DISCLOSURE OF CORPORATE FINANCIAL INFORMATION IN MALAYSIA

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ABSTRACT

This study examines empirically the relationship between a number of corporate attributes and levels of disclosure of information in annual reports of Malaysian public listed companies. The perceived importance of selected information items to two user groups; accountants and financial analysts is also examined using a structured questionnaire.

Three unweighted disclosure indices (overall disclosure index, mandatory disclosure index and voluntary disclosure index) were applied to 54 corporate annual reports for three different years: 1974, 1984 and 1994. The results indicate that the level of disclosure has improved over the twenty-year period. The overall and mandatory disclosure scores show a substantial increase in 1984 and a moderate increase in 1994. However, only a marginal increase in disclosure level for voluntary disclosure items is noted for the same period.

The association between the extent of disclosure and fifteen corporate attributes was examined using several multiple regression models. The results indicate that: (a) the variable total assets shows significant relationship with the three disclosure indices; (b) the variables liquidity ratio, scope of business operations, leverage, and type of management are significantly associated with some of the disclosure indices; (c) the variables number of shareholders, corporate image and financial year end show weak relationships with some of the disclosure indices; and (d) the other variables namely, total sales, market capitalisation, proportion of shares owned by outsiders, profit margin, parent company size and type of external auditor show no significant relationship with disclosure scores. Except for total assets, all variables in (b) and (c) above produce inconsistent results when employed under different regression models.

The two user groups also demonstrate significant differences in perceptions on 31 (55%) out of 56 items of information. Overall, the financial analysts' group perceive a substantial number of items of information as more important than the accountants' group.

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LIST OF ACRONYMS AND ABBREVIATIONS

AFA	ASEAN Federation of Accountants
ASEAN	Association of South East Asian Nations
CAPA	Confederation of Asian and Pacific Accountants
ECOSOC	Economic and Social Council
EEC	European Economic Community
EU	European Union
FIC	Foreign Investment Committee
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
ICA	International Congress of Accountants
ICFTU	International Confederation of Free Trade Unions
IFAC	International Federation of Accountants
IFTU	International Federation of Trade Unions
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
KLSE	Kuala Lumpur Stock Exchange
MACPA	Malaysian Association of Certified Public Accountants
MAS	Malaysian Accounting Standard
MIA	Malaysian Institute of Accountants
MNC	Multinational Corporation
NIE	Newly Industrialised Economies
OECD	Organisation of Economic Cooperation and Development
ROC	Registrar of Companies
SC	Securities Commission
UK	United Kingdom
UN	United Nations
US/USA	United States of America
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporation

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The primary aim of this chapter is to provide the context for the thesis. The thesis focuses on the subject of corporate financial reporting in general and corporate disclosure in particular. The issue of disclosure of information and the variables that could influence its level of disclosure has attracted many accounting researchers to carry out studies on corporate disclosure in developed as well as developing countries ranging from theoretical discussion to empirical testing. Another important aspect of research relating to disclosure is the perceived importance of various items of information to different categories of users, and this aspect is also covered in the present study.

In the next section, the importance and scope of the research study is explained. The research goals to be accomplished in the study are described in Section 1.3. Lastly, section 1.4 describes the structure of the thesis and provides an outline of the contents of the remaining chapters of the thesis.

1.2 Importance and Scope of Research

This research topic has been chosen because of the dearth of research materials available regarding accounting development in Malaysia. There were only five doctoral dissertations on aspects of accounting in Malaysia of which I was aware - Yong (1987), Chang (1988), Ahmad (1988), Tay (1989) and Samidi (1991). However, these studies did not cover in depth the accounting systems in use in Malaysia. The study by Chang (1988) only depicted a general overview of accounting systems in Malaysia and compared these to the accounting systems being practised in Hong Kong, South Korea, Taiwan and Singapore. Samidi (1991), on the other hand, focused on the capital budgeting decision process by government-owned enterprises as compared to public listed firms. Yong (1987) tested the efficient market hypothesis on stocks traded at the Kuala Lumpur Stock Exchange. The study by Tay (1989) only covered the aspect of regulation in five countries namely the UK, Netherlands, Thailand, Singapore and Malaysia. Although he developed a disclosure index in his study, the number of disclosure items was too small. Only one (Ahmad, 1988) of these studies addressed specifically on corporate financial reporting, but it only surveyed the perceptions of one user group - financial analysts. Yet the corporate annual report is the most significant and useful output of accounting information, both to national and international users. The two studies relating to disclosure (Ahmad, 1988 and Tay, 1989) also employ a single year approach to measure corporate disclosure practises in Malaysia. None have used a multiple-years approach in examining the trends in disclosure of information by Malaysian companies. This gap in the accounting literature needs to be filled, especially when one is examining whether companies are moving towards increasing the quality of information disclosed in the annual reports; not only in terms of complying with disclosure rules, but also in meeting the needs of various user groups.

This study will provide a description of the present status of accounting in Malaysia. It will update and expand the limited literature on accounting in Malaysia in particular, and in the South East Asian region in general. It is hoped that this research will answer the many calls made for more intensive research on the accounting problems of developing countries (Needles, 1976).

This research will focus on published annual 'general-purpose' financial reports of profit - seeking corporate enterprises. As such, government non-trading and 'not-for-profit' enterprises will be excluded. The annual report is chosen for this study not because it is the only source to obtain information about a particular entity but because it is the primary, most dominant and reliable source of information.

Since there has been no in depth study regarding disclosure of accounting information in Malaysia, this study will examine:

a) the changes in the level of disclosure of accounting information in selected annual reports of companies in Malaysia from 1974 to 1994.

b) the perceptions of users of accounting information regarding the usefulness of items of information disclosed in the annual reports.

1.3 Research Goals

The research will be descriptive, exploratory, normative and empirical in scope. The purpose of this research is to explain some of the issues relating to financial reporting in a developing country - Malaysia - by trying to answer the following research questions:-

1. What is the state of financial reporting in Malaysia? Is financial reporting a function of selected variables, for example type of business, parent company relationship, total assets, annual sales etc.?

2. Does financial reporting in Malaysia conform with the rules and regulations of the country and respond to the needs of various users of such reports?

3. Has there been a significant change in the level of disclosure of accounting information in corporate annual reports during particular periods of time?

4. Does financial reporting practices in Malaysia have any similarity with other developing countries in terms of (i) disclosure of relatively similar items of information, and (ii) perceived needs of user groups.

The primary aim of this research is to examine the pattern of disclosure in financial reporting by profit seeking enterprises in Malaysia. It is hoped that a conclusion can be drawn about the pattern of financial reporting in respect of its compliance with disclosure rules and its satisfaction in meeting the perceived needs of its various users. This study will determine a set of items of information to form the basis of the analysis later on. This set of information will then be used to determine the level of regulation, the ordered preference of the items perceived by the users and the intensity or frequency of disclosure of these items by the selected firms.

One objective of this study is to examine whether each item of information is of equal importance to each and every identified user group in Malaysia. From this finding, it will either support or refute the hypothesis that corporate reports issued in Malaysia can truly be referred to as 'general purpose' reports. At this stage, a questionnaire containing 56 items of information was distributed among two categories of users who were asked to rate each information item in terms of its perceived importance in company annual reports on a five-point scale. Mean scores were calculated for the ratings provided by the respondents for each item and used for statistical analyses.

The second objective is to examine the trend in the level of disclosure of information provided in the corporate reports for a particular period. This will help to determine items that can be considered compulsory or required by law and items that are disclosed voluntarily. Factors that could influence the level of disclosure were also selected and subjected to empirical testing. At this stage, 54 public listed companies were randomly sampled and their annual reports were obtained for analysis. A disclosure index containing between 185 to 202 disclosure items was developed and each annual report was examined to see if the items of the index appeared in the annual reports. If the item was disclosed, a score of 1 was given, and if it was not disclosed, zero score was given. Thus, each annual report ended up with an actual disclosure score. The maximum score permissible for each annual report was also calculated based on the relevancy of the item to the company after taking into consideration the industry in which it engaged. As such, the disclosure score was computed by dividing the actual score with the maximum possible score. This disclosure score became the dependent variable in the regression analysis. Several company characteristics were identified to examine their influence on disclosure score including various measures of company size, leverage, type of management, percentage of outside ownership, profitability, liquidity, industry sector, audit firm, corporate image and financial year end.

The third objective is to compare the results of the perceptions of Malaysian users of accounting information upon a set of relatively similar disclosure items with the perceptions of users of accounting information in other countries cited in earlier studies. This will form the basis for testing the universality of items reported in annual reports. If a particular set of items is perceived as very important by users in all countries, then it should be given due consideration by the bodies involved in promoting harmonisation of accounting standards and practice. At this stage two other similar studies done in developing countries were used to compare their results with the present study.

The analysis of data was carried out for both the questionnaire survey responses and the contents of the annual reports. The former involved tests of hypotheses about the consensus of users' perceptions regarding the importance of information items using non-parametric tests; while the latter involved, among other analyses, several models of the multiple regression analysis.

In order to keep the research within a time scale, an organisational flowchart depicting the task to be done at every stage of the research process was developed. This plan served as a constant reminder as to the different tasks that needed to be accomplished within stipulated time limits so that the research project could be completed successfully. The flowchart is shown in Figure 1.1 at the end of this chapter.

1.4 Structure of the Thesis

After outlining the importance of the research, its scope, goals and research questions in the previous sections, this section shows how the rest of the thesis has been organised to resolve these research questions and the structure that ties the various parts of the thesis together.

Chapter Two provides a scenario of the issue in corporate financial reporting with special focus on the concept of 'disclosure' or the meaning of the term based on previous literature. After discussing the meaning of disclosure, this chapter also examines the variables that could influence the level of disclosure of information by companies in a country, with special emphasis on developing countries.

After discussing the wider issues of financial reporting in developing countries, the next chapter reviews the relevant literature on users' perceptions and corporate disclosure of information. Chapter Three reviews the previous studies on (i) users' perceptions regarding items or sections contained in annual reports, and (ii) the extent of corporate disclosure in annual reports and the factors that could influence the level of disclosure of information, in both developed and developing countries. The aim of this chapter is to summarise the main findings and research approaches of previous studies in assessing the perceptions of various user groups and the variables that could influence the level of disclosure of information in annual reports. The analysis of previous studies provides the background for (a) selecting the explanatory variables, (b) setting up the procedures for operationalising the variables, and (c) selecting the appropriate research techniques in analysing the data.

Following the review of previous studies on users' perceptions and corporate disclosure practices, the next three chapters address the issue of regulation of financial reporting. In Chapter 4, the issue of accounting regulation and the rationale for regulation of corporate financial reporting are discussed. Also the key players in ensuring the success of international regulation in terms of compliance by respective countries through the issuance of international accounting standards is also explored.

In Chapter Five, a brief overview of political, economic and geographic background of Malaysia is outlined. The role of the relevant regulatory and professional bodies governing financial reporting in Malaysia is also described. Lastly, the chapter also addresses specifically the relevant laws and accounting standards that have been promulgated to ensure its compliance by companies in terms of maintaining proper records and accounts and with the final publication of annual reports to be made available to interested parties. It focuses specifically on the accounting provisions of the Malaysian Companies Act, 1965, the relevant accounting standards that govern the form and contents of annual reports and the listing requirements of the Kuala Lumpur Stock Exchange.

After providing a summary of the regulatory framework of financial reporting and its environment, the next two chapters describe the methodology and data sets used in the study. Chapter Six outlines the research methodology employed in the study. The measurement of disclosure adequacy and consensus are described together with their operationalising procedures. The use of disclosure index and its construction are explained. The testable hypotheses are developed for both the user perceptions and the disclosure of information in annual reports. In Chapter Seven, the data sets are explained. Sample selection for the user perception study and the disclosure study are explained in this chapter. The development of the survey questionnaire and its administration are described. In order to provide a clear understanding of the composition of the user sample, the background information of the respondents is analysed. The composition of the annual reports' sample is also described to offer a clear understanding of the various categories of companies selected for the study.

After describing the data sets and developing the hypotheses, the next step is to analyse the data. Chapter Eight and Chapter Nine cover the user perception study based on the questionnaire responses. Responses to Part I of the questionnaire are dealt with in Chapter Eight, while responses to Part II are examined in Chapter Nine. Part I of the questionnaire sought to identify the purposes for which respondents use annual reports, the relative importance of various sources of information and different parts of the annual report perceived by them, and the influence of each part of the annual report on their decision making process, and also how thoroughly did they read each part of the annual report. Occupational classification of respondents is used to analyse difference in perception across the sample.

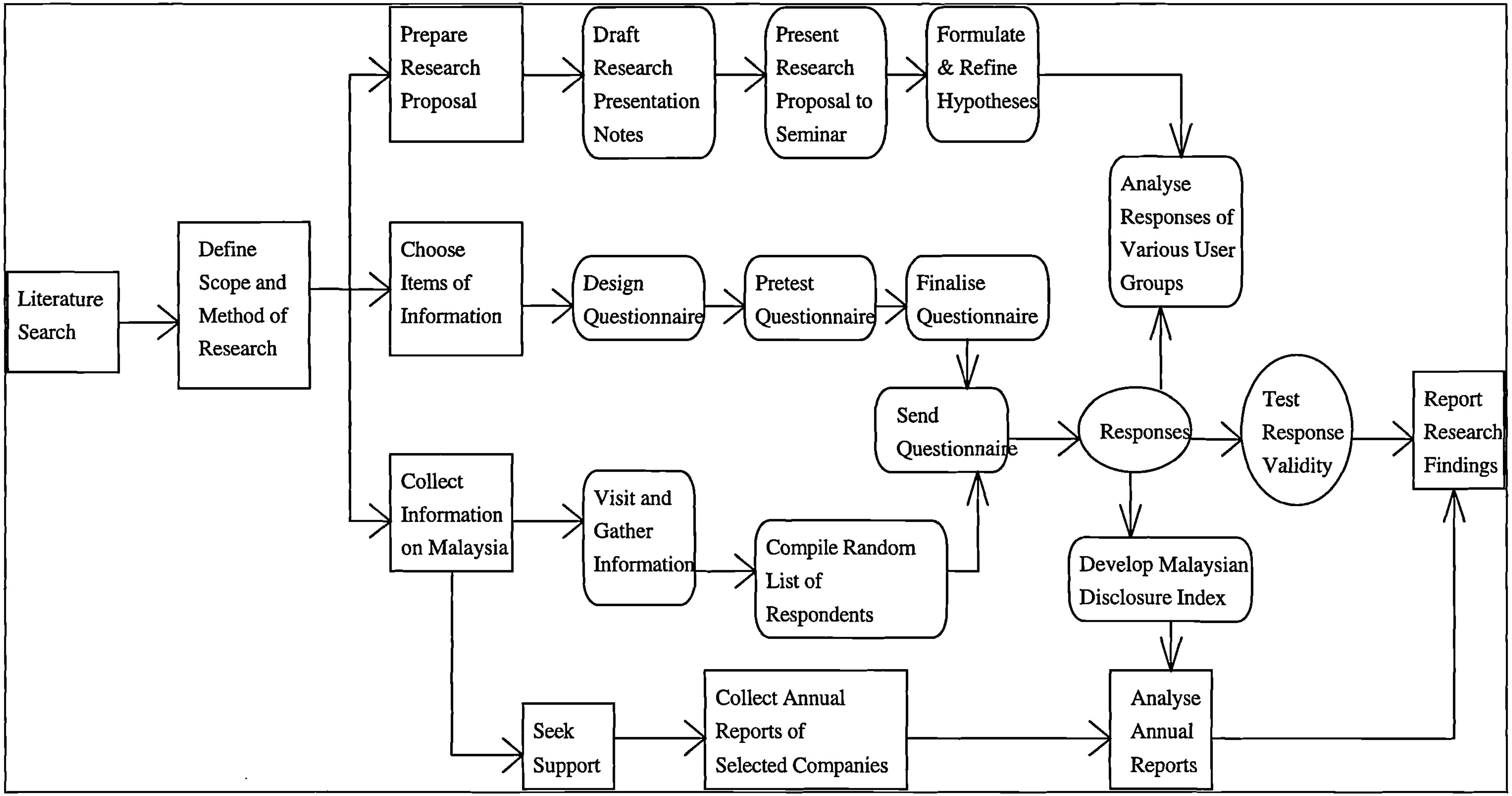
Chapter Nine analyses the perceived importance of selected items of information given in Part II of the questionnaire. The mean perception scores are computed for each item for each user group. In addition to ranking the items based on overall mean scores of both groups, they are tabulated on the basis of ranks provided by individual user groups. This is to reflect the relative importance of each item to the individual user groups vis-à-vis its overall ranking. The differences in perception between the user groups are statistically tested using Mann-Whitney and t-tests. The degree of disagreement between user groups for each item is examined. The specific information needs of each user group is also analysed by identifying which items are ranked higher by one group compared to the other group. Finally, the findings of the user perception study are compared with two other similar studies done in developing countries.

Having analysed the first major data set based on the questionnaire survey, the next two chapters deal specifically to the analysis of the disclosure levels in corporate annual reports of Malaysian companies. Chapter Ten describes the disclosure pattern of the sample companies for three different years that are ten years apart from each other. Disclosure scores are computed for each annual report using an unweighted index. The number of items contained in the disclosure index varies in quantity according to the year selected, from 185 items (1974) to 202 items (1994). Overall, mandatory and voluntary disclosure scores are computed for various components of the annual report sample using different grouping variables. Aggregated and segregated disclosure scores are calculated for each company to show the disclosure levels in different parts of the annual reports. This segregated disclosure scores provide a better picture of the extent of disclosure by a company rather than just looking at the overall score because a company may receive a high overall score for disclosing information items in some parts of the annual report while disclosing very poorly on other parts of the annual reports. Finally, the results are compared with two other similar studies.

Chapter Eleven empirically examines the association between disclosure levels and their determinants. The analysis is carried out at three levels according to the types of disclosure: overall disclosure index, mandatory disclosure index, and voluntary disclosure index. Three models of regression analysis are used on each type of disclosure index to examine the hypothesised association between disclosure levels and corporate characteristics.

Finally, Chapter Twelve summarises the discussions in the thesis, describing the limitations and problems faced in conducting the study, highlighting the conclusions and major findings, and provides some recommendations for future research.

Figure 1.1:RESEARCH METHODOLOGICAL FLOWCHART



CHAPTER TWO

CORPORATE FINANCIAL DISCLOSURE AND ITS ENVIRONMENT

2.1 Introduction

The concept of disclosure plays an important role in both accounting theory and practice. The concept is also broad enough to encompass almost the entire area of financial reporting. The significance of this concept to a free economy where the market allocates resources among competing sectors of the economy rests on the premise that inadequate disclosure can create ignorance in the securities market and ignorance can possibly lead to a misallocation of resources in the economy. The purpose of this chapter is to provide a comprehensive overview of the broad concept of disclosure and its dimension. Also the environment that could influence the level of corporate disclosure in a country is also discussed. The rest of the chapter is organised as follows: Section 2.2 provides the rationale for the need of disclosure; Section 2.3 discusses the concept of disclosure based on previous literature; Section 2.4 presents the environmental factors that could influence the level or quality of disclosure in a country; and finally, Section 2.5 concludes the chapter.

2.2 The Rationale for Disclosure

Before the Industrial Revolution, the major source of finance for business enterprise was internal and consequently financial statements served only the needs of the proprietor or manager. Since the manager is the owner of the business, there is no need for him to disclose the affairs of his business to outsiders. He knew everything about the firm and made decisions accordingly. As such, the prevailing attitude was for laissez-faire and this implied that financial affairs were a private matter. As the Industrial Revolution progressed, large corporations recognised as legal entities were formed characterised by having public ownership of shares and the right of limited liability. Since internal sources of finance became insufficient to meet the needs of these firms, external financing became more important. Gray, McSweeney and Shaw (1984) stated that the two characteristics of these corporations necessitated disclosure for the protection of two groups in particular: the shareholders and the creditors. First, as a consequence of limited liability, in the event of liquidation, the creditors could only claim up to the amount of resources belonging to the corporation. As the liability of the shareholders was limited to their amount of investment, disclosure was seen as a means of regulation. Secondly, the introduction of limited liability removed the disability of firms to get capital in order to expand their business. Shareholders who owned capital would not risk themselves investing in risky projects as they would not only lose their investment but also their personal wealth. As such, limited liability could restrict the potential loss to the investment in the corporation. Since these investors were not directly involved in the running of the business, it was essential that they were protected by having access to information on a regular basis.

The other two developments that have substantially influenced greater disclosure were the growth of professional management and the emergence of stock exchanges. The separation of ownership from management occurred as a result of the growth in size and increasing complexity of business. This also provided the opportunity for the growth of individuals called the professional management who gains power in the corporation due to their administrative and/or technical skills rather than ownership of the corporation's capital. This situation made regular disclosure essential as a means of checking that they are not behaving in a manner to the detriment of the owner's interest. As the corporation grew in size, number and complexity there was also a growing demand for finance in the form of shares or equity investments as well as loans. This gave rise to the development of capital markets to facilitate borrowing and lending, either short term or long term. Another important factor that influenced the disclosure of information was the emergence of stock exchanges where shareholders could trade their investments without liquidating their company and companies could raise new capital efficiently. The growth of these stock exchanges required more information to be made available to a wider audience, viz. potential investors. As most private investors were not competent enough in analysing corporate reports, they tended to rely on specialist advisers or financial analysts. The increasing information needs of these investors and financial analysts have acted as constant pressure on corporations to increase both the quality and quantity of their disclosures.

2.3 The Concept of Disclosure

Kohler (1957) defined the concept of disclosure as 'a clear showing of a fact or condition on a balance sheet or other financial statement, in footnotes thereto, or in the audit report.' On the other hand, Parker (1992) defined disclosure as 'the reporting of information (both financial and non-financial) to users of accounting reports, especially to investors.' He further added that 'disclosure can be made in accordance with legislation or accounting standards or can be voluntary.' Cooke (1992, p. 231) defined disclosure as consisting of 'both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information.' On the other hand, Gibbins et al. (1990, p. 122-126) defined financial disclosure as 'any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels.' Choi (1973, p. 123) provided a more extensive definition of disclosure as 'the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions.' He refers economic data to include facts which reduce the uncertainty concerning the outcomes of future economic events. He further pointed out that any improvement in disclosure can be thought of as the manifestation of an increase in both the quantity and quality of economic data disclosed by the enterprise to the investor (as users) via its published financial reports.

As the definition above suggests, corporate disclosure is a wide ranging term which goes beyond the annual report. As such, there is a need to narrow down the definition of 'disclosure' for the purpose of this research. The focus of this research is on those items of information provided in the corporate annual reports of Malaysian companies. As such, disclosure is defined here as the publication of any types of information through the corporate annual reports that are necessary, relevant and material to the various user groups in making their judgements and decisions about a company. These corporate annual reports are issued annually (albeit of different year ending), especially to the shareholders and other interested parties who would like to know the activities of a company over the past year. The annual reports contain financial and non-financial information (in figures and words) which are considered useful for various users of such reports. Such reports may include narrative sections such as the Chairman's Address or the Directors' Report and unaudited section such as the graphical presentation of previous year's profit.

At present, there is no theory of corporate financial disclosure available in the accounting literature. This is due to the abstract concept of the 'disclosure' itself which may mean several things to several people Therefore, it is not surprising to find that some researchers view the concept from different perspectives. For example, Buzby (1974a and 1975b) and Wallace (1987) use the term 'adequate disclosure', Singhvi and Desai (1971), Moore and Buzby (1972), and Forker (1992) use the term 'disclosure quality'. It is also too broad because one set of operational definitions may produce different results with those produced in another set. The characteristics of 'good disclosure' or 'adequate disclosure' or 'quality of disclosure' may also change with time and place. Moonitz (1961) in Accounting Research Study No. 1 stated that 'the concept of disclosure should be conceived of in the broadest possible terms.' It can be discussed in terms of (a) what should be disclosed, (b) to whom and (c) how disclosure should be made.' The following discussion will seek to expand upon the above definitions by examining the rationale behind them as well as their implications with respect to the disclosure of information. The various notions of the concept of disclosure can be analysed into nine features or dimensions as depicted in Figure 2.1.

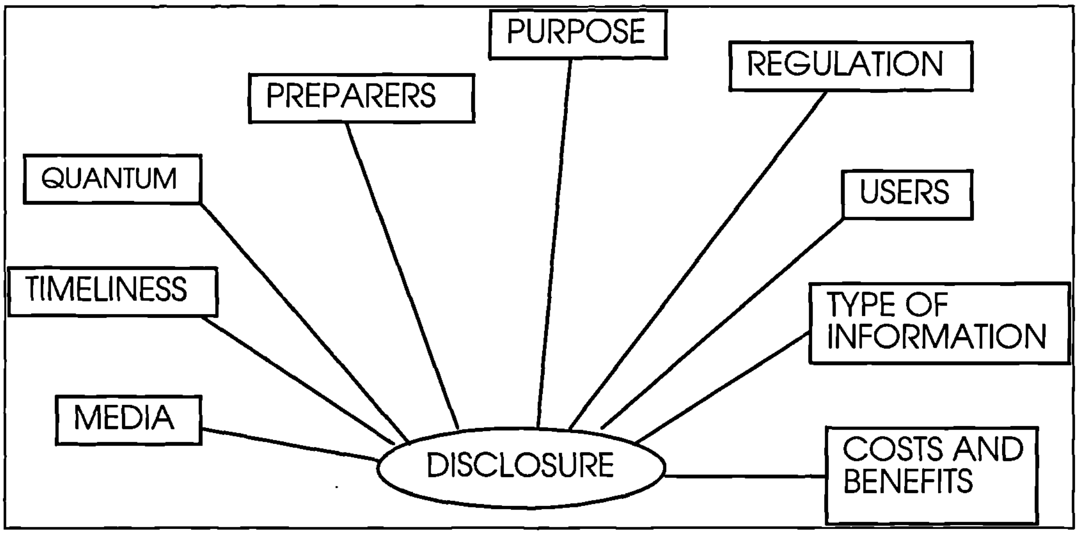


Figure 2.1

Disclosure Dimensions

2.3.1 Purpose

Moonitz (1961, p.50) stated that 'accounting reports should disclose that which is necessary to make them not misleading.' The word 'necessary' here may mean any information that is required by law (such as Companies Act) or any information voluntarily disclosed by the firm. The overriding principle is that the annual report should provide relevant and material information that could assist users in their decision-making processes.

In order to understand the purpose of disclosure, one has to understand the objective of financial reporting since corporate disclosure is one of the branches under the broad concept of financial reporting. Several accounting bodies charged with setting up accounting standards have produced their own objectives of financial reporting which suggest that the objectives of financial reporting are not immutable. They are affected by the economic, legal, political, and social environment in which financial reporting takes place.

The Trueblood Committee (AICPA, 1973, p.13) stated that 'The basic objective of financial statements is to provide information useful for making economic decisions.' The Canadian Institute of Chartered Accountants (CICA, 1980, p. 32) stated that 'an objective of financial reporting is the provision of useful information to all of the potential users of such information in a form and time frame that is relevant to their various needs.' The Accounting Standard Board (1991, para. 12) stated that the 'objective of financial statements is 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.'

On the other hand, the FASB (1996, p.2), in its Statements of Financial Accounting Concepts provided the objectives of financial reporting with special focus on investment and credit decisions as follows:

- Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

- Financial reporting should provide information that is useful to present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

- Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

However, several points need to be cautioned in understanding the objective of corporate financial reporting (CICA, 1980, pp. 32-33). Firstly, it is not possible to define the objective of financial reporting in one sentence or in one paragraph. Secondly, the objective may not be universally applicable due to different measurement bases that can be employed in different market systems. Thirdly, accounting is only a means to an end. The means that accounting can provide will change with time due to changes in technology, accounting techniques, etc. Lastly, there is a tendency of a slow evolution in the objectives of corporate financial reporting as changes take place in the social, economic and political environment of a country, along with improvements in the level of education and sophistication of user groups.

As such, the reason for defining the objective of corporate financial reporting is to assist in the process of devising adequate means for achieving them. Therefore, the primary objective of published corporate financial reports is to provide an accounting by preparers (for example, management) to users (such as equity and debt investors), not only of management's exercise of its stewardship function but also of its success or otherwise in achieving the goal of producing a satisfactory economic performance by the firm and maintaining it in a strong and healthy financial position.

2.3.2 Users

Most people base economic decisions on their relationships to and knowledge about business enterprises. As such they require information from the corporations to make sound business decisions. Among the potential users of corporate information are owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, tax authorities, regulatory bodies, legislators, financial press and reporting agencies, labour unions, trade associations, business researchers, teachers and students, and the public. Except for management, all the other user groups mentioned above can be classified as external users. Some of these potential users not only have specialised needs but also have the power to obtain information needed. For example the Income Tax Department, Ministry of Trade and Industry and Registry of Companies in Malaysia have statutory power to require the specific information they need to fulfil their functions. Some investors and creditors may also be able to require a corporation to provide specified information to meet a particular need. For example, a bank or insurance company negotiating with a firm for a large loan can often obtain desired information by making the information a condition for completing the transaction due to their contractual agreement with the company, can insist on requiring regular financial reports from the company. Some user groups may press for information using other means such as labour unions who may require certain information for wage bargaining process or consumer trade associations who may seek information regarding product and job safety measures provided by the company to its employees.

Every user group has their own specific needs. However, according to a study by CICA (1980, pp. 44, 48-49) their needs can be generally classified into financial and nonfinancial terms as follows:

(1) Assessment of overall performance of firm compared to goals and other entities.
(2) Assessment of management quality in terms of profit achieved, overall performance, efficiency and stewardship.
(3) Estimating future prospects for profits, dividends and interest, investment and capital needs, employment, suppliers, customers (warranties etc.), past employees.
(4) Assessing financial strength and stability, solvency, liquidity, risk and uncertainty.
(5) As an aid to resource allocation by: (a) shareholders (present and potential), (b) creditors (present and potential; long- and short-term), (c) governments, and (d) other private sector bodies.
(6) In making comparisons: (a) with past performance, (b) with other entities, and (c) with industry and economy as a whole.
(7) In valuation of debt and equity holdings in the company.
(8) In assessing adaptive ability.
(9) Determining compliance with law or regulations
(10) Assessing entity's contribution to society, national goals, etc.

Although it can be argued that all users would be interested in the 'future earnings' of an enterprise, they may attach different interest in particular aspects of the firm's financial situation, and may require different levels of detail regarding its activities. For example, different categories of investors and creditors may require more or less detailed reports depending on the extent of their financial commitment to a firm, and the extent of control they have over its activities. Customers or consumers' associations may want details about costs, prices and safety of individual products. Host governments of multinational may want information regarding technology transfer, use of local material contents and level of labour wages.

In addition, different users have different levels of understanding regarding accounting terms and financial matters. This poses a question of whether different reports have to be prepared to cater for the more sophisticated and less sophisticated users. As such, it is necessary to determine the type of information required by the different user groups or categories.

Due to the varied nature of information requirements and accessibility to information by different users of accounting information, conflicts of interest may arise between management and the various user groups or between different categories of users. This inevitably requires providers of accounting information to exercise their judgement in achieving the right balance between the various competing interests and demands, after considering the potential benefits and costs that could arise from any changes. The ability in acquiring and processing information also varies widely among users, depending largely on their particular experience and interests, expectations, preference and beliefs. For example, a shareholder who is faced with the decision as to whether to buy, hold or sell an investment, little research has been done on how people go about making such a decision.

Although some highly simplified theories of financial decision making have been developed, they could not explain the varied and intricate nature of different user decision models that are employed. As such, it is difficult to define exactly what information ought to be supplied to a particular user group, even supposing that such information would be available at any cost or at a cost that could be commensurate with the benefits.

2.3.3 Preparers

Preparers of accounting information are those persons who are directly involved in ensuring that proper accounts have been kept, maintained and documented for the preparation of the financial statements and interim reports. The persons involved in preparing the final accounts are called the accountants or the finance director. The usefulness of financial reports depends to a large extent on the information provided, which may involve more than just a simple presentation of information as required by GAAP or the relevant accounting standards.

Generally, few studies have been done to examine the 'process' that is taking place on the supply side participants (preparers) with regard to disclosure of accounting information, compared to the large number of studies on the demand side (users). Accounting researchers use several approaches in discussing the preparers' role in the disclosure decision. One approach is to examine a single disclosure decision. For example, Kasznik and Lev (1995) examine management's discretionary disclosures in annual report prior to a special event - a large earnings surprise. They examine all types of public disclosures (quantitative as well as qualitative) made by managers of 565 firms (of which 171 are good news and 394 are bad news firms), prior to the earnings announcement and identify company and industry attributes which distinguish firms that alert investors to the earnings surprise from those that keep silent. They find that less than ten percent of the large-earnings-surprise firms published quantitative earnings or sales forecasts, while 50 percent of the firms keep silent. Firms facing earnings disappointments are more likely to make a disclosure, and larger disappointments are preceded more often by 'harder' (more quantitative and earnings related) warnings. They also find that the likelihood of warnings to be positively associated with firm size, the existence of previous forecasts, and membership in a high technology industry. Finally, they find that warnings tend to be issued for permanent earnings disappointments, while transitory disappointments are more likely to occur without prior warning. Another approach is to examine factors considered by management in a series of hypothetical decisions. For example, Mautz and May (1978) study on the 'competitive disadvantage' rationale for management not to release information about segment profit margins, names of customers, and forecast of income statement items. On the other hand, some researchers (such as Anderson, 1990) provide general and specific guidelines that preparers should use in preparing the corporate annual reports. However, little research has been done to determine the extent of compliance by companies to such guidelines. In this section, discussion will be focused on the factors that may influence preparers of accounting information in preparing financial statements.

i. Requirements to prepare information.

The traditional role of accounting is encompassed under the term 'stewardship' whereby a person or a group of persons is held responsible for safeguarding the assets of an entity and monitoring the proper operation of that entity. For example, the directors of a company exercise stewardship over the assets of the company. Accounting information is said to have significant influence on behaviour of the parties involved, whether they are users or preparers of accounting information. As Griffin (1987) posits, accounting information not only provides neutral information for decision making, but it also motivates, influences, and induces behaviour by creating an expectation that the behaviour will be evaluated through some feedback mechanisms, and it also acts as a 'scoring system' to measure results. In other words, corporate reports may contribute both to the assessment of future returns to the investors and to the assessment of past behaviour by the investor's agents (management).

ii. Preparer's motivation and self-interest

A further area of anxiety on the part of users towards preparers of accounting information is whether the published annual report is a 'true report' that signifies the end product of the actual transactions that have taken place for a given financial year period. It is argued that the published annual reports may have been manipulated by the management (in co-operation with the accountant) in a certain manner and to some extent for some specific reasons (for example to evade tax). As such, providers of accounting information are said to attempt to produce accounting results that favour their own interest. This may be done by manipulating only reported results or by manipulating the firm's operations. Manipulation of results may take the form of income smoothing. Ronen and Sadan (1975) and Anderson and Louderback (1975) find that managers do on occasions attempt to smooth income.

However it can be argued that the audit function might be able to limit management's ability to produce such behaviour. However, if there is a high degree of interdependence between client and auditor, this could dilute the effectiveness of the audit in limiting management's ability to influence accounting results according to self-interest.

Another issue of concern is about the possible existence of auditor self-interest. There may be a potential conflict between accounting and auditing standards on the one hand and the exercise of professional judgement on the other. However, since accountants and auditors have to comply with their code of professional conducts in discharging their duties, that would tend to mitigate the effects of auditors' self-interest.

External factors can also influence preparers' behaviour (such as the effects of social or institutional constraints) in preparing accounting information. These external forces may include increased regulation, severe inflation and increasing business internationalisation (Gray, 1980). For instance, Shank, Dillard, and Murdock (1979) interviewed financial managers about their responses to an accounting standard on foreign currency translation. They find that, in spite of the apparent lack of reaction by stock markets to such standards, the managers undertook action that could increase expected costs and risk levels to preserve 'desired' relationships in accounting numbers.

2.3.4 Regulation

A company is normally formed and registered after it has fulfilled certain requirements laid down by the relevant authority such as the Registry of Companies. The normal requirement imposed on any company is to submit its annual report regarding its financial performance and position for a particular financial year. The type of information that should be disclosed and the manner it has to presented need to be specified. As such, statutes in the form of Companies Acts are introduced by the relevant authority which lay down the specific items that need to be disclosed.

There are several ways in which corporate financial disclosure can be regulated. Puxty et al. (1987) identified three ideal ways of regulation: through the 'market', the 'state' and the 'community'. In the 'market' case or also known as the 'unregulated economies', each company chooses its own rules, influenced only by pressures from the capital market, in particular. At another extreme, the 'state' can control the whole process, which decrees which practices are to be adhered to and provides an enforcement mechanism. The third case is the emergence of rules through the 'spontaneous solidarity' of the community. Along these extreme cases, Puxty et al. identified four modes of regulation which they termed as 'liberalism', 'associationism', 'corporatism' and 'legalism'. In the case of 'liberalism', regulation is provided exclusively by the discipline of market principles, while companies provide information only if it is demanded commercially. On the other hand, legalism relies upon the unreserved application of state principles, where accounting practice is expected to follow strictly to statute, which is enforced by the state's monopoly of the means of coercion.

Within these two extremes are associationism and corporatism, both of which combine liberalism and legalism with some degree of community influence. In associationism, regulation is accomplished through the development of organisations that are formed to represent and advance the interests of their members, some of whom represent the community. On the other hand, corporatism involves a greater reliance upon the state principle of hierarchical control. The state not only licenses the existence of organised interest groups, but also incorporates them into its own centralised, hierarchical system of regulation. The main difference between associationism and corporatism is the degree to which the state 'leans' on interest groupings to achieve public (i.e. state) as opposed to private (i.e. market) purposes.

2.3.5 Types of Information

Basically there are two types of information normally disclosed in a company's annual report; namely qualitative information and quantitative information. The extent of disclosure of these two broad categories of information will be determined by the nature of the information required to be disclosed, that is whether the information is required by law (mandatory) or is at the discretion of the management (voluntary). Mandatory information here means any information (qualitative or quantitative) that is governed by statutory laws (such as the Companies Act 1965, Securities Industry Act, 1983) or other regulations prescribed by non-governmental bodies such as the Kuala Lumpur

Stock Exchange Listing Requirements and the prescribed accounting standards issued by the professional accounting bodies.

On the other hand, voluntary information means any other information which is not required by laws or regulations but is released at the discretion of the management of the organisation which may aid the users in making their decisions about a company.

In the Malaysian context, the information in the annual report that are regarded as mandatory and qualitative in nature is as follows:

i. Auditors' report.
ii. Audit Committee Report.
iii. Directors' Report
iv. Chairman's Statement

On the other hand, information which is regarded as voluntary and qualitative in nature may include the followings:

i. Social reporting.
ii. Environmental reporting.
iii. Segmental reporting.
iv. Employee reporting or human resource accounting

Information which is quantitative in nature can also be classified into mandatory and voluntary disclosure. Those which fall under the mandatory disclosure are:

i. The financial statements consisting of the Profit and Loss Account, the Balance Sheet and the Statement of Changes in Financial Position.
ii. Notes to the accounts.

On the other hand, information which is quantitative and voluntary in nature may include the followings:

i. General price level accounting or inflation accounting.

ii. Current cost statement.

iii. Financial forecast.

iv. Value added statement.

v. Financial ratios.

vi. Comparative financial statements.

Having identified the types of information that are or could be disclosed in the annual reports, a question arises as to what extent the various types of information should be disclosed. In other words, what is the amount of information that could be disclosed in the annual reports? The following sub-topic will address this issue.

2.3.6 Quantum of information

Quantum of information here relates to the quantity or amount of information disclosed in the annual reports. Basically, this area of study can be classified into three groups. The first group is concerned with the overall disclosure content of information in the annual report, normally termed as aggregate disclosure. Research of this type normally covers voluntary as well as mandatory items in the annual report. Some of the major research are carried out by Barret (1976, 1977), Belkaoui & Kahl (1978), Buzby (1974b, 1975b), Chandra (1974), Choi (1973b, 1974), Firer & Meth (1986), Stanga (1976) and Wallace et. al. (1994), Karim (1995), Raffournier (1995).

The second group of study emphasises the disclosure of selected items of disclosure, which again may cover both voluntary or mandatory items. Some of the studies in this area are carried out by Firth (1979a, 1979b), Chow & Wong-Boren (1987), Cowen, Ferrari & Parker (1987), Lang and Lundholm (1993), Meek et al. (1995), Wallace and Naser (1995), Inchausti (1997).

The third group of study inclines on examining one particular item of disclosure (voluntary or mandatory item) and tries to associate it with other variables of the firm (for example the firm's characteristics such as asset size or turnover). Some of the studies that fall under this category are carried out by Loy & Toole (1980), Peles (1970), Ahadiat (1993), and Dempsey et al. (1993).

2.3.7 Timeliness

Timeliness forms one of the qualitative objectives of financial statements which requires the dissemination of annual reports to the users of information as soon as possible to ensure that they have the current information about the company that they have a stake in. The concept of timeliness can be viewed from two dimensions. The first is concern with the frequency of reporting, viz. the length of the reporting period in which firm might choose to published its report annually, semi-annually or quarterly.

The second dimension is the lag between the end of the reporting period and the date the financial statements are issued. Research on timing of disclosures is said to be a relatively recent phenomenon (Ball & Foster, 1982). The motivation for carrying out this type of research is due to the rapid growth of capital market research in the late 1960s and 1970s. Early research in this area is concerned with the time lags between the fiscal year end and public dissemination of earnings information (for example see study by Ball & Brown, 1968).

In the late 1970s, studies in this area are more concerned with correlating certain variables with differential timing of disclosures (e.g. Courtis, 1976; Zeghal, 1984; and Siang, Hong and Sin, 1990). However the researchers have not found any firm theory about how firms decide to release certain information to the public. For example, Dyer & McHugh (1975, p. 219) report that 'corporate size was shown to account for some of the variation' in Australian firm reporting lags and that firms having 30th June financial year ends 'were generally, not as quick to report as the non-June 30th companies.'

Another popular topic in this area is whether there are any distinctive disclosure patterns associated with the release of 'good news' as compared to 'bad news'. The main studies are by Davies & Whittred (1980), Givoly and Palmont (1982), and Patell & Wolfson (1981). However the results of these studies are not consistent. The variation of the results is mainly due to the different kinds of information release being examined, different criteria used to classify a release as 'good news' as opposed to 'bad news', and the different time period used to measure 'delay in information dissemination'.

2.3.8 Media

Communication of company's performance and financial results to its users is normally done through the annual reports. This is embodied in the function of financial reporting as the preparation of a range of financial statements which are intended to communicate to the users an account of the financial reality of the reporting entity (Roslender 1992, p. 114). Again, the objective of corporate reports is clearly stated in the Corporate Report (ASSC, 1975; Jones, 1995) by the following statement:

> The fundamental objective of corporate reports is to communicate economic measurements of and information about the resources and performance of the reporting entity to those having reasonable rights to such information.

So far, most researchers have focused on the information contained in the annual report as their main source of analysis. This is because the annual report serves as the prime source of information regarding the activity of a company for a particular year. The question that arises is that could a company disclose information using other media of communication such as newspaper, business magazines or using computer international network (Internet) so that it can reach a wider audience rather than restricting to a particular user group only such as its shareholders. Parker (1982) points out that the use of annual reports to disseminate information to a wider audience does present problems. By adopting a mass communication framework to analyse corporate annual report, Parker identified two critical issues that accountants are still facing:

a. the development of a rationale for serving a mass audience which is amorphous and heterogeneous in its composition.
b. the adoption of communication patterns appropriate to a mass audience.

Parker also argued that due to the relative rigidity of format, and the rules and procedures which govern the production and dissemination of annual reports, they are subject to a degree of social inaccessibility, either because audience's lack of decoding skills, or for moral, political or social reasons. As such, it may be argued that in order to reach a wider audience, the managers should look to the mass media as a more appropriate means of disseminating their message outside the firm. Preston (1981) points out that mass media vehicles, because of their larger reach and frequency, are much better suited for public relations and for responding to specific groups. Besides, the mass media can also be used to advocate a company's position, improve its image, promote customer and community relations and indirectly help promote products and services.

From the above arguments, in order to benefit both the preparers and users of annual reports, there should be a mechanism to ensure that annual reports can be readily accessible to the public. So, there are two possible means to ensure that annual reports can reach a wider audience. Firstly, it should be widely distributed to any organisation or institution where the public can have easy access to it, for example public libraries. As such, annual reports should not only be kept by the Registrar of Companies or by the Stock Exchange alone, but also should be made available in, at least, in every public library in every state or region of a country. Secondly, companies could reproduce their annual reports by publishing it in newspapers or business magazines; or by broadcasting their reports using the televisions or videos. If a company chooses this second alternative, it is advisable for the company to include other details especially explanation to technical terms so as to assist the readers in understanding the contents of the annual reports. This is because newspapers and magazines can be purchased easily by the public at newsagent or book shops compared to the first alternative. This would mean that the company has to disclose more information either it be in quantitative or qualitative forms.

In order to improve the annual report's social accessibility, it is the task of the information producers to identify their audience. The nature and design of reports should conform to the objective of communication, especially when selecting and organising their material in terms of the kind of audience they are addressing. This is not an easy task since top management often work in large organisations, separated from the potential audience by differences in social and educational background, cannot choose their audience with any degree of precision when the report is publicly available, and lack feedback mechanism for determining audience response. In other words, any attempt to recognise annual report as a vehicle of mass communication would necessitate the identification of the significance and requirements of an audience comprising private shareholders, institutional shareholders, employees, government agencies, civic authorities, environmental and other lobby groups, borrowers and lenders, stockbrokers and financial analysts and the general public.

Beattie (1988) argues that there are gains to be made from making changes to the presentation and content of the annual reports. She examines some of the causes that underlie voluntary changes made by some companies to their annual reports. She finds that management's choice of accounting and reporting practices is influenced by a mixture of social, economic, behavioural and/or technological factors. These changes have led companies to recognise the need for a clear identification of audiences and better communication with each of them. She posits that financial reporting has a public relation aspect and gives example of a survey's results which show that nine out of ten companies with more than 10,000 employees used the services of outside agencies such as public-relations and design consultancies in the preparation of their annual reports. These changes in corporate annual reports can be seen as efforts to improve understanding, direct the annual report towards more specific target audiences (public) and tap the potential of alternative communications media to enhance communicative effectiveness.

The changes that have occurred in the presentation of annual reports are the use of illustration and graphics, provision of glossaries of financial terms, provision of special purpose reports and the use of television and video. In discussing the use of television and video, Beattie argues that this medium has advantages over print which can improve communicative effectiveness. Firstly, it has a passive quality which may allow unconscious learning. Secondly, the brain is designed to respond to movement and can therefore store greater amounts of visual material than narrative or numerical material, thus improving recall. Thirdly, television recaptures the more personal and informal face-to-face communication relationship. She also provides an example of a firm, Emhart Corporation who set up a cable network in 1980 to telecast, via satellite, a videotaped highlight version of its annual report to a potential audience 10,000 shareholders (Beattie, 1988, p. 37).

Zeghal and Ahmed (1990) carry out an exploratory research on the type and format of disclosure of social information through company brochures, advertisements and annual reports of Canadian banks and petroleum companies. Their sample consisted of six largest Canadian banks and nine largest petroleum companies. They found that both banks and petroleum companies placed highest importance on human resource disclosure in annual reports than in brochures or advertisement. They also found that petroleum companies used almost six times as many words in advertisements as did banks. However two banks made no use of advertisements, and one made only minimal use; whereas for petroleum companies, four companies made no use, and one made a very minimal use of advertisements. It appears that advertisements are not a major means of disclosing social information. With regard to brochures, they found that eight out of nine petroleum companies and five out of six banks disclosed social information through brochures, and most of them gave information dealing with five or more categories of social information. As such, brochures appear to be a widely used means of disclosing social information by both types of companies.

In summary, whatever form of media to be used by firms in communicating its results of operation, they must uphold the basic qualitative characteristics of accounting information, that is the information should be presented in a manner that is comprehensible to those who have a reasonable understanding of business and economic activities. This is related to the major objectives of financial reporting discussed earlier.

2.3.9 Costs and Benefits of Disclosure

Disclosure of information by any type of media would inevitably result in costs for firms, irrespective of whether they are small or large firms. By the same token, there are benefits that can be gained by such disclosure. Lev (1992), in discussing about an effective information disclosure strategy, describes some of the costs and benefits that will be incurred by firms in disclosing information. Even though his emphasis is on the impact of voluntary disclosure of information on capital markets, his suggestion is still applicable for any firms employing any medium of communication.

Before proceeding with discussion on the benefits of disclosure, it is worthwhile to identify who will benefit from disclosure. Several users can reap the benefit of disclosure. For example, financial analysts can reduce their cost of searching for information; the competitors can learn more about a company and its plan; and sophisticated investors may have ready access to new information. In general, the major beneficiaries of disclosure are the company's managers and its stakeholders. Lev (p. 13) further explains that whether a company chooses to disclose or not to disclose certain information, it will affect outsiders' perceptions of the firm's economic condition and future prospects. These perceptions will then affect key variables, such as the company's cost of capital and input prices. For example, when the performance of a company is under-appreciated by investors due to incomplete information, the securities of the company will be undervalued, resulting in low prices and high cost of capital for new stock and bond issues. This will later on depress earnings and cause managers to forego beneficial investment opportunities, limiting the firm's growth and its ability to compete. The effect of undervaluation may further attract the attention of corporate acquirers, causing managers to spend time and resources to avoid takeover.

The second phenomenon stems from the argument that if a firm does not engage an active disclosure strategy, a permanent information gap will exist between insiders and outsiders, especially pertaining to company-specific information. This view is clearly explained in 'agency theory' (Jensen and Meckling, 1976) regarding the conflicts between the principals (shareholders, lenders) and agents (managers), the adverse consequences of such conflicts as well as the mechanisms for mitigating them. It is argued that a disclosure strategy that effectively disseminates timely, relevant, and credible information, allowing outsiders to evaluate the firm and its management in an effective low-cost manner, will not only narrow the information gap but will create shareholder value by decreasing the agency costs which depress values.

The benefits of disclosure are as follows:

a. Correcting misvaluations.

A misvaluation exists when the firm's intrinsic (true) value differs from its market value. The intrinsic value here means the value of the firm that would be established in the capital market, based on the complete information set available to managers only (outsiders have no access to it). Since the source of misvaluations is information asymmetry, they can be mitigated by disclosure.

b. Enhancing liquidity

Information asymmetries will also lead to low liquidity. Glosten and Milgrom (1985) argue that when some investors are privy to value-relevant information not shared by others, the 'specialist' who sets security prices will increase the bid-ask spread as a protection against losses from trading with such 'informed' investors. By increasing the spread, the specialist offers a lower purchase price and a higher selling price for a given security, thereby increasing his/her gains from trade. So, a firm adopting an effective disclosure strategy by releasing an even flow of timely, high quality information as opposed to infrequent releases of highly surprising news will decrease the volatility of security prices over time, and thus improved the risk and liquidity characteristics of securities.

c. Changing shareholder mix.

A disclosure strategy can be aimed at achieving and maintaining a certain shareholder mix, consisting of institutional and private investors. For example, the firm may provide a sophisticated, future-oriented information as required by its institutional investors in order to increase their demand for the firm's securities. On the other hand, a firm can increase its visibility to and the demand for its securities by individual investors by disclosing information to financial analysts or by communicating in the mass-media.

d. Deterring political and regulatory intervention.

Firms are often faced with regulators and policymakers who are on the lookout for unusual corporate behaviour, such as abnormally high profitability and product prices.

The prime source of information to examine such abnormality is the corporate reports. As such, a well-planned disclosure policy, such as the use of 'conservative' accounting techniques to disclose, for example the full cost (R&D) of bringing a drug to the market is particularly important for companies operating in politically-sensitive industries such as pharmaceuticals and utilities.

e. Gaining competitive advantage.

This is often referred to as market signals in the form of 'direct or indirect indication of the firm's intentions, motives and goals' to deter potential competitors. An effective disclosure strategy will not only deter competitors, but also narrow the information gap between outsiders and insiders, resulting in increase market value, decreased cost of capital and improved liquidity of securities. Porter, Sivakumar and Waymire (1995) examine the relationship between disclosure policies and shareholder wealth by using a case study approach of American Sugar Refining Company (ASRC) in early 1908. They document statistically significant positive abnormal returns associated with ASRC's secrecy policy reversal and subsequent annual report, and the wealth effects are estimated to be about 4 percent of firm value. Their findings reaffirm prior theoretical research that disclosure policies can have favourable effects on shareholder wealth when any reduction of agency costs or costs of asymmetric information in secondary security markets exceeds the costs of disclosing information (e.g. proprietary disclosure costs).

On the other hand, costs of disclosure can be broadly classified into two categories:

i. the direct costs of processing and disseminating the information; and

ii. the indirect costs, including those emanating from the impact of disclosures on company decisions and activities, the competitive position costs and litigation costs.

There is some evidence which indicates that the direct costs can be substantial depending on the share ownership. The larger the number of private investors, the higher will be the cost of publishing and distributing the annual reports. Indirect costs can be substantial too, however no systematic evidence exists about the magnitude of these costs. For example much has been said about the potential benefits to competitors from disclosing proprietary information, but no studies have been done to document the seriousness of these costs.

Whether a firm likes it or not, disclosure of information especially via the annual reports still remains the best source of information for the potential user groups. A firm which chooses 'no disclosure' policy for mandatory or voluntary information either have to face a heavy penalty imposed by the regulatory bodies or risk losing its position in the competitive environment because 'no news will generally be perceived as bad news' (Lev, 1992). For example, when a major economic event affecting a major segment of industry occurs (e.g. a sharp increase in import taxes on consumer goods, affecting many trading companies, wholesalers and retailers), investors and creditors will view with great curiosity the companies that choose not to comment on the event's impact on their operations and financial condition. Therefore, a company which operates in a competitive environment and its activities is closely monitored, a nondisclosure policy will often result in prolonged periods of decline in its shares' values and large price volatility upon disclosure of financial results.

2.4 Financial Disclosure and Its Environment

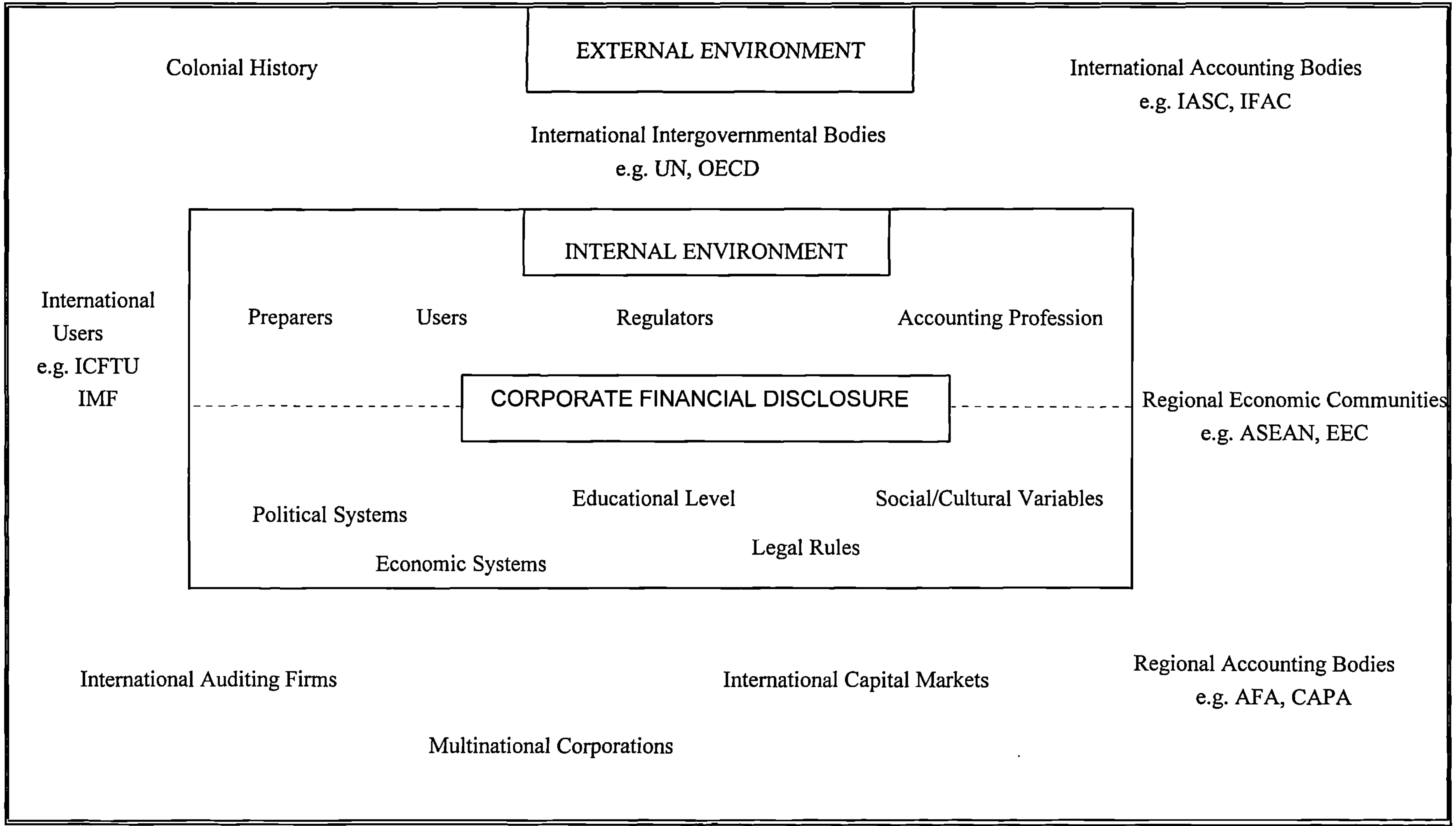
Accounting, to a large extent, is a product of its environment. In other words, it is shaped by, reflects and reinforces particular attributes unique to its national environment. Prior studies reveal that accounting practices of a country are highly influenced by environmental factors. Jaggi (1975) examined the influence of cultural environment and individual value orientations on information disclosures. He argued that the disclosure decisions of management involve a choice between alternatives which relate to the degree of accuracy and adequacy of information. However, the management decision-making process is influenced by several factors: the economic, legal, social, and political environment; the company's size and structure and the technical capabilities of the company. Furthermore, the value orientation of the managers plays an important role in the process.

