the information. Disclosure is thus voluntary and limited. Furthermore, GAAP requires separate disclosure only if the environmental event or contingency has financial implications that would not produce a "true and fair reflection" in accordance with the conceptual accounting framework. Environmental aspects vary considerably across different companies and industries, and are often deemed not applicable or irrelevant to some industries such as the retail sectors.

De Villiers (1996:202) recommends that companies follow the guidelines below for corporate environmental reporting:

- a descriptive overview of the major environmental risks and impacts of the organisation;
- the environmental policy of the organisation;
- measurable targets, in physical units and rand amounts where applicable, based on the environmental policy (e.g. emissions);
- performance against environmental targets and comparative figures from the previous period;
- accounting policies for recording liabilities, provisions, contingent liabilities and catastrophe reserves;

- environmental costs (energy, waste handling, treatment and disposal, legal compliance, packaging, fines, rehabilitation, recycling, etc.) per category, charged to operating expenses during the period;
- rand amounts of environmental liabilities, contingent liabilities and reserves established during the current period;
- government environmental grants received;
- likely effect of environmental policy on future capital investment and earnings;
- environmental litigation in which the organisation is currently involved; and
- independent third party attestation of all environmental reporting.

Legislation regarding compulsory environmental reporting may result from pressure from constituents demanding disclosure whether positive or negative (De Villiers & Vorster, 1995:61).

5.11 Money exchanges with the government

There is a close and continuing relationship between companies and the government and local authorities, in that companies utilise community facilities and services provided by authorities and in addition have direct financial dealings with them. The flow of funds between companies and the government in the form of payments for taxation, pay as you earn (PAYE), value added tax (VAT), levies, rates and other payments, and receipts in the form of subsidies, are not always disclosed in the financial statements.

These amounts could be substantial and it is often useful if companies include a "statement of money exchanges with government" in their annual reports, showing the following items:

- current company tax payments;
- deferred tax;
- PAYE collected and paid over;
- VAT collected and paid over;
- rates and levies paid to local authorities;

- customs and excise duties;
- payments for licenses issued by government and local authorities;
- receipts in the form of cash government grants or subsidies; and
- secondary tax on companies.

5.12 Voluntary disclosure in interim reports

There is a great need for the development of standardised practices to serve as guidelines for the preparation of interim reports in South Africa. The need arose from the interpretation of the Companies Act requirement in article 303 that interim reports should "fairly present" the business and operations of a company during the first six months of its financial year and the results thereof.

Ottterman and Koen (1992:31) identified two interpretations of this requirement. The first supports the discrete approach which maintains that fair presentation relates only on the interim period and thus gives priority to the prudence principle. The second is the integral approach which focuses on the interim period in the context of the entire financial year and gives priority to the matching principle. Based on the results of their survey, Otterman and Koen (1992:41) concluded that these two approaches gave rise to different results when preparing interim reports. The survey revealed that 81,2% of the 48 industrial quoted companies surveyed preferred to use the discrete approach, the reasons being that the same principles are applied to the interim report as are applied to the annual statements, and subjectivity is reduced and comparability enhanced because fewer estimates need to be made when allocating costs and income. Knutson (1993:58), too, recommended that in interim reporting, the integral rather than the discrete method be used.

5.12.1 The purpose of interim reports

The purpose of the interim report should compliment that of the annual report, namely to guarantee the provision of information concerning the financial position and performance of the corporation on a regular basis, so that the various users may satisfy their decision making needs. Ultimately this would promote the efficiency of the capital market by reducing the volatility of prices. In addition, the interim report may also help investors in forming their expectations about the future prospects of enterprises.

5.12.2 Frequency of interim reports

The Johannesburg Stock Exchange (Listing requirements of the JSE 1986: Section II, 18-23) requires all listed companies to publish half-yearly reports while the New York Stock Exchange requires the publication of quarterly reports. A study of the annual and quarterly reports of 190 United States companies by Al-Darayseh and Brown (1992:24) to determine the accuracy of the financial data issued annually and quarterly, showed that the quarterly data was on the whole not as accurate as the annual data. One explanation is that the interim reports are not subject to review by the auditor.

The question which is often asked is whether interim reports should be published on a quarterly basis or only half-yearly as presently the case in South Africa and whether rolling 12 months to date information should be presented on a quarterly basis. Knutson (1993:54-55) points out that quarterly reports are vital as they are indicators of progress and status and also important source of information for projecting the future. A second argument in favour of quarterly reports is that it limits insider trading as the information is disseminated to the public and does not slowly filter down from a host of privileged persons. Lastly, the annual and interim reports are often the only sources of information available to the individual investor.

Conversely, many compilers view quarterly reporting as unnecessary as it encourages a short-term analysis of a company, which could increase the volatility of the share price. Further arguments against frequent interim reports is that in striving to achieve published short-term targets and rewards for short-term performance, management often resort to fraudulent practices and lose sight of the long-term plans. Investors, on the other hand, do not consider seasonality of business operations when making investment decisions. If quarterly reports are published, the fourth quarter is often used to correct errors made in previous interim reports and these adjustments may weaken the creditability of quarterly reports.

However, in view of the fact that users constantly strive to obtain additional information, the following three reasons for promoting quarterly reports were cited by SAICA (1994:25):

- quarterly reporting helps users with a longer term focus to detect changes in long-term trends on a timely basis;

- such reporting provides for an orderly dissemination of reliable information and users need not rely on rumours or less reliable information; and

- it reduces problems of trading on inside information by simultaneously disseminating information to all market participants.

5.13 Conclusion

Although the fact that voluntary disclosure should be credible and verifiable and is often assumed, voluntary disclosure can be incrementally value relevant over mandatorily reported information. However, voluntary disclosure strategies are dependent on various factors such as cost constraints, share price effects, investor perceptions and attitudes effecting and reducing risk.

CHAPTER 6

PRIOR RESEARCH ON VOLUNTARY DISCLOSURE IN CORPORATE REPORTS

6.1 Introduction

The issue of the importance and extent of voluntary disclosure in annual reports and the information needs of external decision makers has been the subject of many and varied empirical research studies. Various reasons have been put forward by researchers as to why companies should disclose more voluntary information, including that it reduces the cost of capital, affects the company's share price and affects the company's ability to raise funds in capital markets.

This chapter examines these studies and their findings as they provided a basis for the selection and development of the research methodology used in this study. Prior research studies were classified into two groups, namely empirical studies addressing the extent of voluntary disclosure and its association with company characteristics and those addressing the perceptions of various constituents of annual reports on the importance of voluntary disclosure. While the studies are discussed in chronological order starting in 1961, more importance is attached to the most recent studies.

6.2 Empirical studies on disclosure and company characteristics

These studies examined the relationship between the level of voluntary disclosure and selected company characteristics such as the rate of return, earnings margin, company size, number of shareholders, market risk, listing status, audit firm and growth. Table 6.1 at the end of the discussion provides a summary of the most important studies on this topic.

6.2.1 Cerf (1961)

Cerf was one of the first researchers to construct an index of information which may be disclosed in an annual report. The disclosure level was related to three company characteristics, namely asset size, number of stockholders and listing status. The results of his research were that there is a positive relationship between asset size and extent of disclosure. Many researchers have followed the research methodology used by Cerf.

6.2.2 Singhvi and Desai (1971)

The purpose of their study was to test the significance of the relationship between quality of disclosure and various company characteristics. Their point of departure was similar to that of Cerf, but they added earnings margins and rate of return and used a step-wise multiple regression model to analyse their data. They concluded that listing status (quoted or unquoted) was the characteristic with the highest correlation and also that the greater the extent of the disclosure, the less the risk exposure of shareholders.

6.2.3 Buzby (1974 and 1975)

Buzby studied the relationship between a sub component of adequate disclosure – the extent to which selected items of disclosure are presented in company annual reports– and two company characteristics, namely size and listing status. His statistical tests indicated that extent of disclosure for manufacturing companies in the United States was positively associated with asset size of a company but not with listing status. His results were thus consistent with those of Cerf, but contrary to those of Singhvi and Desai.

6.2.4 McNally, Eng and Hasseldine (1982)

Their study focussed on three aspects of discretionary disclosure of financial and non-financial information. Firstly, the attitudes of external decision makers, namely financial editors and stock exchange members, were surveyed. Secondly, the disclosure practices of manufacturing companies listed on the New Zealand stock exchange were examined, and finally the association between disclosure practices and selected corporation characteristics and auditors was analysed. Their findings were consistent with prior research in the United States and the United Kingdom, namely that size is a dominant corporation characteristic in establishing the leaders in voluntary disclosure practices. However, when compared with what professional external users desired the extent of disclosure in annual reports was low.

6.2.5 Firth (1984)

In his initial research in 1979, he found that both size and stock market listing variables were positively related to disclosure but that the auditor factor had no impact at all. In his 1984 survey Firth examined whether the extent of disclosure, specifically the amount of voluntary disclosure, was linked to the assessment of stock market risk with regard to three aspects, namely systematic and unsystematic risk and variance of return. The research involved regressing measures of leverage, earnings beta, size, dividend yield and disclosure on measures of security risk. The sample consisted of 100 manufacturing companies and the disclosure index consisted of 48 items of information (similar to those used in his 1979 research) that could be disclosed in an annual report. These items were weighted in terms of importance. The results of the empirical tests were that there was no evidence that the disclosure score had any impact on the level of stock market risk.

6.2.6 Firer and Meth (1985)

The objective of their study was to measure the level of voluntary disclosure of information by listed South African manufacturing companies and examine the relationship between disclosure and company size on the basis of total assets, market capitalisation, net income and sales as size measures. Their results showed that there was a positive relationship, although weak, between the level of voluntary disclosure and company size. This was confusing as a significant positive correlation was found in similar studies of Buzby (1975) in the USA, Firth (1979) in the UK and McNally, Eng and Hasseldine (1982) in New Zealand.

6.2.7 Chow and Wong-Boren (1987)

In explaining the overall level of information voluntarily disclosed by companies in their annual reports, Chow and Wong-Boren cited company size as an important variable. The reason being that voluntary disclosure is predicted to help with the reduction of the accentuated information asymmetry problem that emerges as entities increase in size. Managers of larger companies have incentives to publicly disclose additional information, such as investment performance and bonus forecasts, as it helps to enhance their reputation for sound business management.

6.2.8 Cooke (1992)

Cooke examined the effect of size, stock market listing status and industry type on the extent of disclosure by Japanese corporations. He found that multiple listed corporations, incorporating certain foreign regulation aspects into their financial reports to raise capital on the international markets at the lowest cost, tended to have a higher level of disclosure than corporations listed only on the Tokyo Stock Exchange. Other findings by Cooke was that Japanese manufacturing corporations disclosed significantly more information than other types of corporations. The interaction between industry type and quotation status was also found to be significant.

6.2.9 Negash (1990 and 1995)

In his first study Negash examined 50 companies on the Brussels Stock Exchange and determined that extent of disclosure was a function of size and leverage. The results of the 1995 study were based on 50 Zimbabwean 1992 annual reports of listed companies. It indicated that the extent of disclosure could not be used as a policy instrument to influence a company's risk parameters, as represented by beta and variance.

6.2.10 Malone, Fries and Jones (1993)

Their study was based on one principal research question: Are there identifiable and measurable factors that are associated with the extent to which companies in the oil and gas industry disclose financial information? They tested ten hypotheses, of which three were supported and seven were not. The following hypotheses were supported: Companies with high debt/equity ratios, with a greater number of shareholders and that were listed on a major stock exchange disclosed financial information to a greater extent than companies with low debt/equity ratios, fewer shareholders and whose stock was traded over the counter. The following hypotheses were not supported: The extent of disclosure of financial information of oil and gas companies were not significantly associated with the level of total assets, extent of inter industry diversification, higher rates of return and higher earnings margins or with companies that engaged larger audit firms, with foreign operations and that had a greater number of outside directors on the board.

6.2.11 Meek, Roberts and Gray (1996)

Their study examined factors influencing the voluntary disclosures of three types of information, namely strategic, non financial and financial contained in the annual reports of multinational corporations from the US, UK and Continental Europe. Their results showed that company size, country/region of origin, international listing status and to a lesser extent, industry were the most important variables explaining the voluntary disclosures of their sample companies. The other three independent variables, namely leverage, profitability and extent of multinational operations did not appear to be significant in explaining voluntary disclosures.

9.2.12 Patton and Zelenka (1997)

Their research focused on the 1993 annual reports of 50 Czech companies after the Act on Accounting, 1991, was promulgated. They subjected eight independent variables to a univariate analysis, which showed that asset size, return on equity performance, financial risk (leverage) and the number of employees were significantly correlated with extent of disclosure. However, after running multivariate regressions, the variables proving to be statistically significant were type of auditor, number of employees, stock exchange listing status and return on equity performance.

6.2.13 Adams and Hossain (1998)

Using 1988-1993 data drawn from New Zealand life insurance companies, the results of their study indicated that organizational form, company size, product diversity and distribution system (i.e. the amount of business sold through independent sales agencies) were positively related to the level of voluntary disclosure as implied by the managerial discretion hypothesis.

Table 6.1 contains a summary of research studies on voluntary disclosure in terms of the size and nature of the sample companies used, the number of voluntary disclosed items included in the evaluation and the type and size of weighting scale used. Where no such data were available, the space was left blank.

Table 6.1 **Summary showing sample size and type of disclosure index scale used in prior studies on extent of voluntary disclosure**

Researcher	Year	Industry and sample size	No. of items	Type of scale	Scale
Cerf	1961	527 listed and unlisted companies	31	Weighted	1 - 4
Singvhi and Desai	1971	100 US listed and 55 unlisted industrial companies	34	Weighted	1 - 4
Buzby	1974	88 listed Wall Street manufacturing companies	39	Weighted	0 - 4
Buzby	1975	US manufacturing companies	39	Weighted	1 - 4
McNally, Eng and Hasseldine	1982	New Zealand companies		Weighted	
Firth	1984	Manufacturing companies	48	Weighted	1 - 5
Firer and Meth	1985	S A manufacturing companies	49	Unweighted	0 - 1
Chow and Wong-Boren	1987	Mexican companies		Unweighted	
Cooke	1992	Japanese companies		Unweighted	1 - 2
Malone, Fries and Jones	1993	Oil and gas industry		Weighted	
Negash	1990 1995	50 listed Belgium and 50 listed Zimbabwean companies	81	Unweighted	0 - 1
Meek, Roberts and Gray	1996	116 US, 64 UK, 16 French, 12 German and 18 Netherland companies	85	Unweighted	0 - 1
Patton and Zelenka	1997	50 Czech joint-stock companies	66	Unweighted	0 - 1
Adams and Hossain	1998	Life insurance	189	Unweighted	0 - 1

* The unweighted scale was:

1 = disclosed and 2 = undisclosed; or
1 = disclosed and 0 = undisclosed.

Table 6.2 Summary of survey findings of the relationship between company characteristics and extent of voluntary disclosure

Researcher	Year	Company characteristics used in study	Research conclusions
Cerf	1961	Asset size, number of shareholder, profitability, listing status	All controlling variables were associated with disclosure levels
Singhvi & Desai	1971	Asset size, number of stockholders, listing status, rate of return, earnings margin	Inadequate disclosure is associated with small companies as measured by total assets, number of stockholders, companies free from listing requirements, companies audited by small CPA firms and less profitable companies as measured by rate of return and earnings margin
Buzby	1975	Company size using asset size, listing status	Extent of disclosure was positively associated with the size of the company's assets and not affected by listing status
Firth	1979	Company size using sales, capital employed, asset size, listing status, auditors	Size and listing were associated, but not auditors
Firth	1984	Leverage, earnings, beta, asset size and dividend yield	Disclosure has no impact on the systematic risk, unsystematic risk or variance of return

Table 6.2 (Continued)

Researcher	Year	Company characteristics used in study	Research conclusions
McNally, Eng and Hasseldine	1982	Company size using total assets	Significant relationship between company size and disclosure
Firer and Meth	1985	Company size	Limited positive correlation between company size and level of voluntary disclosure
Meek, Roberts & Gray	1996	Sales size, country, industry, leverage, degree of multi nationality, profitability	All positively associated with extent of voluntary disclosure
Patton & Zelenka	1997	Size, performance, risk, listing status, number of employees, industry	Significant correlation with asset size, return on equity performance, leverage and number of employees
Adams & Hossain	1998	Organisational form, company size, product diversity, distribution system, assets-in-place, localisation of operations, non-executive directors, reinsurance	The first four explanatory variables are positively related to the level of voluntary disclosure, the fifth and sixth are not significant and the last two are statistically significant but in the opposite direction to that predicted

6.3 Empirical studies on the perceived importance of voluntary disclosure

In order to gain insight into how market constituents rate the efficiency of the stock market, how they appraise disclosure practices of companies and how effectively their information needs are satisfied, it was necessary to review previous literature and to examine the opinions of corporate report compilers and users. This made it possible to build on previous research, hereby making a meaningful contribution to the field.

6.3.1 Buzby (1975)

The study of Buzby consisted of 39 items of financial and non-financial information appearing in an annual report which was presented to a selected user group consisting of professional financial analysts. In addition, a worksheet using the same items was developed in order to measure the extent of disclosure in annual reports of 88 small and medium sized companies. Their results showed that many items of information which financial analysts believed to be important were not being adequately disclosed and that there was little correlation between the relative importance of the items and the extent of their disclosure.

6.3.2 Benjamin and Stanga (1977)

The objective of their study was to compare the perceived information requirements of two user groups of annual reports, namely commercial bank loan officers and professional financial analysts. The study revealed that bankers, when making term loan decisions, did not value information to the same extent as did financial analysts when making common stock investment decisions. This conclusion held good for 51 of the 79 information items in which a significant difference was noted.

6.3.3 Firth (1978)

In view of the fact that financial directors are responsible for determining the disclosure policy that the company should adopt after considering the needs of the end users, Firth examined the importance of individual voluntary disclosure items as weighted by finance directors, auditors, financial analysts and bank loan officers. His findings revealed that the importance rating by finance directors and auditors was similar with that of financial analysts but significant differences were found between the two groups.

6.3.4 McNally, Eng and Hasseldine (1982)

Their study focused on the importance of financial and non-financial information by surveying attitudes of financial editors and stock exchange members and relating these user preferences to the level of disclosure of companies listed on the New Zealand Stock Exchange. Their findings indicated that the level of disclosure was considerably lower than that considered desirable by the external users and that size was a dominant corporate characteristic in establishing the leading companies as far as voluntary disclosure practices were concerned.

6.3.5 Firer and Meth (1986)

In their study Firer and Meth investigated the extent to which the non-statutory information requirements of investors were met by disclosure practices in the annual reports of South African companies. Little positive correlation was found between the investors' information requirements and the disclosure of such information in annual reports.

6.3.6 Courtis (1992)

Courtis used a metatheory to accumulate findings across 11 studies over a period of 16 years. All the studies based their analysis on means calculated from perception aggregations from lists of information items. Of the 475 items of information contained within these studies, 63 common items were identified. The purpose of the investigation was to determine whether perception consensus existed across diverse studies and between different user and preparer groups.

Their findings may be summarised as follows:

- approximately 30% of the common items were perceived consistently in terms of their information importance by users and preparers;
- information items with a future orientation were, as a group, perceived to be more important than items with an historical or current period orientation;
- financial analysts appeared to exercise less variability than other groups in their perceptions about the importance of specific items;
- sophisticated users perceived items to be more important than non-sophisticated users with regard to investment and bank loan decisions;
- financial analysts attached more importance to items than the preparers of the information; and
- per item group perceptions appeared to be the same.

6.3.7 Eccles and Mavrinac (1995)

In and effort to determine the key factors for a high level of corporate disclosure, Eccles and Mavrinac focused on the disclosure process itself and on perceptions of constituents. They conducted a survey of corporate managers, financial analysts and portfolio managers, to determine their opinions on disclosure regulations and how companies communicated with the capital markets. Their findings revealed that although their respondents did not support an increase in the regulation of disclosure, there was a need for companies to upgrade the role of the investor relations personnel, to voluntarily report non-financial information, to formulate explicit disclosure strategies and policies, and to reach out to capital market customers and solicit their needs, opinions and preferences in order to close the communication gap.

A summary of research studies on the perceptions of compilers and users is provided in table 6.3 with information on the number of voluntary disclosed items used in the survey, the user groups included in the sample and the scale that the researcher used for grading items.

Table 6.3 Summary of previous studies examining perceptions of users and compilers showing number of disclosure items, type of user groups and scale

Researcher	Year	No. of items	Type of user groups	Scale used	No. of Respondents
Buzby (USA)	1975	39	Financial analysts	0 - 4	131
Benjamin and Stanga (USA)	1977	79	Bank loan officers and professional financial analysts	0 - 4	208
Firth (UK)	1978 1979	75	Financial directors, auditors, financial analysts and bank loan officers	1 - 5	Various samples
McNally, Eng and Hasseldine (New Zealand)	1982	41	Financial editors and Stock exchange members	1 - 5	9
Firer and Meth (South Africa)	1986	49	Members of the Investment Analysts Society of Southern Africa	1 - 5	137
Courtis (Australia)	1992	63	Private shareholders	1 - 5	274
Eccles and Mavrinac (USA)	1995	-	Corporate managers, financial analysts and portfolio managers	1 - 7	-

6.4 Conclusion

Past research suggests that there is a positive association between voluntary disclosure policies of companies and company size, number of shareholders, listing status, industry type, analysts' forecasts and good news versus bad news.