Environmental factors other than managerial value orientation also have an impact on financial reporting practices (Mueller, 1968; Nobes, 1988 and 1992; Radebaugh and Gray, 1997). Mueller (1968) argued that national business environments can be differentiated on the basis of four factors: the state of economic development, the stage of business complexity, the impact of political persuasion, and the reliance on a particular legal system. The factors were further expanded to the following twelve environmental factors (Choi and Mueller, 1992): (1) legal system, (2) political system, (3) nature of business ownership, (4) differences in size and complexity of business firms, (5) social climate, (6) level of sophistication of business management and the financial community, (7) degree of legislative business interference, (8) presence of specific accounting legislation, (9) speed of business innovations, (10) stage of economic development, (11) growth pattern of an economy, and (12) status of professional education and organisation.

Radebaugh (1975) identified eight environmental factors that influenced the development of accounting objectives, standard and practices in Peru, which he hypothesised as generally applicable to all countries. The factors were: (1) nature of the enterprise, (2) enterprise users, (3) government, (4) other external users, (5) local environmental characteristics, (6) international influences, (7) academic influence, and (8) accounting profession.

In examining the information disclosure by multinational corporation, Gray, McSweeney and Shaw (1984) identified seven types of participants and/or influences that acted as pressures on the corporations to disclose information. The factors were (1) home country national influences, (2) foreign (host) country national influences, (3) international banking and financial institutions, (4) international investors and financial analysts, (5) international professional accounting organisations, (6) international inter-governmental organisations, and (7) international trade union organisations.

Figure 2.2: FACTORS INFLUENCING CORPORATE FINANCIAL DISCLOSURE



The Committee on International Accounting Operations and Education of the American Accounting Association (AAA, 1977) specified eight parameters believed to affect the type of accounting system that can emerge in a country. The lists between Choi and Mueller (1992) and the AAA (1977) are relatively similar. The Committee's eight variables were: (1) economic system, (2) political system, (3) stage of economic development, (4) objectives of financial reporting (5) source of, or authority of standards, (6) education, training, and licensing, (7) enforcement of ethics and standards, and (8) client.

Based on the above literature, it is possible to construct a financial reporting environment that may apply to all countries, either developed or developing nations with some modifications, if necessary. Figures 2.2 depicts the environmental factors that could influence the disclosure of information in a country. In the centre of the figure, corporate financial disclosure represents the firm or corporation which generate the type of information based on its business operations.

The type of information is also determined to a large extent by the type of firm or organisation. Farnham (1997) categorises corporate enterprise into four types according to their orientation and ownership. This is shown in Figure 2.3.

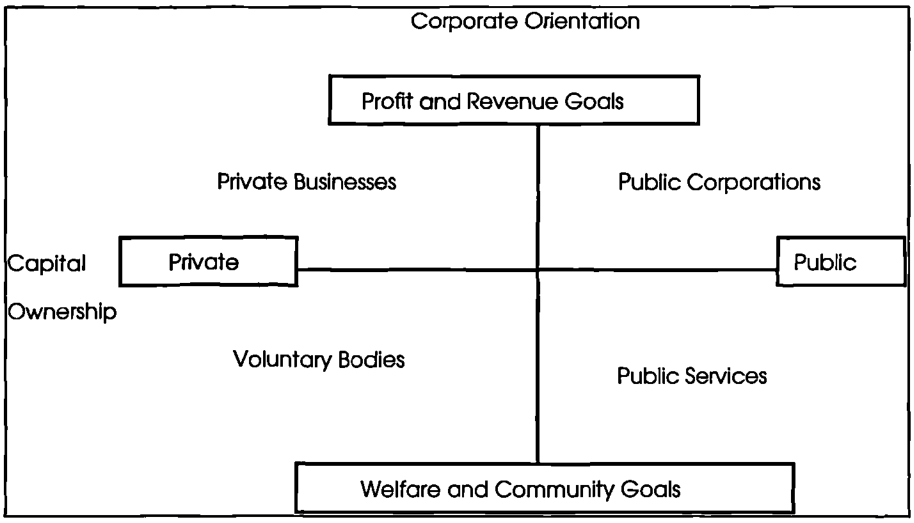


Figure 2.3
Corporate typologies, by orientation and ownership
Source: Farnham, D., Corporate Environment, London, IPM, 1997

Private businesses cover manufacturing, plantation, property, and trading companies, many service enterprises and the financial sector such as the banks and insurance companies. They are profit-oriented and privately owned. Public corporations are public trading bodies which have a substantial degree of financial independence from central government. The public services, such as education, health care and social services, including central government activities, have certain welfare and community goals and are owned by the State or by the State agencies. The last category of corporate body is voluntary associations. These include professional bodies, trade unions, pressure groups, charitable trusts and clubs. In other words, the nature of business ownership may influence the type of disclosure. For example, widespread public ownership of corporate shares suggests financial reporting and disclosure principles different from those applicable to predominantly family or bank-owned corporate interest.

The second square box in Figure 2.2 represents the internal environment of a country. This internal environment can be further classified into four major participants and five systems that govern a country. The participants are the preparers, users, regulators and the accounting profession. The systems that govern a country include the political systems, economic systems, educational level, legal rules, and social and/or cultural variables. The external or international environment is captured by the outer box. The external environment includes colonial history, international accounting bodies, regional economic communities, regional accounting bodies, international trade, multinational or overseas parent companies, international auditing firms, and other international users.

The four major participants normally interact with each other in determining the level of corporate disclosure by firms. This is in parallel to the view by Gibbins et al. (1990) who defined the disclosure process as encompassing 'all activities and procedures, the individuals or groups involved, the alternatives considered, the timing and sequence of events, and the threads and connections among people and events.' This seems to suggest that the disclosure process involves several participants such as preparers, users, auditors and regulators and each of them have different interests attached to the production of information contained in the annual reports.

The users are those who use the output of financial reporting to make their specific decisions on a company. The regulators are those involve in setting the rules of producing financial reports. The accounting profession, on the other hand, is those who ensure that corporations comply with the financial reporting regime. They may include standards setting organisations or other agencies, the auditors and the institutions responsible for education and training of potential accountants. The preparers are those who largely determine the amount of information that could be disclosed in the published annual reports. They may include the company's top management or board of directors and to some extent the accountant or auditor who attest his opinion on the information contained in the annual reports. The types of users and preparers have been discussed in the previous section. Regulators not only provide rules and regulations, but also they must have proper mechanisms to ensure that the rules are complied with by the respective recipients. Wallace (1987) identified four types of agency or bodies responsible for regulation of accounting:

(a) a regulatory agency dealing with corporate affairs such as a Ministry of the Government, Registry of Companies and Securities Commission;
(b) a private sector organisations like the Stock Exchange, the accounting profession, or accounting standard committee from the private sector;
(c) judicial resolution of contentious issues which may arise from interpretation or application of disclosure rules (e.g. The Netherlands and Italy);
(d) regulators of banks (e.g. Guatemala and Philippines).

The social and/or cultural variables also have an impact on the level of corporate disclosure. For example, developments in France point toward public reporting of efforts to discharge corporate social responsibility by firms. In contrast, the social climate in Switzerland is still much more conservative and therefore less financial disclosure is required from large Swiss companies. On the other hand, the Italians still play tax games and are suspicious of anything to do with accounting. In some Eastern and South American countries, accounting is merely equated with bookkeeping and regarded as socially disagreeable, resulting in their accounting systems remaining underdeveloped and largely ineffective (Radebaugh and Gray, 1997).

The economic environment is also important in determining the level of financial disclosure by firms. This economic factor also covers the stage of economic development in a country. Economic development constitutes economic growth and various structural and social changes. One of the changes is the need for financial reporting devices to measure the performance of each sector of the economy in terms of efficiency and productivity. Economic development may be achieved by various forms of economic policies depending on the type of economic system chosen. A capitalist system may be more favourable to accounting development than other economic systems. In the capitalist system, the survival of private firms depends not only on the production of goods and services, but also on adequate information to various interest groups ranging from investors and creditors to the capital market in general.

The political environment of a country is also important to the development of accounting in general and financial reporting and disclosure in particular. When people cannot choose the members of government, they are less likely to be able to create an accounting profession based on the true and fair view of disclosure. Belkaoui (1983) argued that the degree of political freedom in a country may depend on the degree of political rights, the civil liberties, and type of political system. Gastil (1978) classified political systems into five major categories: (1) multiparty systems, (2) dominant party systems, (3) one-party system, (4) military dictatorship, and (5) traditional monarchy. An accounting system that is useful to a centrally controlled economy may be different from an accounting system that is optimal for a market-oriented economy. In the former system, the state owns all fixed assets and land. So, there is very little or no private ownership of business equities. As such the disclosure of information for this type of accounting systems would be different from the latter type of political system.

The legal system is also important in determining the extent to which company law governs the regulation of accounting for disclosure of information. In countries like France and Germany, with a tradition of codified Roman law or civil codes, unlike common law that prevails in the United Kingdom and the United States, accounting regulations tend to be detailed and comprehensive. Furthermore, the influence of the accounting profession in setting accounting standards tends to be much less in the former countries compared to the latter countries, where company law is supplemented by professional regulation.

The educational level is also important in terms of producing highly qualified accountants as producers of information. Literacy rate, the availability of qualified teaching staff, and up to date accounting curricula will determine the quality of accountants that can be produced.

Lastly, the outer box represents the external environment which could also affect the level of disclosure of information in a country. The regional economic communities such as the European Union (EU) and the Association of South East Asian Nations (ASEAN) have been a major influence in promoting economic integration between their member countries. For example, the EU has embarked on a major program of harmonisation, including measures to co-ordinate the company law, accounting, taxation, capital market, and monetary system among its member countries. International organisations, like the UN and the OECD are also highly involved in the development of international business on a global scale. The UN is responsible for the formation of organisations such as the World Bank Group, the International Monetary Fund (IMF), the UN Conference on Trade and Development (UNCTAD), the Conference on the Law of the Sea, the World Trade Organisation, and the Economic and Social Council (ECOSOC). For instance, the UNCTAD together with its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) is involved in developing international standards of accounting and reporting and in promoting accounting education in Russia and Africa. In contrast, the OECD is mainly concerned with the development of the industrialised countries of the world. It has twenty-four member countries with the major objective of fostering international economic and social development. It provides a framework for harmonising national policies in many fields (including disclosure). For example, it has issued a 'Code of Conduct' and information disclosure guidelines relating to the operations of multinationals to encourage them to develop positive relationships with host countries.

Other international bodies include the United Nations Centre on Transnational Corporations (UNCTC), which is an information-gathering agency of the United Nations Economic and Social Council, charged with developing a comprehensive information system on transnational enterprises to facilitate monitoring of their activities; the International Organisation of Securities Commissions (IOSCO), an organisation comprising securities regulators or stock markets in various countries interested in corporate disclosure standards.

The other international users of corporate reports include international investors (institutional or private investors, and financial analysts), international banking and finance companies, and the International Confederation of Free Trade Unions (ICFTU), one of several multinational labour organisations formed to monitor MNC behaviour that could affect present and future employment of workers.

The other key participant at the international level is the multinational corporation (MNC). The MNC is a corporation which owns and/or controls economic resources in two or more countries (Gray et al., 1984). MNCs has grown to enormous size and survived various severe political and legal attacks. The MNC transfers technology all over the world, raises capital where it is cheapest, often produces products at the lowest cost, and develops markets wherever people will buy its products and services. Its power to control and move resources internationally, sometimes to the disadvantage of national interests, has created a growing demand, especially from governments and trade unions, for extensions in accountability and information disclosure.

The influence of international auditing firms on information disclosure is also great. Kanaga (1980) stated that even though there are nationalistic regulations prohibiting partnership interest across national borders or limiting the participation of foreigners in national practices, international auditing firms will still be able to deliver high-quality, consistent services to clients world-wide. There is an emerging trend toward 'federalism', whereby national auditing firms may affiliate with each other and with international firms on the basis of mutual agreements to meet specified standards of auditing, reporting, professional education, independence and ethics. Each of these organisations establishes a central office to provide administrative and technical services to firms in the group and to act as an overall co-ordinating body. The format provides national firms of all sizes with a vehicle that both satisfy the legal and professional requirements of the various countries in which they practise and allay fears of national firms concerning the possible domination of international practice by any other firm in the group. Choi and Mueller (1992, p. 14) classify the international practice of professional accounting firms into three tiers. The most integrated tier is the 'Big Six' British-American domiciled firms operating under single name throughout the world: KPMG, Ernst & Young, Deloitte Touche Tohmatsu, Arthur Andersen, Coopers & Lybrand, and Price Waterhouse. The international organisational mode of these firms is typically one of an international 'partnership of partnerships'. The second tier consists of eight to ten firms operating world-wide under a single name but on the basis of a federation among selected national firms. Examples include Grant Thornton and Pannel Kerr Forster. The third tier involves informal arrangements between accounting firms and is often limited to an ad hoc basis. These arrangements apply to regional professional accounting firms and to small firms and individual practitioners who participate in co-operative CPA firm associations.

Colonial history also influences corporate disclosure level in a country. Malaysia, Brunei and Singapore are former British colonies, each adopted a Companies Act modelled on the UK Companies Act, 1948 and the Australian Uniform Companies Act 1961 (Pillai, 1984; Price Waterhouse, 1991, 1992a, 1992b). As such, the requirements for disclosure of information in annual reports remain generally the same between these countries even though their respective Companies Acts have undergone considerable changes (CCH, 1990).

The roles of international accounting bodies as well as regional accounting bodies also have an impact on information disclosure in a country. The International Accounting Standard Committee (IASC) is an international professional accounting organisation established to promulgate world-wide accounting principles. Although it faces the problem of enforcing international accounting standards, and has to grapple with the feasibility of such standards, as well as to compromise between divergent standards on given subjects, many feel that its impact will grow as market pressures from the international financial corporate communities increasingly demand the use of and reference to the IASC's standards. An example of a regional accounting body is the ASEAN Federation of Accountants (AFA) consisting of the professional accounting bodies of the six ASEAN members, namely: Brunei Institute of CPAs, Ikatan Akuntan Indonesia, Malaysian Association of CPAs and Malaysian Institute of Accountants, Philippine Institute of CPAs, Institute of CPAs of Singapore, and Institute of Certified Accountants and Auditors of Thailand. AFA's aim includes promoting regional co-operation among ASEAN accountants and considering the development of ASEAN accounting standards. More recently, it has devoted much attention to debates over accounting harmonisation among ASEAN countries (Roh, 1991; Cruz, 1993).

The growth of international or global capital markets means that more companies are seeking to have their shares listed on stock exchanges outside their home countries. For example, in the late 1980s, major new international equity issues like British Telecom and British Petroleum were initially offered and sold world-wide at great volume. There is also a huge Euro money market and large foreign exchange markets involving many technical instruments by which the global capital markets are operated. Companies are making increasing use of these new financial instruments such as foreign exchange and interest rate markets, forward contracts and other hedges, swaps and options, all of which have implications for financial reporting and disclosure.

2.5 Summary and Conclusion

This chapter has discussed the ongoing debate on the concept of 'disclosure'. The evolution of the concept of disclosure was explained and nine elements of the concept of disclosure were identified which form the basis for studies in corporate financial reporting in general and accounting disclosure in particular. The environmental factors that could shape the level and quality of disclosure in a country were examined. The key participants in determining the extent of disclosure by corporations were identified and the degree of their interactions and complementary roles would largely determine the level of disclosure and the degree of compliance by corporations. In addition, the political system and economic system adopted by a country, the legal rules, educational level and various social and/or cultural variables would have a great impact on financial reporting in general, and accounting disclosure in particular. Since the above mentioned environmental factors are different from one country to another (for example between developed and developing countries), wholesale adoption of a particular country's (e.g. Western developed countries) accounting standards and practices to another country (e.g. developing countries) may be detrimental to the interests of the latter country. As such, the application of international accounting standards in developing countries could only be done after making an assessment regarding the information needs of the country's users of corporate reports, the regulatory regime in place, and other important variables of the country.

CHAPTER THREE

SURVEY OF THE LITERATURE ON CORPORATE DISCLOSURE

3.1 Introduction

The purpose of this chapter is to provide a review of the main literature that is relevant to the research problem of this thesis. A detailed review of the literature would provide a framework for the study and serves as a linkage of previous findings to the general problem of the current study, helps in establishing the theories that are relevant to the study being undertaken, and assists in developing an appropriate research methodology and research procedure for the study.

Various research studies have been carried out on disclosure of accounting information since 1930. These studies ranged from a priori research through positive theorising to empiricism. It also discussed various issues such as the measurement system, decision usefulness, and economic and political consequences. The review of disclosure studies covers a large number of papers addressing the issue of corporate reporting from various angles and with different degree of emphasis on different aspects of corporate disclosure.

The increased internationalisation of economic activities would indirectly affect a firm's activities and with growing globalisation of financial markets, corporate entities are exposed to a much wider audience of interest. This world-wide exposure acts as a pressure on companies in terms of disclosing a whole range of information in the published corporate reports in order to satisfy the growing needs of external users. As for developing countries who adopt the principles of the free enterprise economy either from their colonial masters or on their own wish, and choose to enter into global trade and financial markets, they may have to face the pressure for disclosing more information by interested parties. In view of this growing needs for more comprehensive and somehow specific disclosure of information, various accounting scholars, practitioners and institutions have carried out studies relating to disclosure of accounting information and the perceived needs of various user groups for such information. A substantial amount of literature will be reviewed to see what constitutes the body of empirical research on corporate disclosure and the perceived needs of external users, and also to examine the current level of corporate disclosure in Malaysia and the needs of selected user groups in Malaysia. To keep the review of articles within manageable proportions, the articles selected for the review will be limited to those focusing on two main areas of disclosure study as follows:

(A) Responses to interviews or questionnaires regarding disclosure of information.
(B) Disclosure indexes and variables affecting disclosure scores.

Furthermore, the articles can also be categorised according to the types of disclosure being studied. The types of disclosure are as follows:

(1) Aggregate disclosure (AGD):
This type of study is concern with the 'adequacy' or the comprehensiveness of the disclosure of information in annual reports. It examines all types of disclosure items consisting of mandatory items as well as voluntary items (including social responsibility disclosure).

(2) Disclosure of mandatory items (MD).
The mainstream of this study is to examine the adequacy of disclosure of mandatory items with the purpose of ascertaining whether a firm complies with statutory requirements or accounting standards.

(3) Voluntary disclosure (VD)
Studies of this type primarily focus on the extent of and reasons for voluntary disclosure (non-social information), or company characteristics that affect the disclosure of voluntary information in corporate annual reports.

(4) Social responsibility disclosure (SRD)
Studies of this nature deal with the extent of and reasons for social responsibility disclosure, or company characteristics that affect the disclosure of such information in corporate annual reports.

For the purpose of this study, only the first three types of disclosure studies are reviewed. The fourth type, the social responsibility disclosure is normally categorised under the voluntary disclosure. As such, to treat it as another separate type of disclosure would require a review of articles on its specific topic, which is beyond the scope of this study. The following review of articles will focus on those research studies employing the disclosure index in measuring the level of corporate disclosure; and also on those articles which examine the needs of a particular user group. Such articles were published from early 1960s employing the annual reports as their analysis of study.

The rest of the chapter is organised as follows: Section 3.2 reviews the related studies on the perceived importance of information items to external users of corporate information. Section 3.3 examines the relevant studies on the extent of disclosure and variables associated with different levels of disclosure in developed countries. Section 3.4 reviews the relevant disclosure studies conducted in the developing countries. Section 3.5 summarises the review and concludes the chapter.

3.2 Related Studies on the Perceived Importance of Information Items to Users of Corporate Annual Reports

This section reviews prior studies which attempted to determine the perceived importance of a range of financial and nonfinancial items of information to various user groups in different countries. The degree of importance was measured by asking respondents to rate the items on a five-point Likert scale or sometime using seven-point scale (such as the one used by McCaslin and Stanga, 1986 and Chow and Wong-Boren, 1987) to indicate their perceived importance of the items for making business decision. This type of study normally requires the use of survey questionnaire or interview with the purpose of identifying the degree of importance the users may attach to the information items and thereby trying to assess the information needs of the users surveyed. Some studies have merely focused on examining the perceived importance of the items to one or more user groups in order to compare the similarities or dissimilarities in their information needs, while some other studies extended the perception scores obtained in measuring the disclosure levels of companies. The relevant studies pertaining to user perceptions are summarised in Table 3.1 at the end of this chapter highlighting the main features of each study. In this section, only the studies relating to perceptions of users in developed countries are discussed. Studies regarding user perceptions in developing countries are discussed in Section 3.4.

Information, either financial or nonfinancial in nature is important to various user groups in making a range of business or economic decisions. The various user groups have already been identified and discussed in the previous chapter. The main traditional financial reports serve to convey the results and performance of companies to satisfy regulation requirements. As such, much has been debated as to whether these financial reports have disclosed enough or adequate information to serve the needs of the various user groups or are they just providing minimum information in order to fulfil the minimum requirements by law. Since users of financial statements depend to a large extent on published information contained in the annual reports, it may be argued that firms that provide reliable and relevant information such as a forecast of future earnings will improve the efficiency of resource allocation in the economy by reducing investors' uncertainties. As a result, preparers and accounting regulatory bodies need to know what is the type of information required by users and when they are going to use such information. The following paragraphs made a review of some of the important studies on the perceived needs of users on items of information.

Baker & Haslem (1973) conducted a questionnaire survey on individual investors in common stock, in Washington D. C. to examine their information needs. They argued that the information needs of this group has not been given adequate attention. As such, the needs of this 'average' investor are different from the needs of generally more knowledgeable and sophisticated analysts. The respondents were asked to indicate the relative importance (on a five point scale) of 34 factors used in investment analysis and selected socio-economic variables. They found that out of the 34 factors, 3 factors were considered to be of great importance, 15 of moderate importance, and 15 of slight importance. The top three important factors were future economic outlook of the company, quality of management, and future economic outlook of the industry. Factors with the least importance were size of the company and the ease with which the company can sell its assets in case of failure. They found that the coefficients of variations generally increase as the mean values decrease, indicating greater diversity of respondent opinion regarding the relative importance of the factors. In order to determine the extent to which the investors rely on specific sources of information, they were asked to indicate their most important sources of information used in analysing common stocks. The results of the responses showed that the respondents considered stockbrokers and advisory services as the most important sources of information for investment analysis purposes, whereas financial statements were relegated to a position of minor importance.

Chandra (1974) examined whether preparers (the public accountants) and users (security analysts) have any consensus about the value of information included in corporate annual reports. A questionnaire containing 58 items of information was mailed to the two groups. He segregated accountants into two groups namely as preparer and also as a user of annual reports. He found that there was no consensus between accountants (as user or preparer) and financial analysts in valuing the information items. However, there was a strong consensus among accountants, put into a dual role as preparers and users of information. Chandra (1975) complements and expands the previous Baker and Haslem's (1973) study by attempting to inquire about the information needs of professional security analysts, the user group not covered in Baker and Haslem's study. Unlike in the previous study of using 58 items, Chandra only presented 39 items of information. He found that out of the 39 items, 11 items were considered to be of high value; 16 items were of moderate value; 8 items were of low value; 3 items were of neutral value; and 1 item was considered unimportant by the respondents. Information items relating to the income statement and statement of changes in financial position dominate the high value items, with earnings per share rated as the most valuable information item. The second category, the moderate value items, was dominated by two types of information items; firstly, balance sheet items (such as amount of inventory, capital expenditure and total assets), and secondly, items concerning details and breakdown of information such as earnings of each subsidiary company, dividend per common share, and breakdown of sales, net income and investment of multinational corporations by geographic region. On the other hand, items considered of low value were investment in subsidiary companies, stock option plans, long term leases and advertising and publicity costs. The item considered as having the lowest value was price level adjusted annual reports.

Benjamin & Stanga (1977) compared the perceived informational needs of two user groups of corporate reports namely commercial bank loan officers and professional financial analysts. The respondents were asked to judge the importance of 79 items of information included in a questionnaire. They hypothesised that there was no difference between the perceived importance of information to commercial bank loan officers making a term loan decision and the perceived importance of information to professional financial analysts making a common stock investment decision. The null hypothesis was rejected for 51 of the 79 information items included in the questionnaire, indicating that significant differences did exist for 64.6% of the information items. They concluded that bankers, when making a term loan decision, did not seem to value information in the same manner as financial analysts did when making common stock investment decisions.

Using the same approach by Baker and Haslem (1973), Chenhall and Juchau (1977) conducted a mail questionnaire on private investors in Australia. The questionnaire consisted of 37 factors used in share decisions and respondents were asked to identify the relative importance of each factor on a five-point scale. Out of the 37 factors, 7 were regarded as having great importance, 20 having moderate importance, and ten having slight importance. It was also found that as the means decreased, the coefficients of variation increased, indicating increasing diversity of opinion with decreasing importance of items of information. The study found that in the top 18 rankings, at least 8 items had their origin outside the annual corporate report. This result suggests that information sources outside the corporate report have significance, and those agents who gather and disseminate information not covered in the annual reports served as an important reference area for investors. It also indicates that financial statements, which are the major elements in the corporate reports do not have a dominant place as a source of information. However, the results of their study may reflect the composition of the respondents selected in the sample. 84% of the investors in the study belong to the professional and managerial occupational groups. As such, they have the competency and ability to acquire additional information not generally available to the ordinary investor group.

Chandra and Greenball (1977) examined the information needs of managers (financial executives) and security analysts in an attempt to explain management's reluctance to disclose on 'value of information' grounds. The managers were segregated into two groups, namely as preparer of corporate annual reports, and in the second group as users. They found that financial executives as preparers differed significantly in terms of the perceived value of the information items from security analysts for 46 out of the 58 items. Financial executives as users also revealed significant difference from the security analysts for 41 items. On the other hand, the two groups of financial executives acting as preparers and as users differed from each other for only 22 items suggesting that as preparers, financial executives apparently did not consider the information more valuable than they did as users.

The first study that attempts to determine the actual information needs of specific external users on a cross-national basis was carried out by Baker et al. (1977). They examined the information needs of specific investor groups in the United States and Australia as well as identifying important sources of information used by these investors in analysing common stock. Their hypothesis is that there is no difference in perceived importance of the information factors used in making common stock decisions between US and Australian investors. The results of the Mann-Whitney test for each factor revealed that the hypothesis is rejected for 25 of the 34 factors at 1% level of significance. With regard to the use of information sources, they found that both US and Australian investor groups put varying degrees of emphasis on various major sources of information.

Another study that attempts to determine the importance placed on financial statements by external users of corporate reports on a cross-national basis was carried out by Chang and Most (1977). The two groups of users surveyed in this study were individual investors in the United States and New Zealand. They asked the respondents to rate the importance of seven sources of information. They found that the US investor group regarded 'corporate annual reports' as the most important source of information, followed by newspapers and magazines, and stockbrokers' advice. On the other hand, the New Zealand investor group regarded newspapers and magazines as the most important source of information, followed by stockbrokers' advice and corporate annual reports. However, no attempt was made to survey their views on specific information items in the annual reports.

Belkaoui et al. (1977) examined the specific differences in the perception of accounting information by four groups of financial analysts in three countries. The financial analysts were categorised as: a. Canadian financial analysts, b. US financial analysts, c. European financial analysts, and d. North American financial analysts (a + b). They developed a questionnaire containing 29 items of information and mailed to 700 respondents of the four groups of financial analysts. They found that there was a high level of consensus between Canadian and US financial analysts on 23 items (79%). However there was a strong lack of consensus between the North American and European financial analysts on 17 items (59%). They cautioned the findings to be attributable to institutional differences in the accounting and investment environments of Europe and North America, as well as differences in outlook with Europeans putting more emphasis on balance sheet information, while North Americans tend to concentrate more on the income statement.

Firth (1978) made one of the most comprehensive attempts to measure the information needs of UK users of corporate annual reports. Questionnaires containing 75 items of information were sent to four groups of users namely, financial directors, auditors, financial analysts, and loan officers. The main findings of the study were that finance directors and auditors were in substantial agreement regarding the importance of 52 items (69%), that financial analysts and bank loan officers were in substantial agreement (for 61 items or 81% of the weightings were statistically similar), that finance directors and loan officers differed significantly on 42 items (56%), that finance directors and loan officers disagreed significantly on 49 items (65%), that auditors and financial analysts disagreed on 46 items (61%). Overall, there were substantial differences between the preparers of accounts (represented by the finance directors and auditors) and users of accounts (represented by the financial analysts and bank loan officers). The high degree of consensus between financial analysts and bank loan officers is in contrast to the findings by Benjamin and Stanga (1977) in US that financial analysts and bank loan officers differed significantly in over 64% of their information items. They argued that the results may indicate that in UK there was no strong evidence of the need for different sets of accounts for different user groups.

Firth (1979a) developed 48 items of information and sent the list of items to 120 financial analysts asking them to evaluate the importance of each item using a five-point scale. The 'importance' weightings were used to measure the disclosure score of 100 manufacturing companies in UK. He found that the top three items ranked as most important by the financial analysts were breakdown of 'sales' and 'revenue' by major product lines, customer classes and geographical location, and 'cost of good sold'. The least important item was the 'historical summary of price range of ordinary shares in the past few years'. Generally, historical accounting data tended to receive fairly high importance weightings, whereas forecast information received 'moderate' to 'important' weights, suggesting that financial analysts were placing some doubt on the accuracy of such forecasts. However, he discovered that the mean scores and relative rankings of forecasts were higher than those found in the US by Benjamin and Stanga (1977), Buzby (1974b), and Chandra (1974). Other items considered important to the financial analysts were 'statement of company objectives', 'statement of value added' and statement of transactions in foreign currency'. Inflation-adjusted annual accounts as supplementary statements also received a fairly high score, which was in sharp contrast to the findings by Benjamin and Stanga (1977) and Chandra (1974) who found very low weightings attached to such statements by financial analysts in the US.

Anderson (1981) investigated the usefulness of annual reports to institutional investors in Australia by asking their investment objective, information sources used, readership and importance of sections contained in corporate reports, and their desire for additional information. It was found that the respondents considered an equal combination of dividend and capital gains as their most important investment objective. Annual reports were the most important sources of information, followed by stockbroker's advice and company visits. The most widely read sections of an annual report were the balance sheet, income statement, notes to the accounts and chairman's address. Investors also ranked income statement, balance sheet and notes to accounts as most important sections in making investment decisions. They also require additional information such as current value of long-term assets and investments, information on future prospects, company products and management audit reports in addition to the normal information contained in the corporate reports.

Courtis (1982) conducted a study into private shareholder response to annual reports of Australian public listed companies. 4400 private shareholders were randomly sampled in 1979 and postal questionnaire was used to elicit their opinion regarding their use of annual reports for making investment decision. A total of 1828 useable replies indicated that stockbrokers' advice was their main source of information followed by newspapers and annual reports. In terms of readership, the chairman's address was the most readable section followed by profit and loss accounts and director's report. However, in terms of making investment decision, profit and loss account was regarded the most important section followed by balance sheet and chairman's address. The auditor's report, statistical data and notes to the accounts were the least read and least important items by the respondents.

McNally et al. (1982) examined the importance attached to 41 voluntary information items by two user groups in New Zealand namely financial editors and stockbrokers using mail questionnaires. Of the 41 items, only 10 items received low scores indicating a high agreement between the two groups. The three highest scoring items by both groups were statement of future dividend policies, profit forecast for next year, and historical summary of operating/financial data. On the other hand, the three lowest scoring items were detail regarding personnel hiring and development, advertising and publicity data, and data on social responsibility. Although these two groups attribute different importance to the disclosure of specific items, few of the differences were statistically significant. They also made comparison of 18 items which were in common to earlier studies by Firth (1979a) and Buzby (1974b, 1975b). They found that a similar order of importance was revealed for 11 (61%) of the items indicating that there was a level of agreement among the external users surveyed in three different countries about the relative importance of disclosing certain selected items.

Another cross-country study regarding the information needs of users of corporate annual reports was carried out by Chang and Most (1981) and Chang et al. (1983). The objective of the research was twofold; (a) to test the hypothesis that financial statements published as a part of corporate annual reporting is useful for investment decision, and (b) to find out if users of financial statements constitute a homogeneous group. The research was done during the same period of time (starting in 1976) in three countries: the US, the UK and New Zealand and three user groups were surveyed using mail questionnaires. The three user groups composed of 4000 individual investors, 900 institutional investors and 900 financial analysts. The respondents were asked to evaluate the importance of various sources of information for investment decision, and also on each of the 12 parts of the annual reports. They found that there was a strong belief in the importance of corporate annual reports as a source of information for investment decisions and the most important part of the corporate report was the financial numbers part (income statement, balance sheet, and statement of changes in financial position). While analysing the educational, occupational, and personal characteristics of the three user groups, they found that the characteristics of the two groups, namely institutional investors and financial analysts supported their classification as homogeneous, but the individual investor group was found to be very diverse. Lastly, interesting differences between US, UK and New Zealand investors were identified, suggesting the differences were due to cultural, institutional or social factors.

Stanga and Tiller (1983) conducted an empirical study in the US with the objective to compare the informational needs of bank loan officers making lending decisions to large public companies with the informational needs of loan officers making lending decisions involving small private companies. The results indicated that only 10 out of the 40 items were significantly different between the two groups. The findings suggested that the informational needs of bank loan officers did not differ significantly between large public companies and small private companies.

Robbins (1984) examined the existence of consensus between users and preparers of municipal annual reports regarding the importance of information to users' decision models. Municipal bond analysts were selected as the user group and municipal finance officers were selected as the preparer group. He developed a questionnaire containing 36 items and asked the respondents to rate each item based on how important they believed it to be when evaluating the financial condition of cities issuing bonds. Two null hypotheses were tested: a) no significant difference exists between the two sets of perceptions; b) no significant relationship exist between ranking of items by the two groups. The first hypothesis was tested by using pair-wise comparison of mean scores. They found significant difference for 20 (56%) of the 36 items. The mean responses for analysts were higher than the mean responses for finance officers, suggesting that preparers of municipal annual reports were underestimating the value of financial information to external users. The second hypothesis was tested using the Spearman's rank correlation procedure. A correlation coefficient of 0.7671 was discovered indicating that a moderate relationship exists between the users and preparers regarding the relative importance of all the 36 items. The results suggest that analysts and finance officers have similar perceptions of the relative importance of items to users' decision models.

McCaslin and Stanga (1986) examined the extent to which perceived user needs differ in relation to a set of information items that reflect three widely-discussed bases of accounting measurement: historical cost, constant dollar and current cost. Two user groups, namely financial analysts and commercial loan officers were chosen to evaluate the relevance and reliability of 30 information items. Using the Mann-Whitney test, the authors found no significant differences for the vast majority of items (76.7% of the items on relevance and 86.7% of the items on reliability. Kendall rank correlation coefficients were also computed to measure the degree of association between the ranked means of the two groups on the relevance and reliability variables. The tau values obtained for the 30 items were 0.4713 and 0.5829 respectively for both variables, and after dropping three earnings per share measurement items, which constitute the most prominent difference between the two groups, the tau values increased to 0.7322 and 0.6829 respectively for both variables. The results suggest that the analysts and bankers make similar evaluations of the relevance and reliability of the 30 items.

Firer and Meth (1986) complemented and extended the previous studies to the South African environment and set out to examine the information needs of South African external users of corporate reports. Two groups of users were examined, namely financial directors and investment analysts. Forty-nine voluntary information items were developed and respondents were asked to evaluate each item on a scale of one to five to reflect the degree of importance they attach to such items. They found that the investment analysts valued 38 items as 'important' in making investment decision compared with 26 items valued by the financial directors. They compared the ranking given by the two groups using the Spearman rank correlation coefficient and the value obtained was 0.75, indicating a high level of agreement between the two user groups. Two items regarded as the most important items to both groups were 'discussions of the firm's past results' and of the 'major factors influencing next year's results'. They also found that there was limited positive correlation between the information requirements of South African and United Kingdom investors using the 46 common items in their study and in Firth's (1979) study described earlier. The possible reasons for such the differences were time differences between the two studies and the differences which exist in the social, political and economic environments of the two countries.

Vergoossen (1993) examined the use and perceived importance of annual reports by investment analysts in the Netherlands. The analysts were further categorised according to their functions: investment adviser, portfolio manager, director/head of department, and other function. 73% of the respondents revealed that they were involved in company analysis and the three most widely used methods of analysis were fundamental analysis, ratio analysis and technical analysis. The investment analysts engaged in company analysis also use annual reports at least to some extent and they also studied annual reports of foreign companies in addition to annual reports of domestic companies. From the ten sources of information, the most recent annual report was considered to be significantly more important than any of the other sources of information. Communications with management and interim reports were ranked second and third respectively. Reports of other investment analysts, industry statistics and annual reports of former years have the lowest ratings, but still considered to be important by many investment analysts. With regard to the different parts of the annual reports, out of 10 parts, the consolidated income statement was considered the most important part, followed by consolidated balance sheet and the footnotes. The auditor's report and the report of the supervisory board have the lowest ratings by the analysts.

Rezaee and Hosseini (1996) conducted a survey to determine the effectiveness of a summary annual report (SAR) as a communication vehicle and its relevance for financial reporting. They examined the importance placed by five user groups in the USA on nine items of information in the SAR. By computing the mean responses of respondents, they found that the top three items rated as 'important' were a) financial statements, b) footnotes and supplemental disclosures, and 3) future prospects and outlook section. The least important item was 'colours and photographs'. The results suggested that the traditional financial statements were still regarded by users as important information for decision making purposes, together with forward-looking information. However, their results were based on the overall scores and no attempt was made to examine the differences that exist between individual groups of respondents regarding the importance attached to each item.

3.3 Related Studies on the Extent of Disclosure and the Factors Associated with Different Disclosure Levels

This section reviews the important studies on the disclosure of information in corporate annual reports. The main approach that has been used in this type of study was basically to select a group of items and measure their extent of disclosure in corporate annual reports. These selected items form the disclosure index which is developed based either on survey of a particular user group(s) or on review of the relevant literature. Normally, the disclosure index that was developed based on survey of user group(s) will result in a weighted disclosure index. An unweighted disclosure index employs a simple dichotomous procedure of giving a score of 1 to disclosure of item and zero for nondisclosure. In this section, studies relating to disclosure in developed countries are discussed first, whereas studies on corporate disclosure in developing countries are dealt with in the next section. However, a summary of the relevant studies in both developed and developing countries is shown in Table 3.2 at the end of this chapter.

Cerf (1961) sampled 527 companies in the US to measure the extent of disclosure in their annual reports. The companies were classified according to three trading categories, namely; (a) traded on the New York Stock Exchange - 258 companies, (b) traded on an exchange other than the New York Stock Exchange - 113 companies, and (c) traded over-the-counter (OTC) only - 156 companies. He developed a disclosure index using a weighted score based on (i) a number of interviews with professional investment analysts, (ii) ratings used by the Committee on Corporate Information, (iii) examination of analysts' report, and (iv) review of previous literature. Thirty-two items of disclosure were selected and weights were assigned (based on what the analysts perceived as important) ranging from one to four. Companies were not penalised for not disclosing items considered not relevant to their particular industry. The final index for each company was obtained using a percentage produced by dividing the number of points received for items included in an annual report, by the number of points possible for all items applicable to that company.

He also used four variables to determine if differential disclosure scores were associated with certain firm's characteristics, namely, listing status, company size (measured by total asset), ownership distribution, and profitability. Using class means and least squares regression analysis, he found that there was a positive association between disclosure scores and three independent variables, namely, assets' size; number of shareholders and profitability.

Cerf's study is important since he provides an advancement in the field of financial reporting (especially in the area of corporate disclosure) and motivates others to refine his approach. However, there are some limitations in his study, which include:

(i) it is restricted to listed or OTC companies;
(ii) only four variables are tested.
(iii) only one user group is considered.
(iv) only 32 items of disclosure are selected, which can be considered as small.
(v) the problem of multicollinearity of variables are not assessed or adjusted.

Singhvi (1967) investigated the disclosure of information in annual reports of 200 companies; 155 companies were US companies (100 of which were quoted on the New York Stock Exchange, and 55 were OTC companies), and 45 Indian companies quoted on the Bombay Stock Exchange. He developed a disclosure index based on a list of 38 items which was considered as an approximation of 'adequate disclosure'. He also tested seven variables that can be associated with different disclosure scores (for the US sample) namely, assets' size; number of shareholders, listing status, CPA firms; rate of return; earnings margin; and financial position of the firm.

He found that for US companies, inadequate disclosure was more apparent in firms that were small in size (measured by total assets and number of shareholders); unlisted; audited by small CPA firms; and less profitable (measured by rate of return and earnings margin). The coefficient of determination between the disclosure scores and the six variables was $R^2 = 0.2656$, suggesting that only 26% of the variability in the disclosure score could be explained by the influence of the five variables above.

Singhvi and Desai (1971) examined the annual reports of 155 US companies (sampled from the Fortune's Directory of 500 largest industrial companies), out of which 100 represents listed companies and 55 represents unlisted corporation (the same sampled used in Singhvi, 1967), to investigate the characteristics of firms that can be associated with the quality of disclosure. An index of disclosure consisting of 34 item (similar to the one used by Cerf, 1961) that are considered relevant to investment decision-making by financial analysts was developed. A multivariate analysis was undertaken to test the significance of the relationship between the quality of disclosure and six company characteristics namely, assets' size; number of stockholders; listing status; CPA firms; rate of return; and earnings margin. Using a Chi-square test and Z test all the variables were statistically significant (between the significance level of 0.01 and 0.05). When all the six variables were incorporated into the multivariate linear regression model, the coefficient of multiple determination, R^2 of 0.43442 was obtained which is significant at the 0.01 level. Further, another important point was that, the variable listing status, taken alone explains 38.13% variation in the quality of disclosure, and the coefficient of correlation for listing status is 0.62, which is significant at the 0.01 level. The results supported his earlier findings regarding the significance of all the six variables as in Singhvi (1967).

Moore and Buzby (1972) commented on the study on the following points:

(i) lack of detail in assigning points score;

(ii) the rigid application of the dichotomous procedure of scoring disclosure items (0 for nondisclosure and 1 for disclosure); and

(iii) multicollinearity between variables are not properly addressed.

Buzby (1974b) found that there was a conflicting result between Cerf and Singhvi and Desai's study. Cerf found that assets' size was the most important factor in explaining the variability in disclosure score, whereas Singhvi and Desai found it to be the listing status. Hence, he undertook a study to determine if both factors or any one of them possess a true association with the adequacy of disclosure by firm. He developed a measure of disclosure based on the needs of financial analysts. Items selected were based on literature review and each of them was then assessed to comply with three criteria before inclusion in the measure, namely;

(i) relevant to manufacturing company not engaging in extractive operations;

(ii) be applicable to every company in the annual report sample or required item as prescribed in SEC 10-K report; and

(iii) be subjected to inter-firm variability.

Thirty-nine items of information were selected and included in a questionnaire, which was then sent to 500 financial analysts. Weights were then given to the responses of the questionnaires based on ranks provided by a sample of financial analysts, and a scoring sheet based on 88 company reports representing two matched samples of 44 reports each was developed. One sample consisted of listed companies whose shares were traded on either the New York Stock Exchange or the American Stock Exchange. The second sample composed of unlisted companies whose shares were traded on the OTC market. The mean ranks suggested that the following items were given top priority: changes in accounting methods, capital expenditure for the current year, foreign subsidiaries, and historical summary were among the items. On the other hand, low priority items found were indication of employee morale and forecast of EPS.

Buzby (1975b) extended the previous work to examine the effect of two company characteristics namely, company size and listing status on disclosure levels. Matched-pairs design based on assets' size, industry and time dimension was carried out to separate their respective effects from listing-status effect. A Wilcoxon matched-pairs, signed-ranks test was used to test for the listing-status effect and the Kendall rank correlation coefficient was calculated for both samples to examine for the size effect. The mean relative disclosure scores obtained was 0.544 for listed companies, and 0.538 for unlisted companies; suggesting the lack of significant listing-status effect. However he found a moderate positive association effect between the extent of disclosure and asset size as given by the tau values of 0.515 for listed companies, and 0.370 for unlisted companies. The results indicated that the extent of disclosure was positively associated with company size measured by assets but not affected by listing status.

This study also has its own limitations:

(i) the results only show a moderate positive association between asset size and disclosure which cast a degree of suspicion on the procedures adopted as they differ from previous research studies; and

(ii) OTC companies are not representative of unlisted companies since they are companies seeking for a full listing on an exchange in the future. As such, they may increase their level of disclosure as what being practised by similar listed companies in order to gain entry, as a first stage of this development process.

Choi (1973a and 1973b) tried to assess the relationship between disclosure and capital market entry using 64 Eurobonds companies by measuring their disclosure changes in a five-year span; three years prior to and a year subsequent to the year of entry. Companies selected were subjected to comply with three criteria:

(i) each firm must provide annual reports for each year of the study interval;

(ii) numbers of firms selected should not be overly representative of any one country or industry;

(iii) there should be a non-participating counterpart (as a control group) similar in most respects to the Eurobond participants.

Finally, he managed to get a working sample of eighteen matched pairs from eleven different countries viz. Australia; Belgium; Denmark; France; Germany; Italy; Japan; the Netherlands; Norway; and Switzerland. The 'quantity of disclosure' was measured by a disclosure index containing items derived from an investor decision framework, and then applied to existing disclosure indexes included in previous studies, and lastly applied to information disclosed in a sample of foreign annual reports. Thirty-six main headings of disclosure items were used to develop the disclosure index. He defined 'improved disclosure' as any positive changes in the quantum of corporate disclosure as discerned by the disclosure index. He employed a weighted as well as unweighted index for calculating the disclosure score.

Using a Wilcoxon matched-pairs, signed-ranks test on the 18 matched pairs, he found that for the unweighted scores of participants and non participants companies, the critical value of T was 7.5 which was in favour of the alternative hypothesis. The alternative hypothesis states that 'the improvement in disclosure of the experimental group is greater than that of the control group'. However, this result might be subjected to possible bias because some of the items selected could be considered to be more important items of disclosure than others, yet they are given equal weight. In order to alleviate the problem, he replicated the test using a weighted index, similar to the one employed by Cerf and Singhvi. The T values obtained was 11.5 in favour of the alternative hypothesis and he concluded that the firms analysed had significantly improved their disclosure of financial information upon entry into the European capital market. The weakness of this second test is that the weights assigned by Cerf and Singhvi in constructing the disclosure index have not been validated internationally. The weights were assigned by analysts in the United States. It would be better to have the weights assigned by analysts in several developed countries in order to derive a disclosure index that represents the developed countries.

In a later study, Choi (1974) extended his previous study by including only nine Continental countries namely Belgium; Denmark; France; Germany; Italy; the Netherlands; Norway; Sweden and Switzerland. Annual reports were selected from 14 firms representing the nine countries for analysis. The same disclosure index for the same number of items (36) as designed in his previous study was used to measure any positive changes in disclosure score between two successive time periods. The annual reports were examined over a five-year interval (3 years prior to and a year subsequent to entry) to examine the presence or absence of any increases in corporate disclosure.

To avoid any other extraneous variables that may affect the results, he constructed a control group of nonparticipating firms and this group was then matched with the participating firms in terms of their relative size, industry affiliation, and national origin. This same procedure was adopted in his previous study. His statistical tests revealed that measured disclosure changes of the Eurobond participants' variables were significantly greater than those of the control group. The results seemed to suggest that Continental firms significantly increased their disclosure of information in annual reports upon entry to the Eurobond market.

He also found that positive disclosure changes on the part of the sampled firms generally attained a peak during the year of entry, averaging 9.2 items of disclosure, then resume a more stable pattern of change during the following year. The same pattern was also noted for changes in average disclosure scores of the participating firms over and above their nonparticipating firms. The results seemed to suggest that the sampled participating firms try to begin selective improvements in their financial communication with the international investors prior to entering the international capital market.

Barrett (1975) tried to examine the extent and quality of corporate financial disclosure among the largest publicly-held corporations in seven countries during the 1963 to 1972 period. This study represents the first research to use the longitudinal approach in analysing the disclosure levels of information presented in annual reports from an international perspective. To measure disclosure in annual reports, he developed a list of seventeen items. The seventeen items selected were based on earlier studies (15 items) by Cerf, Singhvi and Desai, and Buzby and also on personal experience of the researcher (5 items) in dealing with foreign financial statements and their users. The items were then used to construct a weighted index of disclosure to allow a comparison of the overall extent and quality of disclosure across both years and countries. In order to represent the relative importance of each item to potential investors, index numbers were assigned to the items based on prior research which used the results of surveying and interviewing US financial analysts. Annual reports were collected from 103 firms for the years 1963 to 1972. The firms included in the sample represent the largest quoted firms from seven countries in terms of market capitalisation in September 1973.

The number of firms selected in the sample was fifteen each from the United States, Japan, the United Kingdom, France, Germany and Sweden; and thirteen firms from the Netherlands.

He found that for 1972 annual reports, the American and British firms exhibited significantly more annual report disclosure than the firms from the other five countries. He also found little difference in either the quality or extent of disclosure between the UK and American firms. However, the two Anglo-American samples only exhibited more information than the other five countries in four categories of information namely; financial history, segment reporting by geographical area, inclusion of retained earnings statement, and identification of the currency translation method used. However, in respect of (a) segment reporting and (b) disclosure of capital expenditure, if the items and the firms' domicile are considered individually, the US firms do not tend to be international leaders in disclosing both categories of information. For example, the overall level of German disclosure was markedly better than US firms in respect to current capital expenditure, but notably worse in respect to planned capital expenditure. At the other extreme, he found that France sample firms disclosed less information than the firms in the other six countries. On the other hand, by looking at the disclosure levels longitudinally from 1963 to 1972, he found that the extent of financial disclosure by US public corporations was greater, on average, than those firms in other five countries (except UK). However, all sample firms had improved the extent and quality of their information disclosure, especially in Sweden (from a score of 28.9 to 57.6, representing a 99% increase) and France (from a score of 24.2 to 44.4, representing a 83% increase).

In a next study, Barrett (1976) extended his earlier 1975's study. Using the same types of data, he focused on another aspect of disclosure, namely the degree of comprehensiveness of firms' financial statements. A weighted disclosure index as constructed in his prior study was used to measure the comprehensiveness of financial statements. The term 'comprehensiveness' was related to two aspects, namely; (1) the degree of inclusion of the financial position and periodic financial results of related companies in the annual reports, and (2) the degree of 'all-inclusiveness' of the firms' income statements (together with any related statements or supplementary notes). Item

(1) above was assessed by recording the extent of consolidation and the method used to account for associated companies, using four categories ranging from consolidation of all significant subsidiaries to parent-company-only financial statements. He found that by 1972, the degree of consolidation was quite high for all companies, except for the Japanese and French samples. He noted that France had a high number of parent-company-only financial statements indicating that French annual reports did not provide the same type of information as that being provided by other firms in Western countries. In terms of accounting for associated companies, he found that both the British and Japanese firms were incorporating less of the financial position and results of associated or affiliated companies in their annual reports than were the American firms. Swedish, Dutch, German and French samples even reflected significant departures from the American level of disclosure. The degree of the 'all-inclusiveness' of the income statements was assessed using two variables, namely; (1) the comprehensiveness of the net income figure, and (2) the availability of a statement of changes in retained earnings. He found that all American companies and most Japanese, Swedish and Dutch companies pass all noncapital changes in owners' equity through the income statements, whereas most British and French firms excluded noncapital changes from the income statements. When looking at other related statements or notes in the annual reports regarding the 'all-inclusive' concept, he found that practically all British, Japanese and Swedish firms provided the data necessary to transform their financial statements, whereas the French firms did not provide enough data to transform their financial statements. In summary, he found that the American and British firms' financial statements were more comprehensive in terms of including the results of related companies and of taking a broad view of income related items than were those of the firms located in the other five countries; whereas financial statements of French firms were less comprehensive compared with the other firms in all the sample. He indicated that the results were consistent with the general belief that a relationship exists between the extent of disclosure of decision influencing information and the degree of efficiency of national equity markets.

To test whether the degree of consolidation had any association with the overall level of disclosure and the comprehensiveness of firms' financial statements, he divided the sample firms of five countries (excluding US and British firms) into two groups; those whose 1972 annual reports contained fully consolidated statements and all others. He found that the annual reports of firms having fully consolidated financial statements had a higher level of overall financial disclosure. The 'fully consolidated' sample also reflected financial reporting practices which signify a more comprehensive view of the economic entity and its operations than the other group of companies.

Barrett (1977) further extended his previous two studies by using the same type of data, and presented in detail the disclosure of the individual items that appeared in the annual reports of the companies selected, especially regarding segment reporting and current and planned capital expenditure. He found that (i) the US annual reports were not uniformly better than those of other five countries in terms of the disclosure level of the individual items; (ii) the extent of disclosure in the annual reports of US companies was no greater, on average, than that found in annual reports of British companies.

The main weaknesses of Barrett's studies are:

a. the weighting of the disclosure items is based on the results of survey and interview done in previous study done by Cerf which was already a decade old. In addition only one user group's perception was used (analysts). It is better to consider other user groups in designing the weighted score.
b. the term 'comprehensiveness' is too limited. It refers only to four items in the financial statements namely, degree of consolidation, accounting for associated companies, income figures and statement of changes in retained earnings.
c. items of information selected are not categorised into mandatory or voluntary items, thus making it difficult to evaluate which category of information is disclosed more (less) in the annual reports of the companies selected.
d. a major flaw was made in reporting the result (1976's study) of Table 3 on page 16, where a *low number* of 'parent-company-only statements' that appear in Japanese annual reports was reported as having a *high number.*

Stanga (1976) carried out a study to accomplish three major objectives namely, (i) to assess the information needs of financial analysts; (ii) to evaluate the disclosure practices of large industrial firms in relation to the analysts' needs; and (iii) to examine the influence of corporate size and industry variables on disclosure score differences among the firms. To achieve the first objective, he developed a disclosure model based on the replies of 275 questionnaires from a random sample of 800 analysts. Seventy-nine items of information were given in the questionnaire for the analysts to assign a weighted value from 0 (unimportant) to 4 (essential) for each item.

From the 79 items, he found that 10 items (13%) were considered by the analysts as essential (a weight of 4), 46 items (58%) as very important (a weight of 3), and 23 items (29%) as moderately important items (a weight of 2). However, Stanga did not classify which items are regarded as either mandatory disclosure (as required by the Security of Exchange Commission or the New York Stock Exchange) or voluntary disclosure, when developing the disclosure model.

To achieve the second objective, he used cluster sampling in selecting 80 firms (from eight different industries) from a list of the 'Fortune 1,000' firms. In order to evaluate the disclosure practises of the 80 firms, annual reports for the year 1973 were obtained from all the firms. A disclosure percentage was obtained by dividing the number of firms that disclosed the item in their annual reports by the number of firms to which the item was applicable. He found that seventy-one out of the seventy-nine items (90%) had disclosure percentage below 100%, forty-six (58%) had disclosure below 50%, and twenty-nine (37%) had disclosure of less than 10%. He also found a positive relationship between the importance of information perceived by analysts and the frequency with which the information is disclosed. All the ten 'essential' items had disclosure in excess of 70%, whilst twenty-six of the forty-six 'very important' items (57%) had disclosure below 50%, and fifteen (33%) had disclosure of less than 10%. Lastly, for the 'moderately important' items, twenty of the twenty-three items (87%) had disclosure below 50%, and fourteen (61%) had disclosure of less than 10%. From the figures, he posited that (i) managers are more conscientious about disclosing the information that analysts regard as most important; and (ii) the analysts' perceptions about the items may be biased towards the information that they received most often.

Furthermore he used two variables that may explain the variability in the disclosure level; firstly corporate size as measured by net sales, and secondly, the industry to which the firms belong. He discovered that the disclosure scores ranged from 58.51 (highest) to 21.79 (lowest), with a mean score of 45.32 (for all companies) and standard deviation of 7.20. The metal manufacturing industry recorded the highest mean score of 49.62 and beverage industry recorded the lowest score of 38.31. By using analysis of covariance and comparing the adjusted means (by regressing the disclosure score on net sales) and unadjusted means, the difference was so minimal. The regression coefficient for net sales was only 0.003. This suggests that corporate size does not appear to play a major role in explaining the differences in disclosure level of information in the firms. However, the industry variable had a considerable influence on disclosure score. For instance, he found a difference of 11.15 between the smallest and the largest adjusted industry mean, which was equivalent to almost 25% of the mean disclosure score for all companies aforementioned. He suggested that the firms were playing the 'follow the leader' game whereby each firm within a particular industry attempted to ensure that their annual reports were the same as the other firms in that industry, thus making disclosure differences among firms in different industries become more apparent.

Stanga's study suffers the following weaknesses:

a. only eight industries are chosen for the study. This might not represent the overall industry (29 industries altogether).
b. there were serious disclosure deficiencies within all the industries selected. Only 22 of the 80 companies (27%) had disclosure scores in excess of 50.
c. only one user group was selected to weigh the items of information. The results might be biased because there are other user groups who are interested in using annual reports (e.g. loan officers, creditors, consumer groups, etc.).

Belkaoui and Kahl (1978) selected 200 annual reports of Canadian non-financial companies for the fiscal year 1976 using random sampling. Then they developed a disclosure adequacy index based on thirty items of information considered useful in making business decisions. The disclosure index was used to examine whether the information presented in the annual reports are adequate for the users of the financial statements. The selection of the items, however was made in the context of Canada rather than those used in previous studies.

Questionnaires containing the selected disclosure items were distributed to a random sample of 200 chartered accountants and 200 financial analysts requesting them to assign weights on the disclosure items. A high degree of consensus was obtained. Each annual report was evaluated using the mean weights given by the analysts to each disclosure item included in the questionnaire and then a disclosure adequacy score was calculated.

The researchers then tried to investigate whether the difference in the amount of information disclosed was influenced by any of the following six variables namely, firm size (measured by sales and total assets); profitability; liquidity; capitalisation ratio; and type of industry. The analysis was done using the Kendal rank correlation coefficient. They found a positive association between three variables namely assets size, sales size, and liquidity and disclosure adequacy, as measured by the relative disclosure score. The results seemed to suggest that the larger the company, the more adequate the disclosure of information.

However, they found a negative association between both profitability and capitalisation and disclosure adequacy, which was contrary to what they expected. Therefore they rejected the hypothesis that disclosure is jointly associated with profitability and capitalisation, but accepted the hypothesis that higher liquidity is associated with higher disclosure scores. The researchers noted that the variable, capitalisation ratio test was still new and no previous research has employed it, thus comparison cannot be made. They use it as a surrogate for the variable 'number of stockholders' which had been found to be related to disclosure adequacy. However, the results did not support what they expected, and as such, the variable 'capitalisation ratio' was not a good substitute for the 'number of stockholders' variable in spite of its support by Benston (1976).

Spero (1979) examined the extent and causes of voluntary disclosure of financial information in three European capital markets namely France, Sweden and the UK. Annual reports of companies for the year 1964, 1967, 1970 and 1972 were obtained from 20 companies from each country. He developed a scoring sheet of 275 items of information for the UK and France and 289 items of information for Sweden. He also used seven different weighting methods for scoring the disclosure items. He found that voluntary disclosure occurred and increased for every company in each time period sampled. In France and the UK, the increase in disclosure level was resulted from increased in mandatory as well as voluntary disclosure. In Sweden, the increase was due entirely to voluntary disclosure.

Seventeen measures were used to represent the following explanatory variables: capital need, foreign direct investment, profitability, and stock market performance variables. There was also substantial variation in the quantity voluntarily disclosed by the companies in the sample. Companies with greater need for capital voluntarily disclosed more financial information than companies with less need for capital, although the results were not consistent for all years and companies. For the French companies, the capital need hypothesis was supported in 1964; not supported in 1972; and produced mixed results for 1967 and 1970. An analysis of data for the UK in 1964 supported the capital need hypothesis when an adjustment for the financial ratios measure was made; did not support it in 1970; supported it in 1972; but mixed results obtained in 1967. For the Sweden sample, the results supported the hypothesis for 1964 and 1967 but showed weaker relationship for 1970 and 1972.

Firth (1979b) examined the relationship between disclosure score and three firm-specific characteristics. The three variables included in the study were the size of the company (measured in terms of sales turnover and capital employed); whether it was listed on the UK Stock Exchange; and the firm of accountants engaged in the audit. An index of disclosure was then developed based on review of relevant literature, annual reports and discussions with various users. This resulted in a list containing 48 items (voluntary items) which was considered to be useful for investors and bankers.

The list of items was then sent to 120 financial analysts, requesting them to give weights of 'importance' to the items ranging from 1 (unimportant) to 5 (very important). Forty-six replies were received (a response rate of 38.3%). He found that the items 'breakdown of sales and earnings by product lines, customer classes and geographical location' were the most important item to be disclosed, whereas the item 'historical summary of price range of ordinary shares in past few years' seemed to be the least important. 'Historical accounting data' also received a fairly high importance weightings, whereas 'forecast of next year's profits' and 'cash projections for the next one to five years' received 'moderate' to 'important' scores, which may suggest that the analysts place some doubt on the accuracy of such forecast. The mean scores and the relative rankings of forecast were also higher than those found in previous studies in the US. The disclosure index was then applied to the annual reports of three samples of companies as follows:

(a) 40 manufacturing companies (unlisted), taken randomly in terms of sales from the largest 120 unlisted companies in the UK (referred hereafter as S1)

(b) 40 listed companies that are matched with the unlisted companies above in terms of size (asset size and sales turnover) and type of industry (referred here as S2).

(c) 100 stock exchange listed manufacturing companies to test the size and auditor relationship (referred here as S3).

In order to measure the disclosure level, a weighted procedure was used. So, if an item was disclosed, the company would receive the weighted score; if it was not disclosed, a zero score was awarded. He found that the mean disclosure score for the 40 listed companies and 40 unlisted companies were 13.69 and 18.93 respectively, which can be considered as low scores. It seemed to indicate that the companies tend to fulfil only the minimum requirements as set out by the Companies Acts in disclosing information in the annual reports. Two statistical tests, namely t test and Wilcoxon matched-pairs signed rank tests were conducted to examine the impact of stock exchange listing on disclosure level. The t test showed significant difference in group means (at the 0.05 significance level). The result of the Wilcoxon matched-pairs test also supported the results of the t test, which suggest that companies with a stock market listing make greater disclosure than those having no listing. The Kendall's rank of correlation coefficient was then used to examine the relationship between size and levels of disclosure for the three groups mentioned above. The values (measured in terms of sales turnover) for S1, S2 and S3 were 0.474, 0.543 and 0.701 respectively; whereas the values (measured in terms of capital employed) for S1, S2 and S3 were 0.510, 0.539 and 0.681 respectively. The results showed a positive association between size and levels of disclosure, which seemed to support the argument that the larger the size of the company, the greater its level of disclosure, irrespective of whether a company has a stock exchange listing or not. To examine the impact of auditors on disclosure levels, auditors in each company were extracted and categorised into two groupings, namely, (a) the British 'Big 8', and (b) 'others'. The t test and the Wilcoxon matched-pairs signed-ranks tests were then applied and the mean values attributable to the 'Big 8' and 'Others' for the S1, S2 and S3 were 13.84 and 13.59; 19.24 and 18.55; and 19.81 and 19.73, respectively. The results show that there was no significant difference in the disclosure scores between 'Big 8' auditing firms and those 'small' auditing firms, indicating that auditors have very little influence on the levels of corporate disclosure. In a subsequent study, Firth (1980) examined whether British firms increased their disclosure of voluntary information upon entry to the capital market. A total of 278 British companies were selected and segregated into large and small firms according to their capitalised market value; and the same 48 items of information were used to measure their disclosure scores. He found that smaller-sized companies (with market capitalisation of under £50 million) increased their disclosure levels significantly when issuing new equity or rights while no such relationship was found for the larger firms.

Kahl and Belkaoui (1981) examined the extent of disclosure by banks located in 18 countries. The number of banks sampled was 70 and 30 items comprising both mandatory and voluntary disclosure items were constructed to measure their disclosure levels. Only one explanatory variable, firm size (measured by total assets) was used to examine its influence on disclosure score. The results showed that the degree of disclosure was relatively different among the banks, with US banks having the highest disclosure scores. Firm size only showed a weak relationship (10% level) with disclosure score suggesting that larger firm did not seem to disclose more information than smaller banks.

McNally et al. (1982) investigated the quality of voluntary disclosure practises by New Zealand firms and the association of their disclosure scores with five corporate characteristics. Questionnaire survey to financial editors and New Zealand Stock Exchange (NZSE) member was also used to examine their perceived importance of 41 disclosure items. Published annual reports of 103 manufacturing firms listed on the NZSE were scrutinised and scores were given using an unweighted index. The results showed that the level of actual disclosure by the companies was much lower than what the professional users perceived and that there was substantial variation across the 41 items in the extent of non-disclosure. The five explanatory variables used were firm size, rate of return, growth, industry groupings and audit firm size. They discovered that there was a significant relationship between company size and voluntary disclosure score, but no association was found between disclosure score and the other four variables.

Lutfi (1989) investigated the hypothesis that the unlisted securities market (USM) companies in the UK disclosed financial information voluntarily. He also examined some determinants of voluntary disclosure based on the agency theory, theories of the firm, and the informational risk theory literature. A total of 122 USM companies were randomly sampled from eight different industries. He developed an unweighted disclosure index containing 53 items to measure the level of voluntary disclosure. The explanatory variables that could influence disclosure scores were firm size (5 measures), foreign turnover, gearing (2 measures), existence of share option scheme, directors' shareholdings, diversification (2 measures), profitability (3 measures), type of audit firm, number of non-executives as members of the board of directors, number of substantial shareholders, and tax status.

He discovered that voluntary disclosure occurred for every company in the sample. Also, there was substantial variation in the quantity voluntarily disclosed by the companies in the sample. For example, only 4 companies (3.7%) disclose information on future prospects of the economy, while on the other extreme, 103 companies (84.4%) disclose information regarding future plans and strategies. Using multiple regression analysis, he found that the probability of USM companies disclosing information voluntarily increases with firm's size, percentage of foreign turnover, gearing, and the existence of executive share option schemes. Furthermore, according to the cross-industry analysis, the disclosure of voluntary information by the companies decreased with firm's profitability and the percentage of directors' equity. The variable, industry sector, however, showed mixed results regarding the sign of relationship. Finally, the results did not lend support to the proposed relationship between levels of voluntary disclosure and the auditing firm, number of non-executives on the Board of Directors, the number of substantial shareholders, and tax status.

Cooke (1989a and 1989b) studied the level of disclosure by 90 Swedish companies comprising of both listed and unlisted companies. The disclosure index consisted of both required and voluntary items. Five explanatory variables that could explain the variability in disclosure scores were examined namely, listing status, multiple listing, and three measures of size - total assets, sales and number of shareholders. The results indicated that over 73% of the listed companies had a disclosure score of 0.50 or more while 84% of the unlisted companies had a disclosure score of less than 0.50. This suggests that listed companies disclose more information in their annual reports than unlisted companies. This is understandable because normally listed companies have to fulfil more disclosure requirements imposed by several regulatory bodies. Within the listed category, 58% of multiple listed companies had a disclosure index of 0.65 and above compared with only 12% of companies listed domestically. He also found a high correlation between quotation status and disclosure levels. Multivariate analysis also revealed that size and listing status had significant influence on the extent of disclosure.

In another study, Cooke (1991) examined the relationship between a number of firm-specific characteristics of Japanese companies, both listed and unlisted, and the extent of voluntary disclosure. He tested the hypothesis that there was an association between a number of firm-specific characteristics (namely size, listing status, and industry type) and the extent of voluntary disclosure in Japanese corporate annual report. Three measures of size were used: number of shareholders, total assets, and turnover. Listing status and industry group were dummy variables with value 0 for listed companies and 1 for unlisted companies; whereas industry group was divided into four groups - conglomerate, manufacturing, services, and trading. Using multiple regression analysis, he found that the single most important independent variable that influenced the variations in voluntary disclosure was size (with total assets produced the highest F-ratio, followed by turnover and number of shareholders). Stock market listing was also found to be a significant predictor, with the multiple listed companies disclosing more information than the domestic listed companies and the unlisted companies. Manufacturing companies were also found to disclose more voluntary information than other industry types.

Williams (1992) examined the relationship between financial statement disclosure of a sample of companies from thirteen countries and selected characteristics of the company and selected characteristics of the country. The countries selected were Australia, Belgium, Canada, England, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, and the US. Fifty manufacturing companies' annual reports were requested from each country (excluding US) and a total of 290 annual reports were received. Another sample of 26 US companies was obtained to form 316 companies. He developed a disclosure index containing 43 items of information which encompassed voluntary and required items in each respective country. The company-specific variables included in the study were company size, profitability, and gearing. The country-specific variables were type of financial statement user, culture, government involvement in the economy, wealth, and nature of the standard-setting process. Using three multiple regression analysis models, he found that size and profitability variables did have positive significant relationship with disclosure scores. Gearing, however, lacked any statistical significance. Among the country-specific variables, type of financial statement user, culture, government involvement in the economy, and nature of the standard-setting process were found to have statistical significance. However, the results of regression analysis for type of financial statement user, culture, and government involvement in the economy were not consistent with the hypotheses. The result for the variable 'standard setting process' showed the expected sign and was significant, indicating that countries which practise self-regulation disclosed more information than publicly-regulated countries. On the other hand, the variable national wealth did not show any significant relationship. The results suggested that country-specific variables were of greater importance as indicators of disclosure than were company-specific variables.

Cooke (1992) investigated the extent of disclosure by Japanese corporations and examined the influence of size, listing status, and industry groupings on disclosure level. He developed an unweighted disclosure index consisting of 165 items (mandatory and voluntary items) to measure the disclosure scores on 35 annual reports of Japanese firms. Using simple and multiple regression analyses, he found that disclosure scores increased with firm size. Manufacturing companies disclose more information than non-manufacturing firms, and companies with multiple listing status disclosed more information than those listed only on the Tokyo Stock Exchange.

In another study, Cooke (1993) examined the extent of disclosure in corporate annual reports of Japanese firms by including unlisted corporations into the sample in order to investigate the influence of listing status on disclosure. A total of 48 companies comprising of 13 unlisted, 25 Tokyo Stock Exchange listed, and 10 multiple stock exchange listed companies were randomly sampled. The number of items was increased to 195. Using t-test and Mann-Whitney U test, he found no difference in the extent of disclosure between the Commercial Code (CC) accounts and the Securities and Exchange Law (SEL) accounts. No difference was also found in disclosure scores between unlisted and multiple listed companies, and between domestically listed and multiple listed corporations.

Malone et al. (1993) examined the factors that were associated with the extent to which firms in the oil and gas industry disclosed financial information in their annual reports. The extent of financial disclosure was measured by using a weighted index of 129 disclosure items. Annual reports were requested from 225 firms and 125 useable annual reports were received. Ten independent variables were used to examine their influence on disclosure scores. Using stepwise regression analysis, they found that only three variables were statistically significant in explaining the extent of financial disclosure - listing status, ratio of debt to total equity, and number of shareholders. The results suggested that firms with higher leverage, with greater number of shareholders, which were listed on a major stock exchange disclose financial information to a greater extent than did firms with lower leverage, with fewer shareholders, and whose stocks were traded over the counter. The other seven variables: firm size, audit firm size, rate of return on net worth, presence of non-oil and gas industry operations, earnings margin, proportion of outside directors on the board, and presence of material foreign operations did not revealed any significant relationship with disclosure scores.

Wallace et al. (1994) investigated whether the differences in details offered on selected information items in corporate annual reports of Spanish firms mirrored the differences in firm characteristics. Fifty companies comprising both listed (30 firms) and unlisted companies (20 firms) were randomly sampled from both the Madrid and Valencia Stock Exchanges and also from the Register of Spanish firms. A disclosure index containing 16 main mandatory items was developed and disclosure scores were given according to their details given in the annual reports, which resulted in a maximum possible score of 79 points. Eight independent variables were selected to examine their impact on disclosure level. The variables were firm size, liquidity, listing status, leverage, earnings return, profit margin, industry type, and auditor type. Using both reduced and full regression models, they found that only the variables total assets, liquidity ratio and listing status were statistically significant. The results showed that Spanish firms with lower liquidity ratios, higher asset size, and whose stocks were listed on the Madrid and Valencia stock exchanges would provide more information in their annual reports and accounts than firms that were not. The remaining five firm characteristics were found not to be associated significantly with the index of comprehensive disclosure.

Raffournier (1995) examined the extent of voluntary disclosure in the annual reports of Swiss listed companies and its association to possible determinants representing agency and political costs. The sample consisted of 161 companies and annual reports were obtained from each company. He developed a disclosure index containing 30 items of information based on the requirements by the Fourth and Seventh EU Directives. Eight independent variables were used namely firm size, leverage (debt -on-total-assets ratio), profitability (net income over net worth), ownership structure, internationality, auditor's size, percentage of fixed assets and industry type. Using univariate and multiple regression analyses, the results showed that size and internationality (multiple listing) produced significant relationship, each having R^2 values of 36% and 42% respectively, which represent the influence of such variables on the variability of disclosure levels. Other variables did not show any significant influence in the disclosure score. The findings suggested that size and internationality played a major role in the disclosure policy of firms, large and internationally diversified firms tending to disclose more information than small, purely domestic firms.

Gray et al. (1995) explored the impact of international capital market pressures on voluntary disclosure decisions by US and UK multinational companies (MNCs) in the context of their annual reports. Annual report disclosure practises of 116 US and 64

UK MNCs were examined based on a disclosure checklist containing 128 items of information. An unweighted procedure was adopted for scoring the items. The items were categorised into three major groups of information: strategic information (5 items), nonfinancial information (3 items) and financial information (4 items). The results showed that US internationally listed MNCs voluntarily disclosed significantly more strategic and nonfinancial (but not financial) information than US domestic listed MNCs. However, no difference was found for UK companies when international listing status was considered. They also found that both capital market pressures and national factors influenced voluntary disclosures and the international listing factor seemed important in explaining strategic information disclosure. Overall, the findings of this study suggested that participation in international capital markets was significantly associated with additional voluntary disclosures in annual reports by MNCs. Within a complex financial reporting environment, international capital market pressures seemed to be promoting a market-led 'standard' of disclosure at a level in excess of regulation.

An extension of the previous study by Gray et al. (1995) was conducted by Meek et al. (1995) who examined factors influencing the voluntary disclosures of the same three major groups of information (strategic, nonfinancial, and financial) contained in the annual reports of multinational companies (MNCs) from the US, UK and Continental Europe. The sample of companies selected were 116 (US), 64 (UK) and 46 Continental European MNCs from France (16), Germany (12), and the Netherlands (18). A disclosure index consisting 85 voluntary disclosure items was developed as the dependent variable. Seven explanatory variables were used namely size (measured by sales), country/region of origin, industry, leverage (long-term debt to equity ratio), multinationality, profitability (ratio of profit after-tax and interest to sales), and international listing status.

Using regression analysis, they found that company size, country/region origin, and international listing status were the most important variables that explained the variability in disclosure. Industry variable appeared to be influential in some cases. The other three variables did not reveal any significant relationship. The results suggested that larger MNC voluntarily disclose more information than smaller MNCs. Continental European MNCs disclosed more strategic information than either American or British

MNCs. For nonfinancial information, Continental European and British MNCs disclosed more than US MNCs. Lastly British MNCs disclosed less financial information than either Continental European or US MNCs. Listing status was important in explaining voluntary strategic and financial, but not nonfinancial, disclosures. Companies in the oil, chemicals and mining industry seemed particularly inclined to provide nonfinancial information, such as environmental reporting to reflect their concern on social accountability issues.

Wallace and Naser (1995) examined the impact of selected firm characteristics on the comprehensiveness of mandatory disclosure in annual reports of Hong Kong companies. Comprehensiveness here refers to the details given by the companies in disclosing 30 mandatory disclosure items. Eighty listed companies were randomly sampled from the 417 companies listed on the Stock Exchange of Hong Kong and annual reports were obtained from these companies. Eleven explanatory variables were used as the possible determinants of disclosure namely, location of registered office, profit margin (earnings before tax to total sales), earnings return (earnings before tax divided by total outstanding equity), liquidity ratio, leverage ratio (total long-term debt to outstanding equity), firm size (total assets and sales), market capitalisation of firm, proportion of equity owned by outsiders, scope of firm's business, and type of external auditor. Using full regression and partial regression analysis models, they found that only four variables revealed significant relationship: total assets, profit margin, type of audit firm and scope of business operation. The results suggested that Hong Kong firms which disclose more comprehensive information in corporate annual reports tend to have high total assets, and low profit margin; they also tend to appoint local audit firms which were not affiliated to any of the Big Six international audit firms; and were usually conglomerate. However, the other variables were less useful in explaining variation in disclosure indexes.

Hossain and Adams (1995) examined the factors which influence the general level of information voluntarily disclosed by companies listed on the Australian Stock Exchange (ASE). Eighty-three companies were selected on the basis of stratified random sample from 900 companies listed on the ASE. A disclosure index containing 80 disclosure items (financial and nonfinancial) was developed and five corporate attributes were used to examine their influence on disclosure score. Using multiple regression analysis, they found that only firm size was significantly related to the level of information voluntarily disclosed by Australian companies in their annual reports. The variables leverage, assets-in-place and audit firm were also positively related but the results were not statistically significant. Statistical analysis also produced a negative sign for foreign listing variable which was contrary to agency theory which predicted a positive sign.

Hossain et al. (1995) carried out a study to examine empirically the relationship between five firm-specific characteristics and the general level of accounting information voluntarily disclosed by companies listed on New Zealand Stock Exchange (NZSE). Fifty-five companies were randomly sampled from 146 firms on the NZSE, out of which 15 firms also had foreign listing status. A disclosure index containing 95 discretionary items was compiled and the index was unweighted. The five independent variables used were firm size (measured by total assets), leverage (measured by the ratio of long term debt to owners' equity), assets-in-place (computed by dividing book value of fixed assets, after deducting depreciation, by total assets), type of auditor, and foreign listing status. Using multiple regression analysis, they found that firm size and foreign listing were highly significant ($\rho < 0.001$ and $\rho < 0.05$ respectively), while the coefficient of leverage was marginally significant ($\rho < 0.10$). The multiple regression model was highly significant ($\rho < 0.001$) and explained 68.2% of the associations between the dependent variable and the independent variables. In contrast, the coefficients representing assets-in-place and type of auditor were not statistically significant. The results suggested that in general, voluntary disclosures were used as a means to reduce agency costs as firms grew in size and increased leverage. Firms which were listed overseas and locally tended to disclose more information voluntarily to the stock market than those listed only on the domestic stock exchange.

Inchausti (1997) provided an empirical analysis of the influence of market pressures and pressure from regulatory bodies on information disclosure by Spanish firms. A disclosure index containing both mandatory (30 items) and voluntary (20 items) disclosure items was developed resulting in 50 items. Fifty listed companies on the Valencia Stock Exchange were randomly sampled and their annual reports for the period 1989-1991 were obtained resulting in a total of 138 annual reports. In order to consider the influence of positive accounting theory, seven hypotheses were developed to test the influence of seven corporate attributes on disclosure. The explanatory variables used were firm size (measured by total assets and sales), stock exchange cross listing, two measures of profitability (operating income/total assets, and net income/equity), leverage (total liabilities/equity), type of audit firm, industry grouping, and dividend payout. Using stepwise regression analysis and panel data analysis, he found that the coefficients of the variables size, auditing firm and stock exchange listing were significant at the 5% level, and they explained 43.3% of the total variance of the dependent variable, the disclosure index. The results provided a satisfactory basis for explaining the attitude of firms regarding the provision of financial information. The other variables were rejected by the analysis.

He concluded that since size was a proxy for contractual costs and political costs, Spanish quoted firms used financial information as a way to reduce these costs. The hypothesis relating to the stock exchange listing suggested that firms listed in several markets needed more funds, therefore they could have high contractual costs, and information asymmetry between firms and providers of funds might be very large. As to the auditing firm variable, it could be considered as a proxy for high contractual costs in the audited company. Since firms audited by the Big Six audit firms were normally larger and had more agency costs than other companies, they will disclose more information. On the other hand, Big Six audit firms may encourage their clients to provide comprehensive or high quality information in order to increase their own reputation. He also found that legislation appeared to produce a strong increase in disclosure, even before being compulsory.

3.4 Studies on Disclosure of Information in Developing Countries

The issue of corporate disclosure has received considerable attention by accounting researchers in the developed countries as evidenced from the various research studies being discussed in the previous section. However, very few studies have been done regarding the level and quality of information disclosure by companies in the developing nations. This section provides a brief review of the important studies.

Singhvi (1967 and 1968) pioneered the study on corporate disclosure in the third world countries by focusing on India. He chose 45 Indian companies as one of his sample to be paired with the other sample of 155 US companies in order to compare the level of corporate disclosure between the two countries. An index of disclosure comprising 38 information item was constructed to measure the extent of disclosure by both samples of companies. The result of the US part was reported in the previous chapter under Singhvi (1967) and Singhvi and Desai (1971). He used six corporate attributes to examine their possible influence on disclosure level. He found that for both samples, four variables revealed significant influence namely asset size, number of shareholders, rate of return and earnings margin. Two further variables only influenced the US sample - listing status and auditor size; whereas for the Indian sample another variable, type of management did exert significant influence on disclosure level. In another study, Singhvi (1968) examined specifically the disclosure level in annual reports of 45 Indian companies using the same corporate attributes. He found that companies which are smaller in size (in terms of total assets and number of shareholders), low profitability (as measured by rate of return and earnings margin) and managed by Indian managers have low level of disclosure in their annual reports.

Singh (1983) reported the extent of 'public interest reporting' in corporate annual reports of Indian companies, by evaluating the quality of disclosure of financial and non-financial information. Firstly, he examined the level of social reporting on 40 public sector companies for 1972-1973 using a weighted index of 35 items. Secondly, he analysed the level of disclosure of marketing information of 40 public sector and 45 private sector companies respectively for the years 1976-1977 using an index of 50 items. Lastly he measured the extent of environmental disclosure in 12 public sector and 18 private sector companies in 1977-1978. Companies were ranked on the basis of disclosure scores and possible association between some corporate characteristics and disclosure scores were examined. He found significant association between corporate size, profitability and the extent of disclosure, while age and industry did not provide any significant relationship.

Chow and Wong-Boren (1987) investigated the influence of three corporate attributes on the level of voluntary disclosure by 52 Mexican manufacturing firms. The disclosure levels were determined by classifying the index of 24 voluntary items into weighted and unweighted indexes. For the weighted index, the mean scores ranked by a perception survey of 63 loan officers were used as the weights. The variables used to analyse the disclosure level were firm size (measured by the market value of equity plus the book value of debt), financial leverage (computed by dividing book value of debt by 'size'), and proportion of assets in place (measures by the book value of debt divided by total assets). They found that the extent of voluntary disclosure increased with firm size, but no significant effects due to financial leverage or assets in place were observed.

El-Issa (1988) examined whether investors in Jordan were using corporate annual reports in their investment decision, and to what extent they found such reports to be useful. Thirty-one items of information were developed and questionnaires were sent to three groups of users namely company officers, investors and others (government official, auditors and officers in the Amman financial market). He found that the degree of consensus among the three groups was relatively low. The highest degree of consensus was 33% and the lowest was 2%. The top three items that were perceived as important to the users were 'comments, footnotes and explanation', 'information on management' and 'statement of sources and application of funds'.

Tay (1989) described, discussed and compared the reporting environment, reporting requirements and practices in the UK, Netherlands, Malaysia, Singapore and Thailand. Quality and comparability of corporate financial reporting were examined in terms of disclosure of information and harmony of reporting practices. These two variables were measured for samples of companies from the five countries, using indices. A summary index was also used to indicate the proportion of actual to possible disclosure levels in the samples. The results indicated that, except for disclosure in Thailand, there were few significant differences in the quality and comparability of corporate financial reporting among the five countries studied. There was only very limited evidence that compliance was higher for legal requirements than for professional requirements. Instead, the most significant differences in comparability levels appeared to be related to different accounting areas. The results also indicated that, on average, national and international comparability of corporate financial reporting was not higher than 78%, and could be as low as 2%. This appeared to be due more to inadequate disclosure than the use of different accounting methods. Areas of particularly low comparability were lessee accounting, accounting for stock, and accounting for intangibles and research and development expenditure.

Abdelsalam (1990) carried out a study to examine Saudi investors' view on the importance of financial statements and several sections/items in the annual report, and their main sources of information when making investment decisions. Mail questionnaires were used on a random sample of 400 Saudi investors. As to sources of information, financial reports were ranked in the top place followed by newspaper and personal expectation or judgement in the second and third place, respectively. 78.4% of the respondents also considered the profit and loss account as the most important section, followed by balance sheet and statement of changes in financial position. Respondents were also asked to rate the importance of nine items in the annual reports using a five-point scale. He discovered that the top three very important items were the future of the company, the directors, and the expected dividend per share; whereas the least important items were liquidity of the company and accounting policies. However, due to the limited number of items included in the questionnaire, it was difficult to compare the results with previous studies.

Tai et al. (1990) examined the association between a company's non-compliance with mandatory disclosure requirements in Hong Kong and three corporate characteristics. Using a sample of 76 listed companies and 10 broad items of disclosure, he found that large and small firms have fewer cases of non-compliance than medium-sized firms. No significant association between industry, auditor size and non-compliance was found although there were 44 percent and 33 percent respectively of all departures occurred in one sector and in one category of auditing company.

Pradhan (1990) examined the disclosure level of 23 items in the annual reports of 102 Indian companies for the period 1981 to 1985. By using a weighted index, he found a positive correlation between size (using sales and total assets) and disclosure score, negative correlation between EPS and disclosure score, and an overall improvement in disclosure levels during the period. Khandewal (1991) conducted a study on 17 public enterprises in India using a disclosure index of 32 items and found that disclosure levels did not vary significantly between years but they varied significantly across firms.

Abayo and Roberts (1993) examined the disclosure levels of 52 non-financial companies in Tanzania using 132 items comprising of both mandatory and voluntary items. Four corporate characteristics were used to see if they had any impact on disclosure levels. He found a weak relationship between voluntary disclosure levels and the employment of accountants (10% level). The other three variables - firm size (sales), industry sector and share ownership did not reveal any significant results.

Ahmed and Nicholls (1994) examined the influence of selected company characteristics on compliance with mandatory disclosure requirements in Bangladesh. Sixty-three annual reports of non-financial companies listed on the DSE were selected and the extent of disclosure was measured using an unweighted index of 94 mandatory disclosure items. Six explanatory variables were used in the multiple regression model: two measures of firm size (total assets and sales), leverage (measured by total debt), multinational company influence, qualification of the principal accounting officer and the size of the company's auditor. The results showed that subsidiaries of multinational companies and large audit firms had a significant positive impact on the level of disclosure compliance. The qualification of accountants revealed a weak relationship with disclosure scores which was significant only at the 10% level.

Abu-Nassar and Rutherford (1996) reported the way in which users of external corporate reports viewed those reports in Jordan. Five user groups were randomly sampled consisting of individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics. The respondents were asked to rate the annual report based on a five-point scale in terms of its usage, readability, understandability, relevance and reliability. In terms of usage of annual reports, most users appeared to depend on those reports for their decision-making to at least a moderate extent. Bank loan officers made most use of the reports whereas individual shareholders made relatively low use of such reports, indicating the gap between the two groups in terms of their accounting background and experience. Out of eight sections in the annual reports, the income statement and balance sheet received the most attention from all the five groups. However, there were four sections which received little attention by individual shareholders: the balance sheet, the income statement, the director's report and the statistical summary, reflecting the difficulty they faced in understanding accounting technical terms. In terms of understanding, the least difficult section was the auditor's report, while the most difficult section was the statement of accounting policies. In terms of relevance and reliability of annual reports, the mean overall values for relevance were higher than those for reliability for all eight sections. The respondents also regarded annual reports as their primary source of information followed by visits to companies and communication with management.

Apart from the aforementioned studies, three studies which used similar approach in measuring the levels of corporate disclosure in developing countries will be reviewed in this section. The first is the study by Wallace (1987, 1988a, 1988b) on Nigeria. The second study was carried out by Karim (1995) on Bangladesh. The studies by Wallace and Karim are chosen because their approach are relatively similar to the current study in terms of using annual reports and questionnaire as the main methods of study, using relatively similar number of items of information for measuring disclosure scores, and employing relatively similar explanatory variables in explaining the variability in disclosure scores of companies.

Wallace (1987 and 1988b) studied both user preferences for particular items of information and the extent of disclosure by Nigerian companies. In the first part of his study, he examined the perceived needs of six user groups in Nigeria and compared these user needs with the needs of the IASC's board members who represent the preparers of International Accounting Standards. A list of information items totalling 102 items was developed consisting both of mandatory and voluntary items. A questionnaire containing the 102 items was mailed to 1200 users comprising of accountants, financial analysts, civil servants, managers, investors, and other professional groups. The respondents were required to rate the items according to their perceived importance using a five-point Likert scale. He found a weak consensus (homogeneity) between the accountant user-group and each of the other five user groups (excluding financial analysts) with consensus percentage ranging from 49% to 71%. The degree of agreement between accountants and financial analysts was quite high (84%). There was also a high degree of consensus between the non-accountant user groups: civil servants and financial analysts (92%), civil servants and professional corporate managers (92%), financial analysts and managers (93%) managers and investors (96%) and other professionals and investors (96%). To provide the basis for international comparison, the same questionnaire was administered on 25 board members of the IASC. The Mann-Whitney non-parametric test revealed the present of consensus on 59 out of the 102 items, representing a degree of homogeneity of 58% between the preparers of IAS and user groups in Nigeria. The degree of homogeneity further increased to 67% or for 69 out of 102 items if the preparers were to be compared with the accountant group.

In order to measure the level of disclosure, he developed a list of information items comprising both mandatory and voluntary disclosure items. He expanded the number of items used in the questionnaire from 102 items to 185 items to form the maximum number of possible disclosure items. Forty-seven out of 94 companies listed on the Nigerian Stock Exchange were selected. He used the unweighted disclosure index to compute the disclosure score. The results showed that all the companies disclosed 12 items of information of which 4 are voluntary items, while none of them disclosed 26 items of information of which 10 were mandatory items, leaving 147 items of information which were disclosed at varying level among the companies. The disclosure scores were also categorised into seven types of information namely, balance sheet, profit and loss account, other financial statements, projections, statistical data, valuation methods, social reporting, and historical information. The disclosure scores were also matched with the rank scores given by the respondents in order to measure the level of agreement between what the company disclosed and what the users required.

In measuring the disclosure scores, two disclosure indexes were generated: the overall disclosure index (ODI) and the statutory disclosure index (SDI). The SDI measured the disclosure items statutorily required in Nigeria while the ODI covered both statutory and voluntary disclosure items. He then examined the impact of various corporate characteristics on the extent of disclosure by employing eight explanatory variables - total assets, sales, number of shareholders, multinational relationship, rate of return, liquidity, type of management, and type of business. He found a positive association between the type of management influence and the extent of disclosure for statutory items and a positive influence of asset size on overall disclosure score. The rest of the other variables did not reveal any significant relationships. However, the R-squares were very low in both cases: 0.113 and 0.087 respectively which show that only 11% and 9% of the variability in the disclosure scores for statutory and overall items could be explained by type of management influence and asset size respectively. One of the inconsistencies in his study was that the variable 'type of audit firm' which was hypothesised to be one of the variables that could influence disclosure level, was not included in the regression analysis and no explanation was given for dropping the variable.

A second study on disclosure was done by Karim (1995) in Bangladesh. The first part of the study involved the distribution of questionnaires to 650 respondents comprising of six user groups: bankers, accountants, stockbrokers, academician, tax officers and financial analysts. The questionnaire deals with the importance attached by users to 113 items of information normally appearing in annual reports of Bangladeshi companies. Respondents were asked to rate each item on a five-point-scale depending on their view of the importance of the items. A total of 289 responses were received (44% response rate) and he found that significant differences did exist among users for 94 out of 113 items, suggesting that all respondents had significantly different perceptions about the importance of 94 items in the annual reports. Using two-groups comparison, he found that bankers and academicians disagreed on only 11 items. On the other extreme, bankers and tax officers had the largest number of significantly different perceptions, that is, on 74 items of information.

The second part of the study involved the measuring of disclosure levels of information in selected Bangladeshi companies. Annual reports were obtained from 161 randomly sampled companies comprising of 122 listed companies and 39 unlisted companies. He developed a disclosure index of 113 items (the same items used in the questionnaire) comprising both mandatory (22 items) and voluntary items (91). The disclosure scores were then categorised into two samples of companies: whole sample of companies, and non-financial companies. He found that the average disclosure level in Bangladesh was poor. The overall mean disclosure scores for the unweighted and weighted indexes were only 39.91 and 103.32 respectively. He also found that 72% of the statutory disclosure requirements was observed by the sample companies. On the other hand, an average of only 26% of the 91 voluntary items was disclosed by the companies. He then examined the influence of various corporate characteristics on the extent of disclosure. The explanatory variables used were active trading, size (measured by sales), type of audit firm, government ownership, multinationality, profitability, language of annual report, accounting year end, multiple language in annual report, and employment of qualified accountant for both samples; financial/non-financial sector for the whole sample; and leverage for non-financial companies. Using multiple regression analysis, he found that the variables active trading, size (sales), type of audit firm, government ownership, multinationality, profitability, and employment of qualified accountant had significant influence on the disclosure scores for both samples. The variable financial/non-financial sector was also significant in explaining the variability in the disclosure scores for the whole sample of companies. In addition, the variable 'multiple language' used in annual report also revealed significant relationship with disclosure scores for the non-financial companies. On the other hand, the variables 'language of annual report' and 'accounting year end' did not reveal any significant relationship with disclosure scores for both samples. Furthermore, the variable 'leverage' used for non-financial companies, and multiple language in annual report for 'all companies' sample also revealed no significant influence on disclosure scores.

There are some weaknesses found in Karim's study. Firstly, in scoring the items, no explanation is given regarding the treatment of non-relevant items to a particular company. Since the number of items is quite large (113 items), it is highly unlikely that all the items will be relevant to all types of companies. Hence, to attach a score of 0 for item that is not relevant to a particular company would not provide a true picture of the disclosure level of that company. As such it not surprising to see that the disclosure scores of the companies in both samples were relatively low. Secondly, the items used in the study is not categorised into mandatory and voluntary items, according to their specific types of information. As such, it is difficult to get a clear picture of what items of information do companies in Bangladesh disclose more in annual reports compared to other information items.

In addition to the above studies, the following paragraphs review five related studies regarding financial reporting and corporate disclosure practises in the Malaysian context (Ismail, 1983; Ahmad, 1988; Tan, 1990; Hossein et al., 1994; and Omar and Abu Bakar, 1995).

Ismail (1983) conducted a study using a questionnaire survey on the opinions of accountants regarding the importance of 114 items that may appear in corporate annual reports. A total of 100 accountants were randomly selected from those working in seven different business sectors. Respondents were asked to rate the items according to a 5-point Likert scale from 1 (very unimportant) to 5 (very important). Using mean score and coefficient of variation, he found that 10 items were considered 'very important', 42 items as 'moderately important', 47 items as 'less important', 12 items as 'neutral' and 3 items regarded as 'very unimportant'. In other words, 52 items (45.6%) belong in the category 'moderate to very important' items. Out of that, 26 items belong to profit and loss account and the remaining items belong to the balance sheet items. The three unimportant items were related to pension, donations to charity or political bodies, and accounting methods for advertising. His overall conclusion was that the items considered important were items that are traditionally disclosed in financial statements. It implies that the respondents (accountants) were very rigid in their adherence to conventions. It also indicated that the accountants have not been exposed to or were not able to appreciate the importance of items that could be disclosed (and were being disclosed in other countries) for the benefit of users. His study is already 15 years old and it is worthwhile to look at the current attitude of the accountants' group whether they still demonstrate the same type of mentality.

Ahmad (1988) carried out a study with the objectives to (a) examine the role of the company annual reports in investment analysis in Malaysia, and (b) evaluate the importance of the annual reports as a source of information for analysts to make investment decisions. The study was divided into two parts. The first part was concerned with evaluating the disclosure practises by companies in Malaysia. To achieve this, annual reports from a sample of 44 listed companies were surveyed and analysed to see their degree of compliance with 16 International Accounting Standards. The results revealed instances of companies not complying with the IAS adopted by the accounting profession in Malaysia. The second part of the study involved the use of a questionnaire to survey the opinions of investment analysts regarding the importance of corporate annual reports as a source of information for investment analysis. Out of ten sources of information, he found that the investment analysts ranked company annual reports as the most important source of information for making investment decision, followed by interim reports and prospectuses. The analysts also made considerable use of the annual reports for investment analysis. On the other hand, the two sources of information ranked in the last two places were newspapers and business magazines, and tips and rumours. Furthermore, twelve parts of the annual report were also included in the questionnaire and respondents were asked to rate them using a five-point scale. The results showed that the three most important parts of annual reports to the analysts were balance sheet, profit and loss account, and notes the accounts. The three least important parts were the auditor's report, profiles of board of directors, and profiles of the senior management staffs. In this study, he did not examine the variables that could explain the degree of compliance or non-compliance by companies with disclosure requirements. Also, only 12 parts or sections of the annual reports were surveyed. He did not compile a list of information items that could be used to measure the degree of disclosure or that could be used to examine the degree of their importance by the investment analysts.

Tan et al. (1990) conducted a study on the adequacy of corporate reporting practices in Malaysia and relates the extent of voluntary disclosure to two corporate characteristics: size of corporation and type of audit firm. The sample companies consist of 43 listed corporations in the KLSE. They also examine external users desire for selected voluntary items of information and the expectation gap between users' desire for such items and the actual information disclosure by firms. Twenty-five voluntary items were included in their questionnaire and the samples of users (made up of financial analysts working in 11 merchant banks and three government investment agencies) were asked to rate the items on a 5-point Likert scale. The number of questionnaires distributed was not stated but they received 35 responses. They found that out of the 25 items, 10 were considered as very important (mean score of 4.0 and above), 13 as moderately important (mean score between 3.0 to 4.0) and 2 as slightly important (mean score between 2.0 to 3.0). The top three rankings in the list were 'future economic outlook of company', 'future economic outlook of industry' and 'profit forecast for the next year'. The other items ranked in the first top ten items were as follows in terms of their ordered preference: historical summary of operating data; schedule of interest and principal due on long-term debt, statement of dividend policy, share of market in major product areas, statement of company's objective, breakdown of sales by customer classes, and information on planned capital expenditure.

In examining disclosure practices by firms, the mean scores provided by the financial analysts were assigned to the sampled annual reports. Scores of 0, 0.5 or 1 were given for non-disclosure, partial disclosure and full disclosure respectively. The disclosure index was computed by dividing the actual score with the maximum scores. This measure was used to examine the gap between actual and desired disclosure. They found that out of the 25 items, only 12 were disclosed by or commented upon in the annual reports while 13 items were not disclosed by any company. Of the 13 items, 4 items were ranked in the first top ten items by the respondents. The other 6 items ranked in the first top ten items were disclosed by only 4.5% to 26% of the sampled companies (except for historical summary of operating data which was disclosed by more than 56% of companies). Three items were disclosed by more than 40% of companies; four items were disclosed by 10%-30% of companies; and four items were disclosed by less than 10% of companies. In examining the association between disclosure practices and corporate characteristics, they found that voluntary disclosure was positively associated with asset size ($r = 0.32$) and market capitalisation ($r = 0.36$). However there was no significant difference in disclosure practises between companies audited by the 'Big-8' and 'Non Big-8' audit firms. They concluded that the low incidence of voluntary disclosure by Malaysian companies implies that the accounting profession in Malaysia is basically practising stewardship reporting where mere compliance with minimum requirements of the law is the norm.

Hossain et al. (1994) examined the factors that influence the level of voluntary disclosure by Malaysian companies. Sixty-seven publicly traded companies listed on the Kuala Lumpur Stock Exchange were randomly selected from 279 non-financial companies, which represent 24% of the population of Malaysian-based companies. Twelve of the 67 companies were also listed on the London Stock Exchange. Annual reports of 1991 were obtained from the selected companies. The voluntary disclosure items developed consisted of 78 items and disclosure index was captured using an unweighted score. The resulting scores showed that the firms have a relatively low level of disclosure of voluntary information. The highest score was only 35% (obtained by only two companies) and the lowest score was 4% (obtained by three companies). If 17.5% is taken as the cut-off point to differentiate between high-score and low-score firms, then 42 firms (63%) belong to the low-score firms.

Six firm-specific characteristics were then used as explanatory variables to test their influence on voluntary disclosure scores. The explanatory variables are firm size (measured by market capitalisation), ownership structure (measured as the number of shares held by the top 10 shareholders as a proportion of the total number of shares issued), leverage (computed by dividing long-term debt by owners' equity), proportion of assets-in-place (computed by dividing net value of fixed assets by total assets), auditor and listing status. Using both univariate and multivariate analyses, they found that firm size, ownership structure and foreign listing status were statistically related to the level of information voluntarily disclosed by Malaysian companies in their annual reports. However, the relationship between listing status and voluntary disclosure was only significant at the 10% level. The authors related the result with agency theory which stated that voluntary disclosure helped to overcome agency costs as the firm grew in size, and shareholdings became more dispersed. Also, companies listed overseas that were used to meeting a multiplicity of international accounting rules and regulations were likely to disclose more information than companies listed domestically. However, the other three variables namely, leverage, assets-in-place and size of audit firm did not appear to be important factors in explaining voluntary disclosure by firms.

Omar and Abu Bakar (1995) conducted a relatively similar study to Tan et al. (1990) with the objectives to (a) identify users preference of items of information in annual reports, (b) examine the expectation gap between what users desire and what companies actually disclose in annual reports, (c) seek reasons why users need financial disclosure and why companies sometime are reluctant to provide this information. Seventy questionnaires were sent to six different user groups asking them to rate the importance of 35 items (15 mandatory items and 20 voluntary items) of information that may appear in the annual reports using a 5-point Likert scale. Fifty companies from seven different industries were randomly selected to examine their disclosure practices. Lastly, eight separate interviews were held - six with users of annual reports, and two with preparers of annual reports. The users were categorised into two - direct users (investors, employees, creditors and tax authority) and indirect users (analyst advisors, government officers, and the public). They found that for statutory information, the only difference between the two groups was in the area of accounting policies. Whilst the direct users found it as extremely important, the indirect users considered it a matter of routine. For the voluntary items, three items appeared to be different between the two user groups, namely detailed profit and loss account, share of market in major product, and value added statement. The indirect users gave more importance on the first two items than the latter item compared to the direct user group. The level of importance placed on other items was very much similar for both groups.

In examining the disclosure practises by firms, 50 annual reports from the 50 listed companies were collected. Rather than analysing on all 35 items of disclosure, they only focused on the disclosure of the 20 voluntary items. They found that seven items were disclosed by more than 50% of companies, seven items were disclosed by 10%-30% of companies, four items were disclosed by less than 10% of the companies, and two items were not disclosed at all by the companies. Overall, they found that the expectation gap was significant for the majority of the 20 voluntary items. They concluded that companies were only willing to disclose information that was not commercially sensitive. Sensitive items such as 'profit forecast' and 'cash flow projections' which were on the high priority list of users, were not disclosed by any companies in the sample. With regard to users' need for information, they found that the two most common reasons for disclosure were for better decision making and for evaluating managerial performance. On the other hand, the reasons for firms not to disclose certain information items were fear of loosing competitive edge against other companies, fear that the information might mislead investors, mere reluctance to change, pre-conceived belief that users could not differentiate and appreciate 'extra' information, costly and time consuming.

3.5 Summary and Conclusion

This chapter has explored the various research studies on corporate disclosure of accounting information in annual reports. Studies done in both developed and developing countries were reviewed which basically covered three main types of information: aggregate disclosure items, mandatory disclosure items, and voluntary disclosure items. All the studies either examined (a) the level of disclosure of selected items of information, or (b) the perceived needs of user(s) regarding the importance of items of information that may appear in the annual reports, and some researchers covered both aspects in their studies. Some studies also examine corporate disclosure pattern in just one country, while some others employed more than two countries in order to provide comparison in disclosure levels by companies. The number of companies used as samples to examine disclosure level also vary, from as low as 35 to as high as 527 companies. The same applies to the number of disclosure items used to measure disclosure score, ranging from as low as 10 items to as high as 289 items. The number of explanatory variables used to examine their possible influence on disclosure levels also varies. At one extreme, researchers only used one type of variable, while at the other extreme researchers employed 11 variables.

The research studies that have included Malaysian companies are very few. The studies which relate specifically to corporate disclosure are only five (Ismail, 1983; Ahmad, 1988; Tan, 1990; and Hossain, 1994). All the studies (except Ismail and Hossain) employed very few items of information to determine disclosure levels by Malaysian companies. None of the studies have employed the use of annual reports in different years to examine the trend in disclosure levels by Malaysian companies.

The survey reported in this thesis tries to fill this gap or resolve some of the inadequacies in an attempt to assess the extent of disclosure in Malaysian corporate annual reports and also to examine the possible factors that could influence the level of disclosure of information in the annual report. In addition, two user groups were also surveyed to examine their perceived importance of selected items of information that may appear in the annual reports for decision making purposes.

Table 3.1: Previous Studies on the Perceived Importance of Information Items by Different User Groups

Researcher(s) & Year	Country Studied	No of Items	User Group(s)	Sample Size	Response Rate (%)
1. Baker & Haslem (1973)	U.S.A	33	Private Investors	1623	52.4
2. Buzby (1974b)	U.S.A.	38	Financial Analysts	500	26.2
3. Chandra (1974)	U.S.A.	58	Accountants and Financial Analysts	600	53
(1975)	U.S.A.	39	Financial Analysts	400	45
4. Benjamin & Stanga (1977)	U.S.A.	79	Financial Analysts Bank Loan Officers	600 600	34.7 34.5
5. Chenhall & Juchau (1977)	Australia	37	Private Investors	1025	46.4
6. Baker et al. (1977)	U.S.A. & Australia	34	Private Investors	1623 1025	52.4 46.4
7. Chandra & Greenball (1977)	U.S.A.	58	Financial Executives Financial Analysts.	400 400	39 45
8. Belkaoui et al. (1977)	Canada, U.S.A. and European country	29	Financial Analysts	700	45.71
9. Chang & Most (1977)	U.S.A & New Zealand	12	Individual Investors	1034 300	21.5 28.3
10. Belkaoui and Kahl (1978)	Canada	30	Accountants Financial Analysts	200 200	35.5 41.7
11. Firth (1978)	U.K.	75	Financial Directors Auditors Financial Analysts Bank Loan Officers	250 250 120 130	36 46 38.3 39.2
12. Firth (1979a)	U.K.	48	Financial Analysts	120	38.3
13. Anderson (1981)	Australia	9	Institutional Investors	300	63.08
14. Chang & Most (1981), Chang et al.(1983)	U.S.A., U.K. & New Zealand	12	Individual Investors Institutional Investors Financial Analysts	4000 900 900	26.3 34.2 33.4
15. McNally et al. (1982)	New Zealand	41	Financial Editors Stock Exchange Members	12 175	75 42.28
16. Courtis (1982)	Australia	7	Private Shareholders	4400	42
17. Stanga & Tiller (1983)	U.S.A.	40	Bank Loan Officers	400	57.5
18. Ismail (1983)	Malaysia	114	Accountants	100	43
19. Robbins (1984)	U.S.A.	36	Bond Analysts Finance Officers	200 200	38.5 42
20. McCaslin & Stanga (1986)	U.S.A.	30	Financial Analysts Chief Loan Officers	300 300	19.67 37.67
21. Firer & Meth (1986)	South Africa	49	Investment Analysts Financial Directors	395 200	35 24

Table 3.1: Previous Studies on the Perceived Importance of Information Items by Different User Groups (Ctd.)

22. Wallace (1987 & 1988b)	Nigeria	102	Accountants Financial Analysts Civil servants Managers Investors Other Professionals	300 200 100 200 200 200	49.3 29 49 41 44 22.5
23. Ahmad (1988)	Malaysia	12	Financial analysts	377	35
24. El-Issa (1988)	Jordan	31	Company Officers Individual Investors Other Officers	15 35 20	73 86 75
25. Abdelsalam (1990)	Saudi Arabia	9	Private Investors	400	57.7
26. Sin and Hye (1990)	Singapore	25	Investment and Credit Analysts	300	24
27. Tan et al. (1990)	Malaysia	25	Financial Analysts	na	na
28. Vergoossen (1993)	Netherlands	49	Investment Analysts	506	43.0
29. Karim (1995)	Bangladesh	113	Bankers Accountants Stockbrokers Academician Tax Officers Financial Analysts	150 150 100 100 100 50	60.67 47.33 41 26 38 44
30. Omar and Abu-Bakar (1995)	Malaysia	35	Six user groups	70	37.14
31. Abu-Nassar & Rutherford (1995)	Jordan	8	Individual Investors Institutional Investors Bank Loan Officers Stockbrokers Academics	200 100 100 27 36	38 44 61 74.07 63.89
32. Rezaee and Hosseini (1996)	U.S.A	9	Controllers Financial Executives Financial Analysts CPA Partners Academician	100 100 100 100 100	45 55 25 27 37

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Cerf (1961), USA	527	31(A)	group means, ordinary least-square (OLS) regression analysis	Asset size, number of shareholders, rate of return	Listing status
Singhvi (1967, 1968) India & USA	155 (US) 45 (Indian)	34(A)	mean scores, chi-square test and multiple regression analysis	Asset size, number of shareholders, rate of return, earnings margin (both samples); listing status and auditor size (US sample) and type of management (Indian sample)	Financial position
Singhvi and Desai (1971, 1972) USA	155	34 (A)	Mean scores, chi-square test and step-wise regression analysis	All six variables as in Singhvi (1967)	
Buzby (1974b& 1975b) USA	88	39 (A)	Wilcoxon matched-pairs signed-ranks test and Kendall's rank correlation coefficient	Asset size	Listing status
Choi (1973a, 1973b & 1974) 11 countries	36	36 (A)	Wilcoxon matched-pairs signed-ranks test	Entry to the Eurobond market	None

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Barrett (1975, 1976 & 1977) 7 countries	103	17 (A)	Country-wise and year-wise mean scores, degree of consolidation, accounting for associated companies and comprehensiveness of net income figure were examined	No use of corporate attributes	No use of corporate attributes
Stanga (1976) USA	80	79 (A)	Replicated Buzby's method	Industry type	Firm size (sales)
Belkaoui & Kahl (1978) Canada	200	30 (A)	Kendall's rank correlation coefficient and ANOVA	Firm size (assets & sales), liquidity, type of industry, profitability and capitalisation ratio	None
Courtis (1979) New Zealand	126	38 (A)	Chi-square test, t-test	Cost and time spent on annual report preparation, no. of pages in annual report, seven measures of size, five profitability measures, gearing, listing status, security price fluctuations, industry and corporate longevity	Audit firm size and timeliness of reporting

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Spero (1979) UK, France, Sweden	20 from each country	275 (UK & France) 289 (Sweden) (A)	7 weighting methods, Wilcoxon matched-pairs signed-ranks test, Spearman's and Kendall's rank correlation coefficients, and OLS regression analysis	Capital needs (for French companies in 1964; UK in 1964 and 1972; Sweden in 1964 and 1967), mixed results (for French companies in 1967 & 1970; UK in 1967) and weak results for Sweden companies in 1970 and 1972	Capital needs (for French companies in 1972; UK in 1970), asset size, foreign direct investment, profitability and stock market performance
Firth (1979b) UK	180	48 (V)	t-test, Wilcoxon matched-pairs signed-ranks test, Kendall's rank correlation coefficient	Firm size (sales and capital employed) and listing status	Size of audit firm
Firth (1980) UK	278	48 (V)	Mean weighted scores, unweighted scores using matched-pair analysis	Raising new equity and right issues (small firms)	Raising finance on the equity market (large firms)
Kahl & Belkaoui (1981) 18 countries	70	30 (A)	Comparison of disclosure scores, consensus scores and Spearman's rank correlation coefficient	Asset size (10% level)	None

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
McNally et al. (1982) New Zealand	103	41 (V)	Spearman's rank correlation coefficient, Kruskal-Wallis one-way ANOVA, means and simple percentile analysis	Firm size	Rate of return, growth, industry groupings and audit firm size
Chow & Wong-Boren (1987) Mexico	52	24 (V)	Multiple regression analysis	Firm size (market value of equity plus book value of debt)	Leverage and assets-in-place
Wallace (1987, 1988a) Nigeria	47	185 (A)	Mean scores, item-wise disclosure, segregated disclosure and multiple regression analysis	Type of management (statutory disclosure index-SDI) and asset size (overall disclosure index-ODI)	liquidity, profitability, sales, number of shareholders, parent country, type of business, assets (SDI) and type of management (ODI)
Ahmad (1988) Malaysia	44	16 (M)	t-test, chi-square test, and percentile analysis	No variables used	No variables used
Lutfi (1989) UK	122	53 (V)	Contingency table based tests, Mann-Whitney test, Kruskal-Wallis test, and Spearman's rank order correlation	Firm size, foreign turnover, gearing, existence of share option scheme, percentage of directors' shareholdings, industrial sector, and profitability	Audit firm, number of non-executives on Board of Directors, number of substantial shareholders, tax status, and diversification
Parry (1989) Bangladesh	42	30 (A)	Mean scores, regression analysis, Kruskal-Wallis and Mann-Whitney tests	Firm size, ownership structure	Number of qualified accountants

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Tonkin (1989) 28 countries	200	75 reporting issues	Financial and non-financial disclosure scores and timeliness; company-wise and country-wise ranking by quality of disclosure, examining factors influencing disclosure by opinion survey	Local national laws, auditors and their professional body	Tax regulators, competitors, EC directives, the SEC (USA), the IASC, the OECD, and the UNCTC
Cooke (1989a, 1989b) Sweden	90	224 (A)	Multiple regression analysis	Listing status, multiple listing, firm size (assets, sales and number of shareholders)	None
Parry and Groves (1990) Bangladesh	42	30 (A)	Mean scores, Mann-Whitney tests	None	Employment of qualified accountants
Tai et al. (1990) Hong Kong	76	10 (M)	Average non-compliance rate and Friedman two-way ANOVA	Company size	Industry sector and size of audit firm
Tan et al. (1990) Malaysia	43	25 (V)	Mean score, Spearman's rank correlation, and Mann-Whitney-U test	Asset size and market capitalisation	Type of audit firm
Cooke (1991) Japan	48	106 (V)	Multiple regression analysis	Listing status, firm size, type of industry	None
Williams (1992) 13 countries	290	43 (A)	Multiple regression analysis	Company specific variables (Co): Firm size and profitability. Country specific variables (Cy): user, culture, government involvement, standard-setting process	Co: debt to total assets Cy: wealth

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Cooke (1992) Japan	35	165 (A)	Multiple regression analysis	Multiple listing, composite size variable, type of industry	None
Cooke (1993) Japan	48	195 (A)	t-test, Mann-Whitney U test	Disclosure in Commercial Code accounts and Securities and Exchange Law accounts, listing status (SEL) and multiple listing (CC)	Listing status (CC)
Abayo and Roberts (1993) Tanzania	52	132 (A)	Mann-Whitney test and chi-square	None	Industry sector, size (turnover), ownership structure, employment of qualified accountant(s)
Malone et al. (1993) USA	125	129 (A)	Step-wise regression analysis	listing status, leverage, no. of shareholders	firm size, audit firm size, earnings margin, proportion of outside directors, rate of return on net worth, diversified industry, presence of foreign operation
Ahmed & Nicholls (1994) Bangladesh	63	94 (M)	Multiple regression analysis and compliance rate	Multinationality, audit firm size, qualification of accounting officer (10% level)	Firm size (total assets and sales)
Hossain et. al (1994) Malaysia	67	80 (V)	Mean scores, t-test, Pearson's correlation, Mann-Whitney U test, multiple regression analysis	Firm size, ownership structure, foreign listing status	leverage, assets-in-place, size of audit firm
Wallace et. al (1994) Spain	50	16 (M)	Mean scores, Pearson's correlation, multiple regression analysis	Firm size (assets), liquidity, listing status	Leverage, earnings return, profit margin, industry type, auditor type

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Hossain et.al (1995) New Zealand	55	95 (V)	Mean scores, Pearson's correlation, multiple regression analysis	Firm size, foreign listing status, leverage	assets-in-place, type of auditor
Hossain and Adams (1995) Australia	83	80 (V)	Multiple regression analysis	Firm size	Leverage, assets-in-place, type of audit firm, foreign listing status
Karim (1995) Bangladesh	161	113 (A)	Mean scores, Pearson's correlation, multiple regression analysis	Active trading, size (sales), type of audit firm, government ownership, multinationality, profitability, employment of qualified accountant for both all-firms (AF) and non-financial firms (NF) samples; financial/non-financial sector for AF sample, and multiple languages for NF sample	Language of annual report and year end for both samples; leverage for NF sample, and multiple language for AF sample
Wallace and Naser (1995) Hong Kong	80	30 (M)	t-test, multiple regression analysis	Firm size (assets), scope of business operation and profit margin	location of registered office, earnings return, leverage, liquidity, sales, market capitalisation, proportion of equity owned by outsiders, type of auditor
Gray et al. (1995) USA and UK	180	128 (V)	Analysis of variance	Listing status	None

Table 3.2: Studies on Disclosure Index and Corporate Attributes Associated with Disclosure Scores (Ctd.)