The presence of perception consensus within a set of specified studies and between user and preparer groups was investigated by Courtis (1992) in order to cumulate findings across the broad spectrum of time and culture. All 11 studies, most of which are mentioned in table 6.3, used respondent perceptions to information items as the basis for computing overall means. He concluded that approximately 30% of the items-in-common are perceived consistently in terms of their information importance by users and preparers.

CHAPTER 7

RESEARCH METHODOLOGY

7.1 Introduction

Before the results of the empirical tests are discussed in chapters nine and ten, two research methodologies are first discussed in this chapter. The aim of the first research methodology was arrived at establishing the extent of voluntary disclosure in the annual reports of listed industrial companies on the Johannesburg Stock Exchange in order to test the primary hypothesis (namely, extent of voluntary disclosure was associated with various company characteristics). The aim of the second research methodology was to examine how important each voluntary disclosure item was in order to test the hypothesis that there were no significant perceptual differences between users and compilers regarding the importance of voluntary disclosure practices. Finally, by analysing the results of the two research studies, recommendations are made as to how management can close the information gap between corporations and investors.

Two entirely different research methods were used in this study to capture the necessary data, the first being a disclosure index that was used to measure the extent of voluntary disclosure and the second being a questionnaire survey that was used to investigate the level of importance of voluntary disclosure as perceived by users and compilers. The research methodologies for each study are discussed.

7.2 First empirical study on the extent of voluntary disclosure

The first empirical study concerned extent of disclosure and the following procedure was followed for:

- a disclosure index was developed and designed to measure the extent of voluntary disclosure in annual and interim reports with reference to methods used in prior research studies in this field;

- the population and selection criteria for the companies used in the research were determined and the basis for deciding on these criteria and the actual selection are discussed in paragraph 7.2.2; and

- the time interval during which the extent of voluntary disclosure in annual and interim reports were to be measured, was selected and considerations for the choice are discussed in paragraph 7.2.3.

7.2.1 The development and design of a disclosure index

The disclosure index used to measure the extent of voluntary disclosure was originally initiated and conceptualised in 1964 by a panel of judges from the editorial staff of the *Financial Mail*. The purpose was to establish a set of objective measures that would enable them to select 20 companies listed on the Johannesburg Stock Exchange whose annual reports could be regarded as superior in quality and that provided extensive additional information beyond the required minimum. During the period 1964 to 1970, the disclosure index consisted of various information items considered informative at the time for making investment decisions.

A mark was attached to each item, based on how important each item was considered to be. Marks were awarded as follows:

Item	Marks awarded
Publication of the annual report within three months after the financial year end	1
A clear identification of the activities of the company	2
Disclosure of turnover figures	2
A breakdown of income or turnover by category of business	2
A discussion of future prospects	2
Publication of a source and application of funds statement	1

Although the disclosure index appears to be elementary and simplistic, it is interesting to note that the average mark awarded to the 335 annual reports of industrial and industrial-financial companies with financial year ends during 1966, that were analysed, was a very low 3.6 out of the possible 10 marks. In fact the average time taken after the financial year end, to publish the annual report, was four months (*Financial Mail*, 1967:12).

Apart from the disclosure index, additional marks were awarded for reports providing disclosures such as charts, diagrams, tables of comparative statistics for previous years, an analysis of the cost of production (perceived as the precursor of the value added statement), disclosure of capital expenditure for present and future years and a chairman's report containing disclosure of any developments, either favourable or unfavourable. Bonus points were also awarded for additional disclosure of key ratios such as net asset value per share, profit as a percentage of sales and capital employed, net earnings per share and normal earnings after adjusting for non-recurring and capital items. Factors such as design, lucidity, layout and the availability of the annual report in English and Afrikaans were also taken into account.

In 1971, the marking process was extensively refined by this researcher together with Prof. A P Zevenbergen (who was at the time head of the Bureau of Financial Analysis of the University of Pretoria) and financial experts on the staff of the *Financial Mail*. A more sophisticated scoresheet evolved together with comprehensive guidelines on the scoring system to be followed in the completion of the scoresheets. In addition, the data extracted from the scoresheet was computerised for the first time to validate the judging system. Since 1971, the evaluation criteria has been adjusted biannually, for example by eliminating voluntary disclosed items that had became mandatory in terms of the Companies Act. Also, if the majority of the companies were disclosing a certain item that formed part of the index, it was no longer a discretionary item and was dropped from the scoresheet. Over the years additional items were also added as they became increasingly important to the investors. As a result of the fact that the publication of half-yearly interim reports became compulsory for all listed companies, an evaluation of the interim report was subsequently included in the exercise in addition to the evaluation of the annual report of the company.

In 1977, a more sophisticated system based on 100 points was devised and the revised rules for the competition were published annually in the *Financial Mail* to encourage higher reporting standards. Table 7.1 contains a list of the index of voluntary disclosed items used to measure the extent of voluntary disclosure in annual and interim reports in 1977 and the maximum marks awarded for each item.

Table 7.1 Index of common voluntary disclosed items used to measure the extent of voluntary disclosure in 1977

Description of voluntary disclosed item	Maximum marks awarded
Publication of the annual report within three months after year end	8
A source and application of funds statement	7
Actual turnover figures	15
A detailed discussion of the main activities of the group and its subsidiaries	10
Analysis of profits from various activities	15
Chairman's or directors' comments on future prospects	15
Availability of the report in English and Afrikaans	3
Separate or combined chairman's and director's report	3
Qualifications and experience of top management	3
A comparative table of statistics for five years or more	7
A list of subsidiaries and relevant activities	7
Present value of fixed assets	7
Total marks	**100**

In order to avoid the problem of errors on the evaluation scoresheets, a copy of the completed scoresheet has been sent to the financial director of the relevant company for verification since 1984. Any disagreements or discrepancies were immediately rectified and the company notified of the amendment. To obtain copies of the annual and interim reports for evaluation purposes, the facilities of the Bureau of Financial Analysis (BFA) of the University of Pretoria was used. As the BFA is on the mailing list of all quoted companies, it consistently updates its library of annual reports directly from the quoted company as soon as the annual report is published, or it obtains reports from the Johannesburg Stock Exchange.

The disclosure index used in this research is based on the *Financial Mail's* 1998 index. As each disclosure item is not equally important, a weighted scoring approach was decided upon by the researcher based on a predetermined scale of importance. This weighted scoring system developed over the years was based on the relevant importance of the item with a higher weighting awarded to an item that was very important. Secondly, the extent and quality, that is, the completeness, accuracy and reliability of the disclosure was also graded. This approach is similar to the approach followed in research studies of Cerf (1961), Singvhi and Desai (1971), Benjamin and Stanga (1977), Buzby (1974 and 1975), McNally, Eng and Hasseldine (1982), Malone, Fries and Jones (1993) and Meek, Roberts and Gray (1996). Other surveys such as those of Cooke (1992) and Negash (1995) used a dichotomous approach in allocating scores to the disclosure items, that is an item scores one if disclosed and zero if not disclosed.

The voluntary disclosure items selected for this study includes items similar to those used in the research studies of Buzby (1974 and 1975), Firth (1979 and 1984) and Adams and Hossain (1998) (see chapter 6 for a full discussion). In cases where an item was considered to be inapplicable or irrelevant to the company being evaluated, the fact was recorded as such to prevent the company from being penalised for non-disclosure for that particular item.

Annexure 1 contains an example of the evaluation scoresheet used by the Bureau of Financial Analysis in 1998 and annexure 2 sets out the guidelines for completing the scoresheet. The disclosure index used for this study is set out in table 7.2 and shows the item code used on the scoresheet, the maximum score obtainable for each item, the percentage disclosure level for the sample in 1998, the mean scores and the standard deviation.

Table 7.2 Index of common items used to measure the extent of voluntary disclosure in annual and interim reports for the period 1993 to 1998

Voluntary disclosed item	Item code	Max. score	Dis-closure level %	Mean	Std. dev.
Profile of board of directors	Q1	4	62.9	2.517	1.672
Profile of top management	Q2	4	46.0	1.838	1.824
Individual share holdings of directors and top management	Q3	5	24.0	1.200	1.892
Distribution of share holding	Q4	5	76.8	3.840	2.057
Contents of director's and chairman's report:					
- detailed description of activities	Q5.1	4	83.9	3.354	1.151
- reasons for changes in results	Q5.2	5	86.4	4.318	1.256
- statement of corporate objectives, goals or mission statement	Q5.3	2	58.5	1.169	1.145
Long-term corporate planning	Q6	8	26.5	2.123	1.895
Statement of dividend policy	Q7	4	17.7	0.709	1.390
Period of publication after year end	Q8	4	69.3	2.773	1.492
Number of years of table of statistics	Q9	4	85.0	3.40	0.988
Contents of table:					
- turnover	Q10.1	1	88.2	0.882	0.323
- number of shares issued	Q10.2	1	73.1	0.731	0.444
- ratios: profitability, solvability, liquidity and productivity	Q10.4	8	47.8	3.789	2.838
- definitions of terms and ratios	Q10.5	1	49.9	0.499	2.838
- number of employees	Q10.6	2	55.1	1.101	0.500
Analysis of stock exchange performance, JSE index and share ratios	Q11	11	47.6	5.239	3.652
Activities of subsidiaries	Q13	4	94.1	3.764	0.733
Promotion of products and services	Q14	2	73.9	1.477	0.879
Valuation of fixed property	Q15	6	77.3	4.638	2.422
List of fixed property	Q17	2	79.8	1.596	0.804
Segmental reporting	Q18	7	77.8	5.448	2.042
Illustrations and colour	Q19	1	75.3	1.753	0.432
Graphical presentation	Q20	2	63.8	1.275	0.899
Highlights	Q21	1	79.7	0.797	0.402

Table 7.2 (continued)

Voluntary disclosed item	Item code	Max. score	Dis-closure level %	Mean	Std. dev.
Shareholders'/Lender's diary	Q22	1	79.9	0.799	0.401
Group structure	Q23	4	63.9	2.554	1.768
Value added statement	Q24	6	61.9	3.715	2.887
Inflation reporting	Q25	5	18.6	0.931	1.727
Employment reporting	Q26	6	38.7	2.320	2.446
Environmental protection and social responsibility	Q27	6	14.8	0.886	1.721
Research and development projects	Q28	3	22.9	0.688	1.041
Taxation	Q29	4	89.8	3.591	1.048
Money exchanges with government	Q30	4	34.7	1.389	1.884
Interim report:					
- presentation	Int1	9	42.5	3.826	2.148
- comments on results	Int2	3	77.5	2.326	0.933
- date of publication	Int3	2	38.3	0.766	0.973
- future prospects	Int4	4	22.2	0.889	1.437

n = 1 128 (The disclosure scores of 188 companies for the six-year period, 1993 to 1998)

Table 7.3 contains a list of the disclosure items eliminated from the final empirical analysis. These items did not feature on the scoresheets for the full six-year period as a result of the fact that the rules were reviewed biannually.

After eliminating some of the items listed in table 7.3, 34 voluntary disclosed items from the annual report and four voluntary disclosed items from the interim report remained which were deemed to be useful to users for decision making purposes. These are the items that made up the final index which was used in this study.

Table 7.3 Items eliminated because they had not been included for the full period

Voluntary disclosed item	Item code	Maximum score obtainable					
		1993	1994	1995	1996	1997	1998
Composition of audit committee	Q12	-	2	2	4	4	4
Valuation of other fixed assets excluding fixed property	Q16	-	-	-	4	4	4
Corporate governance	Q31	-	2	2	9	9	9
Operating and financial review	Q32	-	8	8	8	8	8
Cash flow statement	Q33	-	-	-	2	2	2
Current liabilities	Q34	-	-	-	2	2	2
Analysis of operating income	Q35	-	-	-	4	4	4
Depreciation of tangible assets	Q36	-	-	-	2	2	2
Compliance with IAS	Q37	-	-	-	2	2	2

7.2.2 Selection of the population and selection criteria

In order to establish the extent of voluntary disclosure in annual and interim reports over the period 1993 to 1998, a population was drawn from the Johannesburg Stock Exchange consisting of companies listed under the industrial section. The sample population was limited to industrial companies firstly because the reporting requirements and disclosure methods of mining companies and financial institutions differ from those of industrial companies and secondly because the industrial section represents a relatively homogeneous group with regard to industry characteristics. This sector is thus suitable for interindustry analysis and lends itself to an examination of the informativeness of voluntary disclosure across enterprises.

In order to eliminate any possible bias arising from changes in disclosure practices due to changes in listing status, companies had to satisfy the following criteria to be included in the sample:

- companies had to be listed under the industrial section of the Johannesburg Stock Exchange throughout the six-year period from 1993 to 1998;
- the company must have published annual and interim reports for each year from 1993 to 1998;
- the company must not have changed its financial year end during the six-year period;
- the company must not have been delisted or suspended at any time during the relevant period; and
- the company must not have been subjected to a liquidation process during the period 1993 to 1998.

Table 7.4 provides the sample population of the number of companies in the various sub-sectors of the industrial sector that complied with these requirements. In 1998, the industrial sector on the JSE consisted of 23 sub-sectors of which the largest was the electronics sector (consisting of 46 companies) while the smallest sector was the paper sector (consisting of only one company). All the annual and interim reports of these industrial companies were analysed for the period of six years and the information was recorded on standard evaluation sheets. A detailed list of the names of the companies included in the first empirical study is given in annexure 3.

The sample resulted in a total of 1 128 evaluation score-sheets as six score sheets were used for each of the 188 companies. The 188 companies represented 58,6% of all the industrial companies listed in 1998. The exclusion of certain companies was attributable to delistings, mergers or financial year end changes with the result that no annual report was published for one of the years between 1993 and 1998.

Table 7.4 Sample population categorised by industry type

Industrial sub sector	Number of companies included in the sample 1993 -1998	% of research sample
Industrial holding	28	14.9
Beverages, hotels and leisure	13	6.9
Building, construction and allied	12	6.4
Chemicals, oils and plastics	6	3.2
Clothing, footwear and textiles	14	7.5
Food	19	10.1
Electronics and electrical	23	12.2
Furniture, household and allied	4	2.1
Engineering	11	5.9
Motor	6	3.2
Printing and publishing	12	6.4
Pharmaceutical and medical	6	3.2
Media	4	2.1
Stores	19	10.1
Steel and allied	2	1.1
Transportation	5	2.7
Paper	1	0.5
Development capital	3	1.6
TOTAL	**188**	**100**

7.2.3 Selection of the time interval

Annual and interim reports published during the years 1993 to 1998 were examined to establish the extent of voluntary disclosure. A six-year period was deemed necessary to achieve maximum reliability, validity and quality of research data.

7.3 Second empirical study on the perceptions of compilers and users

The primary purpose of the second study was to identify the extent of perception consensus on the importance compilers and users attached to each voluntary disclosed item in annual reports. A direct research approach was decided upon and a questionnaire was sent to constituents of annual reports which contained questions pertaining to the voluntary information disclosure needs of these groups. Financial information in the financial statements that was mandatory and which had been proven historically to be of little value when analysing a company's performance was excluded. Rather, attention was focused on the additional voluntary disclosed information as was identified in chapter 5.

The research methodology used for the second research study was based on that of studies that had been identified in chapter 6. This method of research entailed the collection of data relating to facts, attitudes, opinions and beliefs in a planned manner. In order to gather the data on the perceptions of constituents, users and compilers of annual reports were requested to examine lists of voluntary disclosed items in financial reports and to evaluate each item on a designated scale of importance by means of a mail questionnaire.

The following procedure was followed for the second empirical study, namely the perceived importance users and compilers attach to voluntary disclosed items:

- examination of the advantages and disadvantages of mail questionnaires, in order to choose the most appropriate method;
- choosing the design and content of the questionnaires;
- questionnaires and refinement;
- pilot testing of questionnaires;
- selection of the population group and specification of the selection criteria ;
- selection of the time interval; and
- data preparation and processing.

7.3.1 Reasons for choosing mail questionnaires

A mail questionnaire for gathering data was deemed appropriate because it has the following advantages as opposed to personal interviews:

- users and compilers of annual reports are accessible through the mail over a widely dispersed geographical area whereas personal interviews can become costly and time consuming;
- a relatively low cost is attached to mailing as opposed to personal interviews which entail travelling and subsistence expenses of interviewers;
- respondents are not pressured with a dead line for remitting the completed questionnaire;
- the relative ease of administering, processing and analysing data from this type of research strategy; and
- the absence of an interviewer eliminates interviewer and participant bias.

The researcher was aware of the drawbacks of mail questionnaires and endeavoured to eliminate them or at least minimise their impact:

- the poor response rate to mail questionnaires was improved by supplying stamped self-addressed return envelopes;
- because poor design may lead to ambiguous answers, care was taken to avoid biases in the wording of the descriptive labels assigned to the voluntary disclosure items and the use of the referent. For example, in this study the market price is dependent on the current economic situation;
- because this study limited the sources of financial information to only two, namely the annual report and the interim report of a company, alternative information sources - for example such as that provided by financial institutions and the press, general and business newspapers, financial magazines, prospectuses and quarterly releases by companies - which could have confused the issue, were eliminated.

Many of the following limitations were eliminated by pretesting the content and design of the questionnaires to avoid biases and this procedure will be discussed in detail in the next section:

- information could not be elaborated on as a result of limitations placed on the length of the questionnaires;
- the reliability of the information obtained was dependent on the willingness, sophistication and integrity of the respondents; and
- because there is a physical separation between the researcher and the recipient, as pointed out by Courtis (1992:32), interpretations, reactions and replies could not be observed and rectified if necessary.

7.3.2 Design and content of the questionnaires

It was essential that careful consideration be given to the development, design and testing of the questionnaires in order to achieve maximum reliability, validity and quality of data captured by means of mail questionnaires. The questionnaires were designed to extract from internal and external users of annual and interim reports of the listed industrial companies the relative importance of voluntary disclosed items within the context of an evaluation of a company's shares as a potential investment. The questionnaires were designed to incorporate, where possible, similar voluntary disclosed items as those incorporated in the evaluation scoresheet which was used to measure the level of voluntary disclosure in annual reports. This was essential to ensure that the data provided a basis for meaningful comparison of perceptions on the extent of voluntary disclosure.

Based on a review of the literature on voluntary disclosed information (see chapter 6) two questionnaires were formulated with the objective of comparing the importance of voluntary disclosed information as perceived by users and compilers. Questionnaire A (annexure 7), was sent to the compilers of annual reports, namely the financial directors or chief accounting officers of industrial companies listed on the Johannesburg Stock Exchange during 1998. It was deemed necessary to obtain the personal perceptions and opinions of these persons irrespective of the policy of the company in which they were employed, concerning the importance of voluntary disclosure in annual reports and its effect on share market prices.

Questionnaire B (annexure 9), was mailed to a random sample of corporate shareholders who privately owned shares on the Johannesburg Stock Exchange. The questionnaire was also sent to a random sample of financial analysts and stockbrokers, members of the Johannesburg Stock Exchange, financial editors, investment analysts employed by financial institutions such as banks, auditors and academics. The purpose of the questionnaire was to elicit the personal perceptions on the importance of voluntary disclosed items and the effect on share market prices of these persons.

In order to improve the response rate, respondents were advised in a covering letter (annexure 6 and 8) accompanying each questionnaire that their identity was not required and that their answers would be treated with strict confidentiality. However, for administrative and control purposes each questionnaire was assigned an individual code number. Individual respondents are therefore not identified in an annexure to protect their identities.

The length of the questionnaires were limited to eight A4 size pages in booklet form. In order to increase the response rate, respondents were assured that it would not take longer than ten minutes to complete the questionnaire. Attention was given to the way in which each question was compiled to make the completion of the questionnaire more interesting, so that some are multiple choice questions with single or multiple responses. Furthermore, open-ended questions were limited. In addition, respondents were motivated to respond by adding a request form in the covering letter for a copy of the results of the survey should they be interested.

For comparative purposes, both questionnaires were divided into three sections:

Section 1 dealt with the biographical profile of the respondent and was limited to five questions. The purpose of the questions was to gauge the level of sophistication of the respondent. Four of the five questions on biographical profile of the respondents were exactly the same for both compilers and users:

Question 1.1	the respondent's highest level of academic education;
Question 1.2	the number of years' experience in the field of accounting or finance;
Question 1.3	the respondent's primary reason for investing in shares of a company; and
Question 1.4	how useful did the respondent find the annual and interim reports when making investment decisions.

Question 1.5 in questionnaire A, addressed to compilers, concerned their position or rank in the company while question 1.5 in questionnaire B (to users) concerned the size of the share portfolio held or managed by them. The descriptive statistics on the biographical profile of respondents will be discussed in paragraph 7.4.