Researcher, year & country	No. of companies	No. of items examined and type of disclosure	Statistical tools used (Type of analysis)	Significant Variables	Insignificant variables
Meek et al. (1995) USA, UK and 3 European countries	226	85 (V)	Mean scores, Multiple regression analysis	Firm size (sales), country/region of origin, listing status, industry	leverage, multinationality, profitability
Gray et al. (1995) USA and UK	180	128 (V)	ANOVA	Listing status	None
Raffournier (1995) Switzerland	161	30 (V)	One-way ANOVA, Multiple regression analysis	size (sales and total assets) and internationality	leverage, profitability, ownership structure, auditor's size, percentage of fixed assets, industry type
Inchausti (1997) Spain	49	50 (A)	Stepwise regression and panel data analyses	Firm size (sales and *total* assets), size of audit firm, stock exchange cross-listing	Profitability, leverage, type of industry, dividend pay-out

A - Aggregate disclosure items; M - Mandatory disclosure items; V - Voluntary disclosure items

CHAPTER FOUR

THE REGULATORY FRAMEWORK OF FINANCIAL REPORTING IN MALAYSIA

4.1 Introduction

This chapter discusses the regulatory environment that affects financial reporting in Malaysia. In Chapter Two (Section 2.4) the general environmental factors that influence accounting and reporting practices in general were examined. The focus of this chapter is on the issue of regulation in general, the role of regulatory bodies and professional organisations involved in the accounting standard setting process and in issuing the relevant disclosure requirements.

The financial reporting regulation in Malaysia is characterised to a large extent by the influence of external as well as internal environmental factors as described in Chapter Two. Of particular interest is the influence of international factors such as colonial history that largely determined the provisions contained in its company law as described later. Several bodies are also involved in the regulation of corporate disclosure comprising of both the government and private sector organisations with the aim to develop a high standard of financial reporting by business enterprises. Other external factors include the role of international inter-governmental bodies and professional accounting organisations that have significant impact on the development of accounting standards in Malaysia. As the government is striving to achieve the Vision 2020 of becoming a developed country, much effort has been made to maintain a sustainable economic growth including a rapid industrialisation and privatisation programme. This would indirectly require a sophisticated financial reporting and adequate disclosure in company annual reports.

The rest of this chapter is organised as follows: Section 4.2 discusses the issue of accounting regulation in general; Section 4.3 briefly describes the historical and economic background of Malaysia; Section 4.4 portrays the role of the relevant regulatory bodies and professional accounting organisations that largely determine the shape of the accounting regulatory structure in Malaysia; Section 4.5 examines the influence of intergovernmental and professional organisations both at the international and regional level on the financial reporting environment in Malaysia; lastly Section 4.6 summarises and concludes the chapter.

4.2 The Regulation of Corporate Financial Reporting

Regulation permeates almost all walks of life. A government introduces acts and statutes on its citizens, affecting their day to day activities ranging from their personal life to business dealings, social and political activities. Private organisations such as political parties, trade unions and consumer associations stipulate the code of conducts in their constitution to govern the behaviour of their members.

Regulation can take in various forms and degrees. It can be negatively oriented by setting forth what cannot be done to deter particular modes of actions on part of the doer. Usually it is followed by threatening statements that any breach of the laws will result to legal action ranging from light penalty to severe punishment. On the other hand, it may be positively oriented to encourage certain types of behaviour. For example, a government may provide special tax incentives scheme for manufacturing companies which agree to produce their products using a certain percentage of local materials.

The objectives of the regulation will thus involve certain elements of desired motives (political, social and economic), subjectivity, and tensions. What appears desirable to some parties may not be so for others. In addition, the notion of justice and equity may be easily stated in theory but may be difficult in practical terms.

From the above scenario, the term ‘regulation’ may include the activities of governments or regulatory bodies established by governments, trade or other associations in the private sector, or loose industrial groups which pursue collusive activities. With regard to accounting, regulation can be defined as the imposition of constraints upon the preparation, content and form of external financial reports by bodies other than the preparers of the reports, or the organisations and individuals for which the reports are prepared (Taylor and Turley, 1986, p.1).

Regarding the form of accounting regulation, there are four broad approaches to be recognised. Firstly is regulation by accounting profession through convention, precedent and training. Secondly is regulation by private sector regulatory institutions (such as the Accounting Standard Committee (ASC) or the relevant Stock Exchange). The third approach involves public sector regulation through governmental bodies (for example, the Securities Commission in Malaysia or the Department of Trade in the UK) who lay down detailed principles, rules and procedures which are enforceable by law. Lastly, a mixed system involving aspects of some or all the above three approaches may be adopted.

Usually the form of regulation widely used is the combination of private, public and professional regulation which goes hand in hand to tackle different issues or problems in financial reporting. The degree of regulation has increased markedly in the past twenty years, particularly in the area of national and international accounting standards. Increased regulation should not be motivated primarily to elicit disclosure *per se* because companies normally provide audited financial statements and other information regarding their activities before the imposition of regulation to do so. However, regulation is necessary because companies seldom provide voluntarily the amount and type of information desired by the various user groups. As information provided by different companies tends to be varied in nature, it will be difficult to make inter-company comparisons even within the same industry. Lastly, access to information is said to be asymmetrical, that is, certain parties have certain privileges in gaining additional information than others. As such, regulation is driven by the need to ensure the quality and comparability of information produced as well as the equal distribution of such information.

The term 'quality' as regard to corporate reporting is quite subjective and qualitative in nature. There are several attributes that can influence the quality of accounting information namely under the broad terms 'relevance' and 'reliability'. Regulation affects the quality of corporate financial reporting in several ways. Firstly, government regulation of corporate disclosure is alleged to increase the credibility of financial statements (a deterrent to misrepresentation and fraud) and also increase public confidence in the capital market (Cooper and Keim, 1983). This means that regulation acts as a deterrent against the production of false and misleading information. Also knowing the fact that there are various user groups having competing economic interests, it is deemed essential that published financial statements should be credible and reliable by all of the user interest groups who may rely upon them. Secondly, regulation also improves the level of disclosure, that is the proper amount of detailed information to be provided in the financial statements. Without regulation, users may not achieve the desired information they are looking for.

In terms of 'comparability', financial analysts have described differences in using accounting methods for preparing financial statements as the most apparent deficiency in financial reporting (Backer, 1970, p. 79). Besides, there have been a strong demand for the development of standard methods that can be used in all cases. Deviations from such methods would be acceptable if disclosure is made as to the reason for such changes, and where applicable, the monetary amount of differences due to such changes. However, such differences cannot be reconciled by such disclosure due to some fundamental differences in applying bases of financial reporting. Increases in comparability do not guarantee that there will be an increase in the quality of reporting. Evidence has shown that companies in the United States (US) disclosed lesser information on segment reporting compared to companies in the United Kingdom (UK), despite greater US regulation in this area (Gray and Radebaugh, 1984).

In terms of distribution of information, all investors should have equal access to financial information about a company whose shares they own or intend to buy. If disclosure of information is left unregulated, market forces would lead to an uneven possession of information among investors (Beaver, W. H., 1989, p.184). Access to corporate reporting may vary for several reasons. Firstly, certain users may have privileged access to additional information than others because of their relationship with a company or company's management staffs. Company management will know better about a company's future plans compared to the ordinary shareholders. Shareholders who have good rapport with the management staffs will be in a better position than the other shareholders. In such circumstances, regulation is deemed necessary to prevent the abuse of confidential information by 'insiders', at the expense of other parties. Secondly, although all shareholders and other interest groups may have received the annual report, not all of them will be able to understand, comprehend and use the information contained therein in the same way. Therefore, regulation aims to ensure that corporate reports are reasonably readable and understandable to the 'average' user groups.

The key variable that will determine the need for and success of both professional and legal regulations is compliance by companies with the reporting requirements that are imposed upon them (Taylor and Turley, 1986, p. 130). However, the authors further added that it is not sufficient to just rely on voluntary compliance. There must be a mechanism to monitor the ways in which companies will abide to such requirements.

Not all countries have such monitoring procedures. As such, compliance with regulations may vary from country to country, or from company to company within the same country, depending upon the authority and enforcement strength vested in the regulatory system and the penalties imposed for non-compliance. However, the normal assumption is that the degree of compliance would be much higher for public listed companies where detailed requirements are laid down compared with unlisted companies. Compliance also connotes a conscious obedience by the preparers of corporate reports with the requirements of various types of regulations. However, compliance may result from the intention to conform to the existing practice. A disclosure may be made, or certain methods are used even when the preparer has no knowledge of the requirements of corporate reporting regulation.

4.3 Historical and Economic Background of Malaysia

4.3.1 Historical Perspective

The term 'Southeast Asia' is presently used by most historians to include the geographical areas bounded by the states of Myanmar, Thailand, Malaysia, Singapore, Brunei, Indonesia, Laos, Cambodia, Vietnam, and the Philippines. Some history scholars also further divided Southeast Asia into two geographical regions: 'mainland' Southeast Asia comprising Myanmar, Thailand, Laos, Cambodia, Vietnam; and 'insular' Southeast Asia to include the countries of Malaysia, Singapore, Brunei, Indonesia, and the Philippines (Sardesai, 1997). Malaysia is a multi-racial country who is a member of the British Commonwealth, the Association of South-East Asian Nations (ASEAN), and the Organisation of Islamic Countries. Malaysia consists of two different physical parts, West Malaysia, formerly known as Malaya or the Malay Peninsula; and East Malaysia comprising of Sarawak and Sabah on the island of Borneo. It has a total area of 329,758 square kilometres and the total population as at December 1996 has reached 20 million.

The importance of trade as a factor was derived from the strategic location of the Southeast Asia region, and with regards to Malay Peninsula or West Malaysia, the Strait of Malacca has become the most popular route from about the seventh century A. D. The city of Malacca was strategically located at the narrowest point of the Strait of Malacca and enabled the city to watch and control maritime traffic. Since it is shielded from the monsoon by the massive island of Sumatera, Malacca provided a safe harbour for ships coming from India or China at the mercy of the prevailing winds. The first foreign influence occurred in the early sixteenth century with the Portuguese conquest of Malacca in 1511. They were interested to participate in the spice trade carried on between Europe and South-East Asia via India. For most of the sixteenth century, the Portuguese effectively dominated the Strait of Malacca and therefore the chief sea route from India to China. They held Malacca for 130 years when in 1641 Malacca was captured by the Dutch whose prime objective was also to establish effective monopoly control over the spice trade.

In the mid-eighteenth century, the British had established themselves in India, and were trading with China. Malaya was considered important to them because the India-China sea-route passed through South-East Asia, and having a naval base in the region could give added advantage of commanding the Bay of Bengal. In addition, the presence of tin, marine and jungle products provided the opportunities for trading between China and India.

The first British base was established in Penang (1786), and within forty years, two other 'Straits Settlements', that is Malacca and Singapore had been acquired. This was done through the Treaty of London in 1824, signed between the British and the Dutch whereby the Dutch ceded Malacca and recognised the British claim to Singapore, while the British agreed not to enter into any treaties with rulers in the islands south of the Straits of Singapore. By the end of nineteenth century, the British have gotten a strong grip on the economic and political interests throughout the Peninsula. British dominion over the Malay Peninsula was established primarily during the period 1874 to 1909. Before 1874, the British had maintained a non-intervention policy in the Malay states. However, tin was the most precious asset of nineteenth-century Malaya. In the third quarter of the century, there was an increased world demand for tin especially in Holland, France and Germany in fulfilling US orders for their military needs of the Civil War. This has stepped up pressures from the Straits merchants on the Colonial Office for intervention in Malaya. In 1874, through political means, the British inaugurated the Resident system in Malaya whereby the rulers of the states agreed to accept a British Resident whose advice must be asked and acted upon in all matters except of religious matters. By 1895, four Malay states had been brought under the Resident system and in that year also the four states were merged into a federation with a Resident-General whose headquarters would be Kuala Lumpur, eventually the capital of modern Malaysia. British advisers were also appointed to each of the other unfederated Malay states. The booming economy also attracted a large number of Chinese and Indians labourers to work in the mines and plantations.

The situation was changed after the Second World War, due to higher cost of administration and the Japanese occupation during 1942-1945, couple with heightened local nationalism had put an end to the colonial power and forcing the British government to grant Malaya its independence in 1957. Malaysia was formed in 1963 with the inclusion of Sarawak and Sabah. However, in 1965, Singapore seceded from Malaysia.

4.3.2 Economic Background

Malaysia is well endowed with natural resources, favourable climatic conditions and with stable socio-economic and political conditions, and the economy has grown by leaps and bounds. The country has prospered through the combination of foreign capital inflow, public sector development policies and programmes and private sector initiatives. Since independence in 1957, the government has placed great importance on basic social infrastructure development and alleviation of poverty. During the late 1950s, Malaysia has been a major producer and exporter of rubber and tin which represent its economic cornerstone. In the early 1960s, the government realised that it could no longer rely solely on rubber and tin to generate employment opportunities and boost future economic growth as the prices of these two commodities are highly sensitive to external fluctuations. Hence, the government had placed great emphasis on diversification of the agricultural sector into other plantation crops and promoting the growth of the manufacturing industry. During the 1960s, the national GDP was averaging around 6-7 percent growth per annum. The agricultural diversification programmes helped in expanding the agricultural sector. As a result, in the early 1970s, Malaysia had begun to produce palm oil and tropical hardwood, while in the late 1970s, cocoa became a major export commodity. Since then, Malaysia was known as the most efficient producer of rubber, oil palm and cocoa in the world.

In the 1970s, Malaysia benefited from the discovery of petroleum and natural gas resources in coincidence with high energy prices resulting from world oil crises. The government then embarked on an ambitious public expansion programme in order to address the economic imbalance problem among the different ethnic groups. This has boosted economic growth, created business opportunities for the indigenous people and widened the size of the public sector. Throughout the 1970s, the private sector also benefited from a period of sustained boom in commodity prices and huge public expenditure. During this period, the economy grew at about 8 percent per annum. However, the large public sector significantly weakened the private sector initiatives and introduced market distortion elements. This weakness became apparent with the burst of world-wide recession in the early 1980s. Between 1980-1984 the economy grew at between 5.9 percent (1982) and 7.8 percent (1984). The severity of the world-wide recession has forced the economy to decline to -1.1 percent in 1985, and then grew at just 1.2 percent a year later (Table 4.1).

To correct the structural imbalance of the economy and to reduce the level of public debt, the public sector began an adjustment programme through the judicious use of fiscal and monetary policies which covered austerity drive, budgetary restraint and privatisation of public corporations. The government also launched an Industrial Master Plan to spearhead economic growth led by the private sector.

Table 4.1 Malaysia - Economic Growth Rates (1982-1998)

Year	GDP Growth Rate (%)
1982	5.9
1983	6.3
1984	7.8
1985	-1.1
1986	1.2
1987	5.4
1988	8.9
1989	9.2
1990	9.7
1991	8.6
1992	7.8
1993	8.3
1994	9.2
1995	9.5
1996	8.2
1997E	8
1998F	7

E-Estimated; F-Forecasted

Source: Malaysian Ministry of Finance, Economic Report 1995/96; and KLSE, 1993.

As a result, the second half of the 1980s was characterised by consolidation in government sector, aggressive privatisation and industrialisation programme and further liberalisation of investment policy. This has paved the way for a period of rapid growth at the end of 1980s and early 1990s. After recovering from the recession in 1987, most of the structural weaknesses previously plaguing the economy had been substantially overcome. In 1987 the economy grew by 5.4 percent and increased to about 9 percent per annum in 1988-89. In 1990, the Prime Minister of Malaysia gave the country a thirty-year mega-strategic plan, called Wawasan (Vision) 2020, for transforming Malaysia by the year 2020 into a fully developed society not only in the economic sense but also in the political, moral, social, and psychological areas. This would have great impact on Malaysia's economic policies, one of which is Malaysia has moved from its 'assembler' status to a leading manufacturer chiefly employing low- and medium-level technologies, providing in the process supply links to multinational corporations and thereby developing technical skills and additional jobs. In 1994 the country has attained full employment and in 1995 demand for labour expanded by 2.8%, exceeding the labour force growth of 2.7%. At the same time, the manufacturing sector, though mostly foreign owned, has been deepened and diversified. It has expanded from being primarily concentrated in electrical and electronic industries, textiles, and rubber products to include chemicals, metals, transport, and machine goods industries. The economy has expanded through an increase in domestic demand as well as energetic exports. The share of manufactures in the country's exports has consequently continued to increase, rising to 82.9% in 1995. In 1990, the real GDP growth was 9.7 percent which was the highest achieved so far. Real GDP growths for 1991, 1992 and 1993 were 8.6 percent, 7.8 percent and 8.3 percent respectively.

Malaysia is also a member of the Association of South East Asian Nation (ASEAN). It was established in 1967 consisting of five members - Malaysia, Indonesia, the Philippines, Singapore and Thailand. Brunei only joined in 1984. Parker (1993) considered Malaysia (together with Thailand and the Philippines) as one of the emerging industrialising economies (or sometimes referred to as the new newly industrialising economies). The ASEAN economies continued to grow by 7.8% in 1995 boosted by world-wide growth, expanding regional and global markets, as well as strong domestic demand. Malaysia continued to enjoy a real GDP growth rate exceeding 9% (1994-9.2% and 1995-9.5%) due to strong performance in the manufacturing, construction and services sector. The rapid growth was achieved against low inflation rate below 4% (3.7%-1994 and 3.4%-1995). Its unemployment rate was less than 3% (2.9%-1994 and 2.8%-1995). Its major economic indicators are shown in Table 4.2.

Its GNP per capita in 1994 was RM8.9 billion in 1994 and rose to RM10 billion in 1995. The manufacturing and the construction sectors continued to record double-digit rates of increase in value-added, while the output of the services sector grew in tandem with the average growth of the economy. Its total export for the first eight months in 1995 totalled RM 117.8 billion, of which electrical and electronic products constitute 51% and other manufactured goods contributed for 25%. Its major destination for exports of electronic components and clothing was the United States, followed by United Kingdom and Singapore.

Table 4.2: Malaysia - Basic Economic Indicators (1994-95)

	1994		1995	
	RM million	% growth	RM million	% growth
NATIONAL PRODUCT:				
GNP in constant 1978 prices	104,000	9.1	113,683	9.3
Consumption expenditure:				
Public	16,372	9.9	17,565	7.3
Private	51,121	7.0	58,135	13.7
Gross fixed capital formation:				
Public	15,754	20.0	18,181	15.4
Private	29,859	20.5	35,566	19.1
Exports of goods and non-factor services	105,455	20.6	5,458	19.0
Imports of goods and non-factor services	108,832	25.1	135,128	24.2
Per capita GNP (at current prices RM)	8,975	11.4	10,068	12.2

Table 4.2: Malaysia - Basic Economic Indicators (1994-95) (Ctd.)

DOMESTIC PRODUCT:				
GDP in constant 1978 prices	109,915	9.2	120,489	9.5
Agriculture, livestock, forestry and fishing	16,047	-1.0	16,721	4.2
Manufacturing	34,782	14.7	39,895	14.7
Mining and Quarrying	8,241	2.5	8,851	7.4
Construction	4,589	14.1	5,287	15.2
Services	48,710	9.7	53,026	8.9
EXTERNAL TRADE:				
Total Exports (f.o.b.)	153,688	26.8	186,869	21.6
Total Imports (c.i.f.)	155,919	32.8	196,516	26.0

Source: Malaysian Ministry of Finance, Economic Report 1995/96;
and KLSE, 1993.

For primary commodity exports, the major products exported according to their value were palm oil (RM9.6 billion), crude oil (RM6.7 billion) and rubber (RM4.2 billion). The other commodities include sawn timber, liquefied natural gas, sawlogs, palm kernel oil, tin, cocoa and pepper. On the other hand, its major imported items were machinery and equipment (72%) and manufactured goods (23%) based on 1994 figure (see Table 4.3). Its major trading partner (for both export and import) was the United States, Singapore and Japan and this situation remained unchanged for many years. Table 4.4 provides data on the direction of trade. However, with growth in imports outpacing that of exports, the country suffered a current account deficit of RM 11 billion and RM 18 billion in 1994 and 1995 respectively due to large deficit balance in the services account compared to low surplus in the merchandise account. The current account deficit was largely due to increased capital investment by both foreign and domestic investors, which led to a sharp increase in the import of capital goods. However, with gross inflow of foreign direct investment at RM20.2 billion in 1995, the amount was sufficient to finance about 82% of the current account deficit. Its external debt totalled RM14.8 billion in 1994 but fell to RM13.9 billion in 1995.

Table 4.3: Malaysia - Structure of Merchandise Imports and Exports (1994-95)

	1994		1995	
	RM million	% share	RM million	% share
EXPORTS:				
Rubber	2,927	2.0	4,180	2.3
Palm oil (crude and processed)	8,404	5.8	9,660	5.4
Sawlogs and sawn timber	6,876	4.6	6,448	3.6
Crude oil	6,548.4	4.4	6,737.5	3.8
Liquefied natural gas	2,360.8	1.6	3,096.9	1.7
Tin	507.0	0.3	525.0	0.3
Manufactures	120,063	81.3	148,878	82.9
IMPORTS:[1]				
Machinery and equipment	93,647	71.6	64,897	72.6
Manufactured goods	30,108	23.0	20,005	22.3
Crude oil	461	0.3	224	0.3
Food	6,667	5.1	4,246	4.8

[1] The figure for 1995 was for the period January to July.

Source: Malaysian Ministry of Finance, Economic Report 1995/96; and KLSE, 1993.

Although there is a problem with the overall account deficit, private investment, particularly in manufacturing registered strong growth in 1995, emanating from both foreign and domestic sources. Foreign investment increased strongly by 26% while domestic investment rose by over 18%. Parallel to this, output of the manufacturing sector continued to sustain its strong growth in 1995, originating from both domestic and export-oriented industries. In the light of these, several measures have been undertaken to encourage new investments as well as reinvestments to expand the productive capacity of the economy. These included the reduction of corporate tax from 32% (1994) to 30% (1995), reduction of withholding tax rate on interest payment made to non-residents from 20% to 15%, and reduction and/or abolition of import duties and sales tax on items of various categories.

Table 4.4: Direction of Trade (January - August 1995)

Exports[1]	Percentage	Imports[2]	Percentage
United States	20.1	United States	15.9
Singapore	20.7	Singapore	12.5
Japan	12.6	Japan	27.4
European Union	14.3	European Union	15.9
Other Asian NIEs	11	Other Asian NIEs	11.1
Other ASEAN countries	6.5	Other ASEAN countries	4.7
Rest of the World	14.8	Rest of the World	12.5

NIEs - Newly Industrialised Economies

[1] Total Exports - RM 117.8 Billion

[2] Total Imports - RM 125.8 Billion

Source: Malaysian Ministry of Finance, Economic Report 1995/96

In addition, liberalisation of several exchange control rules was undertaken by reducing the formalities for businesses and providing investors with greater access to credit facilities. With real GDP growth of 8.2 percent in 1996 and estimated at 8 percent for 1997, the Malaysian economy has posted high growth rates of at least 8 percent per annum for the past five years. Due to its strong economic growth and low inflation rate and keen efforts to attract foreign direct investment, no one would dispute that the country would achieve a status of Newly Industrialised Economies (NIE) by the turn of the century.

4.4 Accounting Regulatory Agencies in Malaysia

Professional accounting bodies play an important role in determining accounting standards in Malaysia. Professional accounting bodies in both the private and public sectors also work closely with other government agencies and private sector bodies in drafting some accounting standards for a particular industry. However, other outside groups from both government and private sectors are generally limited to commenting on an 'exposure draft' of the proposed accounting standards.

There are two main professional accounting bodies in Malaysia. The first body which exerts greater influence is the Malaysian Association of Certified Public Accountants (MACPA) founded in 1958. The second body, the Malaysian Institute of Accountants (MIA) was established in 1967 under an Act of Parliament, namely, the Accountants Act 1967.

4.4.1 The Malaysian Institute of Accountants (MIA)

The Accountants Act of 1967 (revised in 1972 and amended in 1986) was tabled by the Parliament to regulate the accounting profession in Malaysia. One of the core provision of this Act (Section 6) is the formation of the MIA which was entrusted with the following functions:

a) To regulate the practice of the accountancy profession in Malaysia;
b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
c) To provide for the training, education and examinations by the Institute or any other body, of persons practising or intending to practice in the profession; and
d) To determine the qualifications of persons for admission as members.

Any person who has suitable practical experience and has passed the final examination recognised by the MIA (normally accounting degrees from the local institutions of higher learning) can apply for MIA membership. In addition, accountants who are members of the professional bodies (as in Table 4.5) recognised by this Act, may also apply for membership.

Table 4.5

Accounting Organisations Recognised by the MIA

i. Malaysian Association of Certified Public Accountants (MACPA) ii. Institute of Chartered Accountants of Scotland iii. Institute of Chartered Accountants of England and Wales iv. Institute of Chartered Accountants of Ireland v. Association of Certified Accountants (England) vi. Institute of Chartered Accountants in Australia vii. Australian Society of Accountants viii. New Zealand Society of Accountants ix. Canadian Istitute of Accountants x. Institute of Chartered Accountants of India; and xi. Institute of Cost and Management Accountants (UK)
(Source: Accountants Act, 1967; First Schedule, Part 2 (a-k))

The provision in the Accountants Act gives MIA the necessary powers to supervise the accounting profession in Malaysia. The Act clearly states that MIA's major duty is to assure that the accounting profession maintained the 'highest level of expertise and professional competence' through its members. However the MIA is quite slow in its progress of promoting and regulating the accounting profession in Malaysia. In its early days, due to its dormant role, the function of MIA has been reduced to a registering or licensing body (Akauntan Nasional, 1992, p.4). This is because the MIA has delegated its major functions (especially the training, education and examinations function) to the other main accounting in Malaysia, that is, the MACPA. Since its inception, it has not conducted any examination or research in accounting, and up till 1987, has not issued any accounting or auditing standards. Tay (1989, p. 245; 1993, p. 243) also reported that there has been no cases or actions (up to 1987) taken by MIA regarding members who have been disciplined for breach of professional conducts.

After being established for 20 years, the Institute was directed by the Government to be activated and to play an active role as the national accountancy body as envisaged by the Accountants Act. A Council was elected at the Institute's First Annual General Meeting in September 1987 and the Institute's Secretariat was set up in the same year. Since then, much have been achieved by the MIA in its efforts to regulate, promote and strengthen the accountancy profession in Malaysia.

During the first year of activation, as part of his role to protect the public interest, the MIA embarked on removing 'bogus' or unqualified accountants, both in practice and in commerce and industry. Such unqualified accountants arose during the period of the Institute's dormant role. Due to massive publicity by the media on their activity, there was an increased awareness among the public on the need to use the services of qualified accountants.

The MIA then established 6 branches throughout the Peninsular and East Malaysia in order to serve its members effectively. Each branch has its own Branch Committee which oversees the activities and projects of the branch and which acts as a liaison committee between the Council and branch members. During its second and third year of activation, it was still in the process of building a sound infrastructure to enable it to operate on a strong footing. The then President once said, "For a strong and dynamic accountancy profession to emerge in this country, there must be a strong national professional body. Only a strong and united profession can withstand the pressures and challenges of today's turbulent environment" (Akauntan Nasional, 1992, p.6).

With regard to accounting standards, the Institute realised that the standards setting process requires substantial resources and expertise. As such, proper study and evaluation need to be undertaken to ensure that the recommended standards are acceptable to the users (as well as preparers) and falls within the framework of accounting and auditing practice. A Common Working Technical Committee (CWTC) consisting of members of the Institute and the MACPA was established in March 1989. The main objective of this Committee is to review on a regular basis the accounting and auditing standards issued by the International Accounting Standard Committee (IASC) and the International Federation of Accountants (IFAC) to determine their applicability and suitability in Malaysia and to develop local standards which are peculiar to the Malaysian environment. This is what being termed by Carlson (1995) as the modified adoption of accounting system exercised by the MIA whereby decisions made to incorporate aspects of foreign systems (e.g. in respect of accounting standards) are made with the local accounting environment and its associated financial reporting needs in mind. In other words, only those aspects of foreign system that have an appropriate level of compatibility with other features of the business environment and that are likely to enhance the system should be incorporated. To date, the Committee has completed the development of seven Malaysian Accounting Standards. These standards are meant for certain industries or sectors peculiar to Malaysian business environment that are not covered by the international accounting standards.

In 1990, the MIA set up the Malaysian Accountancy Research and Education Foundation (MAREF), a trust fund for the promotion, encouragement and advancement of accountancy research and education in Malaysia. It received its certificate of registration as a corporate body under the Trustees (Incorporation) Act 1952 as at 26 July 1993. The formation of MAREF would benefit the public and the country as a whole since continuing research in accountancy and research will provide solutions to many businesses and economic problems. The fourth year of activation triggered better momentum when on 30 January 1991 the Institute launched the Institute's Professional Indemnity Insurance Scheme, spearheaded by the Public Practitioners Committee of the Institute. The scheme was orchestrated by Prime Insurance Brokers Sdn. Bhd. and jointly underwritten by Malaysian National Insurance Bhd and Nanyang Insurance Company (Malaysia) Bhd. The policy which provides coverage from RM100,000 to RM1 million with a competitive premium is meant to protect practising accountants and their clients against liabilities arising from acts of neglect, error or omission.

The Institute also embarked on an institutional advertising campaign to project the professionalism of the Institute's members and to publicise the wide range of services offered by qualified accountants. This project was launched in April 1991 by the Institute's Public Practitioners Committee. In order to upgrade the skills and knowledge of accountants, to keep them abreast of the latest developments affecting their profession so that they remain competitive and maintain their professionalism, the Institute also organised conferences, seminars, forums and evening talks.

The MIA council also approved an amendment to By-Law 4 of the Institute's By-Laws (on Professional Conduct and Ethics) to make Continuing Professional Development (CPD) mandatory for accountants. Members of the Institute are required to attain a minimum of 100 CPD credit points every year. Members who attend an MIA programme will be awarded three points, and for non-MIA programme, one point is awarded. In order to allow greater flexibility for members to choose particular programmes that suit their future career development, the point-awarding system was change as from 1 January 1995, by awarding two points to an hour for attending MIA programme and one point for other non-MIA programme (MIA, 1995). Since activation, the Institute also participated actively in the international arena through meetings and conferences particularly in Asia and the Pacific region. The Institute also hosted a number of international meetings such as Council Meetings of the Asean Federation of Accountants (AFA), an International Federation of Accountants (IFAC) Ethics Committee Meeting and an Executive Committee Meeting of the Confederation of Asian and Pacific Accountants (CAPA). It has also gained recognition internationally when it was invited to nominate a representative as a committee member of the International Accounting Standards Committee (IASC) to evaluate the financial reporting needs of developing and newly industrialised countries.

The MIA took a further step in 1992 with the launching of the Malaysian Institute of Taxation (MIT) and the Malaysian Association of Accounting Technicians (MAAT), a professional and sub-professional body respectively. The purpose of the MIT is to provide an organisation for all accountants, tax consultants, academicians and individuals in commerce who are interested in taxation matters, and also to provide an avenue for them to upgrade the status and interests of the taxation profession in the country. MIT was incorporated on 1 October 1991 under Section 16 (4) of the Companies Act 1965 and today it has a total of over 300 members.

The MAAT is a second-tier accountancy body established with the main objective of providing a conglomerate of accounting technicians with relevant knowledge and skills in accounting to act as support staff to accountants. It was incorporated on 14 March 1990 under Section 16(4) of the Companies Act 1965 as a company limited by guarantee. It formation also helps to solve the acute shortage of accountants as well as to outwit the lengthy process of gaining full professional qualifications. It also provides an alternative route of gaining legitimate qualification for accountants (who are part-qualified but with many years of working experience) not registered with the MIA.

In August 1995, the Institute announced its first examinations in collaboration with the Chartered Association of Certified Accountants (CACA). These examinations have been designed to assist in the future development of the profession of accountancy in Malaysia. Under this scheme, both organisations will work jointly in the preparations of the examination papers in ensuring full coverage of Malaysian and international accounting curriculum as well as maintaining the high standards of the examinations recognised locally and internationally.

Through its Accounting and Auditing Standards Committee, all new IASs and International Standards on Auditing (ISAs) issued by the IFAC are reviewed to determine their suitability for issue to the Institute's members after the proper exposure procedure has been completed. The Committee also assisted the Malaysian Central Bank in the revision of Guidelines on the Specimen Financial Statements for the Banking Industry, and review and finalisation of the Specimen Financial Statements for the Insurance Industry.

The MIA has been able to survive and progress steadily even though it has to undergo several changes of a harsh and difficult nature. The Institute also intends to do much more to promote the Institute and the profession both nationally and internationally. At present MIA has the following committee division to spearhead its activities, as shown in Table 4.6. The MIA membership as at 30 September 1995, stands at 8,464 comprising of 2,710 Public Accountants, 5,693 Registered Accountants and 61 Licensed Accountants.

Table 4.6

MIA Committee Divisions

1. Accounting and Auditing Standards
2. Conference Organising
3. Education
4. Financial Statements Review
5. Disciplinary
6. General Purpose and Finance
7. Investigation
8. Membership Affairs
9. MIA/CIMA Financial and Management Accounting
10. Ethics
11. Insolvency Practice
12. Company Law Practice
13. Public Practice
14. Internal Audit
15. Co-operative Auditing
16. CPD Working Committee
17. Company Law Forum
18. Government Affairs
19. Editorial Board
20. International Affairs

(Source: MIA Annual Report and Accounts, 1995)

4.4.2 The Malaysian Association of Certified Public Accountants (MACPA)

In 1958, a group of accountants formed the Malaysian Association of Certified Public Accountants (MACPA) under Section 15(1) of the Companies Ordinance 1940-1946. However, not all accountants in the country applied or qualified for its membership and as a result, a group then formed another body called the Malaysian Society of Accountants in 1959 under the same Companies Ordinance. During that period, Malaysia did not have any legislation to regulate the accountancy profession because at that time the Malaysian Government placed more emphasis on various development and administrative projects for the newly independent country. The pioneer members of the MACPA wholly consisted of accountants trained in overseas countries (especially United Kingdom, Australia and New Zealand). The main objectives of the MACPA were as follows:

a. To advance the theory and practice of accountancy in all its aspects.
b. To recruit, educate, train and assess by means of examination or otherwise a body of members skilled in these areas.
c. To preserve at all times the professional independence of accountants in whatever capacities they may be serving.
d. To maintain high standards of practice and professional conduct by all its members.
e. To do all such things as may advance the profession of accountancy in relation to public practice, industry, commerce, education and the public service.

(Source: MACPA Annual Report, 1994)

Membership to MACPA is restricted to articled students who have passed the Association's examinations and also to accountants who are members of overseas professional accounting bodies as shown previously in Table 4.1. As at December 1994, it had a total membership of 2,188 out of which 409 were in public practice (MACPA, 1994).

Prior to 1980s, Malaysia has no accounting principles and practices of its own. Its major accounting practices owe their origin to practices in other countries especially the UK due to its colonial ties. During the British colonial period, companies were floated in the UK to mobilise financial resources for investment in the tin mining and rubber industries in Malaysia. The majority of the companies established at that time were either branches or subsidiaries of British companies. As such, accounts prepared during that period were primarily based on British accounting principles and practices to serve the needs of the mainly British investors.

Another reason for adopting the British accounting principles and practices was due to lack of expertise and resources available to the MACPA to carry out research on accounting and auditing practices especially during its early years of establishment. The reason was partly caused by the presence of apathy on the part of the accounting profession, universities and the government, and partly by the high demand for limited resources and talents of qualified and interested accountants. It was deemed more beneficial to allocate the limited resources to transmitting the present knowledge rather than to creating new knowledge (Enthoven, 1981).

The immediate effect was that all recommendations made by the ICAEW regarding accounting standards were adopted by the MACPA and applied almost in its entirety in Malaysia. Even before the IASC was founded, the MACPA wholly adopted the standards and guidelines issued by the Accounting Standards Committee of the UK. When the IASC was formally established, the MACPA merely adopted the ready made international accounting standards because it believed that it was better to use the same standards rather than wasting time and resources in developing its own accounting standards (Phenix, 1986a, p. 19). Therefore, it was not surprising to see that many accounting researchers such as Nair and Frank (1980) and Nobes and Parker (1991) described Malaysia financial reporting practises as being influenced to a considerable extent by practices in the UK. It is expected that the IAS would continue to "become the backbone of standard-setting in Malaysia even though a series of Malaysian Accounting Standards (MAS) and Technical Bulletins are in the pipeline.....the IAS have become an acceptable accounting and financial reporting framework in Malaysia even among non-members of the MACPA." (Phenix, 1986b, p.11)

Currently, the MACPA has set up the following committee divisions to promote and maintain the status of accounting profession in Malaysia (see Table 4.7). There are many factors which contributed to the rapid adoption of the IAS by the MACPA. Firstly, there are no constitutional or legal constraints in the way of adopting these international standards. The MACPA fully supports the standards issued by the IASC and the International Federation of Accountants (IFAC). The IAS also did not contravene, in most cases, the provisions contained in the Companies Act, 1965. Even, great similarities exist between the two. Secondly, the Malaysian Government and other regulatory agencies (such as the Central Bank, Ministry of Finance and the Kuala Lumpur Stock Exchange) gave their supports for the IAS by requiring companies to comply with the approved accounting standards adopted or issued by the MIA. Thirdly, there was a large number of multinational companies operating in Malaysia, especially British and American companies. The regulations prevailing in the UK and USA regarding accounting practices were nearly the same as to the requirements of IAS. As such, companies originated from both countries found it was much easier to prepare financial statements if the country in which they based their operations follows closely the IAS requirements. Fourthly, there was many international accounting firms operating in Malaysia. This is due to the strong partnership or relationship between Malaysian accounting firms and established accounting firms from the UK, USA and Japan. The adoption of IAS would enable them to provide a comparable quality of services irrespective of locations.

Table 4.7

MACPA Committee Divisions

1. Executive Committee
2. Accounting and Auditing Standards
3. Administrative and Financial Affairs
4. Bahasa Malaysia (Malay Language)
5. Commerce and Industry
6. Disciplinary
7. Education and Training
8. Examination
9. Financial Statements Review
10. Government Affairs
11. Insolvency Practice
12. Investigation
13. Membership Affairs
14. Public Affairs
15. Public Sector
16. Small Practice

(Source: MACPA, 1994)

Malaysian financial reporting has been strongly influenced by the UK financial reporting system due to its colonial past. Gray et al. (1984, p.23) and Parker (1993, p. 21) reported three international influences on Malaysian financial reporting: the UK (very strong), Australia (strong) and the US (moderate). In addition, Parker (1993) described the regulatory model of Malaysia as 'corporatism', the term explained by Puxty et al. (1987) to describe the mode of regulation in which the state not only licenses the existence of organised interest groups but incorporates them into its own centralised, hierarchical system of regulation.

Both the MIA and the MACPA have organised competitions for the 'best' annual reports. The MACPA inaugurated the Malaysian Annual Corporate Reports Award (MACRA) in 1986 in conjunction with the Malaysian Institute of Management (MIM). The aim of this award is to encourage higher reporting standards. In 1989, the MIA and the KLSE organised a National Annual Report Award (NARA) with the aim to improve the quality and timeliness of financial reporting by listed companies. However, these two separate awards have been combined in 1990 as the National Annual Corporate Reports Award (NACRA) and jointly sponsored by all the four organisations. The aim of such award is to recognise and to encourage the highest standards in the presentation of annual corporate reports.

Both the professional accounting bodies also set up their own Financial Statements Review Committee to monitor financial statements which are prepared by or are the responsibility of their members with a view to ensuring that they comply with statutory and other requirements, accounting standards and practice. As at 1995, a total number of 50 sets of financial statements were reviewed by the MIA (MIA, 1995).

Since 1973, the MIA and the MACPA have been negotiating to integrate as a unified accountancy profession which will not only benefit Malaysian accountants but also the progress and development of the profession and the country as a whole. However, an Amendment Bill to the Accountants Act to facilitate the merger process was rejected by the Malaysian Cabinet in 1985. However, a co-operation agreement was signed in 1987 to provide for a joint secretariat and collaboration in various activities, including research and development of technical and ethical standards, education and training, and running of professional examinations. In November 1995, a Memorandum of Understanding (MOU) between the two bodies was signed. The MOU stated that both bodies agreed that there should be only one integrated national accountancy body to represent and govern the Malaysian accountancy profession. The integration of the profession would gear the profession into a new direction in effective representation to the Government, business community and also the public at large. It will also contribute to cost-effectiveness and greater efficiency in delivery of services to accountants. However, the talks have not concluded with any firm resolutions.

The following regulatory bodies also played a significant role in regulating corporate disclosure as well as supervising the securities industry in Malaysia. They are the Registrar of Companies (ROC), the Kuala Lumpur Stock Exchange (KLSE), the Securities Commission, and the Foreign Investment Committee (FIC). The functions of the bodies are explained below.

4.4.3 The Registrar of Companies (ROC)

The ROC is a division under the Ministry of Domestic Trade and Consumer Affairs. It is responsible for the administration and enforcement of the following laws:

- Companies Act 1965 related to the incorporation and registration of Companies as well as regulations concerning its administration.
- Securities Industry Act 1983 which provides the power of investigation on certain offences relating to the act and regulations in the securities market dealings.
- Trust Companies Act 1949 which regulates the incorporation and operation of Trust Companies.
- Kootu Funds (Prohibition) Act 1971 which prohibits all activities pertaining to Kootu Funds
- Offshore Companies Act 1990 which contains provisions on incorporation of offshore companies and registration of foreign offshore companies.
- Labuan Trust Companies Act 1990 which contains provisions on the registration of trust companies in Labuan and prescribes the powers and duties of trust companies as well as other related matters.

Its objectives in the administration and enforcement of laws are as follows:

- To meet the needs of the general public for information on companies incorporated under the Companies Act 1965.
- To ensure securities dealings occur in a fair market.
- To prohibit any acts which are unlawful under the laws administered.
- To exercise a protective role in relation to investment and creditors.
- To respond to the needs for reform of the statutes administered in accordance with the development of the corporate sector.

In order to ensure proper administration of the above laws, the ROC has developed the following strategies:

- Processing and considering applications for names of companies.
- Processing and issuing certificates of incorporation of local companies and the registration of foreign companies, certificates for change of name of local as well as foreign companies.
- Gathering data and updating records related to the development and management of companies.
- Providing the public with inspection and search facilities and improving the standard of service to the public.
- Carrying out inspection on companies to ensure that books and accounts are kept in order.
- Updating the work flow system and office procedure with the aim of computerisation in order to ensure quicker and better service to the public.
- To arrange and organise courses and lectures for the benefit of officers with the aim of improving the standard of work in the office.
- Reviewing the current laws administered and carrying out research on related laws with the aim of imposing new laws or making amendments to current laws.

With respect to the Companies Act, 1965, there are over 200,000 companies incorporated under this Act, including those listed on the Kuala Lumpur Stock Exchange (KLSE). The ROC also maintains close relationship with the KLSE, the Securities Commission (SC) and Licensing Officer (Securities/Futures Trading) for the performance of their respective functions and duties especially in regulating the securities industry and disclosure compliance by companies. The ROC also gave full support for the national accounting body, the MIA it carrying its role in setting of accounting standards when the Registrar said that 99 percent of the accounting standards issued would be used by companies under the jurisdiction of the ROC. While stressing that accounting standards setting should remain as the responsibility of the national accounting body, he also pointed out that other user groups should also be invited to participate in the accounting standards due process (Akauntan Nasional, 1996).

The ROC has both administrative and regulatory powers under the Companies Act, 1965 which governs companies and its officers. The ROC's power under the Act also includes power of investigation and prosecution for violations thereunder.

4.4.4 The Kuala Lumpur Stock Exchange (KLSE)

Unlike the previous regulatory bodies which were mandated by Governmental authority, the KLSE is a self-regulatory body (SRB) with its own Memorandum and Articles of Association. It also maintains a set of rules governing the conduct of its members in securities dealings. It is responsible for monitoring the market place and also enforcing its Listing Requirements which set out the criteria for listing, disclosure requirements and standards to be maintained by public listed companies.

It also worth to portray the historical development that led to the establishment of KLSE. The securities industry in Malaysia started in the late 19th century as a continuation of the presence of British firms in the rubber and tin industries. In 1930, the first formal organisation known as the Singapore Stockbrokers' Association was established. The Association was later registered under a new name, Malayan Stockbrokers' Association (MSA) in 1937 with its own Code of Conduct. Brokerage business continued to expand but was disrupted during to the Second World War and only reactivated in 1946. While activity increased, there was still no public trading of shares. The MSA continue its operation until 21 March 1960 when the Malayan Stock Exchange was constituted. Public trading of shares began on 9 May 1960 and in 1961, physical facilities for share trading improved with the introduction of the board system. In 1962, the two trading rooms in Singapore and Kuala Lumpur were linked by direct telephone lines to provide investors with the latest information on share prices. To instil public confidence in the development of the market, a board was established in the Exchange in 1963 to consider applications for new listings and to determine listing requirements. Towards the end of 1963, through an informal arrangement among the Central Bank, the Stock Exchange and the ROC, companies which intended to make public offers were required to consult with the Central Bank prior to publicising the terms of the issue.

The Stock Exchange of Malaya was formed in 1964 just after the formation of the Federation of Malaysia in 1963. When Singapore seceded from Malaysia in 1965, this common stock exchange continued its operation but under the new name, Stock Exchange of Malaysia and Singapore (SEMS). Later, the Companies Act 1965 was created to provide a more comprehensive legal framework in supervising the operations of companies in the country. With the new institutional and legal framework, the previous informal arrangement among the three bodies in guiding the development of the stock market was formalised with the establishment of the Capital Issues Committee (CIC) in 1968. The CIC acted as a consultative body to advise the Minister of Finance and the ROC on all matters relating to the securities industry especially regarding new issues of securities, rights issues, bonus issues, schemes of arrangement and reconstruction, take-over and share option schemes, and listing and quotation of securities on a stock exchange. Later in 1973, preparation was underway for the splitting of the SEMS and the establishment of a separate Malaysian stock exchange to reflect the need for developing a national capital market that could be closely identified with the country's overall objectives and development priorities. This resulted in the enactment of the Securities Industry Act (SIA) 1973 in June and the establishment of the Kuala Lumpur Stock Exchange Berhad (KLSEB) in July the same year. When the SIA 1973 was enforced in 1976, a new company called the Kuala Lumpur Stock Exchange took over from KLSEB. A new act known as the Securities Industry Act (SIA) 1983 came into force to replace the SIA 1973.

From early 1980s, the following major developments have taken place that brought the KLSE to its current level of sophistication:

- Computerisation of the clearing system with the setting up of a central clearing house for the KLSE through its subsidiary, Securities Clearing Automated Network Services Sdn. Bhd. (SCANS) in 1984. The company is supervised by the Board of SCANS, comprising members of the KLSE Committee.
- Corporatisation of stockbroking companies in 1986.
- The formation of Research Institute of Investment Analysts in Malaysia (RIIAM) in May 1985 to upgrade the level of security analysis and research.
- The Exchange's new composite index (KLSE CI) was launched in 1986.

- MASA I and MASA II, a real-time share price reporting system was installed for brokers in 1987 and 1990 respectively to facilitate transparency of real-time orders, prices and trades to brokers and their clients and also to disseminate corporate and economic news.
- Formation of the Advance Warning and Surveillance Unit (AWAS) in 1987 to alert the KLSE of problems faced by stockbroking houses and public listed companies.
- The launching of the Second Board in November 1988 to enable smaller companies which are viable and have strong growth potential to tap additional capital from the market through listing on the KLSE.
- The listing of Property Trusts and Warrants and Transferable Subscription Rights (TSR) was allowed in April and December 1990.
- In May 1989, a semi-automated trading system known as the System on Order Routing and Execution (SCORE) was introduced and in 1992, trading in all countries was fully automatic.
- Malaysian incorporated companies were delisted from the Stock Exchange of Singapore (SES) starting from January 1990.
- Implementation of the Fixed Delivery and Settlement System in February 1990.
- Malaysian Central Depository Sdn Bhd was set up in April 1990 to implement the Central Depository System (CDS).
- The establishment of the Securities Commission in March 1993 to rationalise and streamline the legislation and regulatory framework of the Malaysian capital market.

As at September 1997, there are 447 companies listed on the main board and 228 companies on the second board of the KLSE. The KLSE also played a significant role in improving corporate financial reporting in Malaysia. The KLSE's new listing requirements which came into force in July, 1987 (revised in 1991) not only prescribe the guidelines for public listed companies in disseminating material information but also stipulate compliance with the accounting standards and pronouncements of the accounting bodies and the Ninth Schedule of the Companies Act, 1965.

4.4.5 Securities Commission

Securities regulation in Malaysia, like other regulations in existence in a particular country developed as a local or national activity and evolved over a period of years to accommodate local conditions, practices and needs in the context of the political, cultural and social environment. The existence of various regulatory bodies in Malaysia each responsible for specific function in the development of the capital market was no longer appropriate. It posed many administrative problems such as unnecessary duplication, bad co-ordination and waste of valuable resources. This highly fragmented legislative and regulatory structure will not be of beneficial for the development of the capital market in Malaysia. Competition, duplication and jurisdictional confusion among regulators led to lessened investor protection and lower overall regulatory standards which were not in the public's interest and had an adverse effect on the maintenance of capital markets that could attract investors and capital investment.

This led to the establishment of the Securities Commission (SC) in March 1993 with the coming into force of the Securities Commission Act 1993 (SCA, 1993). The body is essentially an independent one-stop agency which has absorbed the functions of Capital Investment Committee (CIC) and the Panel on Take-over and Mergers (TOP). Previously, the Panel on Take-over and Mergers (TOP) was (established in March 1986) empowered by the Minister of Trade and Industry (pursuant to Section 179(3) of the Companies Act, 1965) to ensure that all take-overs and mergers were conducted in an orderly manner, while at the same time to ensure that the interests of minority shareholders are protected as provided under the Code on Take-overs and Mergers 1987. The Code has 14 General Principles and Rules.

Under the Code (except with the consent of the Panel or unless directed by it), a mandatory offer must be made by any person or party acting in concert who acquires shares which carry more than 33 percent of the voting rights of a company, or any person or party acting in concert who holds between 33 to 50 percent of the voting rights and acquires within a 12-month period additional shares carrying more than 2 percent of the voting rights.

The SC will also be taking over certain functions currently performed by the Central Bank, ROC, FIC and other bodies. The revamp of the present system will streamline the country's financial system under two regulatory agencies with the Central Bank supervising the banking system and the SC monitoring the capital market.

The SC will have two main functions - as an approving body and as a policing body. It will be responsible for promoting Kuala Lumpur as a key financial centre in the region and to encourage the development of securities and financial futures markets in the country and to ensure orderly development of these markets.

Its establishment is by the new Securities Commission Act, 1993, and existing Acts, principally the Securities Industry Act 1983 and the Companies Act, 1965 have been amended accordingly to accommodate this. The Securities Industry (Central Depositories) Act 1991 and the Futures Industry Act, 1993 will also be administered by the SC. The formation of the SC also led to the creation of a Licensing Officer under the Ministry of Finance. Previously, the licensing of market participants under the Securities Industries (Amendment) Act 1992 (SIA) was undertaken by the ROC. With the amendment of the SIA, the power was transferred to the Licensing Officer (Sharif, 1993).

The Securities Commission began its operations on 1 March 1993 and under Section 15(1) of the said Act its functions are as follows:

i. to advise the Minister of Finance on all matters relating to securities and futures contract industries;
ii. to regulate the issue of securities;
iii. to regulate the designation of futures contract;
iv. to regulate the take-overs and mergers of companies;
v. to regulate all matters relating to unit trust schemes;
vi. to be responsible for supervising and monitoring the activities of any exchange, clearing house and central depository;
vii. to take all reasonable measures to safeguard the interest of persons dealing in securities or trading in futures contract;

viii. to promote and encourage proper conduct amongst members of the exchanges and all registered persons;

ix. to suppress illegal, dishonourable and improper practices in dealings in securities and trading in futures contracts and the provision of investment advice or other services relating to securities or futures contracts;

x. to consider and suggest reformation of the law relating to securities or futures contracts including changes to the constitution, rules and regulations of any exchange and its clearing house;

xi. to encourage the development of securities and futures markets in Malaysia; and

xii. to perform any functions conferred by or under any other Act.

With reference to the SC's functions (i), (ii) and (iv) above, the CIC and TOP therefore ceased to exist as of 1 March 1993.

The SC has also adopted a set of policies for the strategic development of the Malaysian capital markets under its Business Plan for 1995-1997. Among the policies related to corporate disclosure and accounting standards setting were:

1. A Shift Towards Disclosure-Based Regulation

This involved moving away from the current system in which the Commission determined the viability of a proposal to one where the investor makes the decision based on available material information. The main objectives of this programme were to:

- facilitate a shift to market-based pricing on primary offerings of securities
- remove any barriers to the competitiveness of Malaysian corporatisations inherent in the present system
- inculcate higher standards of disclosure and accountability to investors by corporations

Implementation of this programme involves the followings:

- a revision of relevant laws to: (a) impose an obligation on offerors of securities to provide full, accurate and non-misleading information to investors; (b) make intermediaries responsible for their recommendations; (c) make advisers responsible to investors for information on corporations; (d) confer rights of recourse to investors who have suffered loss as a result of misleading or deceptive information.

- developing appropriate criteria for the type of information to be released and the method of disclosure.
- instilling awareness among all participants in the primary and secondary markets of their respective roles and responsibilities under the new regulatory system.

2. Development of Accounting Standards.

The SC, working together with other relevant authorities, would facilitate the establishment of an accounting standards board. The implementation of this programme involved:

- corporations, users, auditors and regulators in the development of accounting standards;
- developing an agenda to deal with urgent matters relating to disclosure and standards;
- establishing appropriate compliance and enforcement mechanisms.

(Akauntan Nasional, July 1995, pp. 9-10)

A year later, a significant event took place that would have significant impact on the development of accounting standards in Malaysia when the Government announced in its 1996's Budget that a Malaysian Accounting Standards Board will be established to promulgate accounting standards and its compliance and enforcement. The bill was tabled in the Parliament in the same year. The objective of this body is to consider existing and proposed accounting standards and approve such standards as it sees fit. Once approved, the accounting standards will be given legislative force by requiring in the Companies Act that such standards be followed in the preparation of accounts or group accounts by all companies. Company auditors are also statutorily required to ensure that those approved standards are complied with by all companies. Any non-compliance found should be reported to the Registrar of Companies. The aim of establishing this board is to enable the recognition of standards and guidelines set by the accounting profession, with the universal support both from the preparer of financial statements and from the investors and other members of the general community, who use such statements as a basis for decision making. By having a mixture of members with diverse experience and expertise, it would ensure that standards recognised would be of quality, practical and up-to-date (Malaysian Accountant, 1995).

4.4.6 The Foreign Investment Committee (FIC)

The FIC was established to implement the government's guidelines on regulation of acquisition of assets or interests, mergers or take-overs of companies and business. The guidelines cover the following matters:

a. any proposed acquisition by foreign interests of any substantial fixed assets in Malaysia.
b. any proposed acquisition of assets or any interests, mergers and take-overs of companies and businesses in Malaysia by any means, which will result in ownership or control passing to foreign interests.
c. any proposed acquisition of 15% or more of the voting power by any one foreign interest or associated group or by foreign interests in the aggregate of 30 percent or more of the voting power of a Malaysian company or business.
d. control of Malaysian companies or business through any form of joint-venture agreement, management agreement, and technical assistance or other agreements.
e. any mergers and take-overs of any company or business in Malaysia whether by Malaysian or foreign interests.
f. any other proposed acquisition of assets or interests exceeding in value of RM5 million whether by Malaysian or foreign interests.

However, projects that are approved by the government will not require the approval of the FIC. They include privatised projects both undertaken by the Federal or any of the State Governments.

Apart from the main regulatory bodies mentioned above, the other two regulatory bodies whose primary roles are in regulating corporate securities industry also provide additional support in enhancing corporate disclosure regulation although indirect in nature. The two bodies are the Bank Negara Malaysia (Malaysian Central Bank) and the Ministry of Finance.

The Malaysian Central Bank is empowered under section 169 (9) of the Companies Act 1965, to modify or grant exceptions from the Act's requirements. In addition, the system of professional standards recognises that the law can, and should, overrule professional pronouncements of accounting requirements. However, in its review and approval of annual reports of banks and finance companies, the Central Bank gave implicit recognition on compliance with IASs.