Section 2 of both questionnaires contained general questions on perceptions of the usefulness and importance of corporate reports for investment decisions. Questions 2.1 to 2.7 were the same for both population groups:

Question 2.1	Do you believe that the share prices on the Johannesburg Stock Exchange react immediately to information made public?
Question 2.2	Which *five* most important sources of information are used by you when making an investment decision?
Question 2.3	Do you use corporate reports for investment decisions?
Question 2.4	What do you normally do upon receipt of a corporate report?
Question 2.5	Who do you regard as the most important users of corporate reports?
Question 2.6	How important are the characteristics of corporate reports that enhance the usefulness of information obtained from corporate reports?
Question 2.7	Which sections of a corporate report are the most important?

Question 2.8 was worded differently to accommodate the opinions of the respective groups. In questionnaire A it was worded as follows: Has your company appointed the following committees in accordance with the requirements of the King Report on corporate governance? In questionnaire B it was worded as follows: Is it important to you as a user of corporate reports for a company to appoint the following committees in accordance with the requirements of the King Report on corporate governance?

Questionnaire A contained a further question, namely: Do competitions for best reporting practices affect your company's voluntary disclosure policy? The descriptive statistics of section 2 are discussed in chapter 2 and chapter 3.

Section 3 consisted of questions on perceptions of importance of a list of voluntary information items aligned with those incorporated in the evaluation scoresheet used to measure the extent of voluntary disclosure in annual and interim reports. The ten questions of this section were the same for both groups. (See Chapter 9) In both questionnaires, the compilers and users were required to rate or rank each disclosure item according to a designated importance scale. The scale was based on the level of importance they personally attached to voluntary disclosed items with regard to its price informativeness when making investment decisions. Similar scales were used by Firth (1984), McNallly, Eng and Hasseldine (1982), Firer and Meth (1985) and Courtis (1992). A summary of which is available in chapter 6, table 6.3.

A five-point scale was used in this survey with 5 being very important, 4 being fairly important, 3 being moderately important, 2 being slightly important and 1 being unimportant. On a Likert scale such as this one, a score of 4 or 5 indicates that the item is perceived to be essential within its task framework. A score of between 3 or 2 indicates that the item is perceived as fairly important but not essential, while a score of 1 indicates that the item could be disregarded for disclosure purposes.

7.3.3 Pilot testing the questionnaires

In order to test the validity and clarity of the content and format of the questionnaires, a concept questionnaire with a covering letter was drafted and presented to a pilot group of academics, the promoter of the study and a selected group of share portfolio holders. The cover letter (annexure 4) emphasised the importance of the research, the nature of the subject being investigated and the reason why they were chosen for the pilot test. The names of the person who participated in the pilot group and their fields of expertise is provided in Annexure 5. Recommendations and criticisms made by the pilot group were taken into account in the final layout and content of the questionnaires. The questionnaires were also discussed in depth with statisticians at the University of Pretoria to guarantee that statistically usable information would be obtained.

7.3.4 Selection of the population and the selection criteria

The main objective of a corporate annual report, namely to be a communication tool between the management of the company and the owners of the company, formed the basis for the identification of the population groups for this study. It resulted in two population groups being chosen for this survey, namely:

- compilers of corporate reports, that is financial directors of industrial companies quoted on the Johannesburg Stock Exchange, because of their expertise and responsibility in preparing annual and interim reports; and

- users of corporate reports - consisting of shareholders, portfolio managers, stockbrokers, financial analysts, academics, financial advisors of financial institutions and public accountants - because of their interest in annual and interim reports.

7.3.4.1 Selection of compilers of annual reports

Financial directors and financial managers are not only responsible for the preparation and contents of the annual report but represent a financially sophisticated and knowledgeable group. In addition, they are constantly exposed to new developments in reporting practices and are held accountable to shareholders and future shareholders as far as corporate governance is concerned.

Financial directors or chief accountants of industrial companies were selected for the following reasons:

- they are responsible for verifying the correctness of the *Financial Mail* evaluation sheet for that particular company;
- directors have over the years become familiar with the voluntary disclosure items that have been introduced into the *Financial Mail* competition; and
- these persons are responsible for the planning, design and contents of the annual report of their respective companies.

The target group chosen regarding the compilers of annual reports was the financial directors of all the quoted industrial companies on the Johannesburg Stock Exchange, as identified in the JSE handbook of 1998 (annexure 3 contains an alphabetical list of the names of these companies). The questionnaire and covering letter were sent to each of these persons. In an attempt to encourage a higher response rate, the questionnaire was accompanied by the *Financial Mail* Annual Report Award evaluation sheet (annexure 1) together with the criteria governing the allocation of marks for various voluntary disclosed items (annexure 2). Annual mailing of the evaluation sheet to the respective companies is a standard procedure for the Bureau of Financial Analysis of the University of Pretoria and the purpose is to give financial directors an opportunity to verify the evaluation sheet, comment on any discrepancies and offer suggestions.

A total of 357 questionnaires were mailed and 129 were returned and utilised in the study. The response rate of 36% was deemed adequate.

7.3.4.2 Selection of users of annual reports

The second target group, namely the users of annual reports, is a highly diversified group consisting of stockbrokers, share portfolio holders, accounting academics, accounting conference delegates, members of professional accounting bodies and individual investors from the general public. The group was selected on the basis that they are all primary users of corporate reports, are financially literate and are actively engaged in evaluating investments. Questionnaire B, a letter explaining the nature and purpose of the research project and a self-addressed stamped envelope to encourage response was mailed to the selected users. Users were randomly selected from lists of brokers, lists of clients obtained from brokers and lists of financial analysts. Of the 500 questionnaires mailed to users of corporate reports, 102 (20,4%) were returned and included in the sample.

7.3.5 Selection of the time interval

The period of the survey was selected to meet the following criteria:

- The questionnaires addressed to compilers were mailed towards the end of 1998 and early in 1999 together with the *Financial Mail* evaluation sheets which were completed as the 1998 annual reports were received and evaluated.

- The questionnaires addressed to users were mailed during June and July of 1998.

7.3.6 Data preparation and processing

The data collected on the questionnaires was edited for relevance, completeness and accuracy and incomplete questionnaires were discarded. The data was then coded by the researcher and sent to the Department of Statistics of the University of Pretoria for processing. The captured data was then loaded onto the Statistical Analysis System (SAS) of the Bureau of Financial Analysis.

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 most common level of statistical significance used in practice, that is 1% was used in this study. The tables in chapter 9 provide the F-values or the degrees of freedom, and probability values which indicates whether the results between the two groups are statistically significantly different or not.

7.4 Descriptive statistics of the biographical profile of the respondents

The information obtained from question 1.1 of the questionnaires on the level of academic education of the respondents is presented in table 7.5.

Table 7.5 Level of academic education of respondents

Highest level of academic education	Compilers		Users	
	No. of respondents	% of total	No. of respondents	% of total
Matric	1	0,8	1	1,0
Diploma or technical qualification	4	3,1	3	2,9
Bachelors degree	8	6,2	14	13,7
Honours degree	6	4,7	3	2,9
Chartered accountant	93	72,1	57	55,9
Masters degree	17	13,2	16	15,7
Doctorate or PhD	0	0,0	8	7,8
TOTAL	129	100	102	100

The above statistics show that the majority of the respondents are highly qualified in the field of accounting with 93 (72,1%) of the compilers and 57 (55,9%) of the users being qualified chartered accountants. In a similar study conducted by Anderson and Epstein (1996:32) 63% of their respondents in the United States, 44% in Australia and 44% in New Zealand were university graduates.

Question 1.2 dealt with the number of years of experience in the field of investment analysis (users) or finance (compilers) and the statistics are combined in table 7.6.

Table 7.6 Experience in the field of investment analysis

Number of years experience	Compilers		Users	
	No. of respondents	% of total	No. of respondents	% of total
Less than 10 years	32	25.0	40	39.2
10 - 20 years	45	35.2	42	41.2
More than 20 years	51	39.8	20	19.6
Total	**128**	**100.0**	**102**	**100.0**

In view of the fact that no less than 96 (70,0%) compilers and 62 (60,8%) users had more than ten years of experience proves that the respondents were highly knowledgeable, financially sophisticated and experts in their field.

In order to determine the reliability of the data, it was necessary to obtain some idea of the compilers position in the company. This information was elicited by means of question 1.5, in questionnaire A. This question was aimed at establishing whether the respondent was actively engaged in the preparation of a corporate report and whether he or she was familiar with voluntary disclosure. Table 7.7 sets out the managerial positions held by the respondents of questionnaire A: 2,3% acted as managing directors, 48,1% held the position of financial director, 13,2% operated as chief accountants, 14,7% were financial controllers and 7,0% were company secretaries. The fact that 48,1% of the respondents held the position of financial director of the company implies that they were financially sophisticated and therefore could be held accountable.

Other positions held were group financial manager, financial manager, project accountant, senior manager of group finance, group tax advisor, planning and public relations executive, technical accounting manager, general manager of finance, corporate accountant and commercial director.

Table 7.7 Managerial position held by compilers of corporate reports

Position or rank held in the company	No. of respondents	% of total
Managing director	3	2,3
Financial director	62	48,1
Chief accountant	17	13,2
Financial controller	19	14,7
Company secretary	9	7,0
Other	18	14,0
Position not specified	1	0,8
Total sample	**129**	**100,0**

Question 1.5 in questionnaire B addressed the size of the respondents' share portfolio. The question was included in the questionnaire in order to determine the relative distribution of respondents in relation to the size of their share portfolios held or managed. Table 7.8 shows that 52 (51%) of the users held or managed share portfolios in excess of R100 000 with 9 (8,8%) holding or managing portfolios in excess of R50 million. The distribution of the users can therefore be regarded as being representative of the investor group as a whole.

Table 7.8 Size of share portfolio/s held or managed by users of corporate reports

Size of share portfolio/s held or managed	No. of respondents	% of total
Not applicable as no share portfolio held	18	17,6
Less than R100 000	32	31,4
R100 000 to R999 999	31	30,4
R1 million to R50 million	12	11,8
Over R50 million	9	8,8
TOTAL	**102**	**100**

Respondents were next asked whether they used corporate reports for investment decisions. Respondents who answered positively were asked to complete the rest of the questionnaire while those whose response was "No" were asked to give a reason for not using annual reports. They were asked to return the questionnaire without answering the rest of the questions.

Of the user respondents, 71 (70,3%) answered "Yes" and completed the questionnaire, while 28 (27,7%) answered "No". Seven (6,9%) of the latter group nevertheless completed the rest of the questions. As far as compilers were concerned, 101 (78,9%) answered "Yes" to the question and completed the rest of the questionnaire. The remaining 27 (21,1%) answered "No" and returned the questionnaire without completing it further.

In the next question, users and compilers were asked to describe how they treated a corporate report. From their response, which is illustrated in table 7.9, it would appear that only about a quarter 21,2% of the total respondents read a corporate report in depth for analysis purposes, while most 77,2% simply browsed through it for specific information.

Table 7.9 Users' and compilers' responses to the question: What do you normally do upon receipt of a corporate report?

Action taken on receipt of a corporate report	Users		Compilers		Weighted average %
	No. of respondents	% of total	No. of respondents	% of total	
Read it in depth for analysis purposes	25	31,6	16	14,0	21,2
Browsed through it for specific information	53	67,1	96	84,2	77,2
Discarded it without reading it	1	1,3	1	0,9	1,0
No opinion	0	0,0	1	0,9	0,5
Total	**79**	**100,0**	**114**	**100,0**	**100,0**

7.5 Conclusion

The different research methodologies and research instruments that were used in this study, were explained in this chapter. The first step was to design and implement a disclosure index in order to measure the extent of voluntary disclosure in corporate reports of listed South African companies. Secondly, the perceptions of compilers and users on the relative importance of the voluntary disclosed items were surveyed by means of questionnaires.

As the research instruments are cardinal to the success of this study, emphasis was placed on the following aspects:

- development, design, content and layout of the disclosure index and questionnaires;
- verification of the score sheets and pilot testing of the questionnaires;
- selection of the population and selection criteria;
- preparation of the covering letters to accompany the questionnaires; and
- determination of the time interval.

The size of the sample companies complying with the selection criteria were tabulated according to industry type and the biographical profile of the respondents were summarised in tabular form in order to measure their level of financial sophistication.

In the next two chapters, the findings of the two research studies are presented, discussed and assessed.

CHAPTER 8

RESULTS OF THE FIRST EMPIRICAL STUDY

8.1 Background to hypothesis formulation

The aim of the research is firstly, to test the hypothesis that the extent of voluntary information disclosure in annual and interim reports of listed industrial companies on the Johannesburg Stock Exchange is associated with structural and performance characteristics of companies. Secondly, by providing justification for the inclusion of voluntary information in corporate reports, the object is to extend the traditional mandatory financial reporting framework to the inclusion of all types of non-mandatory information, thereby satisfying the needs of the constituents of corporate reports.

In this chapter the procedure followed is as follows:

- the formulation of hypotheses of this study;
- statistical procedures and analysis of the data;
- presentation and interpretations of the correlation and regression results; and
- conclusions regarding the hypotheses.

8.2 Formulation of hypotheses

In proving that the extent of voluntary disclosure in annual reports is associated with company characteristics, the study addresses the following three testable hypotheses:

Hypothesis 1

A company's performance characteristics are related to the extent of its voluntary disclosure in annual and interim reports, where performance is measured by earnings per share, dividend per share, return on total assets, return on equity, total asset turnover, inventory turnover and debtors' turnover.

Hypothesis 2

A company's structural characteristics are related to the extent of its voluntary disclosure in annual and interim reports where one structural variable, namely the size of the company, is measured by total assets, total interest-bearing debt, long-term debt to equity, market capitalisation, growth on total assets - year on year, current ratio and quick ratio.

Hypothesis 3

The level of a company's share price is positively associated with company characteristics and extent of disclosure.

8.3 Descriptive statistics

Two dependent variables used in the stepwise regression are share price and extent of voluntary disclosure. The share price is measured by dividing the total value of shares traded during a month by the total number of shares traded during the month, resulting in a weighted average price during the last month of a company's financial year. The disclosure index developed for each annual and interim report of the sample companies included in the survey consists of 34 items, with each item being scored on its respective weighted scale of importance. In total 188 annual and interim company reports were evaluated over the six year period yielding a total sample of 1 128 evaluations. Table 8.1 provides a summary of the extent of disclosure over the period 1993 to 1998. The mean score is calculated as the aggregate voluntary disclosure score of all the sample companies for that particular year, expressed as a percentage of the maximum number of points obtainable, namely 151.

The descriptive statistics suggest that from 1993 to 1997 there was a gradual improvement in the mean level of voluntary disclosure by the sample companies. This moderate increase may be attributed to the reluctance of corporations to change their disclosure policies radically for reasons such as corporate culture and the cost-benefit factor. However, this improvement was followed by a decline in voluntary disclosure in 1998, which may be attributed to the market crash in November 1997 and again in the second half of 1998. Companies were apparently hesitant to report bad news and therefore cut back on their disclosure in general.

Table 8.1 Descriptive statistics of extent of voluntary disclosure of sample companies for the period 1993 to 1998

Year	Level of disclosure				
	Mean %	Standard deviation	Coefficient of variation	Lowest score	Highest score
1993	52.2	31.1	38.5	9	141
1994	54.4	30.3	38.2	19	142
1995	57.3	29.0	34.7	21	146
1996	59.0	30.4	34.1	25	148
1997	61.3	28.2	30.4	28	150
1998	58.0	27.5	31.4	29	151

The coefficient of variation showed a declining dispersion from 1993 to 1998, which implies that most companies are conforming to higher levels of disclosure. This may be attributed to the fact that companies that obtained a low rating in 1993 made a concerted effort to improve their level of disclosure, as is evidenced by the fact that the lowest score of 9 in 1993 improved to 29 in 1998. During the same period, the highest score moved from 141 to 151, which is the maximum possible.

Table 8.2 provides a detailed analysis of the extent of voluntary disclosure per item over the six-year period. The percentage per item represents the extent of disclosure per item per year for the sample companies.

Table 8.2 Extent of full disclosure per item for the total sample companies for the period 1993 to 1998

Voluntary disclosed item	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	% Change from 1993 to 1998
Profile of board of directors	38.3	42.6	46.3	53.2	58.0	58.0	> 51.4
Profile of top management	31.9	38.3	34.6	34.6	31.9	32.5	> 1.9
Individual shareholdings of directors and top management	16.5	19.2	19.2	12.8	10.1	9.0	< 45.5
Distribution of shareholdings	58.5	60.6	72.3	82.4	87.2	88.3	> 50.9
Contents of director's and chairman's report							
- Detailed description of activities	70.1	79.8	85.6	91.0	94.2	94.2	>34.4
- Reasons for changes in results	68.9	73.9	83.0	92.6	93.6	94.7	>37.4
- Statement of corporate objectives, goals or mission statement	62.8	64.4	67.0	66.5	62.2	67.6	>7.8
Long-term corporate planning	16.5	14.4	11.7	11.2	14.4	11.7	<29.1
Statement of long-term dividend policy	19.2	20.7	20.7	25.5	25.5	25.0	>30.2
Publication within two months after year end	53.2	55.9	59.6	53.2	53.2	52.7	<0.9
Table of statistics for six years or more	51.1	54.3	55.9	55.3	61.2	63.8	>24.9
Contents of table of statistics							
- Turnover	85.1	85.6	88.3	88.8	91.0	90.4	>6.2
- Number of shares issued	68.6	68.1	73.4	73.4	76.6	78.2	>14.0
- Profitability, solvability, liquidity and productivity ratios	32.5	29.8	33.5	41.0	43.1	47.9	>50.5
- Definitions of terms and ratios	38.3	43.1	50.0	54.3	54.8	59.0	>54.0
- Number of employees	47.3	48.9	51.1	55.9	56.9	56.4	>19.2
Analysis of JSE performance	14.4	15.4	20.2	21.8	23.4	25.5	>7.7
Full disclosure of activities of subsidiaries	87.2	85.6	88.3	90.4	93.6	93.1	>6.7
Promotion of products or services	70.2	73.4	75.0	76.1	72.9	75.5	>7.5
Valuation of land within last five years	77.7	74.5	76.1	74.5	71.8	71.3	<8.2
List of fixed properties available	78.2	81.4	82.5	79.3	80.9	76.6	<2.0

Table 8.2 (continued)

Voluntary disclosed item	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	% Change from 1993 to 1998
Segmental reporting	82.5	80.3	79.8	73.9	73.9	75.5	< 8.5
Illustrations and colour	69.2	72.9	75.5	75.5	79.8	78.7	>13.7
Four or more graphical presentations	52.1	58.5	61.2	58.0	59.0	58.5	>12.3
Disclosure of highlights	74.5	78.2	80.9	80.9	84.6	79.3	> 6.4
Shareholders' diary	77.7	79.3	78.2	81.4	80.9	81.9	> 5.4
Detailed group structure	45.7	52.1	55.9	52.7	59.0	59.0	>29.1
Value added statement	54.3	60.6	60.6	63.8	63.6	68.1	>25.4
Inflation adjusted statements	13.3	12.2	14.9	16.0	13.8	13.3	-
Detailed employment report	18.6	22.9	23.4	26.6	26.6	24.5	>31.7
Environmental report	7.4	8.0	6.9	8.5	12.8	11.7	>58.1
Details of research and development projects	9.6	20.7	10.6	15.4	20.2	10.1	> 5.2
Detailed taxation reconciliation statement	81.4	81.4	79.8	86.7	89.4	92.6	>13.8
Money exchanges with government	27.1	27.1	30.9	39.9	37.2	41.5	>53.1

There was a noteworthy improvement from 1993 to 1998 in the level of disclosure for the following voluntary disclosed items:

- Analysis of JSE performance (>77.1%)
- Environmental report (>58.1%)
- Definitions of terms and ratios (>54.0%)
- Money exchanges with government (>53.1%)
- Profile of board of directors (>51.4%)
- Distribution of shareholdings (>50.9%)
- Profitability, solvability, liquidity and productivity ratios (>50.5%)

It is interesting to note that disclosure on analysis of Stock Exchange performance figures showed the greatest improvement, from 14.4% in 1993 to 25.5% in 1998. While this is an increase of 77.1%, disclosure is still very low. Taking into consideration that users and compilers consider information on the volume and value of shares traded disclosing the lowest, highest and year-end price and a comparison of a company's share price with the industry index as fairly important (see table 9.40) disclosure in this area could be improved.

While environmental reporting improved by 58.1%, it also dropped to a low level of 11.7% in 1998. However, compilers and users view this item as moderately important (see table 9.40) and until government and users put pressure on companies to improve their reporting in this area, the level of disclosure will remain low. A noteworthy improvement was made concerning information disclosed on the biographical profile of the board of directors, with an increase of 51.4%. However, companies were reluctant to improve their disclosure on the profile of top management, increasing by only 1.9% over the six-year period despite the fact that compilers and users considered this information to be fairly important.