Since 1985, the Ministry of Finance has ordered all statutory bodies and corporations under its control to apply accounting standards required by MIA and MACPA or recognised standards issued by other established accountancy bodies, or at least the standards issued by the IASC.

4.5 International Influence on Malaysian Financial Reporting

There is no standard set of international regulation that can be applied to every company in the world, or even to every listed company due to various differences in cultural, political and economic environment. However, that does not hamper the efforts towards international comparability of corporate financial reporting which has become an important issue due the globalisation of capital markets. Investors have transgressed national boundaries for investment purposes, and thus demonstrates the growing importance of international dimension of regulation.

An important source of influence on developments in both legal and professional regulations of financial reporting in recent years has been the existence of international organisations, such as the International Accounting Standard Committee (IASC) and International Federation of Accountiants (IFAC). These bodies increase both the opportunity and pressure for domestic regulations to be influenced by events happening elsewhere in the world. This represents international factors that exert significant impact on both the framework of regulation and also the content of annual accounts.

A number of other international bodies, for example the United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD), have become involved in developing pronouncements on accounting disclosure and promoting them at an international level. Although these recommendations are often aimed primarily at multinational companies, it can exert influence on the accounting system in individual countries. In addition, there are also other regional organisations that could have an influence on the financial reporting in a particular country such as the influence of the European Economic Community (EEC), Confederation of Asia Pacific Accountants (CAPA) and ASEAN Federation of Accountants (AFA).

The following sections will discuss briefly the role and significance of the main international organisations that have an impact on corporate reporting practices in many countries of the world including Malaysia.

4.5.1 International Accounting Standards Committee (IASC)

The IASC was formed in 1973 by professional bodies representing nine countries: Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland (treated as one professional unit) and the United States. Since then the IASC has grown considerably, and it now has a membership of over 90 accounting bodies from about 70 different countries. Although the size has expanded, much of the power within the IASC has remained with the original members as they provide a majority of the board which establishes International Accounting Standards (IASs), but from 1987 the influence of the founder members has been reduced.

The IASC operates from a secretariat based in London and is funded partly (90 per cent) by the board member bodies and partly (10 per cent) by the International Federation of Accountants (IFAC), which collects subscriptions from all the member bodies. Membership of IFAC and IASC are the same, but they have tended to cover different functional areas of accounting. The IASC has been responsible for developing accounting standards while IFAC has confined its working to auditing, ethics and management accounting.

The stated objectives of the IASC, as contained in its constitution are:

(a) to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their acceptance and observance;
(b) to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements. (IASC, 1983 para. 8).

The nature of the IASC, as a body representing the accounting profession in different countries, has a number of implications for its operations. The IASC has, of course, no power in itself to enforce its standards. Rather, application of international standards depends on the willingness of the national professional bodies to promote them, and also on the power of those bodies in their national environments. In some countries, accounting disclosure is subject to tight legislative control, almost to the exclusion of professional recommendations recommended by the national profession. Paradoxically, in those countries having a strong accounting profession, there is a danger that the national body will not want to surrender its authority to the IASC and so will not promote the international standards as fully as possible. Alternatively, it is possible that IASs will have little impact in countries where the profession is strong, because it is these professional bodies which will have the strongest influence on the development of the standards, so that the content of a standard may be little different from existing national practice.

As a professional body, the IASC may also suffer in terms of international representativeness. Certainly when it was first formed it could not claim global representativeness, since only one member could be described as a developing country, although this problem has been alleviated as the IASC has grown. The above points indicate some of the difficulties facing the IASC, but they should not be taken to imply that international standards do not have an important role. A considerable amount has been achieved since 1973 both in the production of standards and in the promotion of their acceptance. A total of 24 international standards have been produced, and these standards are now officially recognised in many Westerns as well as developing countries. Further, between 1973 and 1989, the International Accounting Standards Board (IASB) established 46 technical committees composed of 40 IASC members exclusively from developed countries. In 1995, MIA was elected as one of the board member in IASC and has a seat as a permanent member on the IASC of the Steering Committee on the Presentation of Financial Statements. As at November 1995, MIA has adopted 23 IASs issued by the IASC. However, the success of IASC's efforts naturally rests on acceptance of the standards by member countries and recognition and support internationally; and it still has the long way to achieve this.

4.5.2 Other International Bodies

There are various international organisations and committees involved in attempting to promote regulations for accounting and disclosure. Some are global organisations while others are concerned with a particular region; some are professional bodies while others are public organisations (Samuel's and Piper, 1985, pp. 109-19). Three of them will be mentioned here because of their status as global public bodies - the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD), and the International Federation of Accountants (IFAC).

The UN became interested in accounting and the need for improved corporate reporting when the Group of Eminent Persons appointed to study the impact of multinational corporations proposed the formulation of an international, comparable system of standardised accounting and reporting. It also established the Group of Experts on International Standards of Accounting and Reporting in 1976 with the following objectives:

a. To review the existing practice of reporting by transnational corporations and reporting requirements in different countries;
b. To identify gaps in information in existing corporate reporting and to examine the feasibility of various proposals for improved reporting;

c. To recommend a list of minimum items, together with their definitions, that should be included in reports by transnational corporations and their affiliates, taking into consideration the recommendations of various groups concerned with the subject matter.

As a result, the Group published a proposal in 1978 known as the International Standards of Accounting and Reporting for Transnational Corporations. Later on, in 1979 an Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was formed with the objective of contributing to the harmonisation of accounting standards (Belkaoui, 1994; p. 44). It does not function as standards-setting body; its mandate is to review and discuss accounting and reporting standards. Its intention is to develop standards that will cover information to be disclosed in financial statements, accounting policies, information on companies within a group, segmental reporting and non-financial information, with the objective of improving 'the availability and comparability of information disclosed by transnational corporations' (UN, 1982, para. 38). Thus, the main emphasis of the UN activity is on increasing disclosure as a means of ensuring the accountability of large multinationals. The effort of the UN has created mixed reactions. Most of the concerned institutions felt that accounting standards at the domestic or the international level are best set by the private sector. They would rather support the work done by the IASC and national accountancy bodies. However, even though UN's efforts are mainly targeted to multinational companies, there is a likelihood that they would be expanded to all companies in the world. When IASs are adopted as a resolution by the UN, enforcement will require actions of either national standard-setting bodies or national governments to carry the force of law (Daley and Mueller, 1982).

The OECD is an organisation consisting members from 24 relatively industrialised non-communist countries in Europe, Asia, North America, and Australia. A Declaration on International Investment and Multinational Enterprises was issued in 1976 and revised in 1979, including an annexe entitled 'Guidelines for Multinational Enterprises', which include a section subtitled 'Disclosure of Information' (OECD, 1979). These guidelines cover many aspects of the activities of companies, including industrial relations, competition and taxation. In contrast to the UN publication, however, the code does not include a detailed listing of the items of information which should be disclosed.

Rather it addresses the general issue of ensuring the sufficient disclosure of information to allow understanding of the structure, activities and policies of the organisation, and suggests the various aspects of organisational activity about which disclosure should be made. While the OECD also emphasises on disclosure, it does not regard itself as a standard setting body but rather a forum for promoting other promotional efforts towards harmonisation. However, its chances of success, with both governments and multinational companies may be higher than the UN (Zund, 1983).

The UN and OECD have no direct power to enforce any governments or companies to adhere to their recommendations. Even though they have considerable influence, compliance with their codes is voluntary. Both organisations are also notable as political, especially the UN than as accounting institutions. That explains the mixed reactions by various governments and accounting bodies to its recommendations.

The International Federation of Accountants (IFAC) whose membership composed of the professional accounting organisations of more than sixty countries was formed in 1976. Its creation was, however, being preceded by various international organisations. First, the International Congress of Accountants (ICA) was formed in 1904 with the general objective of increasing interaction and exchange of ideas between accountants of different countries. Then, in 1972 the ICA founded the International Committee for the Accounting Profession (ICAP) with the objectives to conduct specific studies of professional accounting ethics, education and training, and the structure of regional accounting organisations. IFAC's broad objective is the 'development and enhancement of a co-ordinated world-wide accountancy profession with harmonisation of standards'. It has seven standing committees representing education, ethics, international auditing practices, international congresses, management accounting, planning, and regional organisations. The most active and important committee is the International Auditing Practices Committee (IAPC) which is responsible for issuing international auditing guidelines (IAG) and has been a positive factor in the harmonisation of auditing standards. The IAGs issued by the IAPC do not override local regulations of any country governing the audit of financial statements. As the accounting profession in the Asian region is generally much younger than in Europe, IAPC has made significant impact on auditing standards in the ASEAN countries, especially Malaysia. For instance, since MIA is a member of IFAC, the MIA has adopted 23 IAGs and 4 international standards on auditing/related services (ISA/RS) issued by IFAC as at June 1995 (MIA, 1995). MIA also have a seat on the seven-member Education Working Committee of IFAC comprising the United States, France, Canada, Republic of Ireland, Australia and Zambia (Akauntan Nasional, January 1995).

4.5.3 Regional Accounting Organisations

In addition to the international organisations described above, there are also several regional organisations that have emerged since the late 1950s which have had significant impact (albeit at much a lesser degree) on the financial reporting environment in Malaysia especially with regards to mutual co-operation among professional accounting organisations in matters of similar interests.

The Confederation of Asian and Pacific Accountants (CAPA) was formed in 1955, whose mission was the development and enhancement of the accountancy profession in the Asian and Pacific region to enable it to serve the public interest with services of consistent high quality. It covers the whole Asia Pacific area with a membership of 32 national accountancy organisations in 23 countries and is the largest regional accountancy body in the world. The total individual members of member organisations in CAPA exceed a population of 700,000. However, Choi (1979) pointed out that CAPA's membership is too heterogeneous that efforts toward harmonisation of accounting standards seemed too remote.

Another organisation, the ASEAN Federation of Accountants (AFA) was established in Bangkok in 1977 as a sub-set of CAPA. The objectives of AFA are as follows:

1. To provide an organisation for ASEAN accountants to establish an ASEAN philosophy for developing the profession in the region;
2. To provide an infrastructure for the regional co-operation among ASEAN accountants;
3. To develop the accounting profession within this region through co-operation among ASEAN accountants;

4. To identify problems affecting the accounting profession in the ASEAN countries and to formulate solutions to them;
5. To provide media for the exchange of information among ASEAN accountants;
6. To represent the ASEAN accountants collectively in international accounting organisations; and
7. To co-operate with the business society in the ASEAN countries.

Choi (1981, p. 310) viewed it as an organisation that would 'buffer individual ASEAN countries against the wholesale adoption of international accounting pronouncements that may not be suitable to local circumstances'. However, an AFA Technical Committee was formed in 1994 to establish accounting standards which were not issued by the IASC, and as at May 1995 three accounting standards have been developed related to aquaculture, forestry and extractive industries (Akauntan Nasional, May, 1995). So, it is no longer true that the effect on regional or global harmonisation of CAPA and AFA 'has been zero' as reported by Donleavy (1990) or differences in institutional makeup, including companies laws and securities legislation, and accounting standards-setting mechanisms, as argued by Craig and Dega (1996, p. 251), would pose major problems to accounting harmonisation for ASEAN countries. In addition, both organisations have been successful in making professional accountants throughout the region better known to each other and in disseminating technical knowledge and ideas.

4.6 Summary and Conclusion

This chapter has put forward the widely debated issue of financial reporting regulation. The need for disclosure arises when the ownership structure of a business enterprise moves from a purely owner-manager (proprietor) to a wider ownership by many capital contributors. Regulation can take several modes, from a market driven approach to a highly centralised governmental control. Whatever forms of regulation that could take place are largely determined by the internal as well as external factors inherent in a particular country. For Malaysia, its company law is substantially influenced by UK and Australia company laws which demonstrate the influence of external factors (colonial ties). Its development of accounting standards is also influenced by the role of international inter-governmental and professional accounting bodies which is reflected by the adoption of substantial IASs issued by the ISAC. However, internal factors such as local environments and peculiarity of industry sectors have also created an internal force that has moderated the influence of IASs to those of national accounting standards (MAS). The accounting regulatory structure also shows the importance of accounting regulators either from private or government bodies to work together in safeguarding the public interests by having a proper monitoring and compliance mechanisms in order to upgrade the standards of financial reporting.

CHAPTER FIVE

ACCOUNTING REGULATION IN MALAYSIA

5.1 Introduction

This chapter provides an overview of the accounting regulation currently existing in Malaysia. It includes the main company law, the Companies Act, 1965 and other approved accounting standards issued by the MIA. The Malaysian Companies Act, 1965 was enacted to govern the behaviour of business entity incorporated under the Act. As such all companies have to comply with all the provisions contained in the Act unless they are given certain exemptions by the Registrar of Companies. Besides that, companies also need to comply with the requirements prescribed by the national accounting body, the MIA who issued the IASs and MASs in preparing their annual financial statements. The rest of the chapter is organised as follows: Section 5.2 describes the sources of accounting requirements that need to be complied by business enterprises in Malaysia; Section 5.3 explains the types of business enterprises governed under the Companies Act, 1965; Section 5.4 specifically examine the accounting provisions contained in the Act concerning record keeping, form and contents of financial statements including the items that need to be disclosed in the profit and loss account and the balance sheet. Section 5.5 describes the approved accounting standards and listing requirements that complement the Companies Act governing the preparation of annual reports and disclosure of information. Section 5.6 discusses the concepts of true and fair view and materiality; and lastly Section 5.7 provides a conclusion to the chapter.

5.2 Sources of Accounting Requirements

The sources and status of accounting principles and disclosures required of Malaysian companies may be described under two headings: mandatory; and voluntary or advisory. Those sources which are mandatory include:

1. Legal requirements contained in the Malaysian Companies Act, 1965 and any rules laid down by other Acts or regulatory bodies such as Companies Regulation 1966 and Companies (Winding-up) Rules.

2. International Accounting Standards (IAS) issued by the International Accounting Standards Committee which are approved by the Malaysian Institute of Accountants (MIA) to the extent that they are applicable in Malaysia.

3. Malaysian Accounting Standards issued by the MIA to cater for accounting topics or practices that are specific to Malaysian environment or topics not covered by the IASs.

4. Kuala Lumpur Stock Exchange Listing Requirements. These requirements relate respectively to listed companies whose shares are dealt in either the main board or in the second board.

Those sources which are voluntary or advisory in nature include:

1. Technical Bulletins and other statements issued by the MIA that can be regarded as opinions on best current practice and thus form part of generally accepted accounting principles (GAAP).

2. Exposure Drafts issued by the MIA regarding new accounting standards that will be introduced in the future. The exposure drafts are first distributed to MIA members to get their comments before they are to be enforced as mandatory standards.

5.3 Types of Business Enterprises Governed by the Companies Act, 1965.

The basic legal requirements relating to accounts, audit and financial statements of enterprises incorporated in Malaysia are to be found in Sections 167 to 175, and Schedule 9 of the Malaysian Companies Act 1965. The Act covers all enterprises except insurance companies, government agencies and statutory bodies which are covered under their respective Acts. The Act applies to all companies registered under its provisions. However, the Act does not give precise definition of what constitutes a 'Malaysian company' as it was not mentioned anywhere in the Act. It merely defines 'company' as 'a company incorporated pursuant to this Act or pursuant to any corresponding previous enactment' (Malaysian Companies Act, 1965; Section 4 (1)).

The Act also provides exclusive sections for dealing with foreign companies. These are mentioned in Section 4 and from Section 329 to Section 349. The sections apply to any foreign company only if it has a place of business or is carrying on business within Malaysia (Section 329). The act defines a 'foreign company' as:

a. a company, corporation, society, association, or other body incorporated outside Malaysia; or
b. an unincorporated society, association, or other body which under the law of its place of origin may sue or be sued, or hold property in the name of the secretary or other officer of the body or association duly appointed for that purpose and which does not have its head office or principal place of business in Malaysia.

However, a foreign company is not regarded as carrying on business in Malaysia under the following circumstances as stated in Section 330 (2) if within Malaysia:

a. it becomes a party to any action or suit or arbitration proceeding or effects settlement of an action or suit;
b. it holds meeting of its directors or shareholders or carrying other activities concerning its internal affairs;
c. it maintains any bank account;
d. effects any sale through an independent contractor;
e. it solicits or procures any order which becomes a binding contract only if the order is accepted outside Malaysia.
f. it creates evidence of any debt, or creates a charge on movable or immovable property.
g. it secures or collects any of its debts or enforces its rights in regard to any securities relating to those debts;

h. it conducts an isolated transaction that is completed within a period of thirty-one days, but not being one of a number of similar transactions repeated from time to time;

i. it invests any of its funds or holds any property; or

j. it imports goods only temporarily pursuant to the Customs Act 1967 for the purpose of display, exhibition, demonstration or as trade samples with a view to subsequent re-exportation within a period of three months.

There are four types of incorporated companies namely; a company limited by shares, a company limited by guarantee, a company limited both by shares and guarantee, and an unlimited company (Section 14 (2)). Section 4 gives a precise definition of these types of companies. An unlimited company means a company formed on the principle of having no limit placed on the liability of its members. An insurance company is one example of this type of company. On the other hand, a company limited by shares means a company formed on the principle of having the liability of its members limited by the memorandum to the amount (if any) unpaid on the shares respectively held by them. Further, the Act defines a company limited by guarantee as a company formed on the principle of having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. The most common type of incorporation is one that has limited liability. There are two types of corporate bodies carrying this status in Malaysia, namely, Public companies and Private companies. The former must include the word Berhad (limited) in its name, while the latter must also include the word Sendirian Berhad (private limited). The Act merely defines public company as 'a company other than a private company'. The Act (Section 15) also defines private company in which its articles of association restrict the transfer of shares; where there are less than fifty shareholders; and in which public offers of shares or debentures and invitations for the public to place deposits of any nature are prohibited.

5.4 Accounting Provisions of the Companies Act, 1965.

The Companies Act lay down specific provisions regarding the preparation of accounts under sections 167-171. With respect to audit, the provisions are covered under sections 172-175. The following paragraphs discuss those provisions relating to preparation of accounts, form and contents of financial statements, consolidated accounts and items that need to be disclosed in the profit and loss accounts and the balance sheet, and format of presentation.

5.4.1 Record Keeping Requirements

The Act defines 'accounting records' as 'invoices, receipts, orders for payment of money, bills of exchange, cheques, promissory notes, vouchers and other documents of prime entry and also includes working papers and other documents as are necessary to explain the methods and calculations by which accounts are made up.' It also defines 'account' as profit and loss accounts and balance-sheets and includes notes and statements that should be attached or intended to be read with the two primary financial statements [Section 4 (1)].

Section 167 of the Act requires a company (via its directors and managers) to keep accounting and other records that will sufficiently explain the transactions and financial position of the company, as well as to prepare profit and loss accounts and balance sheet and any documents required to be attached, to give a true and fair view of the results of the company. The records must also be properly kept to be audited (Section 167 (1)).

Section 167 (A) further requires the director or manager of the company to make the appropriate entries in the accounting records within sixty days of the completion of any transactions that have taken place. The records also should be retained for seven years for reference purposes (Section 167 (2)). Subsection 3 of the same section requires such record to be kept at the registered office of the company and shall at all times be opened to inspection by the directors. If the company has operation outside Malaysia, the Act allows the company to keep the accounting and other records outside Malaysia, but it should produce a copy of those records to be kept in Malaysia, and be at all times open to inspection by the directors. This is stipulated in subsection 4 and 5 of the same section.

Subsection 6 further states that the court may order the accounting records of a company to be opened to inspection by an approved auditor, acting for a director, after a written undertaking has been given to the court and the auditor shall not disclose the information obtained except to the director.

In addition to the accounting records explained above, a company is also required to maintain a set of statutory documents such as register and index of members, prospectuses, register of substantial shareholders, register of debenture holders and trust deed, register of share and stock transfer, registration of charges, register of directors' shareholdings, register of directors, managers and secretaries, statutory reports (stating the number of shares allotted and related cash receipts, etc.) and minute book containing the proceedings of any general meetings and meetings of its directors and/or managers.

5.4.2 Form and Contents of Financial Statements

The Act requires the directors of every company to present at its annual general meeting, not later than 18 months after the date of incorporation and subsequently once at least in every calendar year (at intervals of not more than 15 months), a profit and loss account for the period since the preceding account (or for a new company, since the inception of the company) made up to a date not more than 6 months before the date of the meeting [Section 169 (1)]. However, the Registrar may, on application of the company, extend the periods of 18 months, 15 months and 6 months if he thinks fit to do so (Section 169 (2)). At the annual general meeting, the directors are also required to present the balance sheet as at the date to which the profit and loss account is made up. The statements need to be filed no more than one month after approval at the annual general meeting. The two reports also have to be audited before being presented at the general meeting. In addition to the audited profit and loss account and the balance sheet, the directors also have to attach a report, signed by not less than two of the directors, containing the following information:

a. names of directors;

b. principal activities of the company and any significant change in the nature of those activities;

c. the net amount of profit and loss of the company for the financial year after provision for income tax;

d. the amounts and particular of material transfers to and from reserves or provisions;

e. where the company has issued any shares or debentures - the purposes of the issue, the classes of shares or debentures issued, the number of shares of each class and the amount of debentures, and the terms of the issue;

f. whether at the end of the financial year, any arrangements have been made to enable directors to acquire shares or debentures; and if such arrangements exist, the effect of such arrangements should be explained, by giving the names of persons involved;

g. whether at the beginning and/or at the end of the year, any directors who are interested in shares or debentures, and if so, stating the number and amount of shares or debentures involved, and also the total number of shares/debentures bought and sold by him during the year;

h. amount of dividend recommended, paid or declared since the end of previous year;

i. whether the directors have taken reasonable steps in writing off bad debts and the making of provision for doubtful debts;

j. whether the directors are aware of any circumstances that could affect the amount of bad debts written-off or provision for bad debts to be inadequate;

k. whether the directors have taken reasonable steps to ensure that any current assets which are unlikely to be realised have been written down to their expected realisable value;

l. whether the directors are aware of any circumstances (a) that would render the values of current assets to be misleading; and (b) which would render the method of valuation of assets or liabilities to be misleading or inappropriate;

m. whether at the reporting date (a) any charge on the assets of the company has arisen to secure any liabilities (if so, by giving the particulars and amount secured); (b) any contingent liability that has arisen (if so, stating the general nature and the amount involved);

n. whether any contingent liability has become enforceable within the period of twelve months that could affect the ability of the company to meet its obligation;

o. whether at the reporting date, the directors are aware of any circumstances that would render any amount in the accounts to be misleading;

p. whether the results of the company's operation were substantially affected by any item, transaction or event of a material and unusual nature (if so, giving their particulars);

q. whether there has arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a material and unusual nature that could affect substantially the results of the company's operation (if so, giving their particulars);

The expression 'any item, transaction or event of a material and unusual nature' as stated in (p) and (q) above means to include:

a. any change in accounting policies adopted since the previous report;

b. any material change in the method of valuation of the whole or any part of the trading stock;

c. any material item that appears for the first time or not usually included in the accounts; and

d. any absence from the accounts of any material item that are usually included in the accounts.

In addition to the above, the directors also have to state whether any director has received or entitled to receive any benefit by reason of contract made by the company with the director or any firm that he has a substantial interest (Section 169 (8)). If a company is a subsidiary of another corporation, the director should also state the name of the ultimate holding company and the country in which it is incorporated (Section 169 (10)). Where any option has been granted during the financial year to take up unissued shares, the report shall also state the name of person to whom the option has been granted, the number and class of shares, date of expiration of option, the basis upon which the option is exercised, whether the person granted for the option has any right to participate in any share issue of any other company.

The Act also clearly states that the items to be presented in the profit and loss account and the balance sheet shall comply with the requirements of the Ninth Schedule of the Companies Act which lay down the specific items of information to be disclosed in the financial statement.

For financial institutions, the Act clearly states the form and content of the report of the directors and the annual balance sheet and profit and loss account should apply to a banking corporation and licensed finance company, a licensed discount house, a licensed money-broker, a scheduled and unscheduled institution under the Minister responsible for finance according to the provision of the Banking and Financial Institution Act 1989, subject to modifications and exceptions as determined by the Central Bank of Malaysia.

In addition to the audited balance sheet and profit and loss account, a report known as statutory declaration by a director must also be made available during a company's annual general meeting, setting forth his opinion as to the correctness or otherwise of the balance sheet and profit and loss account. Lastly, an auditor's report should also accompany the balance sheet and the profit and loss account during the general meeting.

The concept of 'true and fair view' is also stated in the Act, but it does not define or explain what the term means. Section 169 (14) states that every balance sheet should give a true and fair view of the state of affairs of the company as at the end of the period to which it relates, and every profit and loss account should also give a true and fair view of the profit or loss of the company for the accounting period. This concept is discussed later in Section 5.6.

5.4.3 Consolidated Accounts

Consolidated financial statements are normally prepared by companies to comply with the requirements of law or accounting standards that require disclosure of information concerning the financial position, results of operations and changes in financial position of a group of enterprise. The consolidated financial statements present financial information about the group as that of a single enterprise without regard for the legal boundaries of the separate legal entities. If a Malaysian company has one or more subsidiaries, it must in addition to accounts showing its results and affairs as a separate entity, presents group accounts showing the position of the company and all its subsidiaries as if they were the financial statements of a single entity. A corporation is deemed to be a subsidiary of another corporation if:

a. that other corporation -

i. controls the composition of the board of directors of the first-mentioned corporation;

ii. controls more than half of the voting power of the first-mentioned corporation; or

iii. holds more than half of the issued share capital of the first-mentioned corporation (excluding preference shares); or

b. the first-mentioned corporation is a subsidiary of any corporation which is that other corporation's subsidiary [Section 5 (1)].

The requirement to prepare consolidated accounts is stated in Section 169 (15) which says that any consolidated balance sheet and consolidated profit and loss account of a holding company shall be accompanied by a statement signed by two directors of the company, stating that in their opinion:

a. the consolidated profit and loss account is drawn up to give a true and fair view of the results of all the companies dealt with in the consolidated profit and loss account for the financial year; and

b. the consolidated balance sheet is drawn up to exhibit a true and fair view of the state of affairs of all the companies the affairs of which are dealt with in the consolidated balance sheet as at the end of that period.

As regards to accounting periods of companies within the same group, the Act requires the directors of every holding company to take the necessary steps to ensure that;

a. within two years after the commencement of the Act, the financial years of each of its subsidiaries coincide with the financial year of the holding company; and

b. within two years after any corporation becomes a subsidiary of the holding company, the financial year of that corporation coincides with the financial year of the holding company. If the directors are of the opinion that there is good reason why the financial year of any of its subsidiaries should not coincide with the financial year of the holding company, the directors may apply in writing to the Registrar for an order authorising any subsidiary to continue adopting a financial year which does not coincide with the holding company.

The Ninth Schedule of the Companies Act provides the information that needs to be complied by a holding company. In paragraph 5 (1), it states that every holding company must provide a consolidated profit and loss account of the holding company and of its subsidiary companies eliminating all inter-company transactions and showing separately that part of the profit or loss of the subsidiary companies attributable to shares in subsidiary companies owned other than by the holding company or its subsidiary companies. In subparagraph 2, it further states that the holding company must furnish the name, place of incorporation, principal activities of, and percentage of issued share capital held by the holding company in each subsidiary.

Subparagraph 3 further mentions that a holding company shall prepare a consolidated balance sheet of the holding company and of its subsidiary companies eliminating all inter-company balances and showing separately that part of the net assets of the subsidiary companies attributable to shares in subsidiary companies owned other than by the holding company or its subsidiary companies. Subparagraph 4 further notes that consolidated accounts shall not be required where the company is at the end of its financial year the wholly owned subsidiary of another body corporate incorporated in Malaysia. It also states that consolidated accounts dealing with a subsidiary may not be required if the company's directors are of the opinion that:

i. it is impracticable, or of no real value to members of the company, in view of the insignificant amounts involved, or would involve expense or delay out of proportion to the value to members of the company; or
ii. controlling interest in the subsidiary company is to be temporary; or
iii. the subsidiary company operates outside Malaysia under conditions which impair the exercise by the company of its controlling interest; or
iv. the result would be misleading, or harmful to the business of the company or any of its subsidiaries; or

v. the business of the company and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking.

If the consolidated accounts are not submitted or where the consolidated accounts do not deal with a subsidiary of a company (i) the directors shall disclose by way of a note on their accounts their reason for not causing the accounts of its subsidiary to be consolidated; and (ii) the accounts of each subsidiary which are not consolidated with those of the holding company shall accompany the accounts of the holding company.

Subparagraph 8 further requires a separate heading in the balance sheet of every subsidiary company the extent of its holding of shares in its holding company and in other related corporations.

5.4.4 Disclosure of Items in the Profit and Loss Accounts and Balance Sheet

The Ninth Schedule of the Companies Act lists down the items that need to be shown in the profit and loss accounts and balance sheet by every company formed under the Act. A brief summary of the items is listed below:

5.4.4.1 Profit and Loss Accounts

The information to be disclosed in the profit and loss account is also specified in the Ninth Schedule of the Companies Act 1965. The main headings of the items are listed below:

a. sales or other operating revenue;
b. net balance of profit or loss on the company's trading;
c. gross income from investment in subsidiaries (before tax);
d. gross income (before tax) from other investment in shares in any stock exchange (in or outside Malaysia);
e. amount of interest income and income from rent of land and buildings;
f. amount charged for depreciation, amortisation or diminution in value on fixed assets, intangible assets and investment;

g. amounts charged in respect of interest on debentures, rent for land and buildings, hire of plant and machinery, research and development;
h. profit or loss from sale or disposal of fixed or intangible assets;
i. amount set aside from reserves;
j. amount set aside for other provisions;
k. amount provided for redemption of share capital;
l. provision for income taxes;
m. in respect to tax losses, any amount of tax saving involved;
n. dividends paid and dividend proposed;
o. directors' fees and emoluments and other benefits;
p. amount paid to any third party in respect of services provided to the company;
q. auditor's remuneration;
r. any unusual credit or charges;
s. any prior year credits or charges;
t. any changes in accounting estimates;
u. significant transaction with related corporations.

5.4.4.2 Disclosure of Items in the Balance Sheet

The information to be disclosed in the balance sheet is also specified in the Ninth Schedule of the Companies Act 1965. The main headings of the items are as follows:

a. amount of authorised capital and particulars of issued capital, showing any movement during the period and distinguishing between classes of shares by specifying any rights, preferences or restrictions with regard to payment of dividends, portion of share capital been called up, rates of dividend, and whether participating or cumulative or both to shares other than ordinary shares;
b. the part of issued share capital consisting of redeemable preference shares and details regarding their redemption plan;
c. any share capital on which interest has been paid out of capital and the interest rate;
d. reserves classified into various headings, indicating any movements and restrictions on distribution;
e. income or gain carried forward and the basis for carrying that income or gain;

f. various expenditure carried forward under separate headings;

g. any redeemed debentures which the company has power to reissue;

h. the fixed assets, current assets, liabilities and provisions classified separately under appropriate headings and stating the method used to arrive at the amount of assets under each heading. However, if the amount of any class is not material, it may be included under the same heading as some other class. If any assets of one class are not separable from assets of another class, those assets may be included under the same heading. In case where any assets cannot truly and fairly be shown as either fixed assets or current assets, those assets may be included separately under an appropriate heading;

i. for fixed assets, there must be separate headings for land and buildings, plant and machinery and other categories, stating any restriction as to title, any assets acquired on instalment basis, assets retired from active use, and methods of depreciation used for each category of assets;

j. investments in various sources should be classified under separate headings, stating the methods used to arrive at the amount, showing their respective quoted market values;

k. stocks of assets held for trading should be classified into their main categories, stating their amount at the lower of cost and the net realisable value;

l. stocks of assets representing long-term contract work in progress, stating the methods used to arrive at the amounts, together with amount received as progress payments, advances and retention;

m. separate headings for amount owing by the holding company, its subsidiaries or other related corporations, trade debts and bills receivable;

n. under separate headings, showing the amounts that are redeemable or payable not later than twelve months and those beyond twelve months such as debentures and bank overdraft;

o. under separate headings, amount owing to the holding company, its subsidiaries and to other related corporations and creditors;

p. provision for taxation, distinguishing between taxation payable and deferred taxation;

q. provision for pension or retirement benefits;

r. dividends distinguishing between dividends payable and proposed;

s. arrears of dividend on preference shares;

t. under separate headings, showing contingent liabilities secured and unsecured, any contracts for capital expenditure;

u. schedule of liabilities payable by and debts payable to the company;

The Ninth Schedule also requires every company to prepare a statement of changes in financial position (in case of holding and subsidiary companies, a consolidated statement of changes in financial position) showing separately (i) the funds provided from and used in the operation of the company; and (ii) other sources or uses of funds of the company.

5.4.5 Formats of Financial Statements

Colonial ties have significantly influenced the structure of accounting regulation in Malaysia. This is not surprising since its entire Constitution is based on that of Great Britain, while in the area of company law, it is substantially influenced by that of Australian. Prior to the Companies Act, 1965, the main companies legislation was the Companies Ordinance of 1940, being modelled on the 1929 English legislation. The Companies Act, 1965 was also based on the Australian Uniform Companies Act 1961, which was in turn adapted from the UK Companies Act, 1907, 1929, 1947 and 1948 (Walton, 1986, p. 353; Craig and Dega, 1996, p. 245). The Malaysian Companies Act, 1965 adopted the UK 1948 Act with regard to preparation of consolidated accounts, but follow the Victorian 1961 Act with greater details regarding with disclosure items in the profit and loss account and the balance sheet without considering whether those requirements are relevant in the Malaysian context. For example, prior to 1985, the Act does not require companies to disclose total sales figure and cost of good sold in preparing the profit and loss accounts. As such, investors or investment analysts would not be able to compute profit margin, increase in sales, or increase in costs. They did not know whether an increase in profit for a particular year was a result of increase in total sales, sales unit, sales price or a reduction in production cost.

The Companies Act 1965 also lists down the items that need to be presented in the financial statements but without prescribing the manner of how it should be presented. Realising this, in 1983 the MACPA has taken the initiative to produce its own accounting statements (Statement No. 4 and 5) regarding the formats of presentation in the Profit and Loss Account, Balance Sheet and Statement of Source and Application of Funds. The formats which are in vertical form (all public listed companies in Malaysia follow the vertical format of presentation) are shown in Table 5.1 at the end of this chapter. However, since they are merely accounting statements rather than accounting standards, companies are not obliged to follow them. As such, many listed companies follow their own formats of presentation with some slight variation from the formats presented. The variation of presentation occurs only in the order of items presented. For example, some companies prefer to show the components of equity as the first major items in the Balance Sheet followed by long-term liabilities, fixed assets, long-term debts, current assets, current liabilities and finally arriving at the net current assets (liabilities), whereas some companies prefer to start with the components of fixed assets followed by current assets and current liabilities to arrive at the net current assets (liabilities), and then followe by the components of equity and long-term liabilities. Surprisingly to say that since the statement has been issued in 1983, the MIA has not yet adopted or modifies them as an approved accounting standards. The organisation might believe that it is better to be flexible in this matter by allowing companies to present information in a way that suit their interest. However, by introducing some formats of presentation to be followed by companies is better than having nothing. At least, the degree of variation can be reduced so that comparability measures can be undertaken.

5.5 Approved Accounting Standards and Listing Requirements

Besides the provisions contained in the Companies Act, approved accounting standards issued by the MIA and MACPA and the KLSE listing requirements also exert significant influence on the extent of disclosure by companies.

5.5.1 International Accounting Standards (IAS)

IAS are formulated and published by the International Accounting Standards Committee (IASC) which was set up in 1973. Since the Malaysian Institute of Accountants is a member of the IASC, it has agreed to support the objectives of the IASC as stated in paragraph 4(i) of the MIA's Preface to Statements on IAS:

"to support the work of IASC by publishing in their respective countries every International Accounting Standard approved for issue by the Board of IASC and by using their best endeavours:

(i) to ensure that published financial statements comply with International Accounting Standards in all material respects and disclose the fact of such compliance."

An IAS approved by the MIA will be supplemented by an explanatory Foreword on its status. Where there is any conflict between an IAS and Malaysian law or other regulation, the Foreword will provide the appropriate guidance for the members' attention. Furthermore, the Foreword may provide explanations of Malaysian circumstances which are not covered by an IAS or which affect the applicability of an IAS or part thereof. The IASs which have been fully adopted by the MIA and to be complied with by reporting enterprises are listed in Table 5.2 below:

Table 5.2: Approved International Accounting Standards

IAS No.	*Title of IAS*	*Operational Date*
	Preface to Statements on International Accounting Standards	1.1.1983
IAS 1	Disclosure of Accounting Policies	1.1.1978
IAS 2	Valuation and Presentation of Inventories in the Context of the Historical Cost System	1.1.1978
IAS 3	Consolidated Financial Statements (Superseded by IAS 27 and IAS 28)	1.1.1978
IAS 4	Depreciation Accounting	1.1.1978
IAS 5	Information to be Disclosed in Financial Statements	1.1.1979
IAS 6	Accounting Responses to Changing Prices	Withdrawn
IAS 7	Cash Flow Statement [replacing Statement of Changes in Financial Position previously enforced in 1979]	1.1.1996
IAS 8	Unusual and Prior Period Items and Changes in Accounting Policies	1.1.1979

Table 5.2: Approved International Accounting Standards (Ctd.)

IAS 9	Accounting for Research and Development Activities	1.1.1980
IAS 10	Contingencies and Events Occurring After the Balance Sheet Date	1.1.1980
IAS 11	Accounting for Construction Contracts	1.1.1982
IAS 12	Accounting for Taxes on Income	1.1.1983
IAS 13	Presentation of Current Assets and Current Liabilities	1.1.1982
IAS 14	Reporting Financial Information by Segment	1.1.1983
IAS 16	Accounting for Property, Plant and Equipment	1.1.1983
IAS 17	Accounting for Leases	1.1.1987
IAS 18	Revenue Recognition	1.1.1985
IAS 19	Accounting for Retirement Benefits in the Financial Statements of Employers	1.1.1991
IAS 21	Accounting for the Effects of Changes in Foreign Exchange Rates	1.1.1987
IAS 23	Capitalisation of Borrowing Costs	1.1.1986
IAS 25	Accounting for Investment	1.1.1993
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1.1.1993
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	1.1.1993
IAS 28	Accounting for Investments in Associates	1.1.1993
IAS 31	Financial Reporting of Interests in Joint Ventures	1.1.1994

In addition there are also other IASs which are at the exposure draft stage and will be enforced in due time. They are listed in Table 5.3 below:

Table 5.3: MIA Exposure Draft

IAS No.	*Title of IAS*	*IASC Operational Date*
IAS 2	(Revised) Inventories	1995
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (Revised 1993)	1995
IAS 16	Revised (Property, Plant and Equipment)	1995
IAS 24	Related Party Disclosure	1986

5.5.2 Malaysian Accounting Standards (MAS)

MASs are produced and issued by the MIA as part of its efforts to define accounting standards and harmonise accounting practices in Malaysia. They are intended to cover topics not dealt with by the IAS or topics which bear particular features of the

Malaysian environment which necessitate domestic accounting standards to address such particular features. Further guidance in the form of Technical Bulletins is issued to members when it is deemed necessary. Table 5.4 below shows the MASs produced so far by the MIA.

Table 5.4: Approved Malaysian Accounting Standards

MAS No.	*Title of MAS*	*Operational Date*
MAS 1	Earnings Per Share plus Guidance Notes & Examples	1.1.1984
MAS 2	Accounting for Acquisition and Mergers	1.1.1989
MAS 3	Accounting for General Insurance Business	1.1.1992
MAS 4	Accounting for Life Insurance Business	1.1.1992
MAS 5	Accounting for Aquaculture	1.1.1992
MAS 6	Accounting for Goodwill	1.1.1994
MAS 7	Accounting for Property Development	1.1.1994

Other IASs and MASs that are being considered by MIA for exposure draft are listed in Table 5.5 below:

Table 5.5: IASs and MASs Being Considered for Exposure Draft

IAS/MAS No.	*Title of IAS/MAS*	*IASC Operational Date*
	Framework for the Preparation and Presentation of Financial Statements	1989
IAS 9	Research and Development Costs (Revised)	1995
IAS 11	Construction Contracts (Revised 1993)	1995
IAS 18	Revenue (Revised 1993)	1995
IAS 19	Retirement Benefit Costs (Revised 1993)	1995
IAS 21	The Effects of Changes in Foreign Exchange Rates (Revised 1993)	1995
IAS 22	Business Combination (Revised 1993)	1995
IAS 23	Borrowing Costs (Revised 1993)	1995
IAS 30	Disclosure in the Financial Statements of Banks and Similar Financial Institutions	1991
MAS 8	Accounting for Pre-Cropping Expenses	-

MIA has also prepared two MASs which were still in draft form namely Accounting for Investments and Accounting for Investments in Associates and Joint Ventures and also a technical bulletin on Accounting for Transferable Subscription Rights (TSR)/Warrants which together represent opinions on best current practice and form part of the generally accepted accounting principles (GAAP).

5.5.3 Kuala Lumpur Stock Exchange (KLSE) Listing Requirements

In addition to the requirements imposed by provisions in the Companies Act 1965 and the approved accounting standards by the MIA, the KLSE also plays an important role in shaping the amount of information to be shown in corporate reports. With respect to corporate disclosure policy, the KLSE requires every listed company to comply with the requirements contained in the Companies Act 1965 as well as the approved accounting standards issued by the MIA and MACPA. Furthermore, the KLSE also requires them to make available to the public information necessary to informed investing; and to take reasonable steps to ensure that all who invest in its securities enjoy equal access to such information. To achieve this fundamental principle, the KLSE has adopted six specific policies concerning disclosure as follows:

1. Policy on immediate public disclosure of material information.
2. Policy on thorough public dissemination.
3. Policy on clarification or confirmation of rumours and reports.
4. Policy on response to unusual market action.
5. Policy on unwarranted promotional disclosure.
6. Policy on insider trading.

Out of all these policies, policy (1) above seemed to be more relevant to the discussion about disclosure of information in annual reports even though the KLSE does not state specifically so. It states that 'A listed company is required to make immediate public disclosure of all material information concerning its affairs, except in exceptional circumstances.'

It then sets out the standards that should be employed to determine whether disclosure should be made. Paragraph 335 (1) (b) states that immediate disclosure should be made of information about a company's affairs or about events or conditions in the market for the company's securities which meets either of the following standards:

i. where the information is likely to have a significant effect on the price of any of the company's securities; or
ii. where such information is likely to be considered important, by a reasonable investor, in determining his choice of action.

In Part 10, paragraph 4, the KLSE Listing Requirements give specific examples (not a complete list) of a company's affairs or market conditions typically requiring disclosure:

i. a joint venture, merger or acquisition;
ii. the declaration or omission of dividends or the determination of earnings;
iii. a share split or dividend;
iv. the acquisition or loss of a significant contract or franchise;
v. a significant new product or discovery;
vi. a change in control or a significant change in management;
vii. a call of securities for redemption;
viii. the borrowing of a significant amount of funds;
ix. the public or private sale of significant amount of additional securities;
x. significant litigation;
xi. the purchase or sale of a significant asset;
xii. a significant change in capital investment plans;
xiii. a significant labour dispute or disputes with sub-contractors or suppliers;
xiv. a tender offer for another company's securities;
xv. an event of default on interest and/or principal payments in respect of loans.

Prior to application for listing in the main board or in the second board, the KLSE also requires applicant to provide the following details:

a. a title page giving details of the firm i.e. name, address, date and place of incorporation, class of shares/stocks applied for and par value;
b. capitalisation of the company - designation of stock, par value, number of shares (authorised and unissued), names of shareholders and respective number of shares held, names of company officers and directors and their respective shareholdings;
c. details of each issue or series of long term or funded debt of the firm and its subsidiaries;
d. brief description of the history and nature of business;
e. information on patents, patent rights, licences, processes, franchises or other similar intangible assets;
f. a summary of earnings for the last 5 years;
g. tabulated balance sheet of the company for the last 5 years;
h. brief description of properties, plant and equipment of the applicant and its subsidiaries;
i. number of employees and details of labour relations problems within the last 3 years;
j. list of subsidiaries and companies in which company has equity interest of 10% or more;
k. details of securities issued within the last 5 financial years;
l. dividend record of the company;
m. details of any litigation or contingent liabilities of the company or its subsidiaries;
n. information of the management of the company;
o. details of interest of management in any material transactions of the firm or its subsidiaries; and
p. description of the business, financial and accounting policies of the company.

Besides the above, the applicants are also required to provide a copy of supporting paper as follows:

1. the Memorandum and Articles of Association, certificate of incorporation and certificate of change of status;
2. financial statements - a copy of annual reports of preceding 3 financial years;

3. profit and cash flow forecasts for the current financial year with a statement of the assumptions for the forecast.

5.6 The Concepts of 'True and Fair View' and Materiality

As has been mentioned above, the Companies Act requires every balance sheet and profit and loss account not only to comply with the requirements of law, but also to give a 'true and fair view' of what they are supposed to represent. The Act also (Section 169) requires directors to disclose any item, transaction or event of a material nature that could affect substantially the results of the companies' operations. The two concepts will be discussed below.

5.6.1 The Concept of 'True and Fair View' (TFV)

The Act is silent on what is meant by TFV. As such, it is opened to varied interpretation by users and especially by preparers of corporate reports. The term originates from the UK which firstly appears in the Joint Stock Companies Act of 1844 but using the term 'full and fair' which states that '...the Directors...shall cause... a full and fair Balance Sheet to be made up...' (s. 35). However, there was no definition of the Act as to what it means; but in just one year's time, the Companies Clauses Act of 1845 required the keeping of 'full and true' accounts and the preparation of 'an exact Balance Sheet' showing "a true Statement of the (assets and liabilities)...and a distinct view of the profit and loss...of the period..." (ss. CXV and CXVI). Subsequently, the Joint Stock Companies Act of 1856 was introduced and the 1844 Act repealed. Article 69 of the Act demands that 'true accounts' be kept and article 71 requires that:

> "...every item of expenditure fairly chargeable... so that a just profit and loss..."

Article 74 required auditors to ascertain the correctness of the balance sheet. So, these few articles use the words 'true', 'fairly', 'just' and 'correctness'. Later on in the Companies Act 1862 the term 'true and correct view' was added as stated in paragraph 94 of Table A which states that 'The auditors shall make a report....upon the Balance

Sheet and Accounts...in their opinion, the Balance Sheet is a full and fair Balance Sheet...properly drawn up to exhibit a true and correct view of the state of the company's affairs...' In the Companies Act 1900 the term 'full and fair view' was dropped and only the term 'true and correct view' was used. However, after considering the advice of the accountancy profession, it was thought that the word 'correct' was too precise to reflect the practice of accounting and auditing and as such it was replaced with the word 'fair'. So the term 'true and fair view' was then consolidated into the 1948 Act (Nobes, 1993) which states that 'Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account of a company shall give a true and fair view of the profit or loss for the financial year.'

Later on, in the UK Companies Act 1985, a wider view of the application of the TFV was given. The requirements of the Act override all other accounting requirements of the Act and accounting standards. In section 226 (4) and 227 (5) it points out that if the financial statements drawn up in compliance with the Act do not provide sufficient information to give a true and fair view, then the necessary additional information must be given in the accounts or in the notes thereto. In order to enhance the meaning of TFV, the Act goes further by stating:

> In rare circumstances it is possible that compliance with any of the provision of the Act, even when supplemented by additional information, would be inconsistent with the requirement to give a true and fair view. In these cases the directors must depart from the specific provisions to the extent necessary to give a true and fair view (i.e. use the 'true and fair override') but disclosure must be made in a note of the particulars of the departure, the reasons for it and its effect. (ss. 226 (5) and 227 (6)).

As with Malaysia, there is no authoritative definition from a judge or an accountancy body or from the Companies Act in UK regarding the term 'true and fair view'. As Flint (1982, p. 2) points out, true and fair is a philosophical concept and the fact that it is not susceptible to definition by a comprehensive set of detailed rules is its 'most fundamental and characteristic feature'. He further argues that what is perceived to be true is 'ultimately a matter of ethics or morality' (p.30). This may seem to imply that preparers, auditors and the users of corporate reports all share a common understanding of the objectives of financial reporting, and all of them may have agreed that (in some indefinable way) choices have to be made between alternative accounting procedures by managers, verified by auditors and accepted by shareholders on the basis of a consensus as to what is fair. However, as Rutterman (1984) suggested, the term comprises both 'fairness of presentation (i.e. lack of bias as between the different users of financial information) and the 'recognition of economic substance rather than mere legal form'. Both fairness of presentation and substance over form have received considerable importance in recent years due to the rise of 'creative accounting' practices.

The term TFV could also mean detailed compliance with a set of 'generally accepted accounting principles' contained in company law and accounting standards as being practised in US. The UK legislation specifically requires companies to digress from accounting rules in the Companies Act where it is necessary to give a true and fair view, and it is the counsel's opinion that compliance with accounting standards is only *prima facie* evidence that a true and fair view has been given. This means that TFV involves, on occasion, more than just mere compliance with the rules currently in existence (Hoffman and Arden, 1983).

The rationale of not having any definition either in the Malaysian Companies Act 1965 or in the UK Companies Act regarding the term TFV is may be that the particular meaning of the term can change with the passage of time in order to suit the change in business environment and to accommodate any new accounting standards that could be introduced in the future. Therefore Nobes (1993) suggests that in examining the term TFV, one has to distinguish between the signifiers (the words 'give a true and fair view') and the signified (the underlying idea or the meaning of it in a particular circumstances). He argues that what is signified by a particular signifier can change, for example it might, over time, become necessary to disclose transfers from reserves or to include current value information. Renshall and Aldis (1985, p. 10) also mention that the concept of true and fair presentation involves questions of judgement which cannot be prescribed in law, but which are frequently governed by generally accepted accounting practices, such as the Statements of Standard Accounting Practice (SSAP) and the International Accounting Standards (IASs).

5.6.2 The Concept of Materiality

The term 'materiality' has been widely used in various accounting studies with respect to disclosure of accounting information. It acts as the criterion to decide whether a particular item of information needs to be disclosed or not in the corporate annual report of a firm after considering the nature of the transaction involved. In the case of Malaysia, the Companies Act 1965 uses the term sparingly as in the following sections:

Section 169 (6) (p) - The directors report shall state 'whether the results of the company's operations the financial year were......substantially affected by any item, transaction or event of a *material* and unusual nature.....'

Section 169 (6) (q) - The directors report shall state 'whether there has arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a *material* and unusual nature.....'

Section 169 (7) then defines the scope of the expression 'any item, transaction or event of a material and unusual nature' to include but not limited to:

a. any change in accounting policies adopted since the previous report;
b. any *material* change in the method of valuation of the whole or any part of the trading stock;
c. any *material* item that appears for the first time or not usually included in the accounts; and
d. any absence from the accounts of any *material* item that are usually included in the accounts.

Again, in the Ninth Schedule of the Companies Act 1965, the term 'material' has been used not less than fifteen times. However, the Act itself does not define what is meant by 'material'. Most of them relate to the quantification or amount of money involved by a firm in a particular business transaction. The term 'materiality' is therefore could be said to be subjected to a wide usage of professional judgement. An item that could be considered as 'material' to one firm may not be applicable to another firm. The following discussion would explain the meaning of the term according to various accounting researchers and accounting bodies.

The IASC (1995), in discussing the qualitative characteristics of financial information, states that the relevance of information is affected by its nature and materiality. It then explains the nature of the term rather than giving a clear definition as follows:

> Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristics which information must have if it is to be useful.

From the explanation above, it is obvious that the term relies on the use of professional judgement in determining whether a particular item could be regarded as material or not. For example, the words 'size of the item' above give a flexible avenue for the preparer of financial statement to establish some bases or specific quantitative guidelines in judging whether a particular item is considered as material or not. In the USA, the Securities Exchange Commission issued some quantitative guidelines in making materiality judgement (FASB, 1996; p. 80) regarding certain disclosure items. For instance, certain costs and expenses that exceed one percent of total sales and revenue should be disclosed.

In Australia, the Australian Accounting Research Foundation in its Exposure draft (ED42B) define materiality as the 'quality used to assess the extent to which relevant and reliable information may be omitted, misstated or not disclosed separately without having the potential to adversely affect the decisions of an economic nature made by users of a particular set of financial statements or of the rendering of accountability by preparers' (Mathews and Perera, 1991).

In the USA, the Financial Accounting Standards Board (FASB) in its Concepts Statement No. 2 defines materiality as follows:

> The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. (Kam, 1990).

In Malaysia, the term materiality, as mentioned above, has not been defined but since the accounting bodies in Malaysia are members of the IASC, the explanation of the term by the IASC would be followed. Case law would provide clearer explanation of the term as shown in the following case.

A case of an 'insider trading' cited by Ngee (1992) below may explain one aspect of the term 'materiality'. In PP v Allan Ng Poh Meng (1990) 1 MLJ V, the accused was a shareholder of Company A who acquired one million shares in Company B while in possession of information concerning B's request to the Stock Exchange of Singapore Ltd to lift the suspension of trading of B shares. The defendant contended that the information communicated to him by officers of Standard Chartered Merchant Bank did not fall within the description of information which if generally available would be likely to materially affect the price of the shares. The district court judge dismissed this contention and held:

> The further element of the statutory test concerns 'materiality'. The section provides that the information may well materially affect the price. It may be that what is a material price increase in one case may not necessarily be a material price increase in another case. It all depends on the share and the circumstances obtaining at the time. However, the standard by which materiality is to be judged is whether the information on the particular share is such as would influence the ordinary reasonable investor in deciding whether or not to buy or whether or not to sell that share. A movement in price which would not influence such an investor, may be termed immaterial. Price is, after all, to a large extent determined by what investors

> do. If generally available, it is the impact of the information on the ordinary reasonable investor, and thus on price, which has to be judged in an insider dealing case. (p. 27).

The court also emphasised that the test is an objective one and counselled that:

> If an insider has any doubt about the legitimacy of dealing while in possession of information acquired, by reason either of being a connected person, or by having an association or arrangement with a connected person, then he should not deal. He should not deal because his doubts are ... telling him that the information may well have a price impact. (p. 28).

In the UK, Schedule 4 of the Companies Act 1965 explains the nature of dealing with the term 'materiality' when preparing the financial statements. It states that:

> Whether an amount is or is not material should be judged by reference to the needs of the users of the financial statements and in cases of doubt it should be treated as material. What must be decided is whether the item or matter is of significance to the user of the financial statements in relation to the specific provision of Schedule 4 (Accounts Format) under consideration. No arbitrary percentage yardstick can be applied in judging whether an amount or other disclosure is not material. Qualitative factors must also be considered. In this respect disclosure of an item, such as auditors' remuneration, cannot be considered immaterial regardless of its size in relation to other costs shown in the profit and loss account.

The discussion above indicates that there are many factors that could influence materiality judgement, which may include the nature and size of the judgement item in question, the size of the enterprise, its financial condition and recent changes in condition, present and recent profitability and many other significant factors. In order to safeguard the public interest it is necessary that some guidelines be established in exercising the materiality judgement. Guidelines based on quantitative and/or qualitative measures would greatly facilitate the preparers of account in presenting financial information in annual reports so as to benefit the users at large.

5.7 Summary and Conclusion

This chapter described the accounting requirements provided under the Malaysian Companies Act, 1965, the approved accounting standards and the KLSE listing requirements. In order to ensure its compliance by companies it is imperative that the relevant governing bodies and the accounting professions responsible for regulating disclosure requirements work closely with another and introduce proper monitoring mechanisms. The Companies Act should be regularly revised to keep pace with the changing business environment especially in introducing new regulations with the purpose of safeguarding the interest of the general users. The same applies to accounting standards which require continuous revision or formulation of new accounting standards that suit the local business environment. Proper guidelines are also necessary on matter of grey areas such as in applying the concepts of 'true and fair view' and 'materiality'. This would ensure that the quality of financial reporting is of high value and at the same time satisfies the needs of the general users of financial statements.

Table 5.1

MACPA Statement No. 4: Format for the Presentation of Financial Statements

The Blank Company Berhad
(Incorporated in Malaysia)
Balance Sheet as at 30th April, 1975.

	1975 RM'000	1974 RM'000
Employment of Capital		
Fixed Assets (notes 2 & 3)	12,401	7,040
Interest in Subsidiary Companies (notes 4 & 5)	1,770	960
Amounts Owing by Related Corporations	130	75
Investments (note 6)	4,790	2,365
Current Assets:		
Stock and work-in-progress (note 1(c))	3,234	1,862
Hire purchase debtors (note 7)	517	402
Trade debtors and bills receivable less provision for doubtful debts RM64,000 (1974 - RM43,000)	1,496	1,127
Other debtors and prepayments (note 8)	423	299
Deposits with:-		
Quoted corporations	2,600	1,700
Unquoted corporations	100	100
Cash and bank balances	56	34
	8,426	5,524
less:		
Current Liabilities and Provisions:		
Trade Creditors	1,831	904
Other creditors and accrued liabilities	287	215
Taxation	1,302	613
Short term loans - secured (note 9)	200	200
- unsecured	100	100
Bank overdraft (unsecured)	-	65
Bank loan (note 9)	-	200
Provision for plant overhaul	150	125
Proposed ordinary dividend (net)	735	635
	4,605	2,467

Table 5.1 (Ctd.)

Net Current Assets	3,821	3,057
Expenditure Carried Forward (note 10)	-	70
	22,912	13,497
Share Capital (notes 11 to 13)	16,000	7,650
Share Premium (note 14)	280	-
Reserves (note 15)	3,250	2,502
Share capital and reserves	19,536	10,152
Deferred taxation (note 1 (e))	940	594
Long term and deferred liabilities (notes 16 and 17)	1,834	1,779
Amount owing to holding company	602	972
	22,912	13,497

The above balance sheet is to be read in conjunction with the notes on the accounts on pages 8 - 17.
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The Blank Company Berhad
(Incorporated in Malaysia)
Profit and Loss Account for the year ended 30th April, 1975

	1975 RM'000	1974 RM'000
Profit before taxation (note 18)	2,978	1,375
Less:		
Taxation (note 19)	1,643	565
Profit after taxation	1,335	810
Add:		
Extraordinary item:-		
Profit on sale of freehold land	220	-
Net profit for the year	1,555	810
Profit unappropriated brought forward from the previous year	612	489
Profit available for appropriation	2,167	1,229
Dealt with as follows:		
Transfer to reserves (note 15)	540	240

Table 5.1 (Ctd.)