The following voluntary disclosed items showed a decrease in the level of disclosure from 1993 to 1998:

- Individual shareholdings of directors and top management (<45.5%)
- Long-term corporate planning (<29.1%)
- Segmental reporting (<8.5%)
- Valuation of land within last five years (<8.2%)
- List of fixed properties made available to the public (<2.0)

Individual shareholdings of directors and top management showed a very low disclosure level of 16.5% in 1993 and deteriorated to 9.0% in 1998, a decrease of 45.5%. As users ranked this information as very important (see table 9.40) companies should be responding to the needs of users by increasing reporting on this item. While corporate objectives, goals and mission statements show a disclosure level of 67.6% in 1998, the disclosure of long-term corporate planning and budgets deteriorated from 16.5% in 1993 to 11.7% in 1998, a decrease of 29.1%. This may be attributed to the fact that companies are afraid to commit themselves to future-oriented information. This may also account for the low disclosure of long-term dividend policies, namely only 25% in 1998.

Disclosure on detailed descriptions of the activities of the company together with a detailed discussion of the changes in the performance of the company are received priority during this period, with on average 94% of the companies complying fully with this requirement in 1998. However, in view of user needs (see chapter 9) and based on 1998 levels of disclosure an area of disclosure that should have received greater priority is the operating and financial review by management which was ranked as the second most important item by users and the most important by compilers.

8.4 Statistical procedure

In line with empirical studies such as those of Singhvi and Desai (1971), Lang and Lundholm (1993), Malone, Fries and Jones (1993), Negash (1995) and Adam and Hossain (1998), various company characteristics are identified and introduced as independent variables. These studies all focused on the association between the extent of voluntary disclosure and company characteristics.

The company characteristics considered in this research are grouped into seven explanatory performance variables and seven structural variables. The association between extent of disclosure and company characteristics is tested by conducting a correlation and stepwise regression analysis. Definitions of the variables and their respective symbols used throughout the following tables are shown in table 8.3.

Table 8.3 Symbols and description of variables used in the survey

SYMBOL	DESCRIPTION
DISCL	Disclosure level
PRICE	Market price of a share is the weighted average price
Performance variables	
EPS	Earnings per share as published
DPS	Dividend per share
RTA	Return on total assets
RE	Return on equity
TAT	Total asset turnover
IT	Inventory turnover
DT	Debtors turnover
Structural variables	
TA	Total assets
TID	Total interest-bearing debt
LTD/E	Long-term debt to equity
MCAP	Market capitalisation
GTA	Growth in total assets - year on year
CR	Current ratio
QR	Quick ratio

8.4.1 Results of correlation with performance variables

A Pearson correlation coefficient analysis is performed to measure the strength of the linear relationship between extent of disclosure, using firstly performance variables and secondly structural variables. The correlation with performance variables is based on the data for the total six-year period and is summarised in table 8.4. The matrix provides preliminary observations for identifying variables of significance for the stepwise multiple regression. The correlation analysis is carried out at a 5% level of statistical significance.

When observing the correlation coefficients, the data shows that price (0.354), earnings per share (0.305) and dividends per share (0.160) are significantly correlated with extent of disclosure. Companies that perform well where performance is measured in terms of earnings per share and dividends per share tended to have higher voluntary disclosure scores. Therefore, hypothesis 1 is accepted given the above relationship between price, earnings per share and dividends per share. These results are consistent with those of Lang and Lundholm (1993), Raffournier (1995) and Patton and Zelenka (1997) who hypothesised a positive association between performance and extent of disclosure. Return on total assets showed a positive association (0.040) with extent of disclosure while return on equity showed a negative correlation (-0.018). Both were significant, however.

Although not specifically stated as part of hypothesis 1 and therefore purely from a point of interest, the following pairwise correlations were noted. The highest simple pairwise correlation between independent variables was 0.769 between price (PRICE) and earnings per share (EPS) implying that higher earnings per share result in higher prices.

There was a significant positive correlation between return on equity (RE) and return on total assets (RTA) at 0.463 and between total asset turnover (TAT) and debtors turnover (DT) at 0.418. Return on total assets is a function of asset management, because the larger the total assets the smaller the return on total assets. On the other hand, the return on equity is influenced by the gearing ratio of the company or the size of the financial leverage factor. The performance variables are time related and a study of Lang and Lundholm (1993) proved that companies are more likely to disclose future oriented information when the company is performing well.

Table 8.4 **Pearson's correlation analysis between extent of disclosure and the performance variables from 1993 to 1998**

Variable	DISCL	PRICE	EPS	DPS	RTA	RE	TAT	IT	DT
DISCL	1.000 0.000								
PRICE	0.354 0.0001*	1.000 0.000							
EPS	0.305 0.0001*	0.769 0.0001*	1.000 0.000						
DPS	0.160 0.0001*	0.356 0.0001*	0.355 0.0001*	1.000 0.000					
RTA	0.040 0.1827	0.046 0.1202	0.119 0.0001*	0.097 0.0011*	1.000 0.000				
RE	-0.018 0.5598	-0.011 0.7157	0.011 0.7029	0.025 0.4106	0.463 0.0001*	1.000 0.000			
TAT	-0.044 0.1472	-0.107 0.0004*	-0.078 0.0098*	-0.059 0.0520	0.055 0.0713	0.031 0.3160	1.000 0.000		
IT	-0.047 0.1186	-0.074 0.0149*	-0.069 0.0235*	-0.032 0.2894	0.023 0.4516	0.036 0.2442	0.181 0.0001*	1.000 0.000	
DT	-0.004 0.9044	-0.050 0.0972	-0.015 0.6256	-0.001 0.9796	-0.001 0.9657	0.003 0.9278	0.418 0.0001*	0.044 0.1477	1.000 0.000

Significance levels are indicated below the correlation coefficients
* Significantly correlated when $p < 0.05$
Number of observations: 1 127.

8.5.2 Results of correlation with structural variables

The structural variables measure company characteristics that remain relatively stable over time. The correlation coefficients in table 8.5 show that price (0.354), total assets (0.314), total interest-bearing debt (0.275), long-term debt to equity (-0.120) and market capital (0.317) are significantly correlated with extent of disclosure. These correlations mean that hypothesis 2 can be accepted, namely that company size, measured in terms of total assets and market capitalisation, is positively associated with extent of voluntary disclosure. This is in line with empirical findings of Singhvi and Desai (1971), Buzby (1975), Firth (1979), Firer and Meth (1985), Chow and Wong-Boren (1987) and Lang and Lundholm (1993) and proves that company size is the best predictor of the extent of voluntary disclosure. Three reasons for this phenomenon are that large companies have access to more and better resources than smaller companies; the marginal cost of collecting the information decreases with company size; and higher levels of disclosure may attract foreign investment and improve investor confidence.

Although not part of the hypothesis 2 and only from a point of interest, it can be noted that the highest simple pairwise correlation between the independent variables was 0.966 between the quick ratio and the current ratio with significant correlations between total assets and total interest-bearing debt (0.821), market capitalisation and total assets (0.771) and total interest-bearing debt and market capitalisation (0.547).

Table 8.5 Pearson's correlation analysis between extent of disclosure and structural variables from 1993 to 1998

Variable	DISCL	PRICE	TA	TID	LTD/E	MCAP	GTA	CR	QR
DISCL	1.000 0.0000								
PRICE	0.354 0.0001*	1.000 0.0000							
TA	0.314 0.0001*	0.430 0.0001*	1.000 0.0000						
TID	0.275 0.0001*	0.332 0.0001*	0.821 0.0001*	1.000 0.0000					
LTD/E	-0.120 0.0001*	-0.053 0.0777	-0.030 0.3161	0.001 0.9838	1.000 0.0000				
MCAP	0.317 0.0001*	0.553 0.0001*	0.771 0.0001*	0.547 0.0001*	-0.036 0.2268	1.000 0.0000			
GTA	-0.009 0.7517	-0.018 0.5442	-0.030 0.3148	-0.014 0.6414	-0.014 0.6485	-0.019 0.5226	1.000 0.0000		
CR	-0.035 0.2376	-0.034 0.2563	-0.034 0.2513	-0.052 0.0796	-0.043 0.1547	-0.038 0.2059	0.114 0.0001*	1.000 0.0000	
QR	-0.029 0.3256	-0.020 0.4946	-0.025 0.4103	-0.038 0.2070	-0.032 0.2891	-0.022 0.4633	0.137 0.0001*	0.966 0.0001*	1.000 0.0000

Significant levels are indicated below the correlation coefficients
* Significantly correlated when $p < 0.05$
Number of observations: 1 127.

8.5 Stepwise regression results

Two main forward stepwise regression models were run using SAS software to test the association between price and extent of disclosure and controlling the effects of variables. For the first regression, price was used as the dependent variable and tested against all the independent variables including extent of disclosure. The second regression used extent of disclosure as the dependent variable which was then tested against all the other variables, including market price.

8.6.1 Company share price as dependent variable

A stepwise regression was carried out using market price as the dependent variable and the 15 independent variables as defined in table 8.3. This was performed for the total period from 1993 to 1998 for the sample companies and the results are tabulated in table 8.6.

Table 8.6 Forward stepwise multiple regression outputs with price as the dependent variable for the total period 1993 to 1998

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS	1	0.6216	0.6216	0.0001
2	MCAP	2	0.0789	0.7006	0.0001
3	TA	3	0.0108	0.7114	0.0001
4	DPS	4	0.0056	0.7170	0.0001
5	RTA	5	0.0050	0.7220	0.0001
6	TID	6	0.0050	0.7270	0.0001
7	DISCL	7	0.0039	0.7309	0.0001
8	CR	8	0.0016	0.7325	0.0132
9	QR	9	0.0046	0.7371	0.0001
10	IT	10	0.0014	0.7385	0.0177
11	DT	11	0.0006	0.7391	0.1278

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

In the case of the data stated in table 8.6, 15 independent variables were entered and 11 were retained at 15% (0.15) level of significance in the final model. These showed a high R^2 level of 74%. Four variables, namely return on equity (RE), long-term debt to equity (LTD/E), growth on total assets - year on year (GTA) and total asset turnover (TAT) did not meet the 0.15 significance level required for entry into the model. Company size measured by market capitalisation, total assets, total interest-bearing debt, and quick ratio is strongly associated with market prices. Performance measures such as earnings per share, dividends per share and return on total assets were also significantly associated. Extent of voluntary disclosure also proved to be a dominant characteristic of a company when examining the effect on share prices.

A forward stepwise regression was then run for each individual year from 1993 to 1998 in order to ascertain which variables were significantly associated with price for the respective years. The results are shown in tables 8.7 to 8.12.

Table 8.7 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1993

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS	1	0.8175	0.8175	0.0001
2	MCAP	2	0.0090	0.8265	0.0031
3	TA	3	0.0086	0.8351	0.0031
4	DPS	4	0.0047	0.8399	0.0261

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

Of the 15 variables entered, including extent of disclosure, only four were significantly associated with price. Two were performance variables, namely earnings per share and dividends per share and two were structural variables, namely market capitalisation and total assets. This means that there were at least four other variables that were more significantly related to share price of the company than disclosure in 1993.

Table 8.8 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1994

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS	1	0.6906	0.6906	0.0001
2	MCAP	2	0.0556	0.7462	0.0001
3	DPS	3	0.0131	0.7593	0.0026
4	DISCL	4	0.0098	0.7691	0.0077
5	TA	5	0.0070	0.7761	0.0225
6	RTA	6	0.0032	0.7793	0.1186

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

In table 8.8, six variables consisting of two performance variables, namely earnings per share and dividends per share, three structural variables, namely market capitalisation, total assets and return on total assets, and extent of disclosure were significantly associated with market prices in 1994.

Table 8.9 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1995

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS	1	0.699	0.699	0.0001
2	MCAP	2	0.068	0.767	0.0001
3	DPS	3	0.029	0.796	0.0001
4	TA	4	0.008	0.804	0.0074
5	GTA	5	0.003	0.808	0.0804

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

In 1995, two performance variables, namely earnings per share and dividends per share and three structural variables, namely market capitalisation, total assets and growth in total assets - year on year were more significantly associated with market price than disclosure at less than 15%.

Table 8.10 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1996

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	DPS	1	0.647	0.647	0.0001
2	EPS	2	0.071	0.717	0.0001
3	MCAP	3	0.048	0.765	0.0001
4	TA	4	0.007	0.772	0.0191
5	LTD/E	5	0.005	0.777	0.0620

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model

In 1996 and 1997, dividends per share, earning per share, market capitalisation and long-term debt to equity were significantly associated with price while total assets was also found to be significant at 0.019 in 1996.

Table 8.11 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1997

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS	1	0.638	0.638	0.0001
2	MCAP	2	0.103	0.742	0.0001
3	DPS	3	0.036	0.778	0.0001
4	LTD/E	4	0.006	0.784	0.0357

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

In 1998, five structural variables, namely market capitalisation, total assets, total interest-bearing debt, current ratio and quick ratio and three performance variables, namely earnings per share, return on total assets and debtors' turnover were found to be significantly associated with market price. However, extent of disclosure did not meet the 0.15 significance level, and therefore did not remain in the model.

Table 8.12 Forward stepwise multiple regression outputs with price as the dependent variable for the year 1998

Step	Variable entered	Re-moved	Variables in	Change in R^2	Model R^2	Probability> F
1	EPS		1	0.497	0.497	0.0001
2	MCAP		2	0.150	0.647	0.0001
3	TA		3	0.019	0.666	0.0024
4	RTA		4	0.018	0.684	0.0021
5	TID		5	0.009	0.693	0.0301
6	DT		6	0.005	0.698	0.0896
7	CR		7	0.004	0.702	0.1339
8	QR		8	0.008	0.710	0.0369
9		DT	7	0.003	0.707	0.2150
10	IT		8	0.005	0.712	0.1124

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

On examining the results on a year by year basis and using the same independent variables, only in 1994 did extent of disclosure enter the stepwise regression as independently contributing significantly towards the explanation of price.

In conclusion, with price as a dependent variable, hypothesis 3 can be accepted for the total period 1993 to 1998 but not on a year by year basis.

8.5.2 Extent of disclosure as dependent variable

For the second main regression, extent of disclosure was used as a dependent variable and tested against 15 independent variables which included company share price. The independent variables retained are summarised in tables 8.13 for the total period 1993 to 1998 and tables 8.14 to 8.19 on a year by year basis.

Table 8.13 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the total period 1993 to 1998

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	PRICE	1	0.1252	0.1252	0.0001
2	TA	2	0.0311	0.1563	0.0001
3	LTD/E	3	0.0100	0.1663	0.0004
4	QR	4	0.0028	0.1691	0.0602
5	RTA	5	0.0021	0.1712	0.1041
6	TID	6	0.0021	0.1733	0.1031

All variables retained in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

For table 8.13, 15 independent variables (PRICE included) were entered and six were retained at 15% (0.15) level of significance in the final model. Price, total assets and long-term debt to equity are the three most important variables that explain the voluntary disclosure levels of the sample companies. The market price of a company's share proved to be the most important independent variable and therefor hypothesis 3 can be accepted.

The stepwise regression using disclosure as the dependent variable was then run for each year of the survey and the results are shown in tables 8.14 to 8.19.

Table 8.14 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1993

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	DPS	1	0.219	5.75	0.0001
2	TID	2	0.040	-1.36	0.0026
3	LTD/E	3	0.009	-1.51	0.1383

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

Of the 15 independent variables entered into the model, only three variables, namely dividends per share, total interest-bearing debt and long-term debt to equity were retained and found to be significantly associated with extent of disclosure in 1993.

Table 8.15 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1994

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	PRICE	1	0.185	0.185	0.0001
2	TID	2	0.040	0.225	0.0031
3	LTD/E	3	0.020	0.245	0.0357

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

In 1994, price was significantly associated with extent of disclosure as well as total interest-bearing debt and long-term debt to equity. The results of table 8.16 show that four variables were retained in the regression in 1995 after market price had been removed.

Table 8.16 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1995

Step	Variable entered	Re-moved	Variables in	Change in R^2	Model R^2	Probability> F
1	PRICE		1	0.163	0.163	0.0001
2	MCAP		2	0.028	0.191	0.0139
3	DPS		3	0.032	0.223	0.0080
4		PRICE	2	0.003	0.221	0.4503
5	LTD/E		3	0.009	0.230	0.1456
6	CR		4	0.015	0.245	0.0622

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

Table 8.17 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1996

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	DPS	1	0.130	0.130	0.0001
2	LTD/E	2	0.055	0.185	0.0007
3	MCAP	3	0.037	0.221	0.0044
4	CR	4	0.014	0.235	0.0765
5	TID	5	0.011	0.247	0.1049

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

Table 8.18 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1997

Step	Variable entered	Variables in	Change in R^2	Model R^2	Probability> F
1	DPS	1	0.128	0.128	0.0001
2	TID	2	0.055	0.183	0.0007
3	LTD/E	3	0.036	0.219	0.0053
4	EPS	4	0.010	0.229	0.1350

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

Long-term debt to equity and dividends per share were common significant variables in 1996, 1997 and 1998 (tables 8.17, 8.18 and 8.19) that were entered into the model and showed a significant association with extent of voluntary disclosure.

Table 8.19 Forward stepwise multiple regression outputs with voluntary disclosure as the dependent variable for the sample companies for the year 1998

Step	Variable entered	Variables in	Change in R^2	Model R^2	Coefficient	Probability > F
1	TA	1	0.080	0.080	0.00	0.0002
2	LTD/E	2	0.029	1.119	-1.69	0.0192
3	DPS	3	0.023	0.132	0.04	0.0335

All variables remaining in the model are significant at the 0.15 level
No other variables met the 0.15 significance level for entry into the model.

8.6 Conclusion

The purpose of this chapter was to examine various company characteristics and their association with extent of voluntary disclosure to determine whether there are systematic differences between companies with varying disclosure levels. The results of the regressions testify to the importance of company characteristics and market price in determining management's decision to improve voluntary disclosure strategies.

Hypothesis 1, namely that the extent of a company's voluntary disclosure policy in annual and interim reports is dependent on performance characteristics of a company, was proved to be positively associated for the period 1993 to 1998 taken as a whole. Secondly it was also proved that the extent of voluntary disclosure was positively associated with structural characteristics of a company, which mean that hypothesis 2 could be accepted. Finally, hypothesis 3 was accepted, as a positive association was found to exist between the market price of a company's share and extent of voluntary disclosure.

In the next chapter, the perceptions of users and compilers regarding the price informativeness of various voluntary disclosure items will be examined and tested against the actual level of voluntary disclosure practices of quoted industrial companies in South Africa. This procedure is serves to enhance the objectivity of the first study by proving the validity of the increasing demand for disclosure of voluntary information for decision-making purposes. Similarities and differences between the perceptions of the two target groups, namely compilers and users, are identified and used as a basis for justifying for conclusions and recommendations on voluntary disclosure issues in the future.

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.

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.

9.4 Results from section 2 of questionnaire A and B

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.

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:

Item 25:	**Inflation reporting and current cost statements**	**Marks**
	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 **0.7712 (NSD)**			

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:

Item 26: Employee reports	**Marks**
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 51.1	69 36.7	71 37.8	79 42.0	45 23.9	68 36.2	428 37.9
Partial disclosure	No. %	57 30.3	76 40.4	73 38.8	59 31.4	89 47.4	74 39.4	432 38.3
Full disclosure	No. %	35 18.6	43 22.9	44 23.4	50 26.6	50 26.7	46 24.4	268 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 3.7	15 8.0	14 7.5	11 5.9	7 3.7	8 4.3	62 5.5
Partial disclosure of tax concessions	No. %	28 14.9	20 10.6	24 12.7	14 7.4	13 6.9	6 3.2	105 9.3
Tax reconciliation statement disclosed	No. %	153 81.4	153 81.4	150 79.8	163 86.7	168 89.4	174 92.5	961 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 71.8	127 67.6	121 64.4	113 60.1	114 60.6	108 57.5	718 63.7
Statement disclosed	No. %	53 28.2	61 32.4	67 35.6	75 39.9	74 39.4	80 42.5	410 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 **0.6846 (NSD)**			

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 **0.9743 (NSD)**		0.14 **0.7055 (NSD)**		0.06 **0.8076 (NSD)**		0.60 **0.4388 (NSD)**	

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 **0.0002 (SD)**		0.07 **0.7853 (NSD)**		0.12 **0.7272 (NSD)**		2.37 **0.1254 (NSD)**	

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:

Item 15: **Valuation of fixed property**	**Marks**
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 compilers		Preferences of users		Average level of disclosure 1993 - 1998	
	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 **Probability**		0.00 **0.9710 (NSD)**		3.35 **0.0690 (NSD)**		0.95 **0.3318 (NSD)**		8.61 **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 **0.0028 (SD)**		6.66 **0.0106 (NSD)**		2.93 **0.0884 (NSD)**		7.55 **0.0066 (SD)**	

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 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	**0.0055 (SD)**
	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	**0.9045 (NSD)**
	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	**0.4829 (NSD)**
	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	**0.0005 (SD)**
	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	**0.0001 (SD)**
	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	**0.0018 (SD)**
	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	**0.0025 (SD)**
	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	**0.7438 (NSD)**
	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	**0.0001 (SD)**
	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	**0.0070 (SD)**
	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 voluntary 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 19.2	39 20.7	39 20.7	48 25.5	48 25.5	47 25.0	257 22.8
Activities of all subsidiaries	No. %	164 87.2	161 85.6	166 88.3	170 90.4	176 93.6	175 93.1	1012 89.7
Promotion of activities	No. %	132 70.2	138 73.4	141 75.0	143 76.1	137 72.9	142 75.5	833 73.9
Illustrations and colour	No. %	130 69.2	137 72.9	142 75.5	142 75.5	150 79.8	148 78.7	849 75.3
Results presented graphically	No. %	98 52.1	110 58.5	115 61.2	109 58.0	111 59.0	110 58.5	653 57.9
Highlights	No. %	140 74.5	147 78.2	152 80.8	152 80.8	159 84.6	149 79.3	899 79.7
Shareholder's diary	No. %	146 77.7	149 79.3	147 78.2	153 81.4	152 80.9	154 81.9	901 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 and 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.

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

Photographs

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

Item 2: Top management **Marks**

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 5

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:

Item 23: Diagrammatical presentation of group structure	**Marks**
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	**0.4172 (NSD)**
	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	**0.8807 (NSD)**
	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	**0.8320 (NSD)**
	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:

Item 5: Contents of the directors' and chairman's report	**Marks**
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	**0.4900 (NSD)**
	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	**0.2574 (NSD)**
	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	**0.3654 (NSD)**
	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	**0.2416 (NSD)**
	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	**0.2898 (NSD)**
	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	**0.0001 (SD)**
	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 voluntary 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 Summarised importance rankings of voluntary disclosed items by users and compilers

Voluntary disclosed item	Respondents						
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	Level of significance
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
							continued

Table 9.40 (*continued*)

Voluntary disclosed item	Respondents						
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	Level of significance
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
							continued

Table 9.40 (*continued*)

Voluntary disclosed item	Respondents						
	Users			Compilers			
	Mean	Rank	Standard deviation	Mean	Rank	Standard deviation	Level of significance
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
							continued

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	31.79	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.

CHAPTER 10

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

10.1 Introduction

This dissertation tested explicitly the extent of voluntary disclosed items in annual reports of quoted South African companies and the informational importance of voluntary disclosure to market constituents and its association with share prices. Disclosure problems result from a lack of quality and poor context and not from limited quantity of information. Groves (1994:11) projected from a non-scientific survey of the 1972, 1982 and 1992 annual reports of 25 large well-known companies that the average number of pages in the annual report, including the footnotes and the management discussion and analysis, would amount to 146 pages in the year 2002 and 237 pages in the year 2012. However, Paradigm Interactive Media Limited, whose 1998 annual report consisted of 80 pages, anticipates that "within ten years the paper-based annual report will no longer exist and that the move towards the coding of data in an electronic format allows for complete interactivity, with the senses of hearing and sight being employed to bring the user a complete experience of a company's values, vision and performance in an ever-evolving market place" (1998: inside cover).

Ultimately, to avoid financial disclosure overload in the future, it may be necessary to publish separate, supplementary or summarised reports to serve the various needs of the different stakeholders. This problem may be solved by the use of publicly accessible databases such as the Securities and Exchange Commission's electronic data gathering and retrieval system and Compustat. These systems which are aiding the globalisation of financial markets, should also contribute towards greater conformity with regard to both mandatory and voluntary disclosure items. Wallman's solution (1997:110) to the problem of information overload is a user customised system where the users determine what information they wish to access from a comprehensive disaggregated database, to enable them to prepare their own customised financial statements from real-time information. Such a solution would provide enormous cost savings for corporations as the publication of an annual report is a costly annual exercise. A second advantage is that such a real-time access data system would aid the investors' decision making because it would decrease uncertainty and price volatility. On the other hand, such a system would provide competitors with valuable information, although this danger may be prevented by limiting in-depth access to large and important investors. Electronic data will certainly be the primary source of information in the future and annual reports should already be geared to this method of disseminating information.

However, the financial reporting milieu does still need to address international issues on how financial data is to be disseminated globally. Extending reporting regulations is not the solution to closing the "communication gap". Rather, the solution lies in focusing on an improvement of the corporate disclosure process.

10.2 Reiteration of the purpose of the research

The research involved both a review of the relevant literature and an empirical investigation. In the literature review the theoretical background of voluntary disclosure and the prior research conducted on this subject was taken into consideration. The empirical investigation was aided at determining the extent of voluntary disclosure and the perception consensus of compilers and users with regard to the price informative value of voluntary disclosure. Before making recommendations based on the results of this study, a short overview of the goals and hypotheses of the research will be provided.

In view of the fact that no significant perception differences could be found between compilers and users in the case of two thirds of the voluntary disclosed items, the conclusion may be drawn that the level of consensus indicates a high degree of validity for the research findings.

10.3 Recommendations for future research

Even if they are provided voluntarily, disclosures should be reliable, consistent and improve the quality of corporate communication. Furthermore, the interest of the users of corporate annual reports should take precedence over the interests of compilers. Therefore, recommendations for future research centre around the following topics:

- a code of ethics;
- operating and financial review statements or management's discussion and analysis reports;
- productivity statements;
- incentive schemes;
- adherence to international accounting standards;
- environmental awareness and conservation;
- price sensitive information;
- intangible assets; and
- websites.

10.3.1 A code of ethics

An international code of ethics should be adopted to serve as a basis for developing any particular country's own code in which the specific needs of that country and its cultures and traditions are taken into account. Such a code of ethics should be enforceable by law and applicable to all individuals so as to limit fraudulent practices and encourage efficiency and competence. Management should consistently review its ethical accounting practices and social policies and ensure that they are implemented throughout the organisation.

10.3.2 Operating and financial review statements or management's discussion and analysis reports

To encourage companies to publish a management's discussion and analysis report, the Accounting Standards Board published a discussion paper in April 1992 which contained guidelines for an operating and financial review that could be included in annual reports of companies. In this review management would discuss the main factors underlying the trends and changes in the performance and financial position of the corporation. At the same time, the Securities and Exchange Commission in the USA and the Ontario Securities Commission in Canada made it a requirement that all listed companies in their jurisdictions file a management's discussion and analysis report. Companies in the United Kingdom must also include an operating and financial review report.

In such a statement or report, management could articulate areas of importance to users such as strengths and weaknesses, risks and opportunities, proposed long-term strategies, comparisons between budgeted and projected performance and actual performance, future dividend policy, forecasted profits and earnings per share and analyses of capital resources, expenditure and liquidity. Negash (1999:2) identifies a variety of risk factors such as market, leverage, operating, interest rate, currency, information and measurement risk and more emphasis should be placed on the development of alternative methods of accounting for and disclosing risk. Some companies are already doing so, and it its 1997 annual report Iscor Ltd (1997:73), for example discussed risk management relating to treasury, foreign currency, interest rate, liquidity and credit risk.

10.3.3 Productivity statements

Productivity accounting as defined by Hobbs (1994:1) in a paper delivered at the 1994 South African Financial Controllers congress, is the relationship between output quantity and input quantity. For an economy to survive and be competitive locally and internationally, efficient, effective and economic utilisation of all resources, namely manpower, materials and capital, is required. Therefore the productivity performance of an organisation should be measured and quantified and targets for productivity improvements should be set and built into the overall budget. Any productivity saving should be passed on to the employees in the form of bonuses.

Presently there is no legislation in South Africa on productivity accounting although various guidelines and recommendations exist. At the moment, productivity accounting is very limited and commonly restricted to reporting sales per employee. More research should accordingly be conducted on productivity accounting and its methodology, the end goal being to promote its use and disclosure by corporations in South Africa. Productivity statements should form part of the annual report and disclosure should be governed by accounting standards laid down by the South African Institute of Chartered Accountants together with the National Productivity Institute.

10.3.4 Incentive schemes

Performance based executive compensation schemes should be linked to a reliable measure of managerial progress in creating shareholder wealth. A proposal of the Jenkins Report is that companies should disclose management performance measures that are used to reward directors and management such as profit sharing and incentive schemes (Ansari & Euske 1995:40). Measures used to evaluate managers' performance are profits, turnover, valued added and accounting ratios such as earnings per share and return on equity and assets.

Financial measures are often poor indicators of the creation of shareholder wealth as they can be manipulated to the detriment of the interest of shareholders. Therefore a financial performance measure such as economic value added (EVA) should be employed as the basis for determining bonuses or remuneration. EVA has proved to be one of the best measures of performance as it is directly linked to the wealth created for shareholders.

Share options, bonus schemes and performance-based share option schemes are based on the principle that managers have the right to purchase shares at a discounted price over a period of time. As a further incentive the purchase transaction is often financed by the entity at a low interest rate. The success of these schemes are dependent on various factors that are difficult to control, such as the state of the economy, politics, bank interest rates and stock exchange performance. Incentive schemes also help to harmonise the actions of management with the goals of shareholders.

10.3.5 Adherence to international accounting standards

In the light of the greater capital market globalisation and conflicting accounting standards between countries, South African companies should be adopting or applying international accounting standards or basing their own standards on them in order to attract international investors. South Africa has now complied with 38 of the 40 international accountancy standards. Six new standards which were introduced in 1999 and came into effect on 1 January 2000 has had the effects of

- changing the method of reporting and amortising goodwill;
- discouraging companies from disguising excess profits in the form of provisions to smooth out future earnings;
- fundamentally changing the definition of a "subsidiary company" in the consolidation of accounts;
- only allowing the recognition of intangible assets if very strict criteria are met;
- clarifying the disclosure requirements of discontinuing operations; and
- tightening up the impairment of assets.

In discussing what the Financial Accounting Standards Board would like to achieve in the year 2002, Beresford (1996:6) identified four strategic directions, namely to

- build broader acceptance of the FASB and its process among constituents;
- make standard setting more timely and efficient;
- enhance the financial reporting model; and
- promote the development of superior international accounting standards.

10.3.6 Environmental awareness and conservation

As a dedicated environmentalist, Dr Hanks believes that environmental conservation is an essential prerequisite for sustained economic growth and furthermore that impoverished and overcrowded rural communities have no alternative but to degrade and eventually destroy the common property resource base on which their survival depends (Hanks 1996:3). With the population of the world possibly doubling during the next decade, corporations and individuals must focus on the preservation of their country's natural resources and if necessary make environmental reporting compulsory. In his concluding chapter of his dissertation De Villiers (1996:202) suggests the following minimum requirements for corporate environmental reporting:

- a descriptive overview of the major environmental risks and their impact on the organisation;
- the environmental policy of the organisation;
- targets measurable in physical units and rand amounts regarding for example emissions on which the environmental policy is based;
- performance against environmental targets and comparative figures;
- accounting policies for the recording of liabilities, provisions, contingent liabilities and catastrophe reserves;
- environmental costs relating to factors such as energy, waste handling, treatment and disposal, legal compliance, packaging, fines, rehabilitation and recycling should be disclosed by category and charged to operating expenses during the period;
- rand amounts of environmental liabilities, contingent liabilities and reserves established during the current period;
- government environmental grants received;
- likely effect of environmental policy on future capital investment and earnings;
- environmental litigation the organisation is currently involved in; and
- independent third party attestation of all environmental reporting.

The fact that both users and compilers indicated that environmental information in annual reports was important, necessitates direction in this area from the government and accounting bodies, and guidelines for disclosure are essential. Efficient environmental stewardship is critical in Africa particularly in view of the world's highest fertility and birth rate.

10.3.7 Price sensitive information

The policy that companies should adopt in dealing with price-sensitive information should be in accordance with the guidelines of the Johannesburg Stock Exchange. A company should follow a principle of a "closed period" during which employees and directors are prohibited from dealing in the company's shares and, in order to preserve the confidentiality of price-sensitive information, management should not be allowed to hold discussions regarding the company's performance with analysts, institutional investors, the media or any other persons who may gain unfair advantage from such discussions.

10.3.8 Intangible assets

Knowledge and innovation, or so-called intellectual capital or soft assets, form an integral part of corporate value and its disclosure in corporate reports is an area of great concern. Intellectual property may be regarded as knowledge used by a business entity to operate effectively and is essential to sustain it as a going concern. However, if intellectual property is viewed as an asset, what are the recognition and measurement criteria and how should it be disclosed? Particularly in the case of industries dependent on intellectual property, such as service industries, banks, insurance companies, brokers, accounting firms, medical practitioners and communication providers, lack of recognition will result in their annual reports being unrealistic, as a result of one of their most important assets not being omitted in measurable terms at all.

10.3.9 Websites

Many companies worldwide are now making use of websites on the internet, in an effort to narrow the communication gap that exists between companies and investors. However, there are numerous disadvantages to be overcome such as high cost, computer security issues and legal problems arising from the fact that some investors have access to web browsers but others do not. However, given the tremendous advantages of computerised data access, websites at present seem to offer one of the most viable ways of ensuring that data reaches users. As in the case of formal, published reports, the site should offer information on at least the following aspects to ensure that it meets user needs: a summary of the company's latest annual report; a data bank of press releases and announcements; information on the company's products and services; on-line share prices; graphical displays; and contact numbers.

10.4 Conclusion

Most annual reports disclose the effects of past events and therefore meet the general needs that most users have in common. However, not all disclose additional voluntary information such as the future-oriented information required to make informed economic decisions. Areas of disclosure to which corporations need to pay more attention are:

- extending disclosure of business segment information;
- improving disclosure of off-balance sheet financing arrangements;
- reporting the effects of core and non-core activities separately;
- reporting the fair value of non-core assets and liabilities; and
- improving disclosure about the uncertain measurement of some types of assets and liabilities (Eccles & Mavrinac 1995:17).

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President Medical Investments Ltd	1997
Nampak Ltd	1998:34
Paradigm Interactive Media Ltd	1998:inside cover
Renaissance Retail Group Ltd	1998:6
Seardel Investment Corporation Ltd	1998

SUMMARY

THE EXTENT OF VOLUNTARY DISCLOSURE IN CORPORATE REPORTS OF SOUTH AFRICAN LISTED INDUSTRIAL COMPANIES

by

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University of Pretoria

Degree: DCom (Accounting Sciences)

Present-day reporting has extended its traditional financial reporting boundaries to include a variety of voluntary disclosed items. This extension has attracted research regarding the usefulness of such information, in satisfying the needs of the major constituents of corporate reports.

The aim of the study was to determine to what extent South African listed industrial companies voluntarily disclose certain information and to examine the perceived price informative value of such items. In addition, various company characteristics were identified to test their relationship with the extent of voluntary disclosure and market prices.

The research consisted of a literature review and empirical study. The purpose of the literature review was to identify previous studies based on voluntary disclosure in order to determine what methods were used to measure the extent of voluntary disclosure in corporate reports and to examine their findings.

The empirical study consisted of two independent surveys. In the first survey the extent of voluntary disclosure in annual reports of a sample of listed industrial companies was measured over a period of six years. The data was used to test empirically the association between various company characteristics and the extent of voluntary disclosure. In the second survey the extent of perception consensus of constituents regarding the price informative value of voluntary disclosed items in corporate reports was examined.

Five hypotheses were tested. A forward stepwise multiple regression using 15 independent variables revealed that eight were significantly associated with market price at a 15% level of significance. The extent of voluntary disclosure was positioned seventh. It was found that of the 49 voluntary disclosed items used in the study, statistical significant perception differences between constituents occurred in respect of 17 of the items. The conclusion drawn from the results was that corporate reports were on the whole satisfying the needs of users.

Annexure 1: Evaluation score sheet used to measure the extent of voluntary disclosure

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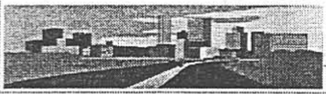
COMPANY NAME



Card Number		1	1
Company Number			2 - 6
Year of Financial Report	9	8	7 - 8
Stock Exchange Section			9 - 10
ANNUAL REPORT	**Maximum Marks Awarded**		
1. Board of Directors	4		11
2. Top Management	4		12
3. Individual shareholding of directors and management	5		13
4. Distribution of Shareholdings	5		14
5. Contents of director's and chairman's report :			
activities	4		15
reasons for changes in results	5		16
statement of corporate objectives/goals/mission statement	2		17
6. Long-term corporate planning	6		18
7. Dividend policy	4		19
8. Date of publication	4		20
9. Table of statistics	4		21
10. Contents of table :			
turnover	1		22
number of shares issued	1		23
net asset value per share	2		24
ratios	8		25
definitions of terms or ratios	1		26
number of employees	2		27
11. Stock Exchange Performance :			
analysis of transactions, JSE Index and share ratios	9		28
12. Composition of audit committee	4		29
13. Activities of subsidiaries	4		30

	Maximum Marks	Awarded	
14. Promotion of products or services	2		3
15. Valuation of fixed property	6		3
16. Valuation of other assets	4		3
17. List of fixed properties	2		3
18. Segmental reporting	7		3
19. Illustrations and colour	1		3
20. Graphical presentation	2		3
21. Highlights	1		3
22. Shareholders' / Lenders' Diary	1		3
23. Group structure	4		4
24. Value added statement	6		4
25. Inflation reporting	5		4
26. Employment reporting	6		4
27. Environmental reporting	6		4
28. Research and development projects	3		4
29. Taxation	4		4
30. Money exchanges with government	4		4
31. Corporate governance	9		4
32. Operating and financial review	8		4
33. Cash flow statement	2		5
34. Current liabilities	2		5
35. Analysis of operating income	4		5
36. Depreciation on intangible assets	2		5
37. Compliance with IAS	2		5
COMPUTER TEST TOTAL			55 - 5

38.INTERIM REPORT

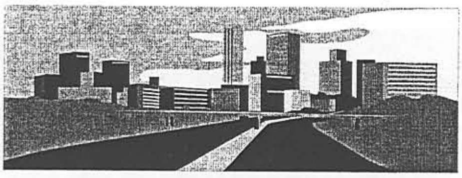
Card and company number	2						1 -
Date of interim report					9		7 - 1
Month of company year end							13 - 1

CONTENTS	Maximum Marks	Awarded	
Presentation	9		1
Comments on results	3		1
Date of publication	2		1
Future prospects	4		1
COMPUTER TEST TOTAL			19 2

CONTACT PERSON : Ms Jean Myburgh ☎ (012) 420-3692 / 3371 / Fax (012) 362-5142

Annexure 2: Cover letter sent to financial directors with guidelines for completion of the score sheet

Bureau for Financial Analysis



Bureau for Financial Analysis (Pty) Ltd. Reg. No: 2000/004497/07
Graduate Centre, Tindall & Duxbury Roads, University of Pretoria , Pretoria, RSA
PO Box 786095, Sandton, South Africa, 2146
Tel: +27 (12) 420 3371 Fax: +27 (12) 362 5299

Date :
The Financial Director

FINANCIAL MAIL ANNUAL REPORT AWARD

The Bureau of Financial Analysis has on behalf of the Financial Mail analysed the published annual financial statements of your company for the purpose of the Annual Report Award.

In order to avoid any discrepancies in our analysis it was decided to send a copy of our score sheet, together with a memorandum setting out the criteria applied and the points allocated to each participating company. Please note that the summarised memorandum sets out the maximum points obtainable for each question. It is however possible to score less than the maximum if the information required is incomplete.

We would be most grateful if you could verify this score sheet and inform us of any items with which you disagree. This will avoid problems occurring after the publication of the results.

In order to alleviate you of the inconvenience of contacting us if no discrepancies exist, we will assume that you are in agreement with our analysis if we do not hear from you ***within three weeks of the date of this letter.***

Should you require any further information regarding this project, please do not hesitate to contact Ms Jean Myburgh at telephone (012) 420-3692.

Please note that there were no changes during the ***last three years*** for the Financial Mail "Top Twenty" Rules for the Annual Reports.

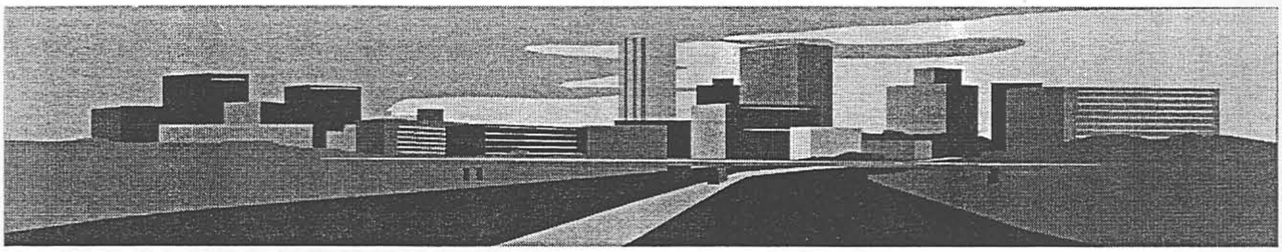
Thanking you in anticipation for your kind co-operation.