Dividends:-		
Paid (net)		
Dividend on redeemable cumulative preference shares of 8%	43	43
Dividend on participating preference shares of 7 1/2%	23	23
Proposed (net) ordinary dividends of 8 1/2% (1974 10%)	735	381
	1,341	687
Profit unappropriated	826	612

The above profit and loss account is to be read in conjunction with the notes on the accounts on pages 8 - 17.
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The Blank Company Berhad (Incorporated in Malaysia)
Statement of Source and Application of Funds
for the year ended 30th April, 1975

	1975 RM'000	1974 RM'000
SOURCE OF FUNDS		
Profit before taxation	3,266	3,450
Adjustment for items not involving the movements of funds:		
Depreciation	221	207
Expenditure carried forward	28	-
Surplus on disposal of fixed assets	(5)	(210)
	244	3
Funds generated from operations	3,510	3,447
Funds from other sources:		
Sale of investments	-	383
Sale of fixed assets	12	232
Call loans repaid	-	5
	3,522	4,067

Table 5.1 (Ctd.)

Less:

APPLICATION OF FUNDS		
Dividends paid	1,167	1,167
Tax paid	1,455	564
Purchase of investments	-	4
Purchase of fixed assets	452	675
Expenditure carried forward	26	22
Loans to associated companies	161	52
	3,262	2,485
	260	1,582

CHANGES IN WORKING CAPITAL

Stores	(9)	(16)
Produce stocks	(313)	134
Debtors and prepayments	146	104
Creditors and accrued charges excluding taxation	(19)	(113)
Fixed deposits	500	1,537
Euro dollar bonds	-	(81)
Short term deposits	-	(51)
Bank and cash balances	(45)	68
	260	1,582

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CHAPTER SIX
RESEARCH METHODOLOGY AND HYPOTHESES

6.1 Introduction

The primary aim of this research is to examine the pattern of disclosure in financial reporting by profit seeking enterprises in Malaysia. It is hoped that a conclusion can be drawn about the pattern of financial reporting in respect of its compliance with disclosure rules and its satisfaction in meeting the perceived needs of its various users.

This study will determine a set of items of information to form the basis for analysis in the following chapters. This set of information will then be used to determine the level of regulation, the ordered preference of the items perceived by the users and the intensity or frequency of disclosure of these items by the selected firms.

The first objective of this study is to examine the change in the amount of information provided in the corporate reports for a particular period. In this particular study, it will allow one to examine the trend of disclosure pattern in the annual reports of Malaysian companies from 1974 to 1994 using three annual reports (1974, 1984 and 1994) from each company and also enable one to examine the possible influence of firm-specific factors on the level of disclosure by companies.

The second objective of this study is to examine whether each selected item of information is of equal importance to each and every identified user group in Malaysia. From this finding, it will either support or refute the hypothesis that corporate reports issued in Malaysia can truly be referred to as 'general purpose' reports. From these two objectives, it is hoped that a conclusion can be drawn about the disclosure pattern and trend in respect of its compliance with disclosure regulation and its satisfaction of perceived importance of disclosure items by users of corporate reports in the country.

The rest of the chapter is organised as follows: Section 6.2 discusses the conceptual and operational definitions of 'adequacy' of corporate disclosure; whereas in Section 6.3 the conceptual and operational definitions of consensus and perception are delineated; Section 6.4 discusses the issue on varying information needs of various user groups; Section 6.5 outlines the hypotheses developed for the study; Section 6.6 describes the construction of information items to be included in the disclosure checklist; Section 6.7 describes the development of the disclosure index to measure the extent of disclosure by companies; and finally, Section 6.8 summarises the discussion in the chapter and concludes the chapter.

6.2 Measuring Adequate Disclosure

This section discusses two important issues, namely the conceptual and operational definition of 'adequacy' of corporate disclosure. Since financial disclosure is an abstract concept, it necessitates a rigorous investigation of how to measure it or to come out with a set of 'acceptable' measures. There are two main criteria for testing the goodness of measures, namely validity and reliability. Validity tests how well an instrument that is developed measures the particular concept it is supposed to measure. On the other hand, reliability tests how consistently a measuring instrument measures whatever concept it is measuring (Sekaran, 1992). In other words, validity is concerned with whether one is measuring the right concept, and reliability is concerned with stability and consistency in measurement. Mock and Grove (1979), using a purposive view of measurement, define a measurement system as a specified set of procedures that assigns numbers to objects and events with the objective of providing valid, reliable, relevant and economical information for decision makers. Even though their definition is based on the study of an organisation's formal information system, it enhances the importance of developing a valid and reliable measurement when one tries to develop a measure of a particular concept. They then provide four characteristics of measurement as follows:

1) Reliability: 'How much error is there in the measurement process?'
2) Validity: 'Are the relations among the numbers the same as the relations among the actual objects?'
3) Scale type: 'Interval, ratio or other type scale?'
4) Meaningfulness: 'Is the truth content of numerical statements *constant* given alternative measurement scales?'

Mock and Grove (1979, p. 20) also define 'measurement' as 'an assignment process where numbers are assigned to represent some attribute of an object or event of interest.' In other words 'measurement' is an operational procedure by which one assigns numerals, numbers or symbols to empirical objects or properties (variables or items of investigation). In carrying out any empirical research, it is important to state clearly the operational procedures involved in assigning these numbers so that it will ensure that the same set of results can be achieved if another investigator was to use the same data set and followed the same procedure. It will also enable the reader to assess the quality of the measurement tool being used.

Reducing abstract concepts such as 'financial disclosure' or 'disclosure adequacy' so that it can be measured is called operationalising the concepts. In order to operationalise such concepts so that they become measurable, one has to look at the behavioural dimensions, facets, or properties denoted by such concepts, and categorising these into observable and measurable elements. In this case, in order to convey the relevance and validity of the measurement rules used, the dimensions which the measurement is supposed to measure have to be specified by operational definitions so that the methods by which numbers have been substituted for the values of the dimensions are clearly understood.

6.2.1 Operational Methodology

In order to measure the concept of 'disclosure adequacy', the following steps will be followed:

1. Determine the extent or scope of the construct 'adequate disclosure' so that it is validly defined and ascertained.
2. State clearly the empirical procedures involved.
3. Categorise and list down all the important dimensions or elements of the construct.

In the first two steps, validity relates to the degree of congruence between the conceptual definition of the nature of adequate disclosure and the operational definition of the disclosure index, i.e. the disclosure score. In other words, the construct validity of 'adequate disclosure' testifies how well the results obtained from the use of the measure fits the theories around which the test is designed.

The question that arises is whether the score achieved by a company, represents everything that the concept of 'adequate disclosure' conveys? The answer would depend on the degree of refinement of the operational definition of 'adequate disclosure' that one use to investigate and extend its degree of congruence with its conceptual definition. In this context, adequacy may be referred as the standard of excellence in presentation of information in annual reports, which can be measured along a range from excellent to poor. It has been used in prior studies to measure whether annual reports have fulfilled the minimum standard of disclosure as required by laws or accounting standards, or whether the annual reports have been able to meet the needs of various user groups. As such, the focus of disclosure being measured will determine the interpretation of the measurement.

This research is concerned with the determination of the adequacy of disclosure in annual reports of public listed companies in Malaysia by relating the contents of information in those reports to the perceived needs of users and disclosure requirements. In other words, the focus of this research with regard to the concept of 'adequate disclosure' is twofold. Firstly, it seeks to examine whether the corporate annual reports have complied with the minimum disclosure requirements as required by laws, rules and accounting standards of the relevant authorities. Secondly, it tries to investigate the degree of importance attached by users on the information items in the annual reports. This will give an indication whether the information disclosed by companies through the annual reports not only comply with the requirements of law but also correspond to the needs of its user groups.

With regard to the first measure of 'adequate disclosure' above, that is, compliance with regulatory requirements, this study tries to ascertain the extent to which what is disclosed agrees with what is required to be disclosed. Many research studies on disclosure of information by profit-seeking enterprises, so far have concentrated on measuring adequacy in the context of the importance of selected information items to some user groups and compare it with the same user groups in other countries. Little research has been done on the compliance of such annual reports with disclosure regulations, especially in developing countries. As such, this study seeks to expand the literature on this issue by ascertaining the degree of compliance with the accounting regulatory regime in Malaysia. In pursuing such an endeavour, one would be able to see that, if what the users desire agree with what the law requires, the measure of degree of compliance (as described above) can also be used to measure the degree of relevance of the information items to the needs of users.

6.3 Conceptual and Operational Definitions of Consensus and Perception

Consensus connotes different things to different people. Collin's dictionary defines it as 'general or widespread agreement'. Partridge (1971) states that 'consensus refers to types of relationships which may obtain between members of a society with respect to almost all their social activities and interactions.' In this study, consensus is defined in terms of agreement on the degree of importance of contents of financial statements analysed under individual item-by-item basis.

The degree of consensus within a user group and between user groups can be measured by asking each individual to rank each item of information that may appear in the annual reports according to his/her perception of its usefulness or importance for decision making purposes. This type of measurement can be done to determine if there is widespread agreement on each item of information. The procedure relies on the assumption that users' perceptions can be solicited by asking them to give opinion on each item. In other words, perception may accord with reality.

Collin's dictionary defines perception as 'the process by which an organism detects and interprets information from the external world by means of the sensory receptors.' McBurney and Collings (1984) also provide similar meanings of perception by stating that it is 'the study of the processes by which an organism becomes aware of or responds to the environment.' They also provide five characteristics of perception as follows:

1. Perception is selective.

Of the various types of physical events that take place in the world, one is sensitive to only a fraction of them. For example, a particular user group may be interested to look at the profit figure and dividend amount in the financial statement, rather than looking into all items of information.

2. Perception is adaptive.

One tends to adapt to the environment in which he/she lives in. For instance, a particular user group might change his evaluation about a firm's performance by looking at other indicators (besides profit figure) such as the firm's contribution to the preservation of healthy environment, if at that particular period, there has been a growing demand by various groups in the society for companies to be more socially responsible for their activities.

3. Perception is ordinarily veridical.

This means one ordinarily perceives the world as it 'really is' to a surprising degree. A user group may perceive an annual report as a document that really represents everything about a company's performance. This may not be true as in some cases, for example, the historical cost of a fixed asset which were bought twenty years ago may not reflect the current prices, even though provision for depreciation was provided every year.

4. Perception is controlled by patterns.

This means that one responds to the way in which stimuli are distributed in time and space; rather than to the total amount of stimulus energy. This characteristic is quite related to the second one. A simple example is the effect or influence of 'political statement' by political figures on share prices. For a certain user group, the 'political statement' is seen as a significant factor that could influence share prices. He or she would then refrain from buying or selling his/her shares for a particular time period for afraid of making loss, without considering other factors that might affect the price of shares.

5. Perception is active.

This means that human beings spend considerable time in exploring, manipulating, and structuring their environment. A person who has limited accounting knowledge but is eager to know more about a company's performance would find possible ways to understand the annual reports either by seeking professional advice or reading the necessary accounting textbooks to enhance his knowledge.

Based on the above discussion, it can be said that perception may not necessarily accord with reality, which means perception can be different across individuals. In this study, perceptions of users on items of information will be captured by asking users to indicate the degree of importance they attach to items of information which are or expected to be disclosed in annual reports of companies. This approach is chosen because it provides greater flexibility to a researcher and has been used in many previous studies on the perceptions of users of annual corporate reports.

6.4 User Groups and Their Information Needs

The various user groups of annual reports have been discussed in chapter three. The question that arises is that one user group may perceive an item of information differently from another user group. This is because each user group has different information needs to fulfil their particular purposes. Since user groups are not homogeneous, annual reports have to be tailored in such a way that they are capable of meeting the various needs of users for decision making. In this respect, Solomons (1989) provides a starting point for considering the information needs of users:

> If ...the main concerns of the primary group of users of general purpose financial reports are with profitability and the viability of enterprises in which they have an interest, that points to the need for financial statements that at least disclose:

a) enterprise's capacity to generate income for its owners, employees, and lenders who are entitled to interest on their loans;
b) its present and probable future solvency.

On the other hand, a discussion document published by the Research Committee of the Institute of Chartered Accountants of Scotland (1988) entitled 'Making Corporate Reports Valuable', provides further explanation of the information needs of users. These include:

a) information on corporate performance to allow measurement against corporate objectives;
b) information on current corporate wealth to allow measurement against past corporate wealth and evaluation of the reasons for change;
c) information on the intended future plans of the company and on the availability of financial resources to support such plans.

From the above discussion, it can be concluded that annual reports are expected to disclose information regarding a company's past, present and future performance. Financial and non-financial information play an important role in assisting users in making their specific business decision.

Information regarding a company can be obtained from many sources. However, one of the most important and valued sources is the annual report (Hines, 1983; Vergoossen, 1993). It acts as a valued means of communication between an enterprise and its stakeholders. Several research studies have been done to determine the information needs of users of corporate reports. In Chapter 3 (Table 3.2), the literature review provides evidence on the varying degree of 'consensus' among various user groups regarding the importance of various items of information in annual reports. These studies provide evidence of two important dimensions of user needs:

a. there is an expectation gap between what the users desire and what the enterprises disclose [Buzby (1974); Baker & Haslem (1975); Belkaoui, Kahl & Peyrard (1977), Kahl & Belkaoui (1981); McNally, Eng & Hasseldine (1982), El-Issa (1988)].

b. there is a different disclosure need between two or more different user groups, indicating little or no consensus on perceived information needs [Chandra (1974); Benjamin & Stanga (1977); Chenhall & Juchau (1977); Baker, Chenhall, Haslem & Juchau (1977); Firth (1978); Wallace (1988) and Karim (1995)].

These studies have concentrated on the main user groups such as investors, financial analysts, auditors, bank loan officers, and stock exchange officers and also on the dual purpose group who may be a user as well as a preparer of annual reports such as the accountants and finance directors. Only five of the above studies have used the accountants and financial analysts as the main users of the annual reports to compare their information needs. Three of the studies are conducted in developed countries (USA, UK and Canada) and the other two are conducted in developing countries (Bangladesh and Nigeria). As such, this study seeks to expand the previous studies by looking at the perception of two user groups (i.e. accountants and financial analysts) in one of the new newly industrialised country in South East Asia, Malaysia. It is hoped that this study would fill the gap of the scarcity of accounting literature about financial reporting in developing countries and would provide the basis for comparing the perception of the two user groups with the same groups from other developing countries.

There are several reasons for choosing the two groups for this study. The financial analysts are professional people who have the expertise in analysing the annual reports. The effective use of a communication medium like the annual report requires a level of decoding skill which is usually possessed by stockbrokers, financial analysts or accountants, who in effect, function as investor opinion leaders. In other words, the ordinary investors who do not have an accounting background would seek their advice for the purpose of making an investment decision, for example in deciding whether to buy, hold or sell shares of a particular company. As such, the responses from the financial analysts would represent the views of the ordinary investors' group. On the other hand, there are also institutional investors who generally control substantial number of shares in an enterprise and these institutional investors also rely on the advice of financial analysts in making investment decisions. As such, the financial analysts form the dominant group in determining the direction and flow of investible funds and the process at which shares are sold.

The accountants, on the other hand, not only represent one of the user group (e.g. in their own personal capacity as shareholder in particular companies) but also represent the interest of the preparers of the annual reports. As preparers they could be narrowly concerned with whether accounts have been prepared according to the law requirements. As a user, they may also require additional information in order to satisfy their own information needs. Hence, it can be argued that there may exist a degree of tension with accountants who have such dual-capacity. For example, as a user, the accountant would like information on brand valuations. On the other hand, as a preparer, the accountant may resist such valuations since they are notoriously difficult to value and yet they have to assert some confidence in making such valuations. The financial analysts, on the other hand, would require more information than those that just satisfy the minimum requirements of law. As such, it is important to examine if there is a consensus between the two user groups in the way they value the importance of various information items in the annual reports. Since the published annual reports represent one of the main important document for equity investment decisions, comparison of the value assigned to the information items by the two groups would reflect the extent of consensus on the significance of such information items in making investment decision.

6.5 Development of Hypotheses

From the underlying research questions stated in Chapter One earlier, the following tentative hypotheses are formulated:

H1: There is no significant difference between the two user groups with regard to their purposes of using the annual reports.

H2: There is no significant difference between the two user groups with regard to their perceived importance of various sources of information.

H3: There is no significant difference between the two user groups with regard to the perceived importance they attach to different parts contained in the annual reports

H4: There is no significant difference between the two user groups with regard to the degree of influence of different parts contained in the annual reports on their decision making process.

H5: There is no significant difference between the two user groups regarding the degree of thoroughness in reading the contents of the annual report.

H6: There is no significant difference between the two user groups in their perceived importance of selected items of information that may appear in the annual reports.

H7: There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies.

H8. There is no difference between the items disclosed in corporate annual reports and the regulatory disclosure minima in Malaysia.

H9. There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies across different industries.

H10: There is no difference between the items disclosed in corporate annual reports and the needs of users in Malaysia.

H11: There is no relationship between the quality of disclosure [D] and the various company attributes such as size (assets, sales, number of shareholders, market capitalisation) [S), type of management [M], scope of business operation [B], type of auditing firm [A], leverage [L], parent company size [P], profit margin [R], earnings return [E], corporate image [I], liquidity ratio [Q], proportion of equity owned by outsiders [X], and financial year end [Y].

$D = \underline{f(S,M,B,A,L,P,R,E,I,Q,X,Y)}$

The following steps will be followed in collecting the data sets for testing the hypothesis:

1. A questionnaire will be developed, pilot-tested, modified, printed and mailed to selected samples of two different user groups in Malaysia.
2. The responses from the respondents will be analysed and subjected to different validity tests.

3. A sample of enterprises which could represent the whole enterprises in Malaysia will be selected and their annual reports for the three years 1974, 1984 and 1994 will be collected.
4. A Rating Worksheet will be developed and filled out for each company on a dichotomous basis, that is whether an item of information is published or not published. The rating or scoring sheet is prepared based on Appendix 10.1.
5. A Rating Score will then be developed for each company based on (4).
6. The scores obtained in (5) will then be used as dependent variables in a regression analysis which utilises the information about each company such as assets and sales size, number of shareholders, and rate of return as the set of independent variables to identify the main variables that may explain the variability in the disclosure indexes reported in (5).

6.6 Information Items Included in the Scoring Sheet

The primary task in measuring the disclosure score is the selection of items of information that might be reported in corporate annual reports of Malaysian companies. This task is further complicated due to the selection of three annual reports from three different years that is 1974, 1984 and 1994 for the purpose of measuring the trend or changes in disclosure level using an interval period of ten years.

Since there has been thirteen amendments being made in the Companies Act 1965 during the period 1966 to 1992, the number of items to be disclosed in the annual reports would certainly vary, especially with respect to mandatory items. As such, one would expect that the number of mandatory items in 1974 would certainly differ from those in 1984 and 1994. The same applies to voluntary items when firms are obliged to disclose more information due to various factors such as changes in market expectation in order for the firms to remain competitive in the business.

The aim of this research with regard to the selection of items is not limited to the financial statements alone, but also covering the whole content of the annual reports. As such, the selection of items of information is not constrained to test its usefulness for a specific user group. The criteria for selecting the items are listed below:

1. The item is covered in previous research studies (including research on disclosure of voluntary items) and is relevant to a developing country.
2. The item is statutorily required for disclosure under the Malaysian Companies Act 1965.
3. The item is a desirable disclosure in terms of Malaysian Accounting Standards issued by the MIA and the MACPA or the International Accounting Standards issued by the IASC as long as it is applicable to the country, the regulation of the KLSE, or any other rules applicable in the country during the period 1974 to 1994.
4. The item is disclosed by companies which have won the National Annual Corporate Report Awards (NACRA) organised by four organisations in Malaysia.
5. The item is deemed to be disclosed by all companies irrespective of the type of industries they are engaged. This is done in order to minimise the number of items that could be regarded as irrelevant to a particular company.

Thus, the list of items is not designed to fulfil specific user groups, is not constrained by the exclusion of statutorily required items (Firth, 1980) or constrained by exclusion of items deemed to be irrelevant to a user group (e.g. Barrett, 1977). Such an extensive approach is also adopted by other researchers (e.g. Cooke, 1989; El-Issa, 1988 and Wallace, 1987). The number of items finally selected (after three modifications and revisions) is 202 (see Appendix 10.1) and this forms the basis of an index - the aggregate index. Table 6.1 below provides the detail breakdown of the disclosure indexes into its eight main components and also according to the two main types of disclosure: mandatory and voluntary disclosure for the three years.

Table 6.1: Distribution of Disclosure Indexes

CN	Category Title	MV	%	74		84		94	
				M	V	M	V	M	V
1	Financial Statements: Balance sheet items	69	34	48	21	61	8	64	5
2	Profit and loss items	26	13	17	9	24	2	24	2
3	Other financial statements	14	7	5	-	8	3	11	3
4	Accounting policies	16	8	7	7	15	1	16	-
5	Ratios, statistics, auditors report and other details	35	17	3	25	13	22	14	21
6	Projections and budgetary disclosure	15	7	2	13	2	13	2	13
7	Directors' report	18	7	15	1	18	0	18	0
8	Social responsibility disclosure	9	7	-	9	-	9	-	9
	Total	202	100	97	85	141	58	149	53

M = Mandatory items; V = Voluntary items; MV = Maximum number of variables.
CN = Category number

6.7 Disclosure Index

An index of disclosure is a research instrument that can be used to measure the level of disclosure of information in annual reports. The items of information that are expected to appear in the annual report of a firm may include items required by law, accounting standards (domestic or international), the Stock Exchange, the Securities Commission, or items that are disclosed voluntarily by firms. The usefulness of the disclosure index as a measure of disclosure is however, largely dependent on the selection of items to be included in the index.

Basically, there are two approaches that have been used in developing a scoring scheme to measure the level of disclosure. One approach is to use a criterion based on the presentation of information, as suggested by Copeland and Frederick (1968) in measuring disclosure of changes in common stock. They calculated the number of words and numbers used to describe an item disclosed. This approach leads to a scale of disclosure scores which vary between zero and one. However, the allocation of scores along the continuum involves an element of subjectivity. Moreover, counting the data items may induce bias because there are repetitions of certain numbers and words in annual reports. In addition, numbers cannot be viewed in isolation because they have no meaning unless they are accompanied by explanatory words to describe a particular item. Companies also differ in terms of complexity of operations. As such, one would expect a multinational firm to disclose more information than a domestic or simpler organisation.

The alternative approach, as stated above, is to use a dichotomous procedure in which an item scores one if it is disclosed and zero if it is not disclosed. This approach provides the disclosure index methodology which was introduced into the literature by Cerf (1961), the purpose of which is to measure the extent, content and relevance of items of information in corporate reports. However, Cerf's approach generates a disclosure index which consists of a composite weighted score of a set of items of information which are expected to appear in the corporate reports. The index can be used to summarise the quality or adequacy of disclosure in one number, and can be adapted to take cognisance of the changing nature and importance of items of information. For example, a particular item of information may be considered a very relevant item in one particular country, whereas the same item may be considered less relevant item in another country. As such, giving an equal weight for that item in both countries may not be appropriate. It also enables one to measure the degree of disclosure of an item of information by enterprises within a country.

Prior studies on disclosure of accounting information using disclosure indexes have been conducted by Cerf (1961), Singhvi & Desai (1971), Buzby (1974), Stanga (1976), Firth (1979), Wallace (1987) and Cooke (1989a, 1989b, 1992).

When the index relates to relative level of disclosure by enterprises, an index of disclosure is a ratio of the actual scores awarded to a company for the contents of its annual report and the scores which the company is expected to earn. The expected score here means score for the disclosure of mandatory and voluntary items, excluding item that is not relevant to a particular firm. The total disclosure (TD) score for a company is additive:

$$TD = \sum_{i=1}^{m} d_i$$

where	d	=	1 if the item d_i is disclosed
	d	=	0 if the item d_i is not disclosed
	m	=	the number of items actually disclosed
	n	=	the number of items which the company is expected to disclose (discussed below)
	m	$\leq$	n

Where an item of information is not disclosed anywhere in the annual report, for example research and development expenditure, it is concluded that the item of disclosure is not relevant to that particular company in that year. In deciding whether a particular item is relevant or not to a particular company, the whole content of the annual report is read. So, if nothing is said about research and development expenditure either in the Chairman's Statement or the accompanying notes to accounts, that item is considered not relevant to that firm. On the other hand, if it is stated anywhere in the annual report that research and development expenditure has been incurred, but no amount is stated, then clearly a score of zero will be given for not disclosing the item. In the same token, if it is apparent that an item of disclosure is relevant, for example by mentioning that business acquisition has taken place but without disclosing the amount of acquisition profit, then clearly $d_i = 0$.

After all the items have been scored, an index is created to measure the relative level of disclosure by a company. The index is a ratio of the actual scores awarded to a company to the scores which that company is expected to earn.

As such, the maximum score (MS) companies can earn varies:

$$MS = \sum_{i=1}^{n} d_i$$

where d = expected item of disclosure

n = the number of items which the company is expected to disclose.

The total index (TI) for a company is obtained by dividing the total disclosure (TD) by the maximum score (MS).

The additive model to be used is unweighted. The reason behind it is that each item of disclosure is regarded as equally important. Normally, one user group will give different weights to an item of information than another user group. However, the purpose of developing the scoring sheet as mentioned in the previous section is not to focus on any particular group but rather on all users of corporate reports. This also reflects the objective of this research which is to examine the general pattern of disclosure with respect to its compliance with disclosure requirements as well as its adequacy in satisfying the needs of most user groups. Such an approach which tries to encompass the subjective weights of various user groups would be distorted and probably futile. Support for not attaching weights can be found in Spero (1979) and Cooke (1989b). Spero (1979, p. 64) tested whether there is a significant difference in the type of weights used to score items of disclosure and concluded that 'different weighting schemes are not as important as item selection because companies that view disclosure positively disclose many items and have high scores regardless of items weights.' In addition, Spero (1979, p. 45) found that using equal weights method does not misrank, and is capable of estimating reasonably the true weights. Hence, it is assumed that the subjective weights of all user groups will average each other out. For instance, Spero (1979, p. 57) found that attaching weights was irrelevant because those enterprises that are better at disclosing 'important items' are also better at disclosing 'less important items', i.e. firms are consistent in their disclosure policies. In other words, companies do not emphasise the trivial nor ignore the important in their disclosure policies. The validity of this argument is based on the fact that different user groups perceived differently on the importance or relevance of selected items of information. His approach is followed by Cooke (1989b) where an unweighted index is used to measure the disclosure level of Swedish companies. He argued that different classes of users attach different weights to different items, and the subjective weights of the different user groups would average each other out. So, it does not matter what scoring technique is employed as long as the items of information selected to measure the quality of disclosure are many and wide-ranging. The number of disclosure items investigated by this study is 202, which is reasonably higher or at least comparable to those used in previous studies, as discussed in Chapter Three.

Weights are usually elicited from the perceptions of one or two user-groups which represent only a subset of users of annual report. As Libby (1981) suggests, the revealed perceptions of respondents to opinion surveys do not often represent what they actually do and as such the weights so derived may not mirror reality. For example, Chow and Wong-Boren (1987) argued that weights may not represent real economic consequences to the subjects whose opinions were pooled; may not reflect stable perceptions on similar information items across subjects, over time (Dhaliwal, 1980) and from similar subjects across countries (Firer and Meth, 1986). Previous studies have found that weighted and unweighted indexes are interchangeable and produced relatively equivalent results. This was supported from the findings in earlier studies done by Karim (1995), Firth (1980) and Robins and Austin (1986). With respect to the current study, the number of disclosure items included in the questionnaire for the purpose of eliciting the opinion of user groups are restricted to 56 items, whereas the number of items included in the disclosure index was 202. As such, the different quantity of items included in both the questionnaire and the disclosure checklist would not facilitate the use of a weighted index. In addition, the results of the survey of perceptions of two user groups in Malaysia confirmed that disclosure items have different rankings between them. For example, the disclosure of 'income from investment' was not ranked equally by the two groups and it is not of the same order of importance as the disclosure of 'list of financial ratios' on the rank order list of the two user groups. Thus it was thought prudent to ignore weighting the scores of the disclosure items. The scoring of items was, therefore, based on a dichotomous procedure where '1' represents disclosure and '0' represents non-disclosure.

It may be argued that by adding scores across all types of disclosure items may vaguely reflect the significant degrees of importance attached to some and insignificant degrees of importance attached to others by different user groups, the fact that different user groups value each item differently neutralises the relative importance of each item to all user groups. Since the number of items used in this study were so large (202 items), they would probably even out the differing order of importance given by different user groups. Thus, when annual reports are viewed in a 'general purpose' context, all disclosure items are equally important to the average users.

The criteria for scoring the disclosure items in the annual reports are shown in Figure 6.1 at the end of this chapter. In this figure, the disclosure items are classified into mandatory and voluntary items, which together form the overall disclosure index. The awarding of score is based on whether the item is disclosed or not disclosed at all. If the item is not disclosed, then a judgement has to made whether such non-disclosure is due to the irrelevance of such item to the particular firm or the firm intentionally refuse to disclose. Three questions need to be answered in deciding whether the item is relevant or not relevant to a particular firm. As for the mandatory items, the first question is whether the item is required (or not required) by law. Secondly, whether the item is applicable (or not applicable) to the company after considering the industry sector it is engaged in. Lastly, the existence (or non-existence) of any event or transaction that could give rise to such item. The same criteria are used for scoring the voluntary item except for the first criteria in which the item has to be considered in terms of its general disclosure by companies either at the national or international levels.

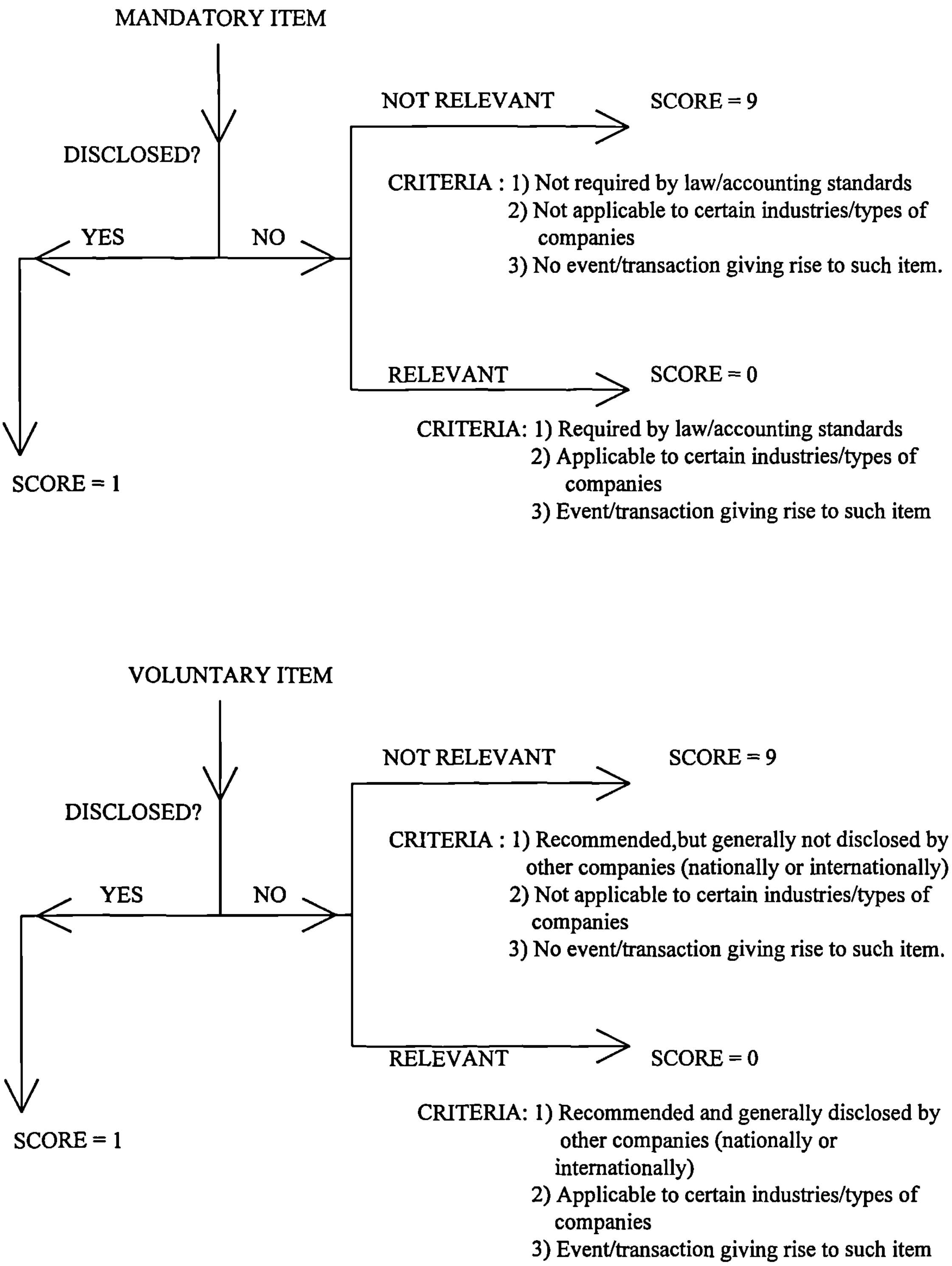
Generally, the items can be classified into two categories in terms of their dependency or independency on the other item. An item is considered a dependent item when its disclosure depends on the existence or the disclosure of its related items. For instance, if the amount of reserve is disclosed, then its breakdown into distributable and non-distributable categories must also be disclosed. A second example would be depreciation method. Method of depreciation will normally be disclosed when fixed assets (tangible long-term depreciable assets) are disclosed.

On the other hand, independent items are items which may be disclosed without being associated with other items. For example, a socially responsible company would contribute something to the environment or community where it operates. As such, the item 'contribution to community involvement' is regarded as an independent item and may be disclosed by any types of company.

6.8 Summary and Conclusion

This chapter provided the research methodology employed in conducting the study. The first part of the study involved the use of questionnaire to two user groups in Malaysia. Items of information included in the questionnaire were based on previous literature review in developed and developing countries and tailored to the specific environment of Malaysia. The conceptual and operational definitions of the concepts of consensus and perception were discussed in relation to users' information needs. Previous studies revealed varying degrees of consensus between different user groups and this study would provide extra evidence of such findings using only two user groups. The second part of the study involved the measurement of 'disclosure adequacy' in relation to disclosure of information by companies via the annual reports. An unweighted disclosure index was constructed based on a selection of 202 items deemed to be generally disclosed by companies. Eleven hypotheses were formulated, of which six were related to the survey of users' perception and the other five were related to the disclosure of information in the annual reports. The hypotheses are subjected to empirical testing based on the data sets discussed in the subsequent chapter.

Figure 6.1: Criteria for Scoring Disclosure Items



CHAPTER SEVEN
DATA SETS

7.1 Introduction

This chapter describes the data sets to be used in the analysis and the main aims of the empirical part of the study. The study is based on a systematic analysis of two sets of data described in Section 7.3. The aim of this chapter is to provide the foundation for the statistical analyses that follow in the subsequent four chapters. The nature and quality of the data largely influence the quality of the research findings since it determines the appropriate statistical tools to be used and the level of analysis to be conducted. The rest of the chapter is organised as follows: Section 7.2 sets out the objectives of the study; Section 7.3 describes the nature and sources of data that are used throughout the study; Section 7.4 explains how the questionnaire used for the user perception survey was constructed; Section 7.5 describes the administration of the questionnaire in terms of sample selection, questionnaire distribution and the treatment of non-response bias. Section 7.6 describes the sample of companies used in the study as a basis for obtaining their annual reports to be used in the disclosure study; Section 7.7 provides some background information of the user sample; Section 7.8 describes the data analysis to be followed and the statistical tools employed; and finally, Section 7.9 summarises discussion in the chapter and draws conclusions to the chapter.

7.2 Objectives of the Study

The main objectives of the study are as follows:

(a) To examine and compare the perceptions of two user groups in Malaysia regarding the importance of selected items of information that may appear in corporate annual reports.

(b) To assess the extent of corporate disclosure practices by Malaysian public listed companies via the annual reports and examine the influence of several corporate characteristics on the level of disclosure.

7.3 Data Sets Employed

The study is based on two data sets: the responses to the questionnaire drawing out the perceived importance of selected items of information for a sample of two user groups and an analysis of the annual reports of 54 companies taken from three different years. The former data set is used to examine the users' perceptions while the latter is used to examine the trend in disclosure of information by companies and to examine its relationship with some corporate attributes. The detailed sampling procedure for the annual report sample has been discussed in Chapter Six, whereas the sampling procedure for the users' perceptions study is discussed in Section 7.5.

7.4 Construction of the Questionnaire

The major task in the research design will be the development of a list of information items that are and could be disclosed in the annual reports of quoted companies. In order to avoid bias and to provide a comprehensive list of information items, the item to be selected must meet one or more of the following criteria:

1. The item is covered in previous research studies and is relevant to a developing country.
2. The item is statutorily required for disclosure under the Malaysian Companies Act 1965.
3. The item is a desirable disclosure in terms of Malaysian Accounting Standards issued by the MIA and the MACPA or the International Accounting Standards issued by the IASC as long as it is applicable to the country, the regulation of the KLSE, or any other rules applicable in the country during the period 1974 to 1994.
4. The items were recommended in the literature as being relevant and significant to the average user groups.
5. The item is of a specific nature that relates to the country's requirements in regulating business enterprises.

This approach will provide an all-inclusive list rather than an exclusive list meant for a particular user group only. This is because the focus of this research is on 'general purpose' financial reports; in which the reports should serve the needs of all users.

Basically, there are two groups of disclosure items. One group originated from research studies conducted in some developed countries (e.g. Cooke, 1989b and 1992). The other group of items came from a review of some selected articles published on developing countries (e.g. Wallace, 1988; Ahmed and Nicholls, 1994; Hossain et al., 1994; and Karim, 1995), and the set of annual reports issued by Malaysian companies which have won the NACRA (National Annual Corporate Reports Award) awards for excellence in corporate reporting. The final list of items (see Appendix 7.1, Part II of the Questionnaires) has integrated all the items in previous studies, deleting items which are regarded inapplicable to Malaysia, and adding some items which are peculiar to developing countries.

7.5 Questionnaire Administration

In the early stage of the research study, the primary goal of the questionnaire was to elicit the opinions of samples of different users of financial statements in Malaysia. The number of respondents planned to be covered were approximately 950 subjects randomly selected from the Malaysian population on a stratified basis. That would constitute six stratified groups, namely, 200 accountants who may be auditors or preparers of accounts and drawn from the list of accounting firms provided by the Malaysian Institute of Accountants (MIA); 210 private shareholders i.e. private shareholders drawn randomly from the list of shareholders of a public listed company obtained from the Malaysian Industrial Development Finance Berhad (MIDF); 120 senior civil servants working in the various Ministries and Departments which transact businesses with the enterprises; 150 managers representing the interest of preparers, selected randomly from the list of members of the Malaysian Institute of Management (MIM); 150 Financial Analysts selected from employees working for stockbroking firms, commercial and merchant banks, investment and insurance companies; and 120 other professionals selected randomly from the different registers of professional bodies such as medicine, law, engineering, surveying and lecturer in accounting.

However, due to several constraints such as time limit, costs and difficulty in getting co-operation, only two groups of respondents were selected, namely accountants (representing the preparers of accounting information) and the analysts (representing the professional users of corporate reports). The private investor group was abandoned due to poor response. The decision to drop out this group was done prior to sending the actual questionnaires. In order to obtain the names and addresses of the private investors, the researcher has to request a list of shareholders of a public listed company from MIDF. This process alone takes two weeks to process before the list could be printed out. This list provides only the name and address of all private and institutional shareholders of the public company selected. From this list, a random sample of fifty private shareholders was chosen. A letter was sent to each of them asking them whether they would agree to participate using an interview method or mail questionnaire method. After three weeks, only two of them responded. The low response may indicate their perceived low understanding of accounting terms since it is a specialised area, or lack of interest in the topic itself. As such, this group was abandoned. The same lack of understanding of accounting technicalities may also apply to the senior civil servants and other professionals in various professional bodies (non-accounting) such as medicine, engineering and surveying. A request for a list of managers registered with the MIM was not responded to by the organisation, which may indicate a lack of co-operation by the organisation. Even the KLSE itself may not have its own analysts in examining the degree of compliance of disclosure regulation by listed firms (even though it has its own research division) when all the questionnaires were returned to the researcher.

The population from which samples were drawn was taken in Kuala Lumpur for several reasons. Firstly, Kuala Lumpur is the capital city of Malaysia where the majority of different user groups reside. As such, it is assumed that any sample randomly selected from Kuala Lumpur will be representative of the Malaysian population. Secondly, any decisions on corporate enterprises by government rest with the Federal Government of Malaysia whose seat is at present in Kuala Lumpur. As such, most companies would try to locate their offices or at least have their office branch in Kuala Lumpur so that any business-related matters can be dealt easily with the government departments or agencies. The majority of the well established accounting firms and stockbroking firms are located in Kuala Lumpur. Even though these firms may be registered in the other states of the country, most of them have their own branch in Kuala Lumpur or form a new firm to cater the demand for their services or to attract new clients. The Kuala Lumpur Stock Exchange (KLSE) itself, which holds all the necessary annual reports for this study is located in Kuala Lumpur.

One hundred and fifty questionnaires were distributed to each of the two groups of respondents as follows. The list of accounting firms provided by the MIA shows that in Kuala Lumpur alone, the total number of accounting firms is 374. The Big-6 firms were scrutinised from this list and 5 copies of the questionnaires were sent to the Public Relation Officer of each firm. That constitutes 30 questionnaires altogether. For the remaining 120 questionnaires, the random table was used to choose the accounting firms for the sample. Since the method of sampling relies entirely on the list provided by the MIA, the probability of getting high response rate was minimised due to several reasons. Firstly, the list is not an up-dated version. It was only reprinted on 22 March 1996, but it was not stated whether the list had been revised or not. As such, some accounting firms have changed their address or closed their business. This occurred when some of the questionnaires were returned to the researcher and stated 'Address has changed' or 'Business has ceased operation'. Secondly, the response rate could be higher if all the questionnaires were sent personally by hand to each individual firm. However, this cannot be done because the survey was carried out for a limited period of two months (early May 1996 to end of June 1996) and high cost would be incurred to do so. The researcher, however did visit several firms to distribute the questionnaires personally, but only a small number of accountants were willing to complete the questionnaires on the spot, while the majority of them wished to do so at a later stage by promising to send the questionnaires back to the researcher by post. Any questionnaire that was returned to the researcher as 'undelivered' due to the above reasons was sent back to a new respondent using the random sampling. In the first stage, only 51 respondents replied. Two follow-up procedures were made, that is, using phone call and a reminder letter. This resulted in 17 replies. However, from the 68 replies, 13 respondents did not answer a major portion of the questionnaire and their questionnaires were dropped out. As such, a total of 55 useable replies was obtained from the accounting firms which represent a response rate of 37%.

For the sample of financial or investment analysts, questionnaires were distributed to two types of firms, namely the stockbroking firms and unit trust companies. The list of stockbroking companies was obtained from a booklet published by the Institute of Merchant Bankers (Malaysia). There were 70 stockbroking firms altogether in the country with 35 of them located in Kuala Lumpur. Phone calls were made to all the 35 companies asking them to participate in the survey. The officer in charge of these firms was normally the Research Manager or the Public Relation Officer. Five companies refused to participate because they were relatively new companies who have inexperience analysts or very small companies that only hired external analysts. Ten of the companies agreed to have the questionnaires completed at their premises while the remaining 20 companies agreed to distribute the questionnaires to their analysts at their own discretion and promised to return the questionnaires to the researcher by post.

The list of unit trust companies was obtained from the leading business magazine, Investors' Digest (published monthly), which list down all the unit trust companies available in the country, and also from the local newspapers. After making phone calls to the respective Fund Managers of the unit trust companies available in Kuala Lumpur, only 10 out of 16 companies agreed to participate.

As such, the total number of stockbroking firms and unit trust companies who agreed to participate was 40. Questionnaires were sent to each of the companies ranging from 2 to 4 copies depending on the availability of financial or investment analysts in the firms and also upon the approval of the manager or the public relation officer concerned. In the first stage, 85 replies were received. A follow-up procedure using phone and reminder letters were used, and this resulted in 9 replies. From the 94 replies, 14 had to be dropped out due to insufficient responses to the major section of the questionnaire. This resulted in 80 useable responses, which represent a response rate of 53%. The distribution of the questionnaires to the two respondent groups is shown in Table 7.1 at the end of this chapter.

The main problem in getting a high response rate is in determining the actual respondents who did not respond. This is because some of the firms did not provide the names of their accountants or analysts working in their firms. When the questionnaires were to be distributed to these firms, the researcher was not allowed to meet the accountants or analysts personally. Rather, the officer in charge, namely the Public Relation Officer (in the case of the accounting firms) or the Research Manager (the mutual/unit trusts) promised to distribute the questionnaires to the respective accountants or financial analysts. As such, the researcher was unable to determine which accountants or financial analysts did not respond to the questionnaires. It was also thought not proper to ask the Public Relation Officer or the Research Manager to find out which of his/her officers had not responded to the questionnaires. From Table 7.1, it shows that if the questionnaires were distributed personally to the respondents, it will increase the response rate, compared to being just mailed out to them. Even for the mailed questionnaire, the response rate can only be increased by contacting the respondents on the phone (if they provide their telephone number) and remind them to send back the questionnaires to the researcher. So, by sending a reminder letter by post to the respondents will not guarantee that they will respond to it. As such, in future research, it is advisable for researchers who would like to conduct any type of study in a developing country using a survey approach to carry out several approaches in increasing the response rate. The techniques suggested by Collier and Wallace (1992) in increasing response rate in a mail survey could be used for such purposes.

7.5.1 Non-Response Bias

The main problem of the questionnaire approach is the tendency to obtain a low response rate which is the result of non-response bias. The presence of nonresponse may indicate that the viewpoint of nonrespondents would be significantly different from those who responded, and this may affect the validity of the results of any research. As Courtis (1992) pointed out, 'response and non-response survey bias can be reduced through various techniques, but the complete elimination of bias is never certain.' Every effort was made to increase the response rate. These included telephone calls and reminder letters to every respondent who did not reply within three weeks from the date the questionnaires were sent out. The researcher also made a second visit to some companies who had promised to send the questionnaires by mail, to make sure that they had returned the questionnaires. Even, those respondents who may unintentionally have missed answering some of the questions in the questionnaires, but whom the researcher had their business cards during the first visit, the questionnaires were sent back to them, indicating the questions that needed to be completed. However, some questionnaires which arrived too late at the researcher's address in Malaysia (when the researcher was already back in England) were found to be nonuseable because of inadequate responses.

Oppenheim (1992) suggested that if one assumes that late respondents represent nonrespondents, it is possible to detect whether there is any nonresponse bias in a sample. This can be done by comparing one or more 'variables of interest' for the *k* respondents of the last *m* weeks with those of a random sample of *k* respondents taken from the earlier weeks to examine if there exists any significant difference between the two sets. Table 7.2 below shows the distribution of early and late replies by respondents.

Table 7.2: Time of Reply to Questionnaire

Respondent	Early Reply	%	Late Reply	%	Total Number	%
Accountant	41	75	14	25	55	100
F. Analyst	65	81	15	19	80	100
Total	106		29		135	

In order to carry out the test, 10 respondents were each chosen randomly from the early reply sample, and also from the late reply sample, respectively. A Mann-Whitney test was carried out to identify any significant difference (p<= 0.05) in the mean scores between the two sets of responses for all 54 items that represent the perception of users regarding information items in annual reports. The test showed that there was no significant difference in the mean scores for all the items. This indicates that the viewpoint of the nonrespondents would not have been significantly different from that of the respondents.

7.6 Selection of Sample Companies

As stated earlier, this study covers companies which publish their annual reports since 1974. The reason for choosing 1974 as the first starting year for collecting annual reports of companies is that the request for annual reports from companies was only started in April 1995. This means that the latest annual reports that can be obtained from companies are for the year 1994. As this study tries to look at the change in the pattern of disclosure between a ten-year period, the next two annual reports that can be studied are for the year 1984 and 1974. Annual reports for the year 1964 was excluded because of the small number of listed companies available at that time. Furthermore, the Kuala Lumpur Stock Exchange Berhad (KLSEB) was only formed in July 1973. As such, the first batch of annual reports that was probably required by companies to submit to the KLSEB will be for the year 1974. When the Securities Industry Act (SIA) was brought into force in 1976, a new company called the Kuala Lumpur Stock Exchange took over from KLSEB. Hence, only companies which are incorporated prior to 1974 will be included in the study. The sample of companies will also be restricted to those companies listed in the main board of the KLSE since they represent the most well established firms. The companies listed in the second board mainly consist of relatively new firms which are incorporated in early 1980s. They are also subjected to lesser disclosure requirements by the KLSE compared to the main-board companies. As such, they do not meet the requirements of this study. Companies from the finance and trust sectors are also excluded due to the specialised nature of their business and also due to different or additional regulations imposed on them. The remaining business sectors that form the basis for selection of companies consist of consumer products, industrial products, construction, trading services, hotels, properties, plantation and mining.

According to the Annual Companies Handbook published by the KLSE in 1995, the total number of listed companies in the main board as on July 1995 is 364. After excluding the finance and trust companies, the number of companies is 310. An examination of the date of incorporation of all the companies reveals that there are 123 companies incorporated prior to 1974. This forms the total number of population for the study. Due to cost and time constraints, it was decided that the number of companies to be selected should be within a reasonable and manageable number. As noted by Champion (1981, pp. 31-32), sample-size requirements will vary, depending upon a person's area of specialisation. He suggested that a conventional approach would be to sample approximately 1/10 of the population about which generalisations are to be made. This is referred to as the sampling fraction and is represented symbolically as n/N where n is the sample size, and N is the population size. For the purpose of this study, it would mean that 12 companies (10% of 123) would be adequate. However, Roscoe (1975) proposes that sample size larger than 30 and less than 500 is appropriate for most research. He also mentions that where samples are to be broken into subsamples (e.g. males/female, juniors/seniors etc.), a minimum sample size of 30 for each category is necessary. After considering the above views, it was considered that the number of companies to be selected should lie between 30 to 60 companies. The other consideration in selecting the sample size is that the companies selected should be representative of the population in the respective business sectors they are engaged in. In order to fulfil this criterion, a proportionate stratified random sampling will be used to select the number of companies concerned. This method of sampling involves a process of stratification or segregation followed by random selection of subjects (Sekaran, 1992).

A letter was sent to each of the 123 companies requesting them to send the three annual reports. Eighty companies replied, which gave a response rate of 65%. However, the annual reports received from some of the companies are not complete. Most of them (nearly 60%) do not have the 1974 annual reports. As such, the final number of companies selected is reduced to 54 companies after selecting only those companies who have sent at least two annual reports of any of the three years requested; and also after considering the business sectors which they represent. Any annual reports which are not complete for these 55 companies, a photocopy of those annual reports was obtained from the KLSE's library. The final distribution of companies selected in the sample is shown in Table 7.3 below.

Table 7.3: Distribution of Sample Companies

Business Sector	No. of Companies in the Sample	No. of Companies Eligible in the Sector	Sample's Representation of the Sector (%)
Consumer	10	20	50
Industrial	10	25	40
Construction	1	2	50
Trading	8	15	53
Hotel	1	2	50
Properties	14	29	48
Plantation	9	25	36
Mining	1	5	40
Total	54	123	44

As the table shows, the companies represent between 36% to 53% from each sector. Overall, the 54 companies represent 44% of the total number of eligible companies.

All the companies selected for this study present their annual reports in the English language. The use of the English language in annual reports can be traced back since early 1960s where virtually none of the companies formed during that period had presented their annual reports in the Malay language, which is the national language of the country. It was due to the influence brought about by the colonial period during British occupancy in Malaya in early 1950s and 1960s that English had become the widely used language especially in the business sector. In the 1970s, the situation has slightly changed whereby some companies, although small in number, presented their Chairman's Statement in the Malay language, whereas the remaining contents were still presented in the English language. This is due to the stronger demand by some governmental bodies and private organisation that the Malay language should be given a stronger position even in the business sector. In the 1980s, the use of the Malay language had gained a much wider acceptance among companies especially listed companies. However, the use of that language is still limited to the Chairman's Statement. Then, in 1990 onwards, the majority of listed companies have produced their annual reports both in the Malay language as well as the English language. Since this study involves the selection of annual reports from three different years (1974, 1984 and 1994), it is difficult to include annual reports produced in the Malay language since not all companies produced the annual reports in that language during the three years being selected. As such, only the English version of the annual reports is selected for this study. In order to capture disclosure practices and the extent of reporting in Malaysian corporate reports, a scoring sheet is completed for all the three annual reports for each company.

7.7 Description of the User Sample

The questionnaire is divided into two parts. Part I was designed to compile essential respondent biodata (for example, age, marital status, occupation, salary, educational and working background in accounting). This first part also asked the respondents to rate the different sources of information regarding a company and also on parts contained in the annual report which may influence their purpose of using or reading the annual reports.

Part II of the questionnaire requested information on the perceptions of the respondents on selected items of information. These items which composed of mandatory and voluntary disclosure items were listed in a disorderly manner (without classifying into any group of items) so as to remove any possible bias which could have resulted if they are listed in a traditional manner.

The questionnaire was subjected to pilot testing in Malaysia and was revised and improved three times over a period of six months, before it was printed and mailed or personally distributed to the two user groups - accountants and financial analysts. Some of the respondents also agreed to be interviewed and this has helped in increasing the overall response rate. Based on the pre-test, it was estimated that the questionnaire would take between 30-40 minutes to complete. A copy of the questionnaire is shown in Appendix 7.1 of this thesis.

The primary aim of the survey was to gather the opinion of two major user groups of financial information in Malaysia about their information needs. The biodata of respondents is shown in Table 7.4. The following paragraphs provide a brief profile of the respondents.

Table 7.4: Biodata of Respondents

Age	No. of Respondents	%
<21	-	-
21-30	48	36
31-40	48	36
41-50	30	22
>50	9	6
Total	135	100

Sex	No. of Respondents	%
Male	94	70
Female	41	30
Total	135	100

Occupation	No. of Respondents	%
Accountant	55	41
Financial Analyst	80	59
Total	135	100

Annual Income:	No. of Respondents	%
<RM 5,0000	-	-
RM5,001-10,000	3	2
RM10,001-30,000	30	22
RM30,001-50,000	35	26
>RM50,000	67	50
Total	135	100

Educational level:	Yes	No	Non-Response
Primary	134	-	1
Secondary	134	-	1
A-Level	129	5	1
College	124	10	1
University	113	21	1

Distribution According to States: States	No. of Respondents	%
Perlis	3	2
Kedah	9	7
P.Pinang	7	5
Kelantan	7	5
Trengganu	10	8
Pahang	5	4
Perak	12	9
Selangor	23	17
W.Persekutuan	28	21
N.Sembilan	7	5
Melaka	7	5
Johor	11	8
Sabah	3	2
Sarawak	3	2
Total	135	100

All the respondents are Malaysian citizens. 72% of the respondents are between the age of 21 and 40 years old and 70% of the respondents are male. 76% of the respondents earned an annual income of more than RM30,000 (or £6,000). Out of this, 67% of the accountant group earned more than RM50,000 per year, whereas for the financial analyst group, only 37% earned the same amount. The higher percentage of income earned by the accountant group reflects the strong demand by the market for their services and also due to the fact that they have to undergo a structured set of educational training and working experience before they can become a qualified accountant. 98% of the respondents also state that they have working experience in accounting, finance and investment prior to joining their current job.

In terms of membership of professional bodies, 51% of the respondents are members of the Accountancy bodies (MIA or MACPA) and only 1% belong to a Law body. A further analysis of the membership reveals that 96% of the accountants are registered with the MIA, whereas for the financial analyst group, only 19% belong to the same organisation. This indicates that some of the analysts have an accounting background or who have worked as an accountant before and then switched their job to become financial analysts.

In terms of distribution of respondents, the states can be categorised into 5 areas for the sake of simplicity. The northern states consist of Perlis, Kedah and Penang which is represented by 14% of all the respondents. The second group, the East coast states consist of Kelantan, Trengganu and Pahang. 17% of all respondents come from this second area. The third group, the West coast states consist of Perak, Selangor and Federal Territory (Wilayah Persekutuan). 47% of all respondents belong to this third category. 18% of all respondents belong to the fourth group consisting of the southern states namely, Negeri Sembilan, Melaka and Johor. The final state group is the East Malaysian states consisting of Sabah and Sarawak. Only 4% of all respondents belong to these two states. The majority of the respondents came from the West coast states because this survey was done in Kuala Lumpur, the capital city of Malaysia. As such it would be understandable that the majority of the respondents are those who are local residents of Kuala Lumpur.

The respondents were also asked about their shareholdings in companies. 69% of the accountants' group have shareholdings in more than one company, 5% have shareholdings in only one company, and 18% have no shareholdings in any companies, compared to 48%, 2% and 33% respectively by the analysts' group for the same categories.

Respondents were also asked whether they would spend more time reading the annual reports if they have shareholdings in more than one company. Only 58% of the accountants' group say that they would spend more time reading the annual reports compared to 65% by the analyst group. On the other hand, 11% of the accountant group say that they would not spend more time reading the annual reports even if they have shareholdings in more than one company compared to 16% by the analyst group. It seems that the annual reports still play an important source of information by both groups in assessing companies' performance. Almost all the respondents also say that they use the annual reports in making decisions about a company. The respondents were also asked whether they hold any directorship in any company. For the accountants' group, 55% mentioned that they act as director/s in a company or some companies, compared to only 15 from the analysts' group.