Yours faithfully

Prof L M Brümmer
DIRECTOR

BFA (PTY) LTD, UNIVERSITY OF PRETORIA
TEL (012) 420-3371 FAX (012) 362-5299

FINANCIAL MAIL "TOP TWENTY" RULES FOR 1998 ANNUAL REPORTS
(APPLICABLE TO ANNUAL REPORTS WITH YEAR-ENDS DURING 1998)



PLEASE NOTE :

A CODE 9 IMPLIES *NOT APPLICABLE* –
(MAXIMUM MARKS AWARDED FOR EACH ITEM IS SHOWN IN BRACKETS)

1. BOARD OF DIRECTORS (4 MARKS)

***ONE MARK WILL BE AWARDED PER ITEM MENTIONED BELOW WITH A MAXIMUM OF 4 MARKS**

Only names disclosed: Companies Act requirement	0
Date of birth or age	1
Qualifications or experience	1
Other major directorships	1
Position in the company or executive duties	1
Date of appointment or term of contract	1
Photographs	1

2. TOP MANAGEMENT (4 MARKS)

See rules applicable for board of directors (Item 1)	4
Name of management consulting firm	4
Not applicable, statement that directors represent top management	4

3. SHAREHOLDING OF BOARD OF DIRECTORS AND TOP MANAGEMENT (5 MARKS)

Combined percentage direct and indirect holdings of directors shown (Companies Act requirement)	0
Names and individual shareholding of directors shown	2
Name and shareholding of individual, or top executives shown	2
Previous year's shareholding of each director also shown	1
statement that a register or list of interests of directors and top management in the shares of the company is available on request to the public	5
Not applicable - Statement that board of directors and top management do not hold shares in the company	9

4. DISTRIBUTION OF SHAREHOLDINGS (5 MARKS)

No mention made	0
Distribution according to size of shareholding	2
Distribution according to type of shareholder	3
Only major shareholders listed : 2 or 3 largest shareholders or shareholders holding more than 5%	3
Detailed analysis of size and type of shareholding	5

5. CONTENTS OF DIRECTORS' AND CHAIRMAN'S REPORT (11 MARKS)

Activities (4 marks)	
Minimum Companies Act requirements – activities stated	0
General discussion of activities	1
Detailed information on activities	4
Reasons for changes in results (5 marks)	
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 (2 marks)	
No indication	0
Company profile or mission statement disclosed	2

6. LONG TERM CORPORATE PLANNING (6 MARKS)

Financial objectives, targets or strategic plans :

❑ no mention made	0
❑ discussed in general	2
❑ fully discussed disclosing quantitive details of :	
the budgeted income or expense amount, and	2
the budgeted capital expenditure amount analysed by period	2

7. DIVIDEND POLICY (4 MARKS)

No mentioned made	0
Yes : an indication of % increase or decrease or actual targets, % or cents per share	4

8. PERIOD BETWEEN FINANCIAL YEAR-END AND DATE OF PUBLICATION (4 MARKS)

Four months or later or undated	0
Within three months	2
Within two months	4

9. TABLE OF COMPARATIVE STATISTICS (4 MARKS)

No table published	0
Table for less than five years if the company has been in operation for more than four years	2
Five years, or for total period in operation or reasons given for shorter period	3
Six years and more	4
Not applicable, i.e. new company	9

10. CONTENTS OF TABLE (15 MARKS)

Turnover (1)	
Not disclosed	0
Disclosed	1
Not applicable, investment company	9

Number of shares issued (1)

Not disclosed 0
Disclosed 1

Net asset value per share (2)

Not disclosed 0
Disclosed 2

Ratios (8)

No ratios 0
Profitability ratios :

- Return on equity 1
- Return on assets 1
- Net asset value / market capitalization 1
- Operating profit margin 1

Liquidity ratios e.g. acid-test ratio 1
Solvability ratios 1
Productivity ratios :

- turnover per employee 1
- assets per employee 1

Definitions of accounting financial ratios (1)

No definitions 0
Ratios defined 1

Number of employees (2)

Not disclosed 0
For present year only 1
Shown in table or elsewhere in the report for more than one year 2

11. STOCK EXCHANGE PERFORMANCE (9 MARKS)

Closing price at year end 1
The total number of transactions recorded on the JSE 1
The total number of shares traded during the year 1
The total value of shares traded during the year 1
The average price or lowest and highest price per share for the year 1
The total volume of shares traded expressed as a percentage of the total issued shares 1
Comparison of share price of company with Actuaries Index for industrial sector 1
Price Earnings Ratio 1
Dividend yield 1

12. COMPOSITON OF AUDIT COMMITTEE (4 MARKS)

Names not disclosed 0
Names of members of audit committee disclosed 4

13. ACTIVITIES OF SUBSIDIARIES (4 MARKS)

Subsidiaries listed, but no activities shown 0
Activities of only main subsidiaries shown 2

Activities of all subsidiaries shown	4
Not applicable : no subsidiaries	9

14. PROMOTION OF PRODUCTS OR SERVICES (2 MARKS)

No mention of products or services made	0
Yes : brand names, photographs of products, etc	2
Not applicable	9

15. VALUATION OF FIXED PROPERTY AND IMPROVEMENTS (6 MARKS)

No valuation mentioned	0
Valuation mentioned but no indication of when it was revalued	1
Additional information such as insured value, municipal valuation or directors valuation supplied but no date given	3
Valuation of all property but valuation 6 to 10 years old	3
Valuation of all property during last 5 years	6
Not applicable, no fixed property	9

16. VALUATION OF OTHER ASSETS EXCLUDING FIXED PROPERTY (4 MARKS)

Disclosed at cost	0
Insured value, replacement value or fair value	4
Not applicable, no other assets	9

17. LIST OF FIXED PROPERTIES (2 MARKS)

No list published or only open for inspection by authorised persons or members	0
A complete list is published or the report states that a copy of the list will be posted on request to <u>any</u> member of the public	2
Not applicable	9

18. SEGMENTAL REPORTING ED 122 (7 MARKS)

No disclosure	0
Divisional contributions of various activities are matched with :	
❑ Profits : % contribution or actual figures	1
❑ Turnover : % contribution or actual figures	3
❑ Assets : % contribution or actual figures	2
Geographical contribution or other information on various activities	1
Not applicable : only one activity	9

19. ILLUSTRATIONS AND COLOUR (1 MARK)

Not used	0
Yes	1

20. PRESENTATION OF RESULTS IN THE FORM OF GRAPHS OR DIAGRAMS (2 MARKS)

No graphs	0
Yes : 3 or fewer items covered	1
Yes : 4 or more items covered	2

21. HIGHLIGHTS PRESENTED IN THE REPORT (1 MARK)

No	0
Yes	1

22. SHAREHOLDERS' / LENDERS' DIARY (1 MARK)

No	0
Yes	1

23. GROUP STRUCTURE, PRESENTED DIAGRAMATICALLY (4 MARKS)

No group structure disclosed	0
Yes : in general i.e. only names of companies	1
Yes : an additional point for each of the following :	
❑ management team	1
❑ products or activities	1
❑ geographical location	1
❑ percentage shareholding of controlling companies	1
Not applicable, no subsidiaries	9

24. VALUE ADDED STATEMENT OR STATEMENT OF WEALTH CREATED (6 MARKS)

No statement disclosed	0
Yes - for present year only :	
percentages only	3
actual figures	4
Yes - for more than one year :	
percentages only	5
actual figures	6
Not applicable : finance or investment company	9

25. INFLATION REPORTING AND CURRENT COST STATEMENT (5 MARKS)

No mention made	0
Statement in accounting policy giving reason given why company does not wish to incorporate inflation accounting	2
Mention made of inflation policy or impact of inflation on financial position (ED 77)	3
Statement in the form of Guideline AC 201 of SAICA	5
Statement in any other form such as a current cost statement	5

26. EMPLOYMENT REPORT (6 MARKS)

No employment report	0

***ONE MARK WILL BE AWARDED PER ITEM MENTIONED BELOW WITH A MAXIMUM OF 6 MARKS**

Employment Report includes :

Number of employees divided into occupational categories	1
Total wage bill divided into occupational categories	1
Labour turnover rates, the average number of years the staff have been with the organization, the number of staff members with 5 or more years of service, or proposed redundancy provisions	1
Training facilities provided for training of own employees, such as number of employees trained, cost of training programmes as claimed for taxation purposes and a brief comment about progress made and future developments	1
Housing facilities provided for employees or the provision of subsidised housing loans to staff members	1
Any other fringe benefits provided, such as medical aid schemes, feeding schemes, sports and recreation facilities, after service benefits, provision of bursaries to children of employees, safety measures, etc	1

Brief comment on matters concerning trade unions, wage negotiations, labour relations and related matters and pension policy	1
Number or percentage of disabled persons employed	1
Equal employment opportunity policy	1
Commitment to community involvement	1
Family benefits, e.g. maternity leave, creches on site and day care centres	1
Affirmative action i.r.o. colour and gender or physically handicapped	1
Job creation	1
Quantitative : Budgeted figures or expenditure per item as a percentage of net income	1

27. ENVIRONMENTAL REPORTING (6 MARKS)

No mention made	0
Mention made in :	1

- mission / policy statement
- objective / goals statement
- chairman's / director's report
- elsewhere in the report

Informational disclosure :

❑ narrative	2
❑ quantitative, disclosing operating and capital expenditure	3

28. STATEMENT ON RESEARCH AND DEVELOPMENT PROJECTS (AC 122) (3 MARKS)

No statement	0
Expense item shown in the Income Statement or capitalised	1
Detailed discussion of amount spent during the year, budgeted expense and description of projects embarked upon	3
Not applicable : no mention made in the report	9

29. TAXATION (4 MARKS)

No mention made	0
Use of tax concessions	1
A taxation reconcilliation statement	4
Not applicable, mention made that no adjustments were necessary or normal company tax paid or loss made	9

30. MONEY EXCHANGES WITH GOVERNMENT (4 MARKS)

Statement stipulating :

❑ PAYE	1
❑ VAT	1
❑ company tax	1
❑ rates and similar levies	1
❑ licences	1
❑ other : social security, registration fees, UIF and workman's compensation	1
❑ receipts from Government grants or subsidies	1

31. CORPORATE GOVERNANCE (9 MARKS)

No mention made	0
Brief comment on compliance with the King report	2

Detailed disclosure on :

- ❑ external and internal audit committee 1
- ❑ remuneration committee 1
- ❑ statement that chairman is not the chief executive 1
- ❑ list of code of ethics 1
- ❑ disclosure of names of non-executive directors (at least two) 1
- ❑ directors emoluments differentiating between executive and non-executive :

  - ➢ in total 1
  - ➢ details, e.g. salaries and other benefits 1

- ❑ internal control policy 1
- ❑ affirmative action policy 1
- ❑ management reporting 1

32. OPERATING AND FINANCIAL REVIEW (8 MARKS)

Discussion of capital structure of the business, in terms of maturity profile of debt, types of capital instruments used and currency and interest rate structure	2
Discussion of the strengths and resources of the business whose value is not, or is only partially, reflected in the balance sheet, e.g. brands	2
Discussion of approach to general risk management issues, such as currency and interest rate risks and pension fund commitments	2
Discussion of foreign operations, including nature of business and comment on profitability	2

33. CASH FLOW STATEMENT (2 MARKS)

Additions and disposals of fixed assets :

- ❑ net amount shown 0
- ❑ additions and disposals shown separately 2
- ❑ not applicable 9

34. CURRENT LIABILITIES (2 MARKS)

No differentiation	0
Clear differentiation between interest bearing and non-interest bearing current liabilities	2
Not applicable	9

35. ANALYSIS OF OPERATING INCOME (4 MARKS)

No analysis 0

Detailed analysis setting out :

- ❑ cost of sales
- ❑ distribution cost
- ❑ administrative cost
- ❑ other operating expense 4

Not applicable, i.e. holding company 9

36. DEPRECIATION ON INTANGIBLE ASSETS (2 MARKS)

Depreciation not provided, no reason given	0
Depreciation disclosed or reason given for no provision made	2
Not applicable	9

37. COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS (IAS) (2 MARKS)	
No statement	0
Statement of intention to comply with IAS	1
Statement that company complies with IAS	2
38. INTERIM REPORT (TOTAL OF 18 MARKS)	
Presentation (9 marks)	
JSE requirements i.e. turnover, income statement and balance sheet	0
Summary of cash flow statement	3
Segmental information :	
❑ disclosed	3
❑ not applicable	9
Ratios	3
Comments on results (3 marks)	
No comment	0
Briefly	1
Detailed review of results	3
Date of publication (2 marks)	
Later than 45 days after half year date	0
Within 45 days after half year date	2
Future prospects (4 marks)	
No mention made	0
Expected or budgeted profit figures	3
Expected final dividend in figures or as a percentage	1

SCORE	
Annual Report	172
Interim Report	18
TOTAL SCORE	**190**

Annexure 3: List of sample companies classified according to industry type

ABBREVIATION	FULL NAME OF COMPANY	INDUSTRIAL SECTOR
A-V-I	ANGLOVAAL INDUSTRIES LTD	INDUSTRIAL HOLDING
ANGLOVAAL	ANGLOVAAL LIMITED	INDUSTRIAL HOLDING
BARLOWS	BARLOW LIMITED	INDUSTRIAL HOLDING
BOLTONS	BOLTON INDUSTRIAL HOLDINGS LTD	INDUSTRIAL HOLDING
BIDVEST	BIDVEST GROUP LIMITED	INDUSTRIAL HOLDING
BATSA	BRITISH AMERICAN TOBACCO HLDS	INDUSTRIAL HOLDING
CULLINAN	CULLINAN HOLDINGS LTD.	INDUSTRIAL HOLDING
CONAFEX	CONSOLIDATED SOCIETE ANONYME	INDUSTRIAL HOLDING
CORPGRO	CORPGRO LIMITED	INDUSTRIAL HOLDING
DUNLOP	DUNLOP AFRICA LIMITED	INDUSTRIAL HOLDING
DELHOLD	DEL MONTE ROYAL HOLDINGS LTD	INDUSTRIAL HOLDING
EUREKA	EUREKA INDUSTRIAL LTD	INDUSTRIAL HOLDING
FELTEX	FELTEX LIMITED	INDUSTRIAL HOLDING
FASIC	FASIC LIMITED	INDUSTRIAL HOLDING
GRINCOR	GRINDROD UNICORN GROUP LTD	INDUSTRIAL HOLDING
IMPERIAL	IMPERIAL HOLDINGS LIMITED	INDUSTRIAL HOLDING
JOHNNIC	JOHNNIES INDUSTRIAL CORP LTD	INDUSTRIAL HOLDING
KLIPTON	KLIPTON LIMITED	INDUSTRIAL HOLDING
LENCO	LENCO HOLDINGS LIMITED	INDUSTRIAL HOLDING
LONAFRIC	LONRHO AFRICA PLC	INDUSTRIAL HOLDING
METJE-&-Z	METJE AND ZIEGLER LTD.	INDUSTRIAL HOLDING
METKOR	METKOR GROUP LTD	INDUSTRIAL HOLDING
M&R-HLD	MURRAY AND ROBERTS HOLDINGS	INDUSTRIAL HOLDING
MT-EAGLE	MONTEAGLE SOCEITE ANONYME	INDUSTRIAL HOLDING
MICOR	MICOR LIMITED	INDUSTRIAL HOLDING
NICTUS	NICTUS BEPERK	INDUSTRIAL HOLDING
NAIL	NEW AFRICA INVESTMENTS LIMITED	INDUSTRIAL HOLDING
OZZ	OZZ LIMITED	INDUSTRIAL HOLDING
PLATE-GL	PLATE GLASS + SHUTTERPRUFE IND	INDUSTRIAL HOLDING
REMBR-BEH	REMBRANDT BEHERENDE BELEG BPK.	INDUSTRIAL HOLDING
REMGRO	REMBRANDT GROUP LTD.	INDUSTRIAL HOLDING
RAI	REAL AFRICA INVESTMENTS LTD	INDUSTRIAL HOLDING
CGSMITH	C.G.SMITH LTD.	INDUSTRIAL HOLDING
SAFREN	SAFMARINE & RENNIES HOLDINGS	INDUSTRIAL HOLDING
SABVEST	SABVEST LIMITED	INDUSTRIAL HOLDING
STRAND	STRAND GROUP HOLDINGS LTD	INDUSTRIAL HOLDING
TEGKOR	TEGNIESE BELEGGINGSKORP. BPK.	INDUSTRIAL HOLDING
TIB	TEGNIESE +IND BELEGGINGS BPK.	INDUSTRIAL HOLDING
TOCO	TOCO HOLDINGS LIMITED	INDUSTRIAL HOLDING
UNISERV	UNITED SERVICE TECHNOLOGIES	INDUSTRIAL HOLDING
WACO	WACO INTERNATIONAL LIMITED	INDUSTRIAL HOLDING
AWETHU	AWETHU BREWERIES LIMITED	BEVERAGES & HOTELS
ABI	AMALGAMATED BEVERAGE IND LTD	BEVERAGES & HOTELS
ADMIRAL	ADMIRAL LEISURE WORLD LIMITED	BEVERAGES & HOTELS
AVIS	AVIS SOUTHERN AFRICA LIMITED	BEVERAGES & HOTELS
BEVCON	BEV & CONSUMER IND HLDS LTD	BEVERAGES & HOTELS
CULTEL	CULLINAN HOTELS& LEISURE GROUP	BEVERAGES & HOTELS
CITYLDG	CITY LODGE HOTELS LIMITED	BEVERAGES & HOTELS
DALYS	DALYS LTD.	BEVERAGES & HOTELS
DISTIL	DISTILLERS CORPORATION (SA)	BEVERAGES & HOTELS
DON	DON GROUP LIMITED , THE	BEVERAGES & HOTELS
FEDICS	FEDICS GROUP LIMITED	BEVERAGES & HOTELS
FORTUNE	FORTUNE BEVERAGES LIMITED	BEVERAGES & HOTELS
KWV-BEL	KWV BELEGGINGS BPK	BEVERAGES & HOTELS
KERSAF	KERSAF INVESTMENTS LTD	BEVERAGES & HOTELS

KAROS	KAROS HOTELS LIMITED	BEVERAGES & HOTELS
KING	KING CONSOLIDATED HOLDINGS LTD	BEVERAGES & HOTELS
LESRNET	LEISURENET LIMITED	BEVERAGES & HOTELS
MORIBO	MORIBO LEISURE LIMITED	BEVERAGES & HOTELS
NANDOS	NANDOS GROUP HOLDINGS LIMITED	BEVERAGES & HOTELS
OAKFLDS	OAKFIELD THOROUGHBREDS LIMITED	BEVERAGES & HOTELS
OHAGANS	O'HAGANS INVESTMENT HLDS LTD	BEVERAGES & HOTELS
REBHOLD	REBHOLD LIMITED	BEVERAGES & HOTELS
SABPLC	SOUTH AFRICAN BREWERIES PLC	BEVERAGES & HOTELS
SISA	SUN INTERNATIONAL(SA) LIMITED	BEVERAGES & HOTELS
SPUR	SPUR STEAK RANCHES LTD	BEVERAGES & HOTELS
SFW	STELLENBOSCH FARMERS WINERY	BEVERAGES & HOTELS
SPURHLD	SPUR HOLDINGS LIMITED	BEVERAGES & HOTELS
STEERS	STEERS HOLDINGS LIMITED	BEVERAGES & HOTELS
STOCHOT	STOCKS HOTELS AND RESORTS LTD	BEVERAGES & HOTELS
TELJOY	TELJOY HOLDINGS LIMITED	BEVERAGES & HOTELS
TEREXKO	TEREXKO LIMITED	BEVERAGES & HOTELS
TOURVST	TOURISM INVESTMENT CORP LTD	BEVERAGES & HOTELS
BOUMAT	BOUMAT LTD.	BUILDING & CONSTRUCTION
BASREAD	BASIL READ HOLDINGS LIMITED	BUILDING & CONSTRUCTION
BUILDMAX	BUILDMAX LIMITED	BUILDING & CONSTRUCTION
CONCOR	CONCOR LIMITED.	BUILDING & CONSTRUCTION
CERAMIC	CERAMIC INDUSTRIES LIMITED	BUILDING & CONSTRUCTION
GROUP-5	GROUP FIVE LTD.	BUILDING & CONSTRUCTION
GRINAKER	GRINAKER CONSTRUCTION LIMITED	BUILDING & CONSTRUCTION
L-T-A	LTA LTD.	BUILDING & CONSTRUCTION
MASONITE	MASONITE AFRICA LTD.	BUILDING & CONSTRUCTION
MONEX	MONEX LIMITED	BUILDING & CONSTRUCTION
PPC	PRETORIA PORTLAND CEMENT CO.	BUILDING & CONSTRUCTION
PORTHLD	PORTLAND HOLDINGS LTD	BUILDING & CONSTRUCTION
S&SHOLD	STOCKS AND STOCKS HOLDINGS LTD	BUILDING & CONSTRUCTION
YORKCOR	YORK TIMBER ORG LTD	BUILDING & CONSTRUCTION
WBHO	WILSON BAYLY HOLMES-OVCON LTD	BUILDING & CONSTRUCTION
AECI	AECI LTD.	CHEMICALS & OILS
CHEMSERVE	CHEMICAL SERVICES LTD.	CHEMICALS & OILS
ENERGY	ENERGY AFRICA LIMITED	CHEMICALS & OILS
ENSERVE	ENVIROSERV HOLDINGS LIMITED	CHEMICALS & OILS
FRANSAF	FRANSAF LIMITED	CHEMICALS & OILS
OMNIA	OMNIA HOLDINGS LTD	CHEMICALS & OILS
POLIFIN	POLIFIN LIMITED	CHEMICALS & OILS
SASOL	SASOL LTD	CHEMICALS & OILS
SPANJAARD	SPANJAARD LIMITED	CHEMICALS & OILS
ADONIS	ADONIS KNITWEAR HOLDINGS LTD.	CLOTHING,FOOTWEAR & TEXTILES
AF-&-OVER	AFRICAN &OVERSEAS ENTERPRISES	CLOTHING,FOOTWEAR & TEXTILES
AMMGROUP	AM MOOLLA GROUP LIMITED	CLOTHING,FOOTWEAR & TEXTILES
BURLINGTN	BURLINGTON INDUSTRIES LTD.	CLOTHING,FOOTWEAR & TEXTILES
BOLWEAR	BOLTON FOOTWEAR LIMITED	CLOTHING,FOOTWEAR & TEXTILES
CONSHU	CONSHU HOLDINGS LIMITED	CLOTHING,FOOTWEAR & TEXTILES
COASTAL	COASTAL GROUP LIMITED	CLOTHING,FOOTWEAR & TEXTILES
DA-GAMA	DA GAMA TEXTILE CO LIMITED	CLOTHING,FOOTWEAR & TEXTILES
FRAMGOL	FRAME GROUP HOLDINGS LIMITED	CLOTHING,FOOTWEAR & TEXTILES
GUBINGS	GUBB AND INGGS LTD.	CLOTHING,FOOTWEAR & TEXTILES
GLODINA	GLODINA HOLDINGS LIMITED	CLOTHING,FOOTWEAR & TEXTILES
NINIAN	NINIAN + LESTER HOLDINGS LTD.	CLOTHING,FOOTWEAR & TEXTILES
PALS	PALS HOLDINGS LIMITED	CLOTHING,FOOTWEAR & TEXTILES
REX-TRUE	REX TRUEFORM CLOTHING CO. LTD.	CLOTHING,FOOTWEAR & TEXTILES
ROMATEX	ROMATEX LTD	CLOTHING,FOOTWEAR & TEXTILES
SEARDEL	SEARDEL INVESTMENT CORP. LTD	CLOTHING,FOOTWEAR & TEXTILES