7.8 Data Analysis

For the questionnaire survey, the data analysis was performed in a sequential manner as follows:

1. Analysis based on Part I of the questionnaire to:
   a) provide a general picture of the spread of the respondents and their representativeness of the population surveyed.
   b) accept or refute several hypotheses developed by examine any significant difference in their opinion regarding the importance of main parts or sections in annual reports.

2. Analysis based on Part II of the questionnaire to:
   a) indicate the overall ranking of the items of information in the order of importance;
   b) accept or refute the hypothesis that there is no significant difference in the perceptions between the two user groups.

Respondents were requested to indicate the degree of importance they attached to each item of information based on a 5-point Likert scale. The ordinal scales were then transformed into metric for computational purposes by using '5' to indicate the item as 'very-very important' moving down to '1' for items considered 'not at all important'.

Frequency distributions of preference were used to compute overall mean scores of each disclosure item. Using the Minitab statistical software, any items' non-responses were excluded from analysis. Since the perceptions of users using the Likert scale fall into the ordinal data category, non-parametric tests are considered more appropriate. As such, the Mann-Whitney U Test was used to test the differences in mean scores (alternatively explain the degree of consensus) between the two user groups on an item-by-item basis. However, it has been suggested that parametric tests can also be used with ordinal variables since tests apply to numbers and not to what those numbers signify (Lord, 1953). When the size of the samples is quite large, a departure from using non-parametric tests is allowed whereas if the sample size is small, non-parametric tests will be more appropriate (Bryman and Cramer, 1996). Since this study used 56 items of information which was considered relatively large, the t-test for difference in mean scores (parametric test) between the two groups was also employed so as to provide a robust measure on the items examined.

For the analysis of disclosure in annual reports, the t-test for difference in mean disclosure scores between a two-year period was employed to see any significant difference in the level disclosure by companies in the three different years. A Kruskal-Wallis 1-Way ANOVA was also used to identify any significant difference in mean disclosure scores across different industries. Lastly, the Multiple Regression Analysis will be used to determine the impact of fifteen company attributes (independent variables) on the disclosure index (dependent variable).

7.9 Summary and Conclusion

The chapter explained the data sets used in the study. The first data set involved the collection of annual reports of fifty-four Malaysian public listed companies for three different years which gave a total of 162 annual reports to be analysed. The companies are randomly sampled from eight different business sectors or industries. The data from the annual reports will be used to examine the trend in the level of disclosure by companies and its possible determinants. The second data set is taken from the questionnaire responses regarding users' perceptions on selected items of information. The data analysis procedure for the two data sets and the appropriate statistical tools employed were also described. The difficulties faced by the researcher in conducting the survey questionnaires would provide some guidance to other researchers who would like to carry out the same type of study in developing countries. It also shows the importance of understanding the cultural factors that shape a particular country, which indirectly influence the way respondents would react to this type of study. In this particular study, it has been shown that an improvement in questionnaire response rate can be done by contacting the respondents personally rather than mailing the questionnaires. The questionnaire responses will be used to examine the degree of consensus between the two user groups on selected items of information and also to examine the degree of congruence between users' requirements and actual disclosure practises by companies. This will be discussed in the next chapter.

Table 7.1: Questionnaires Distribution

Types of Organisation	No. of Orgn. Visited	No. of Qs. distributed	NQR	RR	No. of Orgn. Identified	No. of Qs. Posted	NQR	RR	Overall NQR (RR)
AF	48	72	35	49%	78	78	20	26%	55 (37%)
STOF	25	98	58	59%	5	17	7	41%	-
MUT	7	26	11	42%	3	9	4	44%	80 (53%)*

AF - Accounting Firms; STOF - Stockbroking Firms; MUT - Mutual/Unit Trusts

NQR - Number of questionnaires received; RR: Response Rate; Qs: Questionnaire; Orgn.: Organisations

* Combination of STOF and MUT

CHAPTER EIGHT
RESULTS OF ANALYSIS ON PERCEPTIONS OF USERS - SURVEY I

8.1 Introduction

This chapter analyses the results of the responses based on Part I of the questionnaires. The next chapter deals with part II of the questionnaire, i.e., the perception of users about the importance of selected items of information in the annual reports. Part I of the questionnaire was intended to generate information from the respondents regarding their reasons for using financial information, the perceived importance of various sources of information, the perceived importance of different parts of information in the annual report, the degree of influence each part of information on their decision making, and the degree of thoroughness in reading the annual report.

The questions in the first part of the questionnaire have been carefully designed to identify (i) the range of purposes for which respondents use financial reports and to examine any differences in those purposes across users; (ii) the relative position of annual reports as a source of information compared with other sources of information to gather information about a company; (iii) the relative importance of different parts or sections in a company's annual report; (iv) the relative influence that each part has in the decision making process of the respondents, and (v) their degree of thoroughness in reading the annual report. The analysis of responses will provide an insight about the level of user sophistication, their needs and their general information preferences which lead to their specific information requirements in Part II, where perceived information needs for each item are identified.

The results are presented partly in the tables within the chapter and partly in the appendices. Non-parametric tools were used to examine the significance of differences between the two user groups. The rest of the chapter is organised as follows: Section 8.2 outlines the hypotheses that are tested in the chapter, Section 8.3 analyses the responses regarding the various purposes of using the annual reports. Section 8.4 focuses on the perceived importance of different sources of information. Section 8.5 concentrates on the perceived importance of different parts of information in the annual report. Section 8.6 deals with the perceived influence that each part has in relation to a respondent's purpose of using the annual report. Section 8.7 discusses the degree of respondents' thoroughness in reading each part of information in the annual report, and finally, Section 8.8 summarises the discussion in the chapter.

8.2 Hypotheses for the Users' Perceptions Study

A series of hypotheses may be tested using the data of the questionnaire survey. The hypotheses developed based on Part I of the questionnaire are explained below. The hypotheses were formulated to test if there is any significant difference between the two user groups with regard to the following:

(i) purpose of using annual reports;
(ii) perceived importance of various sources of information;
(iii) the perceived importance of different parts or sections of an annual report;
(iv) the relative influence that each part has in relation to their purpose of using an annual report; and
(v) their degree of thoroughness in reading the annual report.

8.3 Purpose of Using the Annual Report

Financial statements may be used for a variety of reasons. In this study, the respondents were asked to identify their purposes of using annual reports. The questionnaire suggested 9 probable reasons for using such reports and respondents were asked to choose as many as appropriate for each of them.

Table 8.1 shows the percentile analysis by purposes and by user groups.

Table 8.1 - Purposes of Using Annual Report by User Groups

Purpose	Accountant		F. Analyst		Total	
	Number	%	Number	%	Number	%
Reading or academic interest (4)	37	67	29	36	66	49
Buy/hold/sell shares in a private capacity (3)	39	71	46	58	85	63
Negotiate labour contract (9)	2	4	1	1	3	2
Negotiate trade agreement (6)	7	13	5	6	12	9
Grant trade credit (5)	12	22	8	10	20	15
Make decision on behalf of clients/employer (2)	43	78	49	61	92	68
Exercise discretion as government official (8)	5	9	5	6	10	7
Advise clients (1)	47	85	49	61	96	71
Appraise social contribution of company (7)	3	5	9	11	12	9
Other	5	9	21	26	26	19

From the table, looking from both user groups as a whole, 71% of all the respondents mentioned that their main purpose of using annual report was to advise clients. The second major purpose as represented by 68% is to make decision on behalf of clients or employer. The third largest response shows that 63% of them use annual report for the purpose of making decision about buying, holding or selling shares in their private capacity. The ranking of the purposes according to the overall response is given in column 1 in the parentheses. The last row under the title 'Other' is excluded from the ranking due the varied nature of the answers and also due to the low number of responses.

From the table, it also shows that the three least uses of annual reports are (i) to appraise the social contribution of a company, (ii) to exercise discretion as government official, and (iii) to negotiate labour contract. The reason for the lack of use of annual reports to serve purposes (ii) and (iii) is that the purposes are more appropriate to government official working in government or statutory bodies rather than to the present respondents who mainly work in the private sectors. However, the lack of response for purpose (i) may indicate the low degree of awareness by the two groups of respondents regarding 'social responsibility reporting' or the area may be considered as 'not too important' for assessing corporate performance.

A Mann-Whitney test was carried out for all the 9 probable purposes suggested in the questionnaire to test the following hypothesis:

There is no significant difference between the two user groups with regard to their purposes of using annual reports.

The results in Table 8.2 show that there exist significant differences (at 5% level) between the two groups in only 4 purposes of using the annual reports, namely (i) for reading or academic interest; (ii) for making decision on behalf of clients or employer; (iii) for advising clients; and (iv) for other purposes.

Table 8.2 - Mann-Whitney Test on the Purposes of Using the Annual Report

Purpose	W	Probability	Result
Reading or academic interest (4)	4395	0.0007	S
Buy/hold/sell shares in a private capacity (3)	4062.5	0.0860	NS
Negotiate labour contract (9)	3793.5	0.3526	NS
Negotiate trade agreement (6)	3882.5	0.1970	NS
Grant trade credit (5)	4000	0.0590	NS
Make decision on behalf of clients/employer (2)	4112.5	0.039	S
Exercise discretion as government official (8)	3802.5	0.5405	S
Advise clients (1)	4272.5	0.0024	S
Appraise social contribution of company (7)	3612.5	0.2486	NS
Other	3293.0	0.0034	S

S-Significant; NS-Not Significant

This indicates that the purposes for which respondents use financial reports vary significantly between the two groups only for the above 4 purposes, but not on the other five purposes.

Besides the 9 probable uses of financial statements, users were also asked to state other purposes of using the annual reports. Their responses are presented in Table 8.3. Although the number of responses is small, it still provides a useful information regarding the specific uses of financial statements by the two user groups.

Table 8.3: Other Purposes of Using the Annual Report

Other answers	Accountant	F. Analyst	Total
	Number	Number	Number
To compare and monitor the performance of a company with other companies in similar industries so as to facilitate in making investment decision	2	10	12
To evaluate company's past performance, its future and current prospects that will contribute to future earnings	2	9	11
To make financial analyses for research purposes	1	2	3
Total	5	21	26

8.4 Ranking of Various Information Sources

Users can choose many sources of information to know about a company. In order to assess the relative importance of various sources of information, the respondents were asked to rate the perceived importance of 14 sources of information in making their decision about a company. The respondents were asked to rate the information sources on a five-point scale signifying 1 for 'not at all important', 2 for 'less important', 3 for 'important', 4 for 'very important' and 5 for 'very very important'. The sources of information and the mean rating score given for each information source are presented in Table 8.4.

Table 8.4: Ranking of Information Sources

Sources of Information	Accountant	F. Analyst	Total
Advice of friends	2.500 (13)	2.190 (14)	2.310 (13)
Advisory services	4.075 (1)	3.975 (5)	4.015 (1)
Annual reports of companies	3.873 (2)	3.863 (6)	3.867 (4)
Communications with management	3.519 (5)	4.063 (4)	3.848 (6)
Corporate press releases	3.370 (8)	3.775 (8)	3.612 (8)
Government publications	3.135 (11)	3.550 (10)	3.386 (10)
Interim reports of companies	3.640 (4)	4.090 (3)	3.914 (3)
Business magazines	3.442 (6)	3.563 (9)	3.515 (9)
Prospectuses	3.849 (3)	4.101 (2)	4.000 (2)
Newspapers	3.192 (9)	3.412 (11)	3.326 (11)
Proxy statements	2.872 (12)	2.877 (12)	2.875 (12)
Stockbrokers advice & reports	3.396 (7)	3.861 (7)	3.685 (7)
Tips and rumours	2.135 (14)	2.392 (13)	2.290 (14)
Visits to companies	3.177 (10)	4.308 (1)	3.860 (5)
Other sources	3.571	4.200	4.037

The number in parentheses represents the ranking of scores for each source of information. Based on the overall mean scores, the table indicates that 'advisory services' was perceived to be the most important source of information by both groups. Surprisingly, looking from one user group point of view, the financial analysts' group ranked it in the fifth place compared to the accountant group who ranked it in the first place. Prospectuses received the second best ranking suggesting that this is perceived to be the second most important source of information by the respondents. However, looking from one user group perspective, this source of information was ranked in the third place by the accountants, compared to the second place by the financial analysts' group. The third highest overall mean ranking of information source was the interim reports of companies. It was ranked in the fourth and third place by the accountants and the financial analysts' group respectively.

On the other hand, the three least important sources of information (based on the overall score) are proxy statements, advice of friends, and tips and rumours. It is also worth to look at the ranking given by each user group on each source of information. Firstly, for the financial analyst group, it is interesting to see the wide difference between their perceived importance on the second last source of information, that is, visits to companies. The group ranked it in the first place compared to the accountant group who ranked it in the tenth place. This may indicate the specific nature of their job. For example, for the financial analysts, visits to companies form an integral part of their job, whereas for accountants, visits to companies are rarely done unless special circumstances arise such as discrepancy in the clients' accounting records that require some investigation. In this particular case, accountant is required to visit their client's office to seek more information about a particular transaction.

The other significant difference in the perceived importance of sources of information by the two user groups is about the annual report. The accountant group ranked it in the second place compared to the financial analysts who ranked it in the sixth place. Again, this would indicate the main difference in the nature of their job whereby the accountants placed more importance on ensuring that the information contained in the annual reports complied with disclosure rules and regulations, whereas for the financial analysts, annual report is just regarded as providing very minimum or basic information. However, the mean scores obtained for both groups are relatively similar. The feedback from some interviews with the financial analysts revealed that they generally mentioned that they require more information beyond the annual report for analysis purposes.

It is also interesting to note that 'communication with management' emerged in the top five rankings of information sources, whereby the financial analysts ranked it in the fourth place, and the accountants' group ranked it in the fifth place. This indicates that an informal source of information is becoming increasingly relied upon by both user groups. Surprisingly, the overall ranking of annual report in the fourth place after advisory services, prospectuses and interim reports signifies the growing demand by both user groups for new, updated and timely information for decision making purposes. In this respect, annual reports would seem to be lag behind in terms of timely information because it normally takes between four to seven months from the accounting year-end before it could be distributed to the shareholders or to the public. As such, advisory services and interim reports of companies would be regarded as 'new and timely' information by both user groups to suit their decision-making purposes compared to the annual reports. On the other hand, prospectuses are normally applicable only to new companies who are seeking new source of capital. So, the importance given by both user groups on this type of information may reflect their need for new and reliable source of information about the new companies that they may have interest in making profitable investment. The responses were tested to see any significant differences between the two user groups using the following hypothesis:

There is no significant difference between the two user groups with regard to the perceived importance of various sources of information.

To test for difference due to their occupation, a Mann-Whitney test was carried out for the fourteen sources of information using respondents' occupations as the grouping variable. The results in Table 8.5 show that there were significant differences between the two user groups in five sources of information namely, communication with management, corporate press releases, interim reports of companies, stockbrokers' advice and reports, and visits to companies.

Table 8.5: Mann-Whitney Test on the Ranking of Information Sources

Sources of Information	W	Probability	Result
Advice of friends	3530	0.1611	NS
Advisory services	3701.5	0.4572	NS
Annual reports of companies	3740.0	1.0	NS
Communications with management	2756.0	0.0005	S
Corporate press releases	3201	0.0334	S
Government publications	3051.5	0.0507	NS
Interim reports of companies	2682.0	0.0052	S
Business magazines	3293.0	0.4070	NS
Prospectuses	3233.0	0.1501	NS
Newspapers	3246.5	0.2878	NS
Proxy statements	2825.0	0.9195	NS
Stockbrokers advice & reports	2555.5	0.0067	S
Tips and rumours	3071.5	0.0776	NS
Visits to companies	2202.0	0.0	S
Other sources	76.0	0.2020	NS

Besides the fourteen sources of information, respondents were also asked to state other sources of information which they thought are useful and relevant to their decision making purposes. Only three and eleven responses were given by the accountants and financial analysts respectively. The respondents mentioned that they normally used other sources of information such as information regarding share price movement and industry or sector reports. An interesting feature is that the financial analysts' group also considered the views from their peers or competitors or other analysts besides their own personal judgement on the industry as a whole in making investment decisions. This may reflect that in many sectors or industries there is a group of 'leading' analysts who are followed closely by other analysts. Although the responses are limited in number, it provides a valuable information regarding the use of other sources of information by the user groups. The majority of the responses, however, came from the financial analysts' group (79%) who prefer to use other sources of information that are not currently available in the annual report.

8.5 Importance of Different Parts of the Annual Report

Companies' annual reports contain a range of information presented in a specified format, albeit in different manner, consisting of qualitative and quantitative information. In this study, 14 such parts or sections were identified and included in the questionnaire and respondents were asked to rate them according to their perceived importance of those parts using a five point scale from 1 designating 'not at all important' to 5, 'very-very important'. The overall and user group wise mean scores awarded to each of the 14 parts by the respondents are presented in Table 8.6.

Table 8.6 - Ranking of Parts of the Annual Report

Parts of Annual Reports	Accountant	F. Analyst	Total
Accounting policies	4.000 (5)	3.637 (9)	3.785 (9)
Auditors' report	4.273 (4)	3.250 (13)	3.667 (10)
Balance sheet	4.491 (2)	4.550 (2)	4.526 (2)
Directors' report	3.454 (11)	3.253 (12)	3.336 (12)
Chairman's statement	3.273 (12)	3.262 (11)	3.267 (13)
Profit and loss statement	4.582 (1)	4.700 (1)	4.652 (1)
Notes to the accounts	4.454 (3)	4.450 (3)	4.452 (3)
Pictorial statements	2.800 (14)	2.873 (14)	2.843 (14)
Statement of changes in financial positions	3.604 (8)	4.114 (6)	3.909 (6)

Table 8.6: Ranking of Parts of the Annual Report (Ctd.)

Statistical data or summary of operations	3.582 (9)	3.987 (7)	3.822 (7)
MDA of operations of preceding years	3.509 (10)	3.987 (8)	3.793 (8)
MDA of operations of the coming year	3.673 (7)	4.200 (5)	3.985 (5)
MFEP for the coming year	3.745 (6)	4.262 (4)	4.052 (4)
Profiles of board of directors	3.177 (13)	4.308 (10)	3.860 (11)

MDA - Management discussion and analysis
MFEP - Management forecast of expected profits

The number in parentheses represents the ranking of scores for each part or section in the annual report. From the last column of the table, it shows that the profit and loss statement is perceived to be the most important part of an annual report. The second and third most important parts are the balance sheet and notes to the accounts. These three parts are ranked equally important by each user group, indicating that both user groups value them as an integral part of information in the annual report. It is also interesting to note the other two important parts of the annual reports that are ranked in fourth and fifth place namely, management forecast of expected profits for the coming year, and the management discussion and analysis of operations of the coming year. It seems that forward looking information are increasingly regarded as an important piece of information by both user groups as a whole, and particularly for the financial analysts.

The other parts of the annual report ranked from sixth to eleventh place are statement of changes in financial positions, statistical data or summary of operations, management discussion and analysis of operations of preceding years, accounting policies, auditors' report, and profiles of board of directors, respectively. The three least important parts ranked from twelfth to fourteenth place are directors' report, chairman statement, and pictorial statement. The table also shows a wide difference in the perceived importance of some parts of the annual report by each user group. For example, auditors' report, accounting policies, and profile of board of directors are ranked in the fourth, fifth and thirteenth place respectively by the accountants, but are rated in the thirteenth, ninth and tenth place by the financial analysts. The different opinion on the importance of auditors' report and accounting policies may reflect the fact that the accountants place greater importance on companies' compliance with law requirements, whereas to the financial analysts, the two sections of the annual reports are just a formality and well taken care of by the auditor who audited the company's accounting records. However, both groups show a relatively similar pattern of perceived importance on other parts of the annual report, namely directors' report, chairman statement, statement of changes in financial positions, statistical data or summary of operations, management discussion and analysis of operations of preceding years, management discussion and analysis of operations of the coming year, management forecast of expected profits for the coming year.

To test for any significant difference between the two user groups with regard to perceived importance of different parts within an annual report, the following hypothesis was developed:

There is no significant difference between the two user groups with regard to the perceived importance they attach to different parts contained in the annual report.

To test this hypothesis, a Mann-Whitney test was carried out for the perception scores with respondents' occupations as the grouping variable. The results in Table 8.7 show that significant differences exist between the two groups on 7 out of the possible 14 parts. The parts of the annual report which show significant difference are accounting policies, auditors report, statement of changes in financial positions, statistical data or summary of operations, management discussion and analysis of operations of preceding years, management discussion and analysis of operations of the coming year, and management forecast of expected profits for the coming year. This shows that users' perceptions about the importance of half of the possible parts of the annual report are significantly different.

Table 8.7: Mann-Whitney Test on the Ranking of Parts of the Annual Report

Parts of Annual Reports	W	Probability	Result
Accounting policies	4194.0	0.0323	S
Auditors' report	4880.5	0.0	S
Balance sheet	3642.0	0.612	NS

Table 8.7: Mann-Whitney Test on the Ranking of Parts of the Annual Report (Ctd.)

Directors' report	3988.5	0.1939	NS
Chairman's statement	3786.5	0.8302	NS
Profit and loss statement	3504.0	0.1940	NS
Notes to the accounts	3701.0	0.8439	NS
Pictorial statements	3629.5	0.6933	NS
Statement of changes in financial positions	3005.0	0.0116	S
Statistical data or summary of operations	3218.5	0.0141	S
MDA of operations of preceding years	3133.0	0.0043	S
MDA of operations of the coming year	3054.5	0.0012	S
MFEP for the coming year	3015.0	0.0006	S
Profiles of board of directors	3553.5	0.3835	NS

MDA - Management discussion and analysis
MFEP - Management forecast of expected profits

8.6 Influence of Different Parts of the Annual Report

Different user groups may use or value differently each section or part in the annual report. As such, different parts of the annual report may exert different degrees of influence on the decision making process of each user group or within the user group itself. In order to examine the extent of such influence, respondents were asked to rate each part of the annual report in terms of the degree of influence it has in relation to their purpose of reading the annual report. Individual user group score and the overall score for the mean responses were computed and presented in Table 8.8 below. The numbers in parentheses represent the ranking of influence of each part of the annual report.

Table 8.8: Degree of Influence of Parts of the Annual Report

Parts of Annual Reports	Accountant	F. Analyst	Total
Accounting policies	3.963 (4)	3.412 (9)	3.634 (8)
Auditors' report	3.926 (5)	3.087 (13)	3.425 (10)
Balance sheet	4.491 (2)	4.475 (2)	4.481 (2)
Directors' report	3.333 (10)	3.175 (11)	3.239 (11)
Chairman's statement	3.236 (12)	3.225 (10)	3.230 (12)

Table 8.8: Degree of Influence of Parts of the Annual Report (Ctd.)

Profit and loss statement	4.509 (1)	4.625 (1)	4.578 (1)
Notes to the accounts	4.164 (3)	4.304(3)	4.246(3)
Pictorial statements	2.782 (14)	2.712 (14)	2.741 (14)
Statement of changes in financial positions	3.463 (9)	4.026 (6)	3.795 (6)
Statistical data or summary of operations	3.527 (8)	3.887 (7)	3.741 (7)
MDA of operations of preceding years	3.327 (11)	3.775 (8)	3.593 (9)
MDA of operations of the coming year	3.582 (7)	4.100 (5)	3.889 (5)
MFEP for the coming year	3.709 (6)	4.240 (4)	4.022 (4)
Profiles of board of directors	3.127 (13)	3.165 (12)	3.149 (13)

MDA - Management discussion and analysis
MFEP - Management forecast of expected profits

In comparison with the previous section which deals with the perceived importance of different parts in the annual report, the overall score in the final column indicates that only 5 parts show a difference in the order of influence by 1 namely accounting policies, directors' report, chairman statement, management discussion and analysis of operations of preceding years, and profiles of board of directors (a difference by 2). All the other parts have identical order of influence as with the order of importance perceived by the respondents. The scores given by each user group also show the same pattern of responses.

Next, the following hypothesis was developed to test any significant difference between the two user groups with regard to the degree of influence of the different parts in the annual report on their decision making process.

There is no significant difference between the two user groups with regard to the degree of influence of different parts contained in the annual report on their decision making process.

A Mann-Whitney test was carried out and the results in Table 8.9 below show that the observed differences between the two user groups were only significant on 7 parts of the annual report. The 7 parts are the same parts tested in the previous section on the perceived importance of different parts in the annual report. The results again suggest that the two user groups perceived the influence of 7 parts of the annual report significantly differently from each other.

Table 8.9: Mann-Whitney Test on the Degree of Influence of Parts of the Annual Report

Parts of Annual Reports	W	Probability	Result
Accounting policies	4320.0	0.0014	S
Auditors' report	4546.0	0.0	S
Balance sheet	3766.0	0.8963	NS
Directors' report	3812.5	0.4232	NS
Chairman's statement	3768.0	0.8974	NS
Profit and loss statement	3504.0	0.2133	NS
Notes to the accounts	3455.0	0.2062	NS
Pictorial statements	3828.0	0.6803	NS
Statement of changes in financial positions	3007.0	0.0049	S
Statistical data or summary of operations	3253.0	0.0221	S
MDA of operations of preceding years	3199.5	0.0112	S
MDA of operations of the coming year	3062.5	0.0013	S
MFEP for the coming year	3034.0	0.0012	S
Profiles of board of directors	3697.5	0.9448	NS

MDA - Management discussion and analysis
MFEP - Management forecast of expected profits

8.7 Thoroughness in Reading the Annual Report.

One of the questions in the questionnaire asked the respondents about to what extent they read the contents of the annual report. Ten sections or parts of the annual report that are considered important and useful for users' decision making purposes were identified and respondents were asked to rate them from scale 1, indicating 'do not read at all' to 5, 'read thoroughly'. Their responses are presented in Table 8.10. The numbers in parentheses represent the ranking of each part by the respondents' scores. The results indicate that profit and loss statement was ranked in the first place, followed by balance sheet and notes to the accounts. This seems to follow the same pattern of responses to the previous two sections on the degree of importance and influence of different parts in the annual report. Three sections which received less attention by respondents are auditors' report, profiles of board of directors and pictorial statements.

A hypothesis was developed to see if there is any significant difference between the two user groups on the degree of thoroughness in reading the annual report:

There is no significant difference between the two user groups regarding the degree of thoroughness in reading the contents of the annual report.

Table 8.10 - Degree of Thoroughness in Reading the Annual Reports

Parts of Annual Reports	Accountant	F. Analyst	Total
Auditors' report	3.830 (4)	2.747 (10)	3.182 (8)
Balance sheet	4.370 (2)	4.575 (2)	4.492 (2)
Directors' report	3.167 (8)	3.200 (7)	3.187 (7)
Chairman's statement	3.291 (6)	3.375 (6)	3.341 (6)
Profit and loss statement	4.473 (1)	4.725 (1)	4.622 (1)
Notes to the accounts	4.091 (3)	4.337 (3)	4.237 (3)
Pictorial statements	2.909 (10)	2.861 (9)	2.881 (10)
Statement of changes in financial positions	3.364 (5)	4.038 (4)	3.761 (4)
Statistical data or summary of operations	3.273 (7)	3.925 (5)	3.659 (5)
Profiles of board of directors	3.018 (9)	3.137 (8)	3.089 (9)

A Mann-Whitney test was carried out for users' occupation and the results in Table 8.11 show that only for 4 sections of the annual report are significantly different, namely auditors' report, profit and loss account, statement of changes in financial positions, and statistical data or summary of operations. This test indicates that the two user groups differ significantly in their degree of thoroughness in reading only on 4 parts (out of 10 parts) or sections of the annual report. The results also show that the financial analysts' group read more thoroughly than the accountants' group on statement of changes in financial positions, and statistical data or summary of operations, whereas the accountants give more attention on the auditors' report compared to the former group.

Table 8.11: Mann-Whitney Test on the Degree of Thoroughness in Reading the Annual Reports

Parts of Annual Reports	W	Probability	Result
Auditors' report	4558.5	0.0	S
Balance sheet	3322.5	0.0904	NS
Directors' report	3646.0	0.9981	NS
Chairman's statement	3659.0	0.708	NS
Profit and loss statement	3299.0	0.0155	S
Notes to the accounts	3351.5	0.0587	NS
Pictorial statements	3755.0	0.8397	NS
Statement of changes in financial positions	2928.5	0.0002	S
Statistical data or summary of operations	3020.5	0.0008	S
Profiles of board of directors	3649.0	0.6717	NS

8.8 Summary and Conclusion

In this chapter, results of the first part of the questionnaire were discussed. Non-parametric tests were carried out for testing the related hypotheses using the respondents' occupations as the grouping variable. The results show that respondents use companies annual reports for various purposes, the most cited reason being to advise clients and the least cited reason being to negotiate labour contract. 'Advisory services' is considered by the sample of users to be the most important source of information about a company, whereas the annual report only ranks in the fourth place, after prospectuses and interim reports. Furthermore, within the annual report itself, the respondents rank the profit and loss statement, balance sheet, and notes to the accounts in the first, second and third place respectively, in terms of their importance and influence in decision making purposes, and also in terms of the degree of thoroughness in reading the annual report.

CHAPTER NINE
RESULTS OF ANALYSIS ON PERCEPTIONS OF USERS-SURVEY II

9.1 Introduction

The primary aim of this chapter is to analyse the results of the responses based on Part II of the questionnaire which deals with the perception of users about the importance of 56 selected items of information that may appear in the annual reports of Malaysian companies. As stated in Chapter Six, the respondents were asked to rate each information item on a five-point scale depending on their view of the importance of the selected items. The second aim of this chapter is to compare the degree of consensus between user groups in Malaysia with user groups in other developing countries with respect to the importance of the items of information included in the questionnaire.

In this chapter, hypothesis testing is employed to examine the difference in the perceptions of the two user groups. Non-parametric tests have been used to analyse the variance of responses. The rest of the chapter has been organised as follows: Section 9.2 explains how the items have been ranked in order of importance by individual user groups and by all the users in aggregate; Section 9.3 provides a comparative analysis of users' perceptions in previous studies in developing countries; and lastly section 9.4 draws a conclusion to the chapter.

9.2 Ranking of Items

The mean scores for the selected items of information were computed to see how users perceived the importance of their inclusion in the annual reports. The overall mean score as well as the individual user group score, along with their rankings (in parentheses) are presented in Table 9.1.

The overall mean scores show that the item 'amount and sources of revenue' (4.669) is perceived to be the most important information followed by 'turnover or sales' (4.659); 'earnings per share' (4.459); 'long-term and current liabilities' (4.415); and 'subsidiary's earnings and its parent company's share' (4.393).

Table 9.1 Mean Importance of Disclosure Items

Rank	Items of Information	AC	FA	Total
1	Amount and sources of revenue for the period	4.519 (1)	4.762 (2)	4.669
2	Turnover/sales for the period	4.473 (2)	4.778 (1)	4.659
3	Earnings per share for the period	4.291 (3)	4.580 (5)	4.459
4	Long-term and current liabilities (including its composition) at the end of the period	4.236 (4)	4.537 (6)	4.415
5	Amount of each subsidiary's earnings and parent company's share of each amount	3.982 (10)	4.675 (3)	4.393
6	Comparative balance sheet: 2 years	4.200 (6)	4.337 (11)	4.281
6	Comparative income statement: 2 years	4.218 (5)	4.325 (12)	4.281
8	Total current assets including its composition at the end of the period	4.127 (7)	4.312 (14)	4.237
9	Discussion of factors affecting future business of the company	3.927 (11)	4.437 (8)	4.230
10	Amount and breakdown of expenses for the period	3.855 (15)	4.475 (7)	4.222
11	Number of authorised and issued share capital	3.873 (14)	4.425 (9)	4.200
12	Cash flow projections for the next two to five years	3.618 (29)	4.587 (4)	4.193
13	Half yearly financial statements	3.546 (32)	4.425 (9)	4.067
14	List of financial ratios	3.764 (22)	4.262 (15)	4.059
15	Dividends paid and proposed	4.127 (7)	4.000 (27)	4.052
16	Income from investment	3.836 (16)	4.100 (21)	3.993
17	Income tax expense for the period	3.782 (20)	4.099 (22)	3.970
17	Reserves (and its classification)	3.764 (22)	4.112 (19)	3.970
17	Method used in the recognition of revenue	3.836 (16)	4.062 (24)	3.970
20	Comparative income statement: More than 2 years	3.370 (39)	4.325 (12)	3.940
21	Amount of extra-ordinary gains and losses reported for the period	3.927 (11)	3.937 (33)	3.933

AC = Accountants; FA = Financial Analysts

Table 9.1 Mean Importance of Disclosure Items (Ctd.)

Rank	Items of Information	AC	FA	Total
22	Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period	3.709 (25)	4.050 (25)	3.911
23	Income from acquisitions	3.691 (27)	4.025 (26)	3.889
24	Amount of depreciation for the period	3.704 (26)	3.988 (28)	3.881
24	Basic policies and objectives of management	3.782 (20)	3.950 (32)	3.881
26	Comparative balance sheet: More than 2 years	3.309 (43)	4.262 (15)	3.874
27	Breakdown of income by location, operating division, product line or customer group	3.273 (45)	4.237 (17)	3.844
28	Particulars of any contracts (during the period) in which a director was materially interested	3.891 (13)	3.800 (34)	3.837
29	Breakdown of sales by location, operating division, product line or customer group	3.182 (50)	4.212 (18)	3.793
30	Contingent liabilities	4.055 (9)	3.608 (38)	3.791
31	Breakdown of investment by location, operating division, product line or customer group	3.273 (45)	4.112 (19)	3.770
31	Disclosure of accounting policies regarding various items	3.745 (24)	3.787 (35)	3.770
33	Compounded rate of growth of earnings per share for the last five to ten years	3.291 (44)	4.075 (23)	3.756
34	Methods used in computing earnings per share.	3.455 (36)	3.962 (30)	3.754
35	Analysis of shareholdings	3.236 (47)	3.962 (30)	3.667
36	Number of shares in the company owned by each directors	3.836 (16)	3.537 (44)	3.659
37	Quarterly financial statements	3.182 (50)	3.975 (29)	3.652
38	Expenditures not yet written off	3.473 (35)	3.662 (37)	3.585
39	Change in dividend	3.436 (38)	3.675 (36)	3.578
40	Amount and classification of fixed assets by major items at the end of the period	3.582 (31)	3.562 (43)	3.570

Table 9.1 Mean Importance of Disclosure Items (Ctd.)

Rank	Items of Information	AC	FA	Total
41	Provision for taxation	3.636 (28)	3.500 (46)	3.556
42	Amount and breakdown of inventory/stocks reported under major categories at the end of the period	3.491 (33)	3.587 (41)	3.548
43	Accounting method for translating foreign currencies	3.455 (36)	3.600 (39)	3.541
44	Profit or loss on disposal of fixed assets	3.352 (41)	3.600 (39)	3.500
45	List of directors	3.491 (33)	3.425 (48)	3.452
46	Amount and breakdown of intangible assets	3.327 (42)	3.519 (45)	3.440
47	Amount of accumulated depreciation on fixed assets at the end of the period	3.200 (49)	3.575 (42)	3.422
48	Methods used in computing depreciation	3.236 (47)	3.500 (46)	3.393
49	Directors' emoluments	3.800 (19)	3.000 (52)	3.326
50	Report of audit committee	3.618 (29)	3.100 (51)	3.311
51	Details regarding product or service contribution	3.073 (53)	3.350 (50)	3.237
52	Price level adjusted corporate reports as supplementary statements	2.873 (54)	3.380 (49)	3.172
53	Provision for pension and retirement benefits	3.364 (40)	2.987 (53)	3.141
54	Particulars relating to human resources	3.109 (52)	2.850 (54)	2.956
55	Discussion of physical resources and environmental contribution	2.836 (55)	2.700 (55)	2.756
56	Particulars relating to community involvement	2.745 (56)	2.600 (56)	2.659

The three least important items as perceived by the respondents, having scores below than 3.00 are 'particulars relating to human resources' (2.956), 'discussion of physical resources and environmental contribution' (2.756), 'particulars relating to community involvement' (2.659). However, one should be careful in interpreting the difference in the ranking of the items on the basis of mean scores because the difference between the mean scores is quite small. For instance, the difference between the items ranked 1 and 2 is very small (by 0.010) and means are imperfect measure of ordinal data.

An analysis of the results in the last column of the table reveals that there are 15 items having a score between 4.00 and 5.00, 38 items between 3.00 and 4.00, and the remaining 3 items have mean scores between 2.00 and 3.00. This indicates that none of the items is considered 'not at all important' by the respondents. Items having scores between 4.00 and 5.00 are perceived to be very-very important to the respondents.

It is quite surprising to see from the table that 'comparative balance sheet' and 'comparative profit and loss statement' (for 2 year period) are both equally ranked in the sixth place. This is highly inconsistent with the respondents' earlier view expressed in Part I of the questionnaire where profit and loss statement and balance sheet were perceived to be the two most important parts of company's annual report. However, this peculiarity might explain the other side of the coin in the sense that the respondents are looking at each element that constitute both the statements. This can be delineated by looking at the first ten items from the table. Items 1, 2, 3, 5 and 10, namely amount and sources of revenue, turnover/sales, earnings per share, subsidiary's earnings and its parent company's share, and breakdown of expenses all appear in the profit and loss statement. It seems that respondents place great importance on a detail disclosure of every revenue and expenditure items in the profit and loss statement. For example, turnover or sales that forms the major revenue item for most companies is ranked in the second place. The third ranked item, earning per share also constitute an important indicator of a company's overall corporate performance which again depend upon the respective revenue items. The importance of revenue items is further enhanced by the ranking of subsidiaries' earnings in the fifth place, which signify the great importance placed by respondents on after-tax profit of a company attributable to its shareholders. Lastly, the item 'amount and breakdown of expenses' which is ranked in the tenth place also indicates respondents' perceived importance on detail disclosure of expenses incurred by a company during a particular year. On the other hand, items ranked in the fourth and eighth place, namely long-term and current liabilities, and current assets represent the major items in the balance sheet. Again, in this case, the respondents viewed these items as highly important and require a detail breakdown of each of them.

It is also interesting to note that the item 'discussion of factors affecting future business of companies' is ranked in the ninth place. This indicates that the respondents placed a great interest on forward looking information which could affect the companies' performance. As this item is voluntary in nature, it may not appear in the annual reports. However, it has an important implication for companies in the sense that if they want to be more user oriented, this item should be disclosed in their annual reports for the benefit of the users.

The other five items having mean scores between 4.00 and 5.00 are number of authorised and issued share capital, cash flow projections for next two to five years, half yearly financial statements, list of financial ratios, and dividends paid and proposed. All the five items are ranked in the eleventh, twelfth, thirteenth, fourteenth and fifteenth place respectively.

The items 'number of authorised and issued share capital' and 'dividends paid and proposed' are required by law to be disclosed in the annual report. So, their mean scores indicate the importance of such items not only due to its mandatory requirements, but also reflect the demand for such items by the respondents. However, the high ranking of 'cash flow projections' by the respondents means that this statement is of utmost importance to them because they would like to see how the company is planning to use its cash resources . Since this item is not required by law, many companies did not provide it in their annual reports. So, in order to make their annual reports more valuable to users, it is worth to include such information. The ranking of the other two items, namely, 'half yearly financial statements' and 'list of financial ratios' also indicates the importance of these items by the users. Only few companies did provide such information and the extent of disclosure of such information especially list of financial ratios still varies between one company and another.

It is also interesting to note that out of the fifteen items having mean scores between 4.00 and 5.00, four of them are voluntary items, namely discussion of factors affecting future business of the company (4.230 ranked 9), cash flow projections for next two to five years (4.193 ranked 12), half yearly financial statements (4.067 ranked 13), and list of financial ratios (4.059 ranked 14).

The next category of item having mean scores between 3.00 and 4.00, suggesting a portion of respondents considering these items as important, consist of 38 items. Interestingly, ten of these items are voluntary in nature, which means that they may or may not appear in the annual reports of companies. The items are comparative income statement (more than 2 years) with mean score 3.940, ranked 20; basic policies and objectives of management (3.881 ranked 24), comparative balance sheet (more than 2 years), with mean score 3.874, ranked 26, breakdown of investment by location, operating division, product line or customer group (3.770 ranked 31), compounded rate of growth of earnings per share for the last five to ten years (3.756 ranked 33), analysis of shareholdings (3.667 ranked 35), quarterly financial statements (3.652 ranked 37), change in dividend (3.578 ranked 39), details regarding product or service contribution (3.237 ranked 51), price level adjusted corporate reports as supplementary statements (3.172 ranked 52).

Table 9.1 also provides a basis for comparing the information needs of individual user group. This information need is represented by the mean scores which reflect the perceived importance of the information items. An analysis of the ten top ranked items based on overall ranks shows that seven of these items are also among the top ten of the accountant group and the financial analyst group.

Even though the sample of respondents is not evenly divided among the user groups, the overall mean perception scores and the overall ranks are not influenced by the much larger group, the financial analyst who accounts for 59% of the sample. This is evident from the analysis of the ranks of the twenty top ranked items based on the overall mean scores which shows that 16 of these items are within the financial analyst's top twenty, and 15 of these items are within the top twenty of the accountant group.

A further analysis of Table 9.1 shows that the responses of individual group did not always conform to the overall pattern. In order to see the variations in perceived importance of each item by each user group, user-group wise ranking of items is presented in parentheses.

However, there are some items which are uniquely ranked high or low by one user group as opposed to the other group and also to the overall user group ranking. Some of those are shown in the following:

1. Cash flow projections for next two to five years (ranked 12 overall, ranked 29 and 4 by accountant and financial analyst groups respectively);
2. Half yearly financial statements (ranked 13 overall, but ranked 32 and 9 by accountant and financial analyst groups respectively);
3. Dividends paid and proposed (ranked 15 overall, but ranked 7 and 27 by accountant and financial analyst groups respectively);
4. Comparative income statement: More than 2 years (ranked 20 overall, but ranked 39 and 12 by accountant and financial analyst groups respectively);
5. Breakdown of income by segments (ranked 27 overall, but ranked 45 and 17 by accountant and financial analyst groups respectively).

Similar differences in the perception of user groups are found in items ranked 21, 26, 28, 29, 30, 31, 33, 35, 36, 37, 41, 49 and 50. The importance of these items is viewed extremely differently by each user group. If all the above items (18 items) are taken as comparison, and the items are further classified into mandatory (10 items) and voluntary (8 items) disclosure items, it is found that ten items were regarded by financial analysts as more important (in terms of ranking) than the accountant group. Out of the ten items, eight items were voluntary items and the other two items were mandatory items. On the other hand, all the eight items considered by accountants as more important compared to the financial analysts' group were mandatory items. The difference in importance given by these two groups on the above items indicates that financial analysts and accountants have different objectives according to the nature of their job. So this will dictate what they are interested in. The results also reflect that accountants tend to be more rigid in their preference of items which could be closely related to their nature of job which require every disclosure of information to satisfy with the law requirements. As such, they are less concerned with other disclosure items beyond the statutory requirements which might be useful to other users of financial statement. On the other hand, the financial analysts' group perceived other disclosure items beyond the law requirements as very important input for their decision making purposes. They prefer more future oriented information and also greater details of disclosure for profit and loss account and balance sheet items.

In order to examine any differences between respondents of the two groups, Mann-Whitney and t-tests were conducted to test the following hypothesis:

There is no significant difference between the two user groups in their perceived importance of the selected items of information.

The results are shown in Tables 9.2 and 9.3 at the end of this chapter. The results of both tests indicate that significant differences at the 5% level exist between the two user groups for 31 out of the 56 items, and no significant differences are found for the remaining 25 items. This indicates that all respondents have significantly different perceptions regarding the importance of 31 items and differences in their perception for the remaining 25 items are not significant. As such, the hypothesis is rejected for 31 out of 56 items. Out of the 31 items perceived differently by the two groups, twenty items were mandatory items and the other eleven were voluntary items. On the other hand, out of the 25 items perceived to be of equal importance to both user groups, nineteen items were mandatory items and six were voluntary items. The twenty-five items of which the differences in user perception are not significant are listed below:

1. Comparative balance sheet: 2 years
2. Comparative income statement: 2 years
3. Total current assets including its composition
4. Dividends paid and proposed
5. Method used in the recognition of revenue
6. Amount of extra-ordinary gains and losses

7. Amount of depreciation
8. Basic policies and objectives of management
9. Particulars of any contracts in which a director was materially interested
10. Disclosure of accounting policies
11. Number of shares owned by each director
12. Expenditures not yet written off
13. Change in dividend
14. Amount and classification of fixed assets
15. Provision for taxation.
16. Amount and breakdown of inventory/stocks
17. Accounting method for translating foreign currencies
18. Profit or loss on disposal of fixed assets
19. List of directors
20. Amount and breakdown of intangible assets
21. Methods used in computing depreciation
22. Details regarding product or service contribution
23. Particulars relating to human resources
24. Discussion on physical resources and environmental contribution
25. Particulars relating to community involvement

9.3 Comparison with Previous Studies on Users' Perceptions

The significance of the findings of this chapter can only be known if it can be compared with the results of other perception-based studies. A number of studies using users' perceptions have been discussed in Chapter Three. Some of these studies made use of users' perceptions to assess information needs of specific user group(s); while others used the same approach with the objective of producing weights as a measure of disclosure quality in annual reports. Irrespective of the purpose of those studies, they have attempted to quantify the perceived importance of selected items of information deemed to be useful to users of annual reports. A review of the studies revealed that the number of information items selected by the researchers are varied, ranging from 35 to

113 items. Some researchers also produced a new set of items which are peculiar to the country in which the study was conducted.

In this section, two previous studies in developing countries are chosen. The first is the Wallace's (1988a and 1988b) study on Nigerian users' perceptions, and the other one is a similar study done in Bangladesh by Karim (1995). In Wallace's study, the number of items selected was 102, whereas in Karim's study the number was 113, with 96 items common to both studies. Both studies focused on six user groups. The user groups selected that are similar in both studies are accountants, financial analysts, tax officers or civil servants, and stockbrokers. The two user groups that differ from each other are 'top managers' and 'other professionals' (in Wallace's study), and 'bankers' and 'academician' (in Karim's study).

The present study only covers 56 items considered to be important to general users of annual reports. The number of user groups is also restricted to two, namely accountants and financial analysts. As such, caution has to be made in interpreting and comparing the results. Notwithstanding the dissimilarity in the sample composition and the number of items selected, the mean responses, overall rank of each item, and the Kruskal-Wallis test of significance for the different user groups are presented in Table 9.4 at the end of this chapter.

As shown in the above table, the mean perception scores in the present study range from 2.659 to 4.669 compared to Karim's study (2.239 to 4.522) and Wallace's study (3.02 to 4.39), that is, the score range is wider than Wallace's study but narrower than Karim's study. The number of items with significant differences in the present study is 31 out of 56 items (55%), whereas in Karim's study, 94 out of 113 items (83%) have significant differences, and in Wallace's study, 39 out of 95 items (41%) have significant differences.

The table also reveals that out of 56 items, there are 34 common items in all the three studies. Besides, there are 7 items under the present study which are either similar in Wallace's study but not similar in Karim's study, or vice versa. The items are (1) amount of each subsidiaries' earnings, (2) list of financial ratios, (3) investment in each subsidiary, (4) analysis of shareholdings, (5) number of shares owned by each director, (6) quarterly financial statements, and (7) directors' emoluments.

The present study also adds fifteen new items not covered in the previous two studies, which is represented by the letter 'N' in the parentheses of the first column after the description of the items. The table shows that users' perceptions regarding five items below are significantly different in all the three studies, namely:

1. Amount and sources of revenue for the period
2. Cash flow projections for next two to five years
3. Compounded rate of growth of earnings per share for the last five to ten years
4. Price level adjusted corporate reports as supplementary statements
5. Provision for pension and retirement benefits.

On the other hand, 29 items show inconclusive evidence as to the perceived importance by user groups. Further research may need to be done in order to support or refute the consistency of the results of these items. Out of the fifteen new items introduced in the present study, only nine items produced significant differences in user perception. The items are turnover/sales; report of audit committee; methods used in computing earnings per share; breakdown of investment by location, operating division, product line or customer group; breakdown of income by location, operating division, product line or customer group; income from acquisitions; half yearly financial statements, income from investment, and reserves and its classification. The results of these new items also require further research to examine the trend or pattern of users' perceptions.

In order to examine the consistency in the pattern of users' perception, the results of the 34 common items are compared among the three studies using the possible combination of AB, AC and BC. The Pearson Product Moment Correlation coefficient was employed on the mean perception scores, to see the closeness of a relationship among pairs of variables. This is shown in Table 9.5 below.

Table 9.5 Pearson Coefficient of Correlation '*r*' for Mean Perception Scores

	Present study	Karim's study
Karim's study	0.649	-
Wallace's study	0.595	0.787

Significant at 1% level, with critical value = 0.4093, df = 30

The results show that there is a strong positive relationship between mean perception scores of user groups employed in the three studies. The relationship of the mean scores between the present study and Karim's study is 0.649, which is stronger than the relationship between the present study and Wallace's study (0.595). The strongest relationship is between Karim's study and Wallace's study with an '*r*' value of 0.787.

An alternative measure of correlation called the Spearman's Rank Correlation is also employed to examine the relationship between pairs of variables, that is, the mean perception scores in all the three studies. This statistical tool is also appropriate since some of the scores have tied ranks. As such, the use of Spearman's rho correlation would adjust such tied ranks (Bryman and Cramer, 1996). The results of such test are presented in Table 9.6 below.

Table 9.6 Spearman's rho Correlation Coefficient for Mean Perception Scores

	Present study	Karim's study
Karim's study	0.614	-
Wallace's study	0.517	0.696

Significant at 1% level, with critical value = 0.467, df = 30

The results show that all the correlation coefficients are well above the critical value of 0.467, and as such there is a strong relationship between the user perception scores.

The strength of relationships is relatively the same as the previous Pearson's correlation coefficient, with the present study having a stronger relationship (0.614) with Karim's study than with Wallace's study (0.517). However, the strongest relationship is between Karim's and Wallace's study with a coefficient of 0.696.

Since in the present study, only two user groups are used, namely accountants and financial analysts, it is useful to compare the number of items having significant differences in perception among the three studies. It should be noted that not all user groups are common in all the three studies except the two groups mentioned above. So, only one pair of user group could be compared. This is presented in Table 9.7 below.

Table 9.7 Degree of Disagreement Among Users Across 3 Studies

User group pair	Present study		Karim's study		Wallace's study	
	NOI	% of total	NOI	% of total	NOI	% of total
A/FA	31	55	41	36	16	16

A/FA = Accountants and Financial Analysts

NOI = Number of Items

The table shows that the Malaysian users show greater degree of disagreement between them (i.e., between accountants and financial analysts) for 31 items or 55% of the total number of items (56). However, it should be noted that the number of items in the present study is fewer than the two previous studies. This might explain the higher percentage (55%) in the present study due to the lower value of the denominator (information items).

From Table 9.7, it is also possible to examine the general degree of consensus between accountants and financial analysts in the three studies and all previous studies which included these two user groups. This is shown in Table 9.8 at the end of this chapter. The degree of consensus between the two user groups in the current study and the other two studies in developing countries (Bangladesh and Nigeria) is 45% (Malaysia), 64% (Bangladesh) and 84% (Nigeria) respectively. The other three studies are done in developed countries: Chandra (1974) - USA; Firth (1978) - UK and Belkaoui (1978) - Canada. As can be seen from the table, the degree of consensus between the two user groups in the current study (45%) is relatively similar to that found in Chandra's study (30%-40%) and Firth's study (44%). This may be due to the relatively similar number of disclosure items employed in the three studies. On the other hand, the degree of consensus obtained in Belkaoui's study is 83%, which is relatively similar to those obtained in Karim and Wallace's study. However, the above comparison is based on the general disclosure items that may appear in the annual reports without classifying them into mandatory or voluntary items, which is beyond the scope of the current study.

9.4 Summary and Conclusion

This chapter provides an insight into the perceptions of two user groups in Malaysia. The results showed that both user groups expressed differing views of importance only on 31 items (55%). However, generally, both user groups exhibit the same degree of importance on the majority of items. For instance, the number of items having mean scores between 4.00 and 5.00 are 10 and 27 as expressed by the accountant and financial analyst groups respectively. For items having mean scores between 3.00 and 4.00 are 44 and 25 respectively. So, the total number of responses for items considered as 'very important' to 'very-very important' for both user groups are 54 and 52 respectively. This indicates a very negligible degree of differences. On the other hand, although some items were generally regarded as important by both user groups, some items were also perceived with some significant degree of differences. This phenomenon might explain the occupational affiliations of the user groups. For example, the financial analyst group gave more importance to items of a 'forward-looking' nature and information which was beyond the statutory requirements such as cash flow projections for next two to five years; segmental information on sales, income and investment; quarterly and half yearly financial statements; whereas the accountant groups placed more importance on statutory items such as dividend paid and proposed, amount of extraordinary gains and losses, contingent liabilities and number of shares owned by directors. Both groups, however, placed less importance on social responsibility reporting such as details regarding human resources, community involvement and discussion of physical resources and environmental contribution. A comparison with two previous studies done in Nigeria (Wallace) and Bangladesh (Karim) regarding user perception shows that the diversity among the Malaysian two user groups is significantly more than the two user groups in the two previous studies. On the other hand, for the 34 common items in all the three studies, The Pearson and Spearman Correlation Coefficient tests revealed a strong relationship between the items of information perceived by different user groups.

Table 9.2: Mann-Whitney Test on the Perceptions of Two User Groups

Rank	Items of Information	W	Prob.	Result
1	Amount and sources of revenue for the period	3163.0	0.0077	S
2	Turnover/sales for the period	3147.5	0.0009	S
3	Earnings per share for the period	3182.0	0.0038	S
4	Long-term and current liabilities (including its composition) at the end of the period	3208.0	0.0078	S
5	Amount of each subsidiary's earnings and parent company's share of each amount	3638.5	0.0	S
6	Comparative balance sheet: 2 years	3601.5	0.4983	NS
6	Comparative income statement: 2 years	3616.5	0.5467	NS
8	Total current assets including its composition at the end of the period	3451.5	0.1629	NS
9	Discussion of factors affecting future business of the company	3033.0	0.0006	S
10	Amount and breakdown of expenses for the period	2898.5	0.0	S
11	Number of authorised and issued share capital	3009.0	0.0004	S
12	Cash flow projections for next two to five years	2454.0	0.0	S
13	Half yearly financial statements	2549.0	0.0	S
14	List of financial ratios	2994.0	0.0004	S
15	Dividends paid and proposed	3883.0	0.4993	NS
16	Income from investment	3324.0	0.0488	S
17	Income tax expense for the period	3285.0	0.0318	S
17	Reserves (and its classification)	3222.5	0.0127	S
17	Method used in the recognition of revenue	3402.5	0.1117	NS
20	Comparative income statement: More than 2 years	2618.0	0.0	S
21	Amount of extra-ordinary gains and losses reported for the period	3721.0	0.9299	NS
22	Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period	3296.0	0.0343	S
23	Income from acquisitions	3225.5	0.0147	S
24	Amount of depreciation for the period	3251.0	0.0603	NS
24	Basic policies and objectives of management	3527.0	0.3133	NS

Table 9.2: Mann-Whitney Test on the Perceptions of Two User Groups (Ctd.)

Rank	Items of Information	W	Prob.	Result
26	Comparative balance sheet: More than 2 years	2744.5	0.0	S
27	Breakdown of income by location, operating division, product line or customer group	2624.0	0.0	S
28	Particulars of any contracts (during the period) in which a director was materially interested	3815.0	0.7271	NS
29	Breakdown of sales by location, operating division, product line or customer group	2551.0	0.0	S
30	Contingent liabilities	4299.0	0.0052	S
31	Breakdown of investment by location, operating division, product line or customer group	2700.5	0.0	S
31	Disclosure of accounting policies regarding various items	3665.5	0.7282	NS
33	Compounded rate of growth of earnings per share for the last five to ten years	2761.0	0.0	S
34	Methods used in computing earnings per share	3100.5	0.004	S
35	Analysis of shareholdings	2863.0	0.0	S
36	Number of shares in the company owned by each directors	4154.5	0.0519	NS
37	Quarterly financial statements	2811.0	0.0	S
38	Expenditures not yet written off	3447.0	0.1633	NS
39	Change in dividend	3460.0	0.1857	NS
40	Amount and classification of fixed assets by major items at the end of the period	3789.0	0.8196	NS
41	Provision for taxation	3935.0	0.3534	NS
42	Amount and breakdown of inventory/stocks reported under major categories at the end of the period	3646.0	0.6606	NS
43	Accounting method for translating foreign currencies	3534.5	0.3352	NS
44	Profit or loss on disposal of fixed assets	3318.5	0.1123	NS
45	List of directors	3865.0	0.5591	NS
46	Amount and breakdown of intangible assets	3457.5	0.2209	NS
47	Amount of accumulated depreciation on fixed assets at the end of the period	3280.0	0.0278	S
48	Methods used in computing depreciation	3388.0	0.0912	NS

Table 9.2: Mann-Whitney Test on the Perceptions of Two User Groups (Ctd.)

Rank	Items of Information	W	Prob.	Result
49	Directors' emoluments	4593.0	0.0001	S
50	Report of audit committee	4377.5	0.0029	S
51	Details regarding product or service contribution	3427.5	0.1403	NS
52	Price level adjusted corporate reports as supplementary statements	3145.5	0.0074	S
53	Provision for pension and retirement benefits	4293.5	0.0089	S
54	Particulars relating to human resources	4088.0	0.1007	NS
55	Discussion on physical resources and environmental contribution	3952.0	0.319	NS
56	Particulars relating to community involvement	3996.5	0.2218	NS

Prob. = Probability; S = Significant; NS = Not Significant; W = Critical value for Mann-Whitney test.