TOLARAM	TOLARAM 2000 LIMITED	CLOTHING,FOOTWEAR & TEXTILES
UNISPIN	UNISPIN HOLDINGS LIMITED	CLOTHING,FOOTWEAR & TEXTILES
AFBRAND	AFRIBRAND HOLDINGS LIMITED	FOOD
CROOKES	CROOKES BROTHERS LTD.	FOOD
CADSWEP	CADBURY SCHWEPPES SA LTD	FOOD
CGS-FOOD	C G SMITH FOODS LTD	FOOD
CHOICE	CHOICE HOLDINGS LIMITED	FOOD
GLOPVT	GLOBAL CAPITAL PVT EQUITY LTD	FOOD
HLH	HUNT LEUCHAR &HEPBURN HLDS LTD	FOOD
I-&-J	IRVIN AND JOHNSON LTD.	FOOD
ILLOVO	ILLOVO SUGAR LIMITED	FOOD
KOLOSUS	KOLOSUS HOLDINGS LIMITED	FOOD
LANGEBERG	LANGEBERG HOLDINGS LIMITED	FOOD
LIFESTYLE	FIRST LIFESTYLE HOLDINGS LTD	FOOD
MACADAM	MACADAMS BAKERY SUPPLIES LTD	FOOD
MOLOPE	MOLOPE GROUP LIMITED	FOOD
NAMSEA	NAMIBIAN SEA PRODUCTS LIMITED	FOOD
NAMFISH	NAMIBIAN FISHING INDUSTRIES	FOOD
NATCHIX	NATIONAL CHICK LIMITED	FOOD
OCFISH	OCEANA FISHING GROUP LTD	FOOD
OTK	OTK HOLDINGS LIMITED	FOOD
PREM-GRP	PREMIER GROUP , THE	FOOD
RAINBOW	RAINBOW CHICKEN LIMITED	FOOD
SOVFOOD	SOVEREIGN FOOD INVESTMENTS LTD	FOOD
SEAHARV	SEA HARVEST CORPORATION LTD	FOOD
TIGR-OATS	TIGER OATS LTD.	FOOD
TONGAAT	TONGAAT HULETTS GROUP LTD	FOOD
WBHOLD	WB HOLDINGS LIMITED	FOOD
ALTRON	ALLIED ELECTRONICS CORP LTD	ELECTRONICS
AUTOPGE	AUTOPAGE HOLDINGS LIMITED	ELECTRONICS
ANBEECO	ANBEECO INVESTMENTS HLDS LTD	ELECTRONICS
ADVTECH	ADVANCED TECHNICAL SYSTEMS LTD	ELECTRONICS
AMAPS	AMALGAMATED APPLIANCE HLDS LTD	ELECTRONICS
ABRAXAS	ABRAXAS INVESTMENT HLDS LTD	ELECTRONICS
BICAF	BICC CAFCA LIMITED	ELECTRONICS
CONTROL	CONTROL INSTRUMENTS GROUP LTD	ELECTRONICS
CONNECT	CONNECTION GROUP HLDS LTD	ELECTRONICS
CCH	COMPUTER CONFIGURATION HLDS	ELECTRONICS
COMPAREX	COMPAREX HOLDINGS LIMITED	ELECTRONICS
CONLOG	CONLOG HOLDINGS LIMITED	ELECTRONICS
DELTA	DELTA ELECTRICAL INDUS LTD	ELECTRONICS
DIDATA	DIMENSION DATA HOLDINGS LTD	ELECTRONICS
DATATEC	DATATEC LIMITED	ELECTRONICS
DAEWOO	DAEWOO ELECTRONICS SA LIMITED	ELECTRONICS
FINTECH	FINTEC LTD.	ELECTRONICS
FMCOTEC	FEMCO TECHNOLOGY HOLDINGS LTD	ELECTRONICS
FRIDGEM	MASTERFRIDGE LIMITED	ELECTRONICS
GRINTEK	GRINTEK LIMITED	ELECTRONICS
INFINITI	INFINITI TECHNOLOGIES LTD	ELECTRONICS
IFUSION	I-FUSION HOLDINGS LIMITED	ELECTRONICS
JASCO	JASCO ELECTRONICS HOLDINGS LTD	ELECTRONICS
KTL	KUNENE TECHNOLOGY LTD	ELECTRONICS
MGX	MGX HOLDINGS LIMITED	ELECTRONICS
MDMGRO	MDM GROWTH INVESTMENTS LTD	ELECTRONICS
MUSTEK	MUSTEK LIMITED	ELECTRONICS
MBTECH	MB TECHNOLOGIES LIMITED	ELECTRONICS
NUWORLD	NUWORLD HOLDINGS LIMITED	ELECTRONICS
OMEGA	OMEGA HOLDINGS LIMITED	ELECTRONICS

OMEGA	OMEGA HOLDINGS LIMITED	ELECTRONICS
POWTECH	POWER TECHNOLOGIES LTD	ELECTRONICS
REUNERT	REUNERT LTD	ELECTRONICS
RADIOSPR	RADIOSPOOR TECHNOLOGY HLDS LTD	ELECTRONICS
SPESCOM	SPESCOM LIMITED	ELECTRONICS
SILTEK	SILTEK LIMITED	ELECTRONICS
SEARTEC	SEARTEC LIMITED	ELECTRONICS
SOFTLINE	SOFTLINE LIMITED	ELECTRONICS
STANTRN	STANTRONIC GROUP HOLDINGS LTD	ELECTRONICS
SETHOLD	SETPOINT TECHNOLOGY HLDS LTD	ELECTRONICS
SENTRY	SENTRY LIMITED	ELECTRONICS
TMX	TELEMETRIX PLC	ELECTRONICS
USKO	USKO LIMITED	ELECTRONICS
UCS	UCS GROUP LIMITED	ELECTRONICS
VOLTEX	VOLTEX HOLDINGS LIMITED	ELECTRONICS
YTHRK	Y3K GROUP LIMITED	ELECTRONICS
CORNICK	CORNICK GROUP LIMITED	FURNITURE & HOUSEHOLD
ELLERINE	ELLERINE HOLDINGS LTD.	FURNITURE & HOUSEHOLD
JDGROUP	JD GROUP LIMITED	FURNITURE & HOUSEHOLD
PROFURN	PROFURN LIMITED	FURNITURE & HOUSEHOLD
RELYANT	RELYANT RETAIL LIMITED	FURNITURE & HOUSEHOLD
AFROX	AFRICAN OXYGEN LIMITED	ENGINEERING
BATECOR	BATEMAN INDUSTRIAL CORP LTD	ENGINEERING
BELL	BELL EQUIPMENT LIMITED	ENGINEERING
BATEPRO	BATEMAN PROJECT HOLDINGS LTD	ENGINEERING
CEMENCO	CEMENTATION COMPANY AFRICA LTD	ENGINEERING
CLYDE	CLYDE INDUSTRIAL CORP LTD	ENGINEERING
CORPCAP	CORPCAPITAL LIMITED	ENGINEERING
DORBYL	DORBYL LTD	ENGINEERING
ED-LBATE	EDWARD L. BATEMAN LTD.	ENGINEERING
FRALEX	FRALEX LTD	ENGINEERING
HUDACO	HUDACO INDUSTRIES LTD.	ENGINEERING
HOWDEN	HOWDEN AFRICA HOLDINGS LTD	ENGINEERING
INMINS	INMINS LIMITED	ENGINEERING
NEI-AFR	NORTHERN ENG INDUSTRIES AFRICA	ENGINEERING
SONDOR	SONDOR INDUSTRIES LIMITED	ENGINEERING
UNIHOLD	UNIHOLD LIMITED	ENGINEERING
WINBEL	WINBEL LIMITED	ENGINEERING
WINHOLD	WINHOLD LIMITED	ENGINEERING
AUTOQIP	AUTOQUIP GROUP LIMITED	MOTORS
CMH	COMBINED MOTOR HOLDINGS LTD	MOTORS
METAIR	METAIR INVESTMENTS LTD.	MOTORS
SUPRGRP	SUPER GROUP LIMITED	MOTORS
TOYOTA	TOYOTA SOUTH AFRICA LTD.	MOTORS
TIWHEEL	TIGER WHEELS LIMITED	MOTORS
VALCAR	VAALTRUCAR LIMITED	MOTORS
WESCO	WESCO INVESTMENTS LTD.	MOTORS
ARIES	ARIES INVESTMENT HOLDINGS LTD	PRINTING & PUBLISHING
ALEXWYT	ALEX WHITE HOLDINGS LIMITED	PRINTING & PUBLISHING
ASTRAPAK	ASTRAPAK LIMITED	PRINTING & PUBLISHING
BOWCALF	BOWLER METCALFE LIMITED	PRINTING & PUBLISHING
COATES	COATES BROTHERS SA LTD.	PRINTING & PUBLISHING
COPI	CANADIAN OVERSEAS PACKAGING	PRINTING & PUBLISHING
GUNDLE	GUNDLE LIMITED	PRINTING & PUBLISHING
HARWILL	HARWILL INVESTMENTS LTD	PRINTING & PUBLISHING
KOHLER	KOHLER LIMITED	PRINTING & PUBLISHING
LITECH	LITHOTECH LIMITED	PRINTING & PUBLISHING
MALBAK	MALBAK LTD	PRINTING & PUBLISHING

NAMPAK	NAMPAK LTD	PRINTING & PUBLISHING
PROSPUR	PROSPUR PACKAGING & PLASTICS	PRINTING & PUBLISHING
PARAGON	PARAGON BUSINESS COMMUNICATION	PRINTING & PUBLISHING
TRNPACO	TRANSPACO LIMITED	PRINTING & PUBLISHING
ADCOCK	ADCOCK INGRAM LTD	PHARMACEUTICALS
ALIANCE	ALLIANCE PHARMACEUTICALS LTD	PHARMACEUTICALS
ASPEN	ASPEN HEALTHCARE HOLDINGS LTD	PHARMACEUTICALS
AHEALTH	AFROX HEALTHCARE LIMITED	PHARMACEUTICALS
BEIGE	BEIGE HOLDINGS LIMITED	PHARMACEUTICALS
CARSON	CARSON HOLDINGS LIMITED	PHARMACEUTICALS
GEN-OPTIC	GENERAL OPTICAL CO LTD.	PHARMACEUTICALS
GOLDREEF	GOLDREEF CASINO RESORTS LTD	PHARMACEUTICALS
MEDCLIN	MEDI-CLINIC CORPORATION LTD	PHARMACEUTICALS
MACMED	MACMED HEALTH CARE LIMITED	PHARMACEUTICALS
NETCARE	NETWORK HEALTHCARE HLDS LTD	PHARMACEUTICALS
SA-DRUG	SOUTH AFRICAN DRUGGISTS LTD.	PHARMACEUTICALS
ALTECH	ALLIED TECHNOLOGIES LTD	MEDIA
ABACUS	ABACUS TECHNOLOGY HOLDINGS LTD	MEDIA
AME	AFRICAN MEDIA LIMITED	MEDIA
CTP	CTP HOLDINGS LIMITED	MEDIA
CORPCOM	CORPCOM LIMITED	MEDIA
CAXTON	CAXTON PUBLISHERS & PRINTING	MEDIA
M-NET/SS	ELECTRONIC MEDIA NETWORK LTD	MEDIA
EDUCOR	EDUCATION INV CORP LTD , THE	MEDIA
KGMEDIA	KAGISO MEDIA LIMITED	MEDIA
MIHH	MIH HOLDINGS LIMITED	MEDIA
NASPERS	NASPERS LIMITED	MEDIA
OMNICOR	OMNI MEDIA CORPORATION LTD	MEDIA
PRIME	PRIMEDIA LIMITED	MEDIA
PARADIGM	PARADIGM CAPITAL HOLDINGS LTD	MEDIA
PENROSE	PENROSE HOLDINGS LIMITED	MEDIA
SASANI	SASANI LIMITED	MEDIA
AROMA	AROMA LIQUOR HOLDINGS LIMITED	STORES
AMLAC	AMLAC LIMITED	STORES
BUSBY	BUSBY , THE HOUSE OF	STORES
BEARMAN	BEARING MAN LIMITED	STORES
CASHBIL	CASHBUILD LTD	STORES
CHARIOT	CHARIOT HOLDINGS LIMITED	STORES
CEDAGRO	CEDARGRO HOLDINGS LIMITED	STORES
CHET	CHET INDUSTRIES LIMITED	STORES
DYNAMO	DYNAMO RETAIL LIMITED	STORES
EDCON	EDGARS CONSOLIDATED STORES LTD	STORES
FOSCHINI	FOSCHINI LTD.	STORES
FASHAF	FASHION AFRICA LIMITED	STORES
GLOHOLD	GLOHOLD LIMITED	STORES
HICORL	HICOR LIMITED	STORES
HEAVEN	SWEETS FROM HEAVEN HLDS LTD	STORES
HOMECHOIC	HOMECHOICE HOLDINGS LIMITED	STORES
ITLTILE	ITALTILE LIMITED	STORES
INVICTA	INVICTA HOLDINGS LIMITED	STORES
ILIAD	ILIAD AFRICA LIMITED	STORES
LA-STORE	LA RETAIL STORE LIMITED	STORES
LABAT	LABAT AFRICA LIMITED	STORES
MIDAS	MIDAS LTD	STORES
METCASH	METRO CASH & CARRY LIMITED	STORES
MCRTAIL	MCCARTHY RETAIL LIMITED	STORES
MATHOMO	MATHOMO GROUP LIMITED	STORES
MAXTYRES	MAXIPREST LIMITED	STORES

NUCLICKS	NEW CLICKS HOLDINGS LIMITED	STORES
PEP	PEP LIMITED	STORES
PEPGRO	PEPGRO LIMITED.	STORES
PIKWIK	PICK N PAY HOLDINGS LTD	STORES
PRIMATOY	PRIMA TOY & LEISURE GROUP LTD	STORES
PACIFIC	PACIFIC ASIA INV INTERNATIONAL	STORES
RETCORP	RETAIL CORPORATION LIMITED	STORES
RAG	RETAIL APPAREL GROUP LIMITED	STORES
RENAISAN	RENAISSANCE RETAIL GROUP LTD	STORES
SHOPRIT	SHOPRITE HOLDINGS LIMITED	STORES
STORECO	STORECO LIMITED	STORES
TELTRON	TELTRON LIMITED	STORES
TRUWTHS	TRUWORTHS INTERNATIONAL LTD	STORES
TRADEK	TRADEK.COM HOLDINGS LIMITED	STORES
UNIGRO	UNIVERSAL GROWTH HOLDINGS LTD	STORES
WOOLTRU	WOOLTRU LTD	STORES
WETHLYS	WETHERLYS INVESTMENT HLDS LTD	STORES
WOOLIES	WOOLWORTHS HOLDINGS LIMITED	STORES
HIVELD	HIVELD STEEL & VANADIUM CORP.	STEEL & ALLIED
ISCOR	ISCOR LIMITED	STEEL & ALLIED
CARGO	CARGO CARRIERS LIMITED	TRANSPORTATION
COMAIR	COMAIR LIMITED	TRANSPORTATION
LASER	LASER GROUP LIMITED	TRANSPORTATION
PUTCO	PUTCO LTD.	TRANSPORTATION
ROADCOR	ROADCORP LIMITED	TRANSPORTATION
UNITRAN	UNITRANS LIMITED	TRANSPORTATION
VENTEL	VENTER LEISURE & COMM TRAILERS	TRANSPORTATION
SAPPI	SAPPI LTD.	PAPER
ALUDIE	ALUDIE LIMITED	DEVELOPMENT CAPITAL
BRANDCO	BRANDCORP HOLDINGS LIMITED	DEVELOPMENT CAPITAL
CENMAG	CENMAG HOLDINGS LIMITED	DEVELOPMENT CAPITAL
ELEXIR	ELEXIR TECHNOLOGY HLDS LIMITED	DEVELOPMENT CAPITAL
JIGSAW	JIGSAW HOLDINGS LIMITED	DEVELOPMENT CAPITAL
MMWTECH	MMW TECHNOLOGY HOLDINGS LTD	DEVELOPMENT CAPITAL
QUICKCO	QUICK HOLDINGS LIMITED	DEVELOPMENT CAPITAL
S&JLAND	S&J LAND HOLDINGS LIMITED	DEVELOPMENT CAPITAL
APLITEC	NET 1 APPLIED TECHNOLOGY HLDS	VENTURE CAPITAL
BRNWARE	BRAINWARE LIMITED	VENTURE CAPITAL
XCHANGE	IXCHANGE TECNOLOGY HLDS LTD	VENTURE CAPITAL
ITITECH	ITI TECHNOLOGY HOLDINGS LTD	VENTURE CAPITAL
ITECH	INTEGRATED TECH HOLDINGS LTD	VENTURE CAPITAL
TRYLOGY	TRYLOGY WINECORP LIMITED	VENTURE CAPITAL
SAIL	SA INVESTMENTS LIMITED	CASH COMPANIES
CARE	MANAGED CARE SOUTH AFRICA LTD	DEVELOPMENT STAGE
M-CELL	M-CELL LIMITED	DEVELOPMENT STAGE
TRIDELTA	TRIDELTA MAGNET TECHNOLOGY HLD	DEVELOPMENT STAGE

Annexure 4: Cover letter addressed to individuals chosen for the pilot run

Bureau for Financial Analysis

Bureau for Financial Analysis (Pty) Ltd. Reg. No: 2000/004497/07
Graduate Centre, Tindall & Duxbury Roads, University of Pretoria , Pretoria, RSA, 0002
PO Box 786095, Sandton, South Africa, 2146
Tel: +27 (12) 420 3371 Fax: +27 (12) 362 5299

The Financial Director or name
XX Company Limited
Address

Date

Dear Sir/Madam

Voluntary disclosure in annual and interim reports has been the subject of many research papers and the question of its importance to users is debatable.

The Bureau of Financial Analysis of the University of Pretoria and myself from the Department of Accounting are presently conducting an extensive research project on the perceptions of compilers and users of annual reports on the price informative value of voluntary disclosure in corporate reports. In order to ensure the reliability and credibility of the results of the project, the proposed questionnaire needs to be tested thoroughly before being sent out on a large scale.

In view of your high professional abilities and experience in financial accounting, you have been chosen as one of a selected group to participate in the pilot field test of the questionnaire. Your comments on the layout, length, and clarity of the questionnaire as well as suggestions for improvements and your completion of the questionnaire will be highly appreciated.

On completion, please indicate the approximate time it took to complete the questionnaire and kindly mail the questionnaire in the self addressed postage paid envelope.

Thanking you in anticipation for contributing your valuable time and for your kind co-operation.

Yours sincerely

Prof L.M. Brümmer and Ms J.E. Myburgh

If you would like to receive a summary of the results of this questionnaire, please fill in your address below.

....
....
....
....

Annexure 5: Names of individuals who reviewed and pilot tested the questionnaires

Name	Position
Academics:	
Prof. C W I Pistorius	U.P. - Vice principal
Prof. A P Zevenbergen	Retired chartered accountant
Prof. W Buys	U.P. - Department of Accounting
Prof. D du Plessis	U.P - Department of Accounting
Prof. Q Vorster	U.P. - Department of Accounting
Prof. C Koornhof	U.P. - Department of Accounting
Prof. C de Villiers	U.P. - Department of accounting
Prof. J H de la Rey	U.P. - Graduate School of Management
Prof. H A Lambrechts	U.P. - Graduate School of Management
Prof. D Gloeck	U.P. - School of Accounting
Prof. H de Jager	U.P. School of Accounting
Mr S M Millard	U.P. - Department of Statistics
Proffessionals:	
Mr H Deveugele	Managing director - Mobijack Ltd, Johannesburg
Mr T Vorster	Analyst - Boenatwest, Pretoria
Mr M Adrian	KPMG, Durban
Dr P J A Nagel	Sasol, Ltd, Johannesburg

Annexure 6: Cover letter to accompany questionnaire A addressed to financial directors (compilers) of annual reports

Bureau for Financial Analysis

Bureau for Financial Analysis (Pty) Ltd. Reg. No: 2000/004497/07
Graduate Centre, Tindall & Duxbury Roads, University of Pretoria , Pretoria, RSA, 0
PO Box 786095, Sandton, South Africa, 2146
Tel: +27 (12) 420 3371 Fax: +27 (12) 362 5299

The Financial Director
Company
Address

Dear Sir / Madam,

EXTENT OF VOLUNTARY DISCLOSURE IN CORPORATE REPORTS

I am a senior lecturer in the Department of Accounting at the University of Pretoria and currently conducting a research survey for my doctorate in Accountancy.

Voluntary disclosure in annual and interim reports has been the subject of many research papers and the question of its importance is debatable. My studies are focused on researching the extent of voluntary disclosure, that is information disclosed over and above the requirements of the companies Act, GAAP and the Johannesburg Stock Exchange listing requirements, as contained in the annual and interim reports of quoted industrial companies. The aim of this investigation is to determine the relationship between the extent of voluntary disclosure and the effect on share prices.

I have drafted a questionnaire to determine what are the perceptions of **compilers** of annual reports of the price informative value of voluntary disclosure. Your completion of the enclosed questionnaire will be highly valued and your personal input invaluable.

The answers contained in the individual questionnaires will be analysed and processed into the final results. The information will at all times be treated as confidential and will not be made available to any other institution or private individual. After completion of the questionnaire, kindly return the questionnaire in the self addressed postage paid envelope.

Should you require further information, do not hesitate to contact Jean Myburgh at:
Telephone: 012-4203692 Fax: 012-3625142 E-Mail: jmyburgh@hakuna.up.ac.za

Thanking you in anticipation for your kind co-operation and assistance with this research project.

Yours sincerely,

J E MYBURGH

If you would like to receive a summary of the results of this questionnaire, please fill in your address below.

....
....
....
....

Annexure 7: Questionnaire A sent to financial directors (compilers) of quoted industrial companies included in the survey

V1						1-5
				V2	1	6

THE EFFECT OF VOLUNTARY DISCLOSURE ITEMS IN ANNUAL REPORTS ON SHARE PRICES

Questionnaire to be completed by **compilers** of annual reports
All answers will be treated as strictly confidential and will be used for statistical purposes only.

SECTION 1 : BIOGRAPHICAL INFORMATION

Please mark with a √ where relevant.

For office use only

1.1 Highest level of academic education.

Matric	Diploma	Bachelors degree	Honours degree	Chartered Accountant	Masters degree	Doctorate

V3		7

1.2 What is your *primary* reason for investing in shares of a company?

Capital growth	Dividend income	Keeping abreast of inflation	Form of saving	Tax relief

V6		10

Other, please specify ....

1.3 How useful do you find annual and interim reports for investment decisions?

Essential	Very useful	Moderately useful	Of little use	Useless

V7		11

1.4 Position or rank held in the company.

Managing director	Financial director	Chief accountant	Financial controller	Company secretary

V4		8

Other, please specify ....

1.5 Number of years of experience in the field of accounting or finance

Less than 10 years	10 - 20 years	More than 20 years

V5		9

SECTION 2: GENERAL

2.1 **Do you believe that the share prices on the Johannesburg Stock Exchange react immediately to information made public?**

Office use

Strongly agree	Agree	Disagree	Strongly disagree	Uncertain

V8		12

2.2 **Which *five* most important sources of information are used by you when making an investment decision? *Please rank* only 5 in order of importance. 1 = most important to 5 = less important**

	Rank
Prospectus of a company	
Annual and interim report of a company	
Releases in general and business newspapers	
Financial periodicals, e.g. Fin. Mail, Finance Week	
Financial analysts and stockbrokers	
Personal contact with the management/employees of the company	
Investment services of financial institutions	
Television and radio announcements	
Accountants or auditors	
Attorneys	
Technical analysis and public forums	
Friends, family, tips or rumours	
Your own analysis and accumulated information	
Other	

V9			13-14
V10			15-16
V11			17-18
V12			19-20
V13			21-22

2.3 **Do you use corporate reports for investment decisions?**

Yes	No

V14		23

If NO, please give a reason ....

If, *NO,* please ignore the rest of the questionnaire and kindly return the questionnaire for control purposes in the envelope provided.
Thank you for your valuable time.

2.4 What do you normally do upon receipt of a corporate report?

Read it in depth for analysis purposes	Browse through it for specific information	Discard it without reading it

Office use

V15		24

2.5 Who do you regard as the most important users of corporate reports?
Choose only *five* and *rank* in order of importance,
1 = most important to 5 = less important **Rank**

Shareholders (individual investors)	
Stockbrokers	
Security analysts	
Institutional investors	
Investment bankers and underwriters	
Bank loan departments	
Academics	
Employees and unions	
Editors of financial magazines	
Other	

V16			25-26
V17			27-28
V18			29-30
V19			31-32
V20			33-34

2.6 Rate *each* of the following corporate report characteristics that enhance the usefulness of information obtained from corporate reports

Ranking scale: Mark with a √ where relevant.
Very important (**VI**)
Fairly important (**FI**)
Moderately important (**MI**)
Slightly important (**SI**)
Unimportant (**UI**)

Characteristic	VI	FI	MI	SI	UI
Relevant					
Reliable					
Understandable					
Comparable					

V21		35
V22		36
V23		37
V24		38

2.7 Which sections of an annual report are the most important? Choose only *five* and *rank* in order of importance. 1 = most important to 5 = less important

	Rank
Income Statement	
Balance Sheet	
Notes to the financial statements	
Cash flow statement	
Value added statement	
Current cost financial statements	
Financial highlights	
Table of statistics	
Segmental reports	
Chairperson's report	
Director's report	
Auditor's report	
Other, please specify	

For office use

V25			39-40
V26			41-42
V27			43-44
V28			45-46
V29			47-48

2.8 Has your company appointed the following committees in accordance with the requirements of the King Report on corporate governance?

Type of committee	No	Yes	If yes, are names disclosed?
Executive committee			
Management resources			
Remuneration committee			
Audit committee			
Retirement funds			
Other, specify.....................			

V30		49
V31		50
V32		51
V33		52
V34		53
V35		54

2.9 Do competitions for best reporting practices affect your company's voluntary disclosure policy?

Strongly agree	Agree	Disagree	Strongly disagree	No opinion or uncertain

V36		55

SECTION 3 : VOLUNTARY DISCLOSURE ITEMS IN ANNUAL REPORTS

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.

Please consult enclosed set of Financial Mail Top Twenty rules for further clarification of each disclosure item.

Ranking scale: Mark with a √ where relevant.
Very important (**VI**)
Fairly important (**FI**)
Moderately important (**MI**)
Slightly important (**SI**)
Unimportant (**UI**)

3.1 Additional reports and statements in the annual report.

Office use

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI
Inflation adjusted financial statements					
Employee/social report					
Environmental report					
Tax reconciliation statement					
Statement of money exchanges with government					
Managements' operating and financial review					

V37		56
V38		57
V39		58
V40		59
V41		60
V42		61

3.2 Value added statements

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI
Presented: - as a statement					
- as a pie-chart					
- for one year					
- for two years					

V43		62
V44		63
V45		64
V46		65

3.3 Fixed and intangible assets.

Office use

Voluntary disclosure items and their effect on share market prices	**VI**	**FI**	**MI**	**SI**	**UI**			
Insurance or replacement value of other fixed assets						V47		66
List of fixed property available for inspection by the general public						V48		67
Movements of fixed assets shown in the cash flow statement						V49		68
Depreciation of intangible assets						V50		69

3.4 Do you prefer a table of comparative statistics to cover:

Less than 5 years	5 years	More than 5 years	V51		70

Contents of table:

Voluntary disclosure items and their effect on share market prices	**VI**	**FI**	**MI**	**SI**	**UI**			
Disclosure in table of:								
Turnover figure						V52		71
Number of shares issued						V53		72
Net asset value per share						V54		73
Ratios: Profitability						V55		74
Liquidity/solvability						V56		75
Productivity ratios						V57		76
Definitions of ratios						V58		77
Number of employees						V59		78
Stock exchange performance:								
Volume and value of shares traded, lowest, highest and year-end prices						V60		79
Comparison of company's share price with industry index						V61		80

V62						1-5
				V63	2	6

Office use

3.5 General voluntary disclosure items

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI			
Long-term dividend policy						V64		7
Activities of all subsidiaries						V65		8
Promotion of activities						V66		9
Illustrations and colour						V67		10
Results presented graphically						V68		11
Highlights						V69		12
Shareholders' diary						V70		13
Research and developments projects: - discussed in detail						V71		14
- cost of R & D shown						V72		15
Differentiation between interest- and non-interest bearing current liabilities in notes to the financial statements						V73		16
Cost of sales and gross profit						V74		17
Statement that report complies with International Accounting Standards						V75		18

3.6 Voluntary/non-statutory disclosure in annual reports plays a fundamental role in your decision making process?

Strongly agree	Agree	Disagree	Strongly disagree	No opinion uncertain		V76		19

3.7 To avoid information overload, would it be preferable for a company to publish separate reports such as a financial report, social report, management discussion and analysis report and an eMIronmental report?

Yes	No	Uncertain		V77		20

3.8 Profile and shareholding of directors and top management, distribution of shareholdings and group structure

Office use

Voluntary disclosure items and their effect on share market prices	**VI**	**FI**	**MI**	**SI**	**UI**	Office use		
Biographical profile of directors and top management e.g. qualifications, age, photos, experience and other						V78		21
Individual shareholdings of directors and top management						V79		22
Distribution of total shareholding according to size and type						V80		23
Group structure presented diagrammatically with percentages, activities, products and locations						V81		24

3.9 Contents of directors' and chairman's report:	**VI**	**FI**	**MI**	**SI**	**UI**	Office use		
- Detailed activities of the company						V82		25
- Reasons for changes in results						V83		26
- Corporate goals/mission						V84		27

3.10 Interim reports

Voluntary disclosure items and their effect on share market prices	**VI**	**FI**	**MI**	**SI**	**UI**	Office use		
Contents: Turnover						V85		28
Cash flow statement						V86		29
Segmental analysis						V87		30
Detailed comments on results						V88		31
Future dividend and profit expectations						V89		32
Should interim reports be audited?						V90		33

Thank you for completing the above questionnaire.
Your response is highly appreciated and your information invaluable.

Annexure 8: Cover letter to accompany questionnaire B addressed to users of annual reports

Bureau for Financial Analysis

Bureau for Financial Analysis (Pty) Ltd. Reg. No: 2000/004497/07
Graduate Centre, Tindall & Duxbury Roads, University of Pretoria , Pretoria, RSA, 0002
PO Box 786095, Sandton, South Africa, 2146
Tel: +27 (12) 420 3371 Fax: +27 (12) 362 5299

Department of Accounting
Economic and Business Sciences
UNIVERSITY OF PRETORIA

Attention: Investment adviser, stockbroker, portfolio holder and professional accountant.
Address

Dear Sir/Madam,

EXTENT OF VOLUNTARY DISCLOSURE IN CORPORATE REPORTS

I am a senior lecturer in the Department of Accounting at the University of Pretoria and currently conducting a research survey for my doctorate in Accountancy.

Voluntary disclosure in annual and interim reports has been the subject of many research papers and the question of its importance is debatable. My studies are focused on researching the extent of voluntary disclosure that is information disclosed over and above the requirements of the companies Act, GAAP and the Johannesburg Stock Exchange listing requirements as contained in the annual and interim reports of quoted industrial companies. The aim of this investigation is to determine the relationship between the extent of voluntary disclosure and the effect on share prices.

I have drafted a questionnaire to determine what are the perceptions of **users** of annual reports of the price informative value of voluntary disclosure. Your completion of the enclosed questionnaire will be **highly valued** and your personal input **invaluable**.

The answers contained in the individual questionnaires will be analysed and processed into the final results. The information will at all times be treated as confidential and will not be made available to any other institution or private individual. After completion of the questionnaire, kindly return the questionnaire in the self addressed postage paid envelope.

Should you require further information, do not hesitate to contact Jean Myburgh at:

Telephone:	012-4203692
Fax:	012-3422752
E-Mail:	jmyburgh@hakuna.up.ac.za

Thanking you in anticipation for your kind co-operation and assistance with this research project.

Yours sincerely,

J E MYBURGH

If you would like to receive a summary of the results of this questionnaire, please fill in your address below.

....

....

....

....

Annexure 9: Questionnaire B sent to users of annual reports

V1						1-5
				V2	1	6

THE EFFECT OF VOLUNTARY DISCLOSURE ITEMS IN ANNUAL REPORTS ON SHARE PRICES

Questionnaire to be completed by **users** of annual reports.
All answers will be treated as strictly confidential and will be used for statistical purposes only.

SECTION 1 : BIOGRAPHICAL INFORMATION

Please mark with a √ where relevant.

For office use only

1.1 Highest level of academic education.

Matric	Diploma	Bachelors degree	Honours degree	Chartered accountant	Masters degree	Doctorate

V3		7

1.2 Number of years of experience in the field of investment analysis.

Less than 10 years	10 - 20 years	More than 20 years

V5		9

1.3 What is your primary reason for investing in shares of a company?

Capital growth	Dividend income	Keeping abreast of inflation	Form of saving	Tax relief

V6		10

Other, please specify ....

1.4 How useful do you find annual and interim reports for investment decisions?

Essential	Very useful	Moderately useful	Of little use	Useless

V7		11

1.5 What is the size of your share portfolio?

Not applicable No portfolio	Less than R100 000	R100 000 - R999 999	R1m - R50m	Over R50m

V4		8

SECTION 2: GENERAL

2.1 Do you believe that the share prices on the Johannesburg Stock Exchange react immediately to information made public?

Office use

Strongly agree	Agree	Disagree	Strongly disagree	No opinion or uncertain

V8		12

2.2 Which *five* most important sources of information are used by you when making an investment decision. *Rank* in order of importance?
(1 = most important to 5 = less important)

	Rank
Prospectus of a company	
Annual and interim report of a company	
Releases in general and business newspapers	
Financial periodicals, e.g. Fin. Mail, Finance Week	
Financial analysts and stockbrokers	
Personal contact with the management/employees of the company	
Investment services of financial institutions	
Television and radio announcements	
Accountants or auditors	
Attorneys	
Technical analysis and public forums	
Friends, family, tips or rumours	
Your own analysis and accumulated information	
Other, specify	

V9			13-14
V10			15-16
V11			17-18
V12			19-20
V13			21-22

2.3 Do you use corporate annual reports for investment decisions?

Yes	No

V14		23

If **NO**, please give a reason ....

If, <u>NO</u>, please ignore the rest of the questionnaire and kindly return the questionnaire for control purposes in the envelope provided. Thanking you for your valuable time.

2.4 What do you normally do upon receipt of a corporate annual report?

Office use

Read it in depth for analysis purposes	Browse through it for specific information	Discard it without reading it

V15		24

2.5 Who do you regard as the most important users of financial reports? Choose only *five* and *rank* in order of importance,
1 = most important to 5 = less important

	Rank
Shareholders (individual investors)	
Stockbrokers	
Security analysts	
Institutional investors	
Investment bankers and underwriters	
Bank loan departments	
Academics	
Employees and unions	
Editors of financial magazines	
Other, specify	

V16			25-26
V17			27-28
V18			29-30
V19			31-32
V20			33-34

2.6 Rate *each* of the following characteristics of annual reports that enhance the usefulness of information obtained from annual reports.

Ranking scale: Mark with a √ where relevant.
Very important (**VI**)
Fairly important (**FI**)
Moderately important (**MI**)
Slightly important (**SI**)
Unimportant (**UI**)

Characteristic	**VI**	**FI**	**MI**	**SI**	**UI**
Relevant					
Reliable					
Understandable					
Comparable					

V21		35
V22		36
V23		37
V24		38

2.7 Which sections of a corporate report are the most important?
(Choose only *five* and *rank* in order of importance)
1 = most important to 5 = less important

	Rank
Income Statement	
Balance Sheet	
Notes to the financial statements	
Cash flow statement	
Value added statement	
Current cost financial statements	
Financial highlights	
Table of statistics	
Segmental reports	
Chairperson's report	
Director's report	
Auditor's report	
Other	

Office use

V25			39-40
V26			41-42
V27			43-44
V28			45-46
V29			47-48

2.8 Is it important to you as user of an annual report for a company to appoint the following committees in accordance with the requirements of the King Report on corporate governance?

Type of committee	No	Yes	Should names be disclosed?
Executive committee			
Management resources			
Remuneration committee			
Audit committee			
Retirement funds			
Other			

V30		49
V31		50
V32		51
V33		52
V34		53
V35		54

0	55

SECTION 3 : VOLUNTARY DISCLOSURE ITEMS IN ANNUAL REPORTS

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.

Ranking scale: Mark with a √ where relevant.

Very important (**VI**)
Fairly important (**FI**)
Moderately important (**MI**)
Slightly important (**SI**)
Unimportant (**UI**)

3.1 Additional reports and statements in a corporate report

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI
Inflation adjusted financial statements					
Employee/social report					
Envlronmental report					
Tax reconciliation statement					
Statement of money exchanges with government					
Managements' operating and financial review					

Office use

V37		56
V38		57
V39		58
V40		59
V41		60
V42		61

3.2 Value added statements

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI
Presented: - as a statement					
- as a pie-chart					
- for one year					
- for two years					

V43		62
V44		63
V45		64
V46		65

3.3 Fixed and intangible assets.

Office use

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI			
Insurance or replacement value of other fixed assets						V47		66
List of fixed property available for inspection by the general public						V48		67
Movements of fixed assets shown in the cash flow statement						V49		68
Depreciation of intangible assets						V50		69

3.4 Do you prefer a table of comparative statistics to cover:

Less than 5 years	5 years	More than 5 years			
			V51		70

Contents of table:

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI			
Disclosure in table of:								
Turnover figure						V52		71
Number of shares issued						V53		72
Net asset value per share						V54		73
Ratios: Profitability						V55		74
Liquidity/solvability						V56		75
Productivity ratios						V57		76
Definitions of ratios						V58		77
Number of employees						V59		78
Stock exchange performance:								
Volume and value of shares traded, lowest, highest and year-end prices						V60		79
Comparison of company's share price with industry index						V61		80

V62						1-5
				V63	2	6

3.5 General voluntary disclosure items

Office use

Voluntary disclosure items and their effect on share market prices	**VI**	**FI**	**MI**	**SI**	**UI**			
Long-term dividend policy						V64		7
Activities of **all** subsidiaries						V65		8
Promotion of activities						V66		9
Illustrations and colour						V67		10
Results presented graphically						V68		11
Highlights						V69		12
Shareholders' diary						V70		13
Research and development projects: - discussed in detail						V71		14
- cost of R & D shown						V72		15
Differentiation between interest- and non-interest bearing current liabilities in notes to the financial statements						V73		16
Cost of sales and gross profit						V74		17
Statement that report complies with International Accounting Standards						V75		18

3.6 Voluntary/non-statutory disclosure in annual reports plays a fundamental role in your decision making process?

Strongly agree	Agree	Disagree	Strongly disagree	Uncertain

V76		19

3.7 To avoid information overload, would it be preferable for a company to publish separate reports such as a financial report, social report, management discussion and analysis report and an environmental report?

Yes	No	Uncertain

V77		20

3.8 Profile and shareholding of directors and top management, distribution of shareholdings and group structure **Office**

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI			
Biographical profile of directors and top management e.g. qualifications, age, photos, experience and other						V78		21
Individual shareholding of directors and top management						V79		22
Distribution of total shareholding according to size and type						V80		23
Group structure presented diagrammatically with percentages, activities, products and locations						V81		24
3.9 Contents of directors' and chairman's report:	**VI**	**FI**	**MI**	**SI**	**UI**			
- Detailed activities of the company						V82		25
- Reasons for changes in results						V83		26
- Corporate goals/mission						V84		27

3.10 Interim reports

Voluntary disclosure items and their effect on share market prices	VI	FI	MI	SI	UI			
Presentation: Turnover						V85		28
Cash flow statement						V86		29
Segmental analysis						V87		30
Detailed comments on results						V88		31
Future dividend and profit expectations						V89		32
Should interim reports be audited?						V90		33

Thanking you for completing the above questionnaire.
Your response is highly appreciated and your information invaluable.