Table 9.3: Test of Difference (t-test) for Users' Mean Scores

1	AC	FA	AC	FA
—	——	——	——	——
1	4.200	4.337	4.519	4.762
2	4.218	4.325	4.473	4.778
3	4.127	4.312	4.291	4.580
4	4.127	4.000	4.236	4.537
5	3.836	4.062	3.982	4.675
6	3.927	3.937	3.927	4.437
7	3.704	3.988	3.855	4.475
8	3.782	3.950	3.873	4.425
9	3.891	3.800	3.618	4.587
10	3.745	3.787	3.546	4.425
11	3.836	3.537	3.764	4.262
12	3.473	3.662	3.836	4.100
13	3.436	3.675	3.782	4.099
14	3.582	3.562	3.764	4.112
15	3.636	3.500	3.370	4.325
16	3.491	3.587	3.709	4.050
17	3.455	3.600	3.691	4.025
18	3.352	3.600	3.309	4.262
19	3.491	3.425	3.273	4.237
20	3.327	3.519	3.182	4.212
21	3.236	3.500	4.055	3.608
22	3.073	3.350	3.273	4.112
23	3.109	2.850	3.291	4.075
24	2.836	2.700	3.455	3.962
25	2.745	2.600	3.236	3.962
26			3.182	3.975
27			3.200	3.575
28			3.800	3.000
29			3.618	3.100
30			2.873	3.380
31			3.364	2.987
Mean	3.5854	3.6466	3.6564	4.100
Max	4.2180	4.3370	4.519	4.778
Min	2.7450	2.6000	2.873	2.987
Range	1.4730	1.7370	1.646	1.791
Stdv.	0.4006	0.4502	0.4037	0.4842
Med.	3.582	3.600	3.691	4.112
t	0.404		0.0002	
W	594.0		712.0	
Significance	Not significant		Significant	at 0.05 level

Column 1 = Item Groups (first group=25 items, 2nd group=31 items)

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Amount and sources of revenue for the period	4.669	4.429	4.25	1	3	2	S	S	S
Turnover/sales for the period (N)	4.659	NA	NA	2	NA	NA	S	NA	NA
Earnings per share for the period	4.459	3.841	3.76	3	23	34	S	S	NS
Long-term and current liabilities (including its composition) at the end of the period [1]	4.415	3.253	3.80	4	65	22	S	NS	NS
Amount of each subsidiary's earnings and parent company's share of each amount	4.393	NA	3.78	5	NA	28	S	NA	NS
Comparative balance sheet: 2 years	4.281	4.100	3.79	6	9	24	NS	S	NS
Comparative income statement: 2 years	4.281	4.100	3.65	6	9	49	NS	S	NS
Total current assets including its composition at the end of the period	4.237	3.993	4.07	8	13	5	NS	S	S

[1] In the studies done by Karim(1993) and Wallace (1988), they separated current from long-term liabilities. The above figures only represent the long-term liabilities. The mean scores and ranks (in parentheses) for the current liabilities in both studies are 3.938 (16) and 4.00 (9) respectively.

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies (Ctd.)

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Discussion of factors affecting future business of the company	4.230	3.173	3.75	9	70	36	S	S	NS
Amount and breakdown of expenses for the period	4.222	3.709	3.78	10	32	28	S	NS	NS
Number of authorised and issued share capital [2]	4.200	3.668	4.01	11	35	8	S	S	NS
Cash flow projections for next two to five years	4.193	4.429	4.25	12	20	15	S	S	S
Half yearly financial statements (N)	4.067	NA	NA	13	NA	NA	S	NA	NA
List of financial ratios	4.059	4.522	NA	14	1	NA	S	NS	NA
Dividends paid and proposed	4.052	4.090	3.87	15	11	16	NS	S	S
Income from investment (N)	3.993	NA	NA	16	NA	NA	S	NA	NA
Income tax expense for the period	3.970	3.761	3.83	17	28	19	S	S	NS

[2] In the studies done by Karim (1993) and Wallace (1988), they seperated between authorised and issued share capital. The above figures only represent the issued share capital. The mean scores and ranks (in parentheses) for the authorised share capital in both studies are 3.128 (72), 3.62 (56) respectively.

P = Present study
K = Karim's study
W = Wallace's study

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies (Ctd.)

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Reserves and its classification (N)	3.970	NA	NA	17	NA	NA	S	NA	NA
Method used in the recognition of revenue	3.970	2.893	3.48	17	90	75	NS	S	NS
Comparative income statement: More than 2 years	3.940	3.761	3.77	20	28	31	S	S	NS
Amount of extra-ordinary gains and losses reported for the period	3.933	3.322	3.79	21	59	24	NS	S	NS
Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period	3.911	NA	3.79	22	NA	24	S	NA	NS
Income from acquisitions (N)	3.889	NA	NA	23	NA	NA	S	NA	NA
Amount of depreciation for the period	3.881	3.869	3.64	24	18	52	NS	S	NS
Basic policies and objectives of management	3.881	3.706	3.95	24	33	10	NS	NS	S
Comparative balance sheet: More than 2 years	3.874	3.696	3.77	26	34	31	S	S	NS
Breakdown of income by location, operating division, product line or customer group (N)	3.844	NA	NA	27	NA	NA	S	NA	NA

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies (Ctd.)

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Particulars of any contracts (during the period) in which a director was materially interested (N)	3.837	NA	NA	28	NA	NA	NS	NA	NA
Breakdown of sales by location, operating division, product line or customer group	3.793	3.073	3.46	29	78	80	S	S	NS
Contingent liabilities	3.791	3.439	3.66	30	49	47	S	NS	NS
Breakdown of investment by location, operating division, product line or customer group (N)	3.770	NA	NA	31	NA	NA	S	NA	NA
Disclosure of accounting policies regarding various items	3.770	3.848	4.11	31	21	4	NS	NS	S
Compounded rate of growth of earnings per share for the last five to ten years	3.756	3.260	3.58	33	64	58	S	S	S
Methods used in computing earnings per share (N)	3.754	NA	NA	34	NA	NA	S	NA	NA
Analysis of shareholdings	3.667	NA	3.57	35	NA	60	S	NA	NS
Number of shares in the company owned by each directors	3.659	3.862	NA	36	19	NA	NS	S	NA

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies (Ctd.)

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Quarterly financial statements	3.652	3.806	NA	37	25	NA	S	NS	NA
Expenditures not yet written off (N)	3.585	NA	NA	38	NA	NA	NS	NA	NA
Change in dividend (N)	3.578	NA	NA	39	NA	NA	NS	NA	NA
Amount and classification of fixed assets by major items at the end of the period	3.570	3.955	4.15	40	14	3	NS	S	S
Provision for taxation (N)	3.556	NA	NA	41	NA	NA	NS	NA	NA
Amount and breakdown of inventory/stocks reported under major categories at the end of the period	3.548	2.955	3.50	42	80	69	NS	S	NS
Accounting method for translating foreign currencies	3.541	2.938	3.90	43	82	13	NS	S	S
Profit or loss on disposal of fixed assets (N)	3.500	NA	NA	44	NA	NA	NS	NA	NA
List of directors	3.452	3.792	3.70	45	26	42	NS	S	NS
Amount and breakdown of intangible assets	3.440	2.900	3.41	46	88	85	NS	S	NS
Amount of accumulated depreciation on fixed assets at the end of the period	3.422	3.668	3.66	47	35	47	S	S	NS

Table 9.4: Comparative Mean Perception Scores of Previous and Present Studies (Ctd.)

Items of Information	Overall Mean Score			Rank			K-W Test		
	P	K	W	P	K	W	P	K	W
Methods used in computing depreciation	3.393	3.661	3.83	48	37	19	NS	S	NS
Directors' emoluments	3.326	NA	3.35	49	NA	92	S	NA	S
Report of audit committee (N)	3.311	NA	NA	50	NA	NA	S	NA	NA
Details regarding product or service contribution	3.237	3.097	3.58	51	76	58	NS	S	NS
Price level adjusted corporate reports as supplementary statements	3.172	3.035	3.55	52	79	62	S	S	S
Provision for pension and retirement benefits	3.141	2.564	3.31	53	108	95	S	S	S
Particulars relating to human resources	2.956	3.111	3.49	54	73	73	NS	S	S
Discussion of physical resources and environmental contribution	2.756	2.602	3.30	55	105	96	NS	S	S
Particulars relating to community involvement (N)	2.659	NA	NA	56	NA	NA	NS	NA	NA

N: New Item
NA: Not Applicable
NS: Not Significant
S: Significant

Table 9.8: Previous Studies on Consensus Between Accountants and Financial Analysts.

Researcher(s)	Countries studied	No of items	User groups	Statistical tools used	Result
1. Chandra (1974)	USA	58	Accountants [separated into (A) Users and Preparers (B)] and Financial Analysts (C).	5-point Likert scale; mean score and t-test to compare the perception bet. the 3 groups.	40% consensus exists bet. (A) and (C); and 31% for (B) and (C); and high consensus exists bet. (A) and (B) - 98%; implying that accountants valued the item similarly whether they act as user or preparer of annual report.
2. Firth (1978)	UK	75	4 user groups namely finance directors, auditors, financial analysts (FA) and bank loan officers.	5-point Likert scale; mean score and t-test to examine any differences between the user groups (6 dyads).	Substantial differences exist bet. the preparers of accounts (including auditors) and the other user groups. High degree of consensus exists bet. FA and Bank loan officers (81%); 44% degree of consensus between accountants/auditors and financial analysts.

Table 9.8: Previous Studies on Consensus Between Accountants and Financial Analysts (Ctd.)

Researcher(s)	Countries *studied*	No of *items*	User groups	Statistical tools used	Result
3. Belkaoui and Kahl (1978)	Canada	30	Chartered accountants and FA.	5-point Likert scale; mean score , std. dev. and t-tests. to compare the perception bet. the 2 groups.	High consensus exists bet. the two groups on 25 items (83%).
4. Wallace (1988)	Nigeria	102	6 user groups - Accountants (A), FA, Civil servants (CS), Managers (M), Investors (I), and other Professional groups (P).	5-point Likert scale; mean score , std. dev. and t-tests. to compare the perception bet. the user groups (15 dyads).	High degree of consensus exists bet. CS and FA, CS and M, FA and M, M and I, OP and I. However, there was low consensus bet. A and other groups. High consensus bet. A and FA (84%).
5. Karim (1995)	Bangladesh	113	Bankers, Accountants, Stockbrokers, Academician, Tax Officers, Financial Analysts	5-point Likert scale; mean score , std. dev. and Mann-Whitney tests to compare the perception bet. the user groups (15 dyads).	High degree of consensus exists bet. any two groups (bet. 54% to 90%) except between tax officers and all other groups (35% to 51%). The degree of consensus bet. accountants and financial analysts was 64%.

FA = Financial Analysts

CHAPTER TEN
RESULTS OF THE ANNUAL REPORT SURVEY

10.1 Introduction

This chapter analyses the extent of disclosure of information in annual reports of 54 companies taken from three different years, that is 1974, 1984 and 1994. As such, a total of 162 annual reports for the year ending between March to December of each year was collected and extent of disclosure was measured by using an unweighted disclosure index, comprising of 182, 199 and 202 for the year 1974, 1984 and 1994 respectively. The annual reports were examined to identify if the items of information in the disclosure index were disclosed or not. For each item disclosed, the companies were awarded a score of one, and zero if the item was not disclosed.

The aim of this chapter is to analyse the quality of disclosure as measured by the disclosure index and to examine the trends in the level of disclosure of information over time using a ten-year interval period, between 1974 and 1984, and between 1984 and 1994. Multiple linear regression was employed (as explained in the next chapter) to test the hypotheses regarding the quality of disclosure and its determinants. The rest of the chapter has been organised as follows: Section 10.2 briefly reintroduces the companies selected for the study; Section 10.3 deals with the components of the disclosure index and portrays the general disclosure pattern over the 20-year period. Section 10.4 examines the companies' compliance to mandatory disclosure requirements and the disclosure of voluntary information; while the disclosure of individual items is dealt with in Section 10.5; Section 10.6 focuses on disclosure by industry; section 10.7 compares the users' perceptions and the actual disclosure practices by companies on selected items of information; Section 10.8 compares the results of disclosure scores in the study with two other similar studies in developing countries as reported by Wallace (1987) in Nigeria and Karim (1995) in Bangladesh; and finally, Section 10.9 concludes the discussions in the chapter.

10.2 Companies Chosen for the Sample.

This section gives a summarised description of the companies in the sample. A detailed description of the companies has been discussed in Chapter 7. A total of 54 public listed companies in the Kuala Lumpur Stock Exchange were included in the study. The companies were classified using several criteria including type of business, type of management, audit firms, size of holding-subsidiary relationship, and financial year ends. These criteria will be used as the corporate attributes that could influence the pattern of disclosure, and will be discussed in the next chapter.

In terms of industry sector, the sample companies can be classified into eight groups as follows; ten companies each from industrial and consumer products, eight from trading and/or services sector, fourteen from properties sector, nine from the plantation sector, and one each from hotels, construction and mining sectors.

10.3 The Disclosure Index and Disclosure Pattern

The disclosure index used in the study contains both mandatory and voluntary disclosures, but since the annual reports were taken from three different years which were ten years apart from each other, it is not possible to construct a uniform set of disclosure items that applies to all companies under the study. After making five revisions of the disclosure items and the items verified by an accountant who was a former council member of the MIA, the final check list of items for these different years is set out in Appendix 10.1. As can be seen from the list, some items which are formerly considered voluntary in nature have become mandatory items in later years. A typical example would be the items 'restriction to title of fixed assets', 'assets acquired on instalment basis', and 'assets retired from active use' which were considered voluntary items in 1974, then became mandatory items in 1984 and 1994. As such, the number of mandatory items has increased from 97 items (in 1974) to 141 items (in 1984), then to 149 items in 1994. This represents an increase of 45% and 6% in 1984 and 1994, respectively. However, not all the items are applicable to all types of companies since the companies are selected from different industry groups. In other words, there are 97 mandatory items in 1974 which are also applicable in 1984 and 1994, but the items may not be applicable to all the companies. Table 10.1 below is extracted from Appendix 10.1, which presents the applicability of the disclosure items for the three years after analysing each item that appears in the annual reports.

Table 10.1: Applicability of Disclosure Items Based on Disclosure Index for 1974, 1984 & 1994

Description of the Index	Maximum No. of Possible Items			Actual No. of Applicable Items			Percentage No. of Applicable Items		
	74	84	94	74	84	94	74	84	94
Overall raw score	182	199	202	168	186	199	92.3	93.5	98.5
Mandatory	97	141	149	92	132	147	94.8	93.6	98.7
Voluntary	85	58	53	76	54	52	89.4	93.1	98.1

As the table indicates, in 1974, the total number of possible disclosure items (after excluding non-applicable items) is 182. However, these 182 items may not be disclosed by all companies since some of the items may not be relevant to a particular industry sector. As a result, only 168 items are found to be relevant or applicable in 1974. This represents a percentage of applicable items of 92.3% in 1974. This percentage then increases to 93.5% and 98.5% in 1984 and 1994 respectively. In other words, even though the items of information may not be considered an exhaustive list of items, it is considered extensive enough to cover the maximum possible number of items that may appear in the annual reports. The high increase in the number of mandatory items in 1984 is due to the tighter regulation imposed on companies by the regulatory bodies regarding disclosure of information. However, the small increase in the number of mandatory items from 1984 to 1994 may indicate a high compliance by companies, which does not require new or additional regulation.

On the other hand, there is a negative trend in the disclosure pattern of voluntary items. In 1974, the number of voluntary items was 85, then reduced to 58 items in 1984, and finally reduced to 53 items in 1994. This is easily understood because some of the voluntary items in 1974 has become mandatory items in later years.

Appendix 10.2 presents the disclosure index for the three different years in terms of overall percentage and overall raw score, together with its two major categorisations into mandatory items and voluntary items. Thus, it presents not only the overall extent of disclosure of a company but also the extent of disclosure of mandatory and voluntary items in all major components of the company's annual report. The rank of each company is provided to show the relative position of the company in the sample in terms of the overall disclosure score. In the following tables, the ten top ranking companies and the ten lowest companies are extracted from Appendix 10.2.

Tables 10.2 (a) and (b) show that there are four companies which ranked in the top ten for three years namely, United Plantation Bhd, Faber Group Bhd, Hume Industries, and Yeo Hiap Seng (M) Bhd

Table 10.2 (a) Ten Top Ranking Companies for 1974, 1984 and 1994

Ranks	Name of Companies for 3 Different Years		
	1974	1984	1994
1	United Plantations Bhd.	Faber Group Bhd.	Faber Group Bhd.
2	TCM Holdings Bhd.	Boustead Holdings Bhd.	Land & General Bhd.
3	Kuchai Development Bhd.	Hume Industries (M) Bhd.	Hume Industries (M) Bhd.
4	Batu Kawan Bhd.	TDM Bhd.	Mycom Bhd.
5	Faber Group Bhd.	Grand United Holdings Bhd.	Magnum Corporation Bhd. (5)
6	Hume Industries (M) Bhd.	Rothman of Pall Mall Bhd.	Malaysian Mosaics Bhd. (5)
7	Anson Perdana Bhd. (7)	Bandar Raya Dev. Bhd.	Bandar Raya Dev. Bhd.
8	Petaling Tin Bhd. (7)	Kuchai Development Bhd.	Yeo Hiap Seng (M) Bhd
9	Yeo Hiap Seng (M) Bhd	United Plantations Bhd.	George Kent (M) Bhd. (9)
10	Land & General Bhd.	Yeo Hiap Seng (M) Bhd	United Plantations Bhd. (9)

Table 10.2 (b) Ten Lowest Ranking Companies for 1974, 1984 and 1994

Ranks	Name of Companies for 3 Different Years		
	1974	1984	1994
45	SMI Bhd. (45)	Taiping Consolidated Bhd.	Advance Synergy Bhd.
46	Mycom Bhd. (45)	RR Estates Bhd.	G. Plantations (M) Bhd.
47	PMI Bhd.	Malex Industries Bhd.	General Corp. Bhd.
48	General Corp. Bhd (48)	Malaysian Mosaics Bhd.	Pacific Chemicals Bhd. (48)
49	DBMI Bhd. (48)	TCM Holdings Bhd.	Sanyo Industries (M) Bhd. (48)
50	Bandar Raya Dev. Bhd.	Land & General Bhd.	DBMI Bhd. (50)
51	Sanyo Industries (M) Bhd.	PMI Bhd.	Malex Industries Bhd. (50)
52	G. Plantations (M) Bhd.	Aokam Perdana Bhd.	FA Peninsular Bhd.
53	Worldwide Holdings Bhd.	Mycom Bhd. (45)	RR Estates Bhd.
54	Malaysian Mosaics Bhd.	Worldwide Holdings Bhd.	Sri Hartamas Corp. Bhd.

Also there are three companies ranked in the top ten for two years. For the ten lowest ranking companies, there are ten companies which ranked in the lowest ten for two-years period. However, two of them have improved their disclosure levels by attaining in the top ten companies in 1994. The two companies are Mycom Bhd and Malaysian Mosaics Bhd.

The mandatory and voluntary items are further categorised into eight major parts of the annual report, namely balance sheet, profit and loss statement, other financial statements, measurement and valuation method (accounting policy), ratios (statistics and others), directors' report, social reporting, and projection and budgeting. These components of the disclosure index are presented in Appendix 10.3. Summarised versions of Appendices 10.2 and 10.3 are given in Table 10.3 (a), (b) and (c) below for the three years.

Table 10.3 (a) Descriptive Statistics Based on Disclosure Index for 1974

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	54.0	6	44	70.6	11.1	100
Overall raw score	60.5	11.4	35	89	18.8	182
Balance Sheet	25.2	5.5	12	38	21.8	69
Profit & Loss Account	12.3	2.7	6	18	22.0	26
Other Financial Statements	4.3	0.5	3	5	11.6	5
Accounting Policies	3.1	1.9	0	8	61.3	14
Ratios, statistics & others	4.7	2.7	1	11	57.4	29
Directors' Report	7.0	0.6	3	8	8.6	15
Social Reporting	0.2	0.7	0	4	313.6	9
Projection & Budgeting	3.8	1.8	0	9	47.4	15

CV - Coefficient of Variation
MSP - Maximum Score Possible

Table 10.3 (b) Descriptive Statistics Based on Disclosure Index for 1984

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	66.1	6.9	48.3	78.9	10.4	100
Overall raw score	90.7	17.8	43	130	19.6	199
Balance Sheet	34.1	7.8	15	49	22.9	69
Profit & Loss Account	15.6	3.0	8	23	19.2	26
Other Financial Statements	7.6	0.7	7	9	9.2	11
Accounting Policies	7.9	2.1	1	12	26.6	16
Ratios, statistics & others	12.0	5.5	2	23	45.8	35
Directors' Report	8.3	0.9	6	12	10.8	18
Social Reporting	0.5	1.0	0	4	213	9
Projection & Budgeting	4.8	2.3	0	11	47.9	15

Table 10.3 (c) Descriptive Statistics Based on Disclosure Index for 1994

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	79.6	4.9	67.2	92.6	6.2	100
Overall raw score	116.7	15.3	78	155	13.1	202
Balance Sheet	38.5	6.3	24	54	16.4	69
Profit & Loss Account	17.4	2.4	12	22	13.8	26
Other Financial Statements	9.8	1.0	8	13	10.2	14
Accounting Policies	9.4	1.7	6	14	18.1	16
Ratios, statistics & others	18.9	5.2	6	28	27.5	35
Directors' Report	15.6	0.9	14	18	5.8	18
Social Reporting	1.2	1.4	0	5	118.3	9
Projection & Budgeting	6.6	2.4	2	11	36.4	15

Column 2 in all the three tables contains mean disclosure scores which are computed for overall disclosures as well as the segregated disclosures. It is clear from the tables that the mean disclosure index (overall score in percentage form) has increased steadily from 54.0 in 1974 to 66.1 and 79.6 in 1984 and 1994 respectively. In terms of the overall raw score, it also indicates that there is an increasing trend of disclosure of information with a mean score of 60.5 in 1974 to 90.7 and 116.7 in 1984 and 1994 respectively. This represents an increase of 50% and 29% between the two interval year periods (between 1974 and 1984, and between 1984 and 1994).

In order to test whether there is any significant difference between the mean scores of the disclosure index (together with the main component indices), a t-test for the mean scores was conducted for the three different years. The t-test is done by comparing the difference in mean scores between 1974 and 1984, and then between 1984 and 1994. The results are presented in Table 10.4 (a) to (j) at the end of the chapter. The results show that there are significant differences in the mean scores for the disclosure index and its components at the 5% level except for social reporting index which shows no significant difference between 1974 and 1984 (with p value equal to 0.14).

The standard deviations of disclosure scores and its components as presented in column 3 of the previous Tables 10.3 (a) to (c) above demonstrate the variability in levels of disclosure across companies. Since the means of the overall and segregated disclosure scores are different, a comparison among the absolute standard deviations of such scores would be misleading. As such, coefficients of variation are computed to compare the variability in disclosure levels. As suggested by Yeomans (1968), there are occasions when the standard deviations as an absolute measure of dispersion is inadequate and a relative form is preferable especially if a comparison between the variability of distributions with different variables is required, or to compare distributions with the same variables but with very different arithmetic means. This necessitates the use of coefficient of variation which simply expresses the standard deviation as a percentage of the arithmetic mean. This coefficient of variation is presented in column 6 of Tables 10.3 (a) to (c) above.

Assuming that 0 to 40% is considered as a small variation in the disclosure scores and anything more than 40% to be regarded as a large variation, it is clear from tables 10.3 (a) to (c) that in 1974 there are wide variations in disclosure scores for four disclosure components namely, accounting policies, ratios, social reporting, and projection and budgeting. In 1984, however, there was an improvement in the disclosure scores, whereby variations for more than 40% only apply to ratios, social reporting, and projection and budgeting. Again in 1994, variations in scores for more than 40% only apply for social reporting with a coefficient of variation of 118%. For all the three years, directors' report shows the least variation in score, followed by other financial statements, profit and loss account, and balance sheet. The directors' report, other financial statements, profit and loss account, and balance sheet form the four major sections in the conventional annual report, which are furnished by every company and in more or less the similar fashion. As such, there is relatively little room for disclosure variations. In contrast, ratios and statistics, social reporting, and projection and budgeting are mainly voluntary items and usually are at the discretion of the company's management whether to disclose the information or not.

From the table, it is possible to examine the trend in the variability of scores for the three different years, by looking at the coefficient of variation. As the tables indicate, there is a sharp decrease in the variability of scores for accounting policies, ratios, and social reporting from 61%, 57% and 313% in 1974 to 26%, 45% and 213% in 1984.

The variations in scores further decrease in 1994 to 18%, 27% and 118%. This may imply that companies are becoming more aware of the importance of disclosing voluntary information for the benefits of the users of annual reports.

10.4 Mandatory and Voluntary Disclosure

The disclosure levels of mandatory and voluntary information items are particularly interesting in order to see the degree of compliance to statutory disclosure requirements as well as to see the willingness of companies' management to disclose other information deemed to be beneficial to wide range of users. In this study, the disclosure requirements of the Companies Act, 1965, International Accounting Standards, and the Malaysian Accounting Standards were used as the basis of deciding whether an item of information shall be considered as mandatory or voluntary.

The disclosure of mandatory and voluntary information by individual companies is presented in Appendix 10.2. Tables 10.5 (a) to (c) provide the descriptive statistics of the overall, mandatory and voluntary scores for the three different years.

Table 10.5(a) Descriptive Statistics for Disclosure Indices - 1974

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	54.0	6	44	70.6	11.1	100
Overall raw score	60.5	11.4	35	89	18.8	182
Mandatory	49.4	7.1	33	64	14.4	97
Voluntary	11.1	5.4	2	26	48.6	85

CV - Coefficient of Variation
MSP - Maximum Score Possible

Table 10.5(b) Descriptive Statistics for Disclosure Indices - 1984

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	66.1	6.9	48.3	78.9	10.4	100
Overall raw score	90.7	17.8	43	130	19.6	199
Mandatory	77.4	12.4	43	98	16.0	141
Voluntary	13.3	7.0	0	32	52.6	58

Table 10.5(c) Descriptive Statistics for Disclosure Indices - 1994

Description of the Index	Mean (μ)	Std. Dev. (δ)	Min.	Max.	CV (%)	MSP
Overall score (%)	79.6	4.9	67.2	92.6	6.2	100
Overall raw score	116.7	15.3	78	155	13.1	202
Mandatory	99.1	11.2	73	126	11.3	149
Voluntary	18.3	6.9	5	38	37.5	53

For the mandatory items, the mean disclosure score has increased from 49.4 in 1974 to 77.4 and 99.1 in 1984 and 1994 respectively. This represents an increase in terms of disclosure level of 57% and 28% between the two year interval periods. On the other hand, for the voluntary items, the mean scores only show a small increase from 11.1 in 1974 to 13.3 and 18.3 in 1984 and 1994 respectively, which represents an increase of only 20% and 38% for the same period. The degree of variations among the companies is much less in the case of mandatory items as expected, as compared to the variations of voluntary items, as indicated by the standard deviation and the coefficient of variation.

In order to examine if there is any significant difference in the mean scores of the mandatory and voluntary items, a t-test was carried out and the results are shown in Table 10.6 (a) and (b).

Table 10.6 (a): t-test for Difference in Mean Scores for Mandatory Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	49.43	7.10	0.97
84	54	77.4	12.4	1.7
T = -14.32; P = 0.00; DF = 84				

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	77.4	12.4	1.7
94	54	99.1	11.2	1.5
T = -9.53; P = 0.00; DF = 104				

Table 10.6 (b): t-test for Difference in Mean Scores for Voluntary Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	11.09	5.40	0.74
84	54	13.33	7.00	0.95
T = -1.86;	P = 0.065;	DF = 99		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	13.33	7.00	0.95
94	54	18.39	6.87	0.93
T = -3.79;	P = 0.0003;	DF = 105		

The results show that there are significant differences between the mean scores for the mandatory items at the 5% level (with p value equals to 0) for both the two year interval periods, whereas for the voluntary items, the mean scores are significantly different between 1984 and 1994, but not for the mean scores between 1974 and 1984 (with p value equals to 0.065). This means that there was not much change in the disclosure of voluntary information between 1974 and 1984, but there was a moderate improvement in 1994.

The mean mandatory disclosure score as presented in column 2 of Table 10.5 can also be used to determine the degree of disclosure compliance by the Malaysian companies. In 1974, the companies were found to disclose an average of approximately 49 items out of the 97 mandatory items. In other words, only 50% of the statutory disclosure requirements are observed by the sample companies. This degree of compliance then increased slightly in 1984 to 55% (77/141) and then increased to 66% (99/149) in 1994.

In contrast, an average of only 13% (11/85) of the 85 voluntary information items was disclosed by the companies under consideration in 1974. The degree of disclosure then increased to 23% and 35% in 1984 and 1994 respectively. So, even though there is an increasing trend in the disclosure of mandatory and voluntary information, the percentage of items disclosed for voluntary items are much smaller than the disclosure of mandatory items.

The degree of compliance by companies to disclosure requirements is not adequately clear by just looking at the overall measures of means and standard deviations. In order to provide a clearer picture of the disclosure patterns of the mandatory items, an item-wise analysis can be carried out showing the disclosure of individual items. Table 10.7 at the end of this chapter presents the number of companies disclosing each of the 32 mandatory disclosure items. These 32 items are extracted from Appendix 10.4 and they are applicable to all companies for the three selected years.

Table 10.7 shows that nearly all companies (more than 95%) complied with the statutory requirements with respect to the disclosure of the 32 items, except for the following eight items which are disclosed by less than 31% of the companies concern in 1974 and 1984. The items are:

1. Disclosure of accounting policies
2. Directors' benefit in contracts
3. Arrangement for directors to acquire shares
4. Circumstances that could affect amounts in account to be misleading
5. Bad debts provision
6. Ascertainment of current assets
7. Assets charged to secure liabilities
8. Material transfers to and from reserves/provisions

Accounting policies were only disclosed by 30% of the companies in 1974. The items from number 2 to 8 only appear in the Directors' Report and these items were not disclosed by any company in 1974 (except for item 5 which was disclosed by only one company). The situation slightly improved in 1984 when the items were disclosed by about one to seven companies (between 1% to 13% of companies). However, in 1994, the disclosure of these items has improved drastically when more than 95% of the companies disclosed this information in their annual reports.

The main reason for the drastic change in the level of disclosure of mandatory items is due to the several amendments that have taken place in the Companies Act 1965 as well as the introduction of new accounting standards that took place after 1985. The first amendment to the Companies Act took place in 1985 when the Companies (Amendment) Act was introduced, and which was later enforced in 1986, which added new rules regarding accounts and audit of companies. One of the changes requires directors to disclose additional information in the directors' report so as to make directors more responsible and accountable pertaining to the disclosure of pertinent information. Another change took place in 1986 when the Companies (Amendment of Schedule) Order 1986 was introduced and enforced in the same year, which replaced the old Ninth Schedule with a new schedule. This new schedule lists down the details of item that need to be disclosed by companies in their annual reports.

It is also worthwhile to examine the pattern of disclosure of voluntary information by companies for the three selected years. Again, only items that are applicable to all companies for the three years are selected. This resulted in 32 common items as shown in Table 10.8 at the end of this chapter.

A closer analysis of Table 10.8 shows that in 1974, 22 items were disclosed by less than 10% of companies. The number of these items gradually decreased to 11 and 5 items in 1984 and 1994 respectively. The number of items disclosed between 11% to 50% of companies were 6 in 1974 and then increased to 13 and 14 in 1984 and 1994 respectively. Finally there were 4 items disclosed by more than 50% of companies in 1974. These items then increased to 8 and 13 in 1984 and 1994 respectively.

It is also worth to note which items remain relatively at a very low level of disclosure for the three years. There are five items which show no substantial improvement namely cash flow projections, biographical details of directors, productivity indicator, environmental care programme, and equal opportunity for employment. All these items are voluntary items and were only disclosed by less than 10% of the companies under consideration.

Table 10.8 also shows that there are three items which were disclosed by more than 60% of companies in 1984 and 1994 compared to those in 1974, namely distribution of share ownership according to number of owners, number of owners within size and value groups, and number of owners holding 5% or more shares. There were also nine items which showed an increase in disclosure level between 20% to 50% in 1984 and 1994 respectively. The items are discussion of economic factors; financial policies; product safety or service quality; financial highlight as to turnover, profit and net asset; summary of other important statistics; structure of firm; and graphical information. The other 13 items have slightly improved in their disclosure level by less than 20% of companies in 1984 and 1994. In addition, there are two items that show negative trends in disclosure level namely, total amount of long-term assets (tangible and non-tangible assets) and date of incorporation. The former item was disclosed by 67% of companies in 1974, then surprisingly decreased to 22% in 1984 and 1994. The latter item was only disclosed by 4% of companies in 1974, then rose to 57% in 1984, and then suddenly fell to 11% in 1994.

10.5 Disclosure of Individual Items of Information

The discussion so far has focused on the disclosure pattern of individual or groups of companies. The attention now is turned on the disclosure of individual and groups of information items. As mentioned earlier, the disclosure index constructed and used in the study comprises between 182 and 202 items depending on the particular year of annual report selected. These items are further segregated into eight categories based on their likelihood of appearance in different parts of an annual report. The following analysis of disclosure of items will follow the line of segregation of items. Table 10.9 shows the overall and segregated disclosure of items of information.

The mean overall index represents the average number of items disclosed by companies in the sample. The means are 60.5, 90.7 and 116.7 for the year 1974, 1984 and 1994 respectively. This means that in 1974, only 33.2% (60.5/182) of the information items included in the disclosure index of 1974 (182 items) are disclosed.

Table 10.9 Combined and Segregated Disclosure of Items for 1974, 1984 & 1994

Index Description	No. of Items			Disclosed (μ)			Percentage		
	74	84	94	74	84	94	74	84	94
Overall Index	182	199	202	60.5	90.7	116.7	33.2	45.6	57.8
Balance Sheet Index	69	69	69	25.2	34.1	38.5	36.5	49.4	55.8
Profit & Loss Account Index	26	26	26	12.3	15.6	17.4	47.3	60.0	66.9
Other Financial Statements Index	5	11	14	4.3	7.6	9.8	86.0	69.1	70.0
Accounting Policies Index	14	16	16	3.1	7.9	9.4	22.1	49.4	58.8
Ratios, statistics & others Index	29	35	35	4.7	12.0	18.9	16.2	34.3	54
Directors' Report Index	15	18	18	7.0	8.3	15.6	46.7	46.1	86.7
Social Reporting Index	9	9	9	0.2	0.5	1.2	2.2	5.6	13.3
Projection & Budgeting Index	15	15	15	3.7	4.7	6.6	25.3	32.0	44.0

The number of items disclosed then increased to 45.6% (90.7/199) and 57.8% (116.7/202) in 1984 and 1994 respectively. The above table reveals that in 1974, a high percentage of profit and loss items, directors' report items, and balance sheet items are disclosed relative to other parts of the annual report. Even though 'other financial statements' items show a high percentage of disclosure (86%), its number of items is only small (5 items) compared to the former three parts of the annual report.

In 1984, the disclosure of profit and loss, and balance sheet items then increased to 60% and 49% respectively. Companies also tend to give more emphasis on disclosing accounting policies' items. This is clearly indicated by the increase in percentage of disclosure from 22% in 1974 to 49% in 1984. Voluntary items also tend to increase in disclosure by the percentage increase from 16% to 34% for ratios and statistics' items.

Finally, in 1994, items relating to directors' report seemed to be given more importance by companies due to increased disclosure requirements and this resulted in a higher disclosure level of 87% followed by profit and loss items, balance sheet items, accounting policies' items, and ratios and statistics' items. Items relating to social reporting, and projection and budgeting only show a marginal increase whereas items relating to other financial statements remain relatively the same as in 1984 (70%).

The disclosure of each of the items is presented in Appendix 10.4 which shows the percentage of companies disclosing an item of information in the three selected years. From this Appendix, it is possible to analyse which items are less reported by companies and which items are given more importance. The first analysis would then be focusing on items which are disclosed by less than 5% of the companies. These items are shown in Table 10.10 at the end of this chapter.

The table clearly shows that in 1974, there are 26 items which are not disclosed by any companies, and only 8 items are disclosed by merely 2% to 4% of companies. So, altogether there are 34 items disclosed by less than 5% of companies. Out of the 34 items, 23 items are voluntary items and the rest are mandatory items. In 1984 the situation slightly changed when there are only 12 items which are not disclosed by any companies, and only 7 items are disclosed by 1% to 5% of companies. Out of the 19 items, 12 items are voluntary items and the remaining items are mandatory items. There is a marked improvement in 1994 when the number of items not disclosed by any companies is reduced to 3 items. Furthermore, only 3 items are disclosed by 1% to 5% of companies. All the 6 items are voluntary in nature. So, overall, the number of items which are disclosed by less than 5% of companies has reduced over the twenty-years period from 34 (in 1974) to 19 and 6 items in 1984 and 1994 respectively.

On the other hand, there are 71 items disclosed by more than 95% of companies in 1974. The number of items rises to 92 and 120 in 1984 and 1994 respectively. In order to avoid overlapping of items that have been shown in Table 10.7 (concerning mandatory items), Table 10.11 at the end of this chapter only list down the additional items which should be read in conjunction with Table 10.7. All the 32 items presented in Table 10.7 are disclosed by at least 95% of companies in at least one particular year.

The table indicates that in 1974, out of the 71 items disclosed by more than 95% of companies, 61 items are mandatory items and 10 are voluntary items. Then in 1984, the number of mandatory items increased to 87 items, whilst voluntary items were reduced to 5 items. Finally in 1994, out of 120 items disclosed, 111 items are mandatory in nature and 9 items are voluntary items. So, overall, the number of mandatory items has increased from 61 (1974) to 87 and 111 items in 1984 and 1994 respectively, whereas for voluntary items, their number has decreased from 10 items in 1974 to 5 and 9 items for the same period.

10.6 Disclosure by Industry

Factors specific to a particular industry may have a bearing on the level of disclosure of information by companies operating in that particular industry. Companies operating in different sectors of the economy may have to disclose certain information that is peculiar to that industry. As such, it is useful to know if there is any difference in the levels of disclosure by companies operating under different industries and to see whether such differences are really significant.

The mean disclosure scores were computed for each industry sector and the differences were examined using Kruskal-Wallis one-way ANOVA test. The mean disclosure scores are presented in Table 10.12.

Table 10.12: Industry-Wise Disclosure

Industry	No. of Companies	Mean Score		
		74	84	94
Industrial products	10	62.2	88.3	118.0
Consumer products	10	61.4	93.1	114.3
Trading/Services	8	58.8	95.5	129.5
Properties	14	58.2	85.6	113.6
Plantations	9	60.3	89.0	109.9
Others*	3	68.0	106.3	121.3

* This consists of one company each from Construction, Hotels and Mining sectors.

The table shows that for the top 3 scores in 1974, companies in the construction, hotels and mining sector attained the highest mean disclosure score followed by companies specialising in industrial and consumer products. In 1984, companies in the construction, hotels and mining sector still achieved the highest mean disclosure score followed by companies in trading and/or services and consumer products. However, in 1994, companies in trading and/or services attained the highest mean disclosure score of 129 followed by companies in the construction, hotels and mining sector, and companies specialising in industrial products.

A statistical test using one-way ANOVA was carried out to test if there is any significant difference in the mean disclosure scores across sectors. This test shows no significant differences at the 5% level. Another test, the Tukey test (Bryman and Cramer, 1996), where the confidence intervals for the mean scores of one industry sector are compared to another industry sector to see if there is any significant difference was conducted. The test shows that none of the comparisons has confidence limits which omit zero. As such, there are no significant differences between any of the group sectors, taken two at a time.

10.7 Level of Corporate Disclosure and Expectation of Users

This research also examined the level of agreement between what users perceived as desirable disclosure items and the actual disclosure practice by the sampled companies. The investigation was done using item-by-item analysis and presented in Table 10.13 at the end of this chapter. This procedure requires:

1. determining the number of companies that disclosed each item (column 4);
2. multiplying the user-determined score (column 3) for an item by the proportion of the companies that disclosed the item to give the average score for all companies (column 5);
3. measuring the degree of consistency between the users' average score and for the companies by dividing column 5 by column 3.

Out of the 56 items of information included in the questionnaire, only four items are not identical to the items included in the disclosure index. This gives a total of 52 items to be analysed in terms of their perceived importance by users and their actual disclosure levels by companies. Thirty-seven of the items are mandatory items and the other 15 are voluntary items. Since not all items are applicable to all companies, the numbers in parentheses (in column 4) represent the total number of applicable companies for that particular item. If no such number is present, then the total number of applicable companies is 54.

From the table, it shows that all the mandatory items have consistency ratings of more than 74%. The minimum percentage of consistency rating was 75% and 11 items achieved consistency ratings between 75% to 98%; the other 28 mandatory items achieved the highest consistency ratings of 100%. Nine of the mandatory items achieving the 100% consistency rate were ranked by users as being in the 10 most important items to disclose. Out of the nine items, six were related to profit and loss items and the other three items were related to balance sheet items. Six of the mandatory items achieving the 100% consistency rate also belong to the last ten items ranked by users as 'important' to 'very important' to be disclosed. All the mandatory items have users' average scores of more than 3.0 signifying that the disclosure items were perceived as 'important' to 'very important' to be disclosed.

On the other hand, out of the fifteen voluntary items, seven items have consistency ratings of more than 50% and eight items have consistency ratings of less than 50%. Only one voluntary item belongs to the first top ten items perceived by users as 'very important' to disclose, that is 'discussion of factors affecting future business of the company'. Five items also ranked in the last ten items perceived by users as 'less important' to 'important' to be disclosed. All these five items belong to the social reporting category. The lowest consistency rating was 7.4% for 'discussion on physical resources and environmental contribution'. An examination of Table 10.13 indicates that the disclosure of items relating to projections, statistics and social reporting is relatively low. For example, the item 'cash flow projections for next two to five years' which was ranked in the twelfth place and having a perceived mean score of 4.193 (representing very important to disclose) was not disclosed by any company. This may reflect the reluctance of the companies to disclose data which companies consider sensitive or it may reflect a lag between the rapidly changing needs of users for extra information and the slower evolution of company disclosure practices [McNally et al. (1982, p. 16)]. Overall, the table shows that there was a high degree of consistency between users' perception and actual disclosure practices by companies on mandatory disclosure items but a relatively low degree of consistency for voluntary items.

10.8 Comparison with Wallace (1987) and Karim (1995) Studies

This section attempts to compare the results of this study with two other similar studies relating to disclosure of information by companies in developing countries. The two studies are chosen because they employ relatively similar items of information (albeit not identical) although varied in numbers. As stated in earlier chapter, Wallace uses 109 items of information, whereas Karim uses 113 items and the present study employs 202 items of information. The present study is similar to Wallace's study in the way that the disclosure index is not constructed solely on the basis of questionnaire items, whereby users' perceptions regarding the importance of items were gathered. Rather, a substantial number of additional information items were included in developing the disclosure scoring sheet which was later used as the disclosure check list. On the other hand, Karim used the same number of items that was developed in his questionnaire. Irrespective of the different approaches used in developing the disclosure indices, there are some areas where the findings of the three studies can be compared.

In his study, Wallace only reported those items that were either disclosed by all the companies in his sample (100% disclosure) or not disclosed by any of them (0% disclosure). As such, not much information is known about other items of information which may be disclosed by more than 0% or less than 100% of the companies concerned. On the other hand, Karim reported those items that were either disclosed or not disclosed by companies using a continuum of disclosure percentage from 0% to 100%. The present study employs the same approach used by Karim. However, the present study differs from the two studies in the way non-applicable items are treated. In this study, any items that are not relevant to a particular company due to their unique operations in a particular sector, are excluded from measuring the disclosure index. However, it is not clear how the former two studies treated any non-applicable items since not all the items used in the studies are applicable to all companies.

In order to make comparisons among the three studies, 41 items of information as reported by Wallace are used as the benchmark for selecting similar items of information in all the studies. Wallace reported that there are 15 items of information that were reported by 100% of companies (47 companies) and there are 26 items that were not disclosed by any of the companies selected. From all the 41 items, only 25 items are similar to Karim's and the present studies. The items are presented in Table 10.14 at the end of this chapter.

From Table 10.14, it is noticeable that out of 12 items reported by Wallace as having 100% disclosure by companies in Nigeria, only 7 items have relatively the same level of disclosure by companies in Bangladesh and Malaysia (disclosure by more than 95%). The items are:

1. Disaggregation into land and building, plant and machinery
2. Proportion of fixed assets leased
3. Total current assets
4. Total current liabilities
5. Breakdown into secured and unsecured liabilities
6. Number and amount of authorised share capital
7. Information in directors' report
8. List of directors
9. Auditor's report

The other 5 items show inconclusive evidence as to their consistencies of disclosure in the three countries. However, the former 7 items are all mandatory items in all the countries, and such they attained a high disclosure level (more than 95%). On the other hand, the remaining 5 items have different status of requirements in all the three countries. Some are considered mandatory items in one country, but treated as voluntary items in the other country. Therefore, the percentage of disclosure varies across the countries.

In his study, Wallace also reported that there are 26 items that are not disclosed by any companies in Nigeria, and out of that, only 13 items are similar in all the three studies. However, out of the 13 items, only 3 items have a relatively similar pattern of disclosure (low disclosure) in all the three studies. The items are planned advertising and publicity expenditure, cash flow projections for the next 2-5 years, and proportion of raw materials and components (used in production) from local sources. The remaining 10 items show an irregular pattern of disclosure due to the different status of requirements in each of the countries. However, 6 out of the 10 items have a higher disclosure level in Malaysia than the other two countries because these items are mandatory items in Malaysia. The same holds true even if the non-applicable items (as in column 3) are treated as zero disclosure (where the alternative percentage of disclosure is shown in the parentheses of the last column).

The three studies can also be compared using the overall index or the overall score. It is not possible to compare mean scores among the three studies for all the sections of the annual reports because Wallace did not provide mean scores for the overall index or the main components of the overall index. He only showed the percentage of disclosure for the overall index and five other sections of the annual report, but not the raw scores. As such, only the overall score of his index for each company can be used as a comparison. The disclosure scores of the three samples of companies are compared using a percentile range as shown in Table 10.15.

Table 10.15 Comparative Disclosure Levels Between 3 Developing Countries

Score range	No. of Companies					% in the sample				
	Malaysia			Bang.	Nig.	Malaysia			Bang.	Nig.
	74	84	94	1991	1985	74	84	94	1991	1985
Over 50%	41	53	54	5	4	76	98	100	3.1	8.5
40 - 50%	13	1	-	21	33	24	2	-	13.0	70.2
30 - 39.9%	-	-	-	80	10	-	-	-	49.7	21.3
≤ 30%	-	-	-	55	0	-	-	-	34.2	0.0
Total	54	54	54	161	47	100	100	100	100	100

Bang. - Bangladesh; Nig. - Nigeria

The table shows that in the upper intervals of scores (more than 50%), there is a higher proportion of Malaysian companies than are Bangladesh or Nigerian companies. In other words, Malaysian companies tend to disclose more information in their annual reports compared to the other two countries. The results reflect the low compliance by companies in Nigeria and Bangladesh as reported by the two researchers. However, care must be exercised in interpreting the results for the study in Bangladesh since Karim (1995) also included private unlisted firms in his sampled companies and the number of companies in his sample was quite large (161 companies) compared to only 54 companies included in the present study and 47 companies in Wallace's (1987) study.

10.9 Summary and Conclusion

This chapter discussed some of the results of the annual report survey. The composition of the sample and the distribution of the disclosure index for the three selected years were outlined. This enables one to examine the pattern of disclosure of information over a period of time. The results show that the general disclosure level has improved over the 20 year period. The improvement may be attributed to the several amendments made to the Companies Act, 1965, which contain the major disclosure requirements to be complied with by companies, and also due to new accounting standards being introduced over the period.

This chapter also showed that the number of items disclosed by less than 5% of companies have decreased over the period under study, from 34 items in 1974, to 19 and 6 items in 1984 and 1994, respectively. On the other hand, the number of item disclosed by more than 95% of companies have increased from 71 items (in 1974) to 92 and 120 items in 1984 and 1994 respectively. A sector-wise disclosure pattern showed in the chapter indicates that disclosure levels were relatively higher in the construction, hotels and mining, and trading or services sectors compared to the other sectors, but the differences in mean scores across the sectors were not significant. The comparison of the present study with two other similar studies in developing countries revealed that disclosure levels were relatively the same for the main line items in the annual report especially for mandatory items. However, the overall disclosure scores show that Malaysian companies provided a higher degree of disclosure of information compared with the other two countries.

Table 10.4 (a): t-test for Difference in Mean Scores for Overall Disclosure Score

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	53.96	5.98	0.81
84	54	66.05	6.94	0.94
T = -9.70; P = 0.00; DF = 103				

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	66.05	6.94	0.94
94	54	79.61	4.92	0.67
T = -11.72; P = 0.00; DF =95				

Table 10.4 (b): t-test for Difference in Mean Scores for Overall Raw Score

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	60.5	11.4	1.5
84	54	90.7	17.7	2.4
T = -10.52; P = 0.00; DF = 90				

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	90.7	17.7	2.4
94	54	116.7	15.3	2.1
T = -8.16; P = 0.00; DF = 103				

Table 10.4 (c): t-test for Difference in Mean Scores for Balance Sheet Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	25.15	5..51	0.75
84	54	34.09	7.80	1.1
T = -6.88; P = 0.00; DF = 95				

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	34.09	7.80	1.1
94	54	38.50	6.31	0.86
T = -3.23; P = 0.0017; DF = 101				

Table 10.4 (d): t-test for Difference in Mean Scores for Profit & Loss Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	12.30	2.65	0.36
84	54	15.56	3.04	0.41
T = -5.93; P = 0.00; DF = 104				

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	15.56	3.04	0.41
94	54	17.44	2.35	0.32
T = -3.61; P = 0.0005; DF = 99				

Table 10.4 (e): t-test for Difference in Mean Scores for Other Financial Statement Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	4.278	0.492	0.067
84	54	7.611	0.685	0.093
T = -29.06;	P = 0.00;	DF = 96		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	7.611	0.685	0.093
94	54	9.815	0.953	0.13
T = -13.80;	P = 0.00;	DF = 96		

Table 10.4 (f): t-test for Difference in Mean Scores for Accounting Policy Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	3.13	1.93	0.26
84	54	7.85	2.08	0.28
T = -12.23;	P = 0.00;	DF = 105		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	7.85	2.08	0.28
94	54	9.37	1.69	0.23
T = -4.17;	P = 0.0001;	DF = 101		

Table 10.4 (g): t-test for Difference in Mean Scores for Ratios & Statistics Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	4.69	2.67	0.36
84	54	11.98	5.51	0.75
T = -8.75;	P = 0.00;	DF = 76		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	11.98	5.51	0.75
94	54	18.93	5.16	0.70
T = -6.76;	P = 0.0;	DF = 105		

Table 10.4 (h): t-test for Difference in Mean Scores for Directors' Statement Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	7.037	0.643	0.088
84	54	8.333	0.932	0.13
T = -8.41;	P = 0.00;	DF = 94		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	8.333	0.932	0.13
94	54	15.593	0.858	0.12
T = -42.11;	P = 0.0;	DF = 105		

Table 10.4 (i): t-test for Difference in Mean Scores for Projection & Budgetary Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	3.76	1.76	0.24
84	54	4.80	2.30	0.31
T = -2.63;	P = 0.0099;	DF = 99		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	4.80	2.30	0.31
94	54	6.59	2.35	0.32
T = -4.01;	P = 0.0001;	DF = 105		

Table 10.4 (j): t-test for Difference in Mean Scores for Social Reporting Items

(i) 1974 & 1984

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
74	54	0.222	0.691	0.094
84	54	0.463	0.985	0.13
T = -1.47;	P = 0.14;	DF = 95		

(ii) 1984 & 1994

Year	N	Mean (μ)	Std. Dev. (δ)	S.E.Mean
84	54	0.463	0.985	0.13
94	54	1.20	1.42	0.19
T = -3.15;	P = 0.0022;	DF = 94		

Table 10.7: Disclosure of Mandatory Information Items

No.	Item No.	Item of Information	Disclose			Not Disclose			% Disclose		
			74	84	94	74	84	94	74	84	94
1	18	Total Current Assets	53	54	54	1	0	0	98	100	100
2	26	Trade debts (Amount)	54	54	54	0	0	0	100	100	100
3	31	Cash and bank balances	54	54	54	0	0	0	100	100	100
4	35	Total current liabilities	53	54	54	1	0	0	98	100	100
5	36	Trade Creditors	54	54	54	0	0	0	100	100	100
6	47	No. & amount of authorised share capital	54	54	54	0	0	0	100	100	100
7	53	No and Amount of Ordinary Shares/Debentures Issued	54	54	54	0	0	0	100	100	100
8	56	Breakdown into Paid and Unpaid portions	52	54	53	2	0	1	96	100	98
9	83	Amount of operating expenses	54	54	54	0	0	0	100	100	100
10	84	Breakdown of operating expenses	54	54	54	0	0	0	100	100	100
11	142	Directors' remuneration	52	54	54	2	0	0	96	100	100
12	100	Disclosure of Accounting Policies	16	54	54	38	0	0	30	100	100
13	101	Notes to Financial Statements	54	54	54	0	0	0	100	100	100
14	140	Information in Directors' Report: a. List of directors	54	54	54	0	0	0	100	100	100
15	144	b. Directors' shareholdings	53	52	53	1	0	1	98	100	98
16	145	c. Directors' benefit in contracts	0	7	53	54	47	1	0	13	98
17	146	d. Arrangement for directors to acquire shares	0	3	53	54	51	1	0	6	98
18	147	e. Circumstances that could affect amounts in account to be misleading	0	1	54	54	53	0	0	2	100
19	148	f. bad debts provision	1	1	54	53	53	0	2	2	100
20	149	g. ascertainment of current assets	0	1	54	54	53	0	0	2	100

Table 10.7: Disclosure of Mandatory Information Items (Ctd.)

No.	Item No.	Item of Information	Disclose			Not Disclose			% Disclose		
			74	84	94	74	84	94	74	84	94
21	150	h. valuation method of assets and liabilities	53	54	54	1	0	0	98	100	100
22	151	i. assets charged to secure liabilities	0	1	54	54	53	0	0	2	100
23	152	j. contingent liabilities	53	54	54	1	0	0	98	100	100
24	153	k. unusual events	53	54	54	1	0	0	98	100	100
25	154	l. truthfulness and fairness of accounts	54	53	53	0	1	1	100	98	98
26	156	m. material transfers to and from reserves/provisions	0	1	52	54	53	2	0	2	96
27	159	Statutory declaration as to the correctness of accounts	54	53	54	0	1	0	100	98	100
28	191	Location of auditor's report	54	54	54	0	0	0	100	100	100
29	192	Form of auditor's report (AR)	54	54	54	0	0	0	100	100	100
30	193	Expression of opinion in AR	53	54	54	1	0	0	98	100	100
31	201	Amount for balance sheet items for the previous year	52	53	54	2	1	0	96	98	100
32	202	Amount for profit and loss items for the previous year	52	53	54	2	1	0	96	98	100

Table 10.8: Disclosure of Voluntary Information Items

No.	Item No.	Item of Information	Disclose			Not Disclose			% Disclose		
			74	84	94	74	84	94	74	84	94
1	09	Total amount of fixed assets	36	12	12	18	42	42	67	22	22
2	27	Corporate mission/objective	1	1	11	53	53	43	2	2	20
3	136	Distribution of share ownership: Number of owners	0	41	54	54	13	0	0	76	100
4	137	Number of owners within size and value groups	0	41	54	54	13	0	0	76	100
5	138	Number of owners holding 5% or more shares	0	36	54	54	18	0	0	67	100
6	139	Classification of owners/shareholders	0	5	7	54	49	47	0	9	13
7	141	List of top management and positions	1	8	11	53	46	43	2	15	20
8	160	Details on employees	3	8	10	51	46	44	6	15	19
9	167	Cash flow projections for the next 2-5 years	0	0	0	54	54	54	0	0	0
10	170	Discussion on economic factor	31	25	40	23	29	14	57	46	74
11	172	Discussion of industry trends	46	46	45	8	8	9	85	85	83
12	174	Share price movement	0	7	10	54	47	44	0	13	19
13	175	Operating policies	42	46	49	12	8	5	78	85	91
14	176	Financial policies	23	31	44	31	23	10	43	57	81
15	177	Biographical details of directors	0	0	1	54	54	53	0	0	2
16	178	Employee training, health and safety	6	5	10	48	49	44	11	9	19
17	179	Productivity indicator	0	1	2	54	53	52	0	2	4
18	181	Community care programmes	0	3	14	54	51	40	0	6	26
19	182	Environmental care programmes	0	0	4	54	54	50	0	0	7

Table 10.8: Disclosure of Voluntary Information Items (Ctd.)

No.	Item No.	Item of Information	Disclose			Not Disclose			% Disclose		
			74	84	94	74	84	94	74	84	94
20	183	Product safety or service quality	3	6	22	51	48	32	6	11	41
21	184	Equal opportunity for employment	2	2	1	52	52	53	4	4	2
22	186	Financial highlights (FH) as to: Turnover	5	21	36	49	33	18	9	39	67
23	187	FH: Profit	11	28	37	43	26	17	20	52	69
24	189	FH: Dividend	10	27	28	44	27	26	19	50	52
25	190	FH: Net asset	4	22	34	50	32	20	7	41	63
26	194	Comparative income statement	4	11	12	50	43	42	7	20	22
27	195	Comparative balance sheet	4	13	12	50	41	42	7	24	22
28	196	Summary of other important statistics	19	13	34	35	41	20	35	24	63
29	197	Date of incorporation	2	31	6	52	23	48	4	57	11
30	198	Brief history of firm	2	2	6	52	52	48	4	4	11
31	199	Structure of firm	3	5	19	51	49	35	6	9	35
32	200	Graphic/photographic information	13	22	39	41	32	15	24	41	72

Table 10.10: Items Disclosed By Less Than 5% of Companies

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
1	21	List of marketable securities (MS)	V	-	-	0	-	-
2	22	Domestic/Foreign breakdown (MS)	M	-	-	0	-	-
3	27	Corporate mission/objective	V	V	-	2	2	-
4	55	Breakdown into voting classes	M	-	-	0	-	-
5	57	Percentage of equity owned by management	-	V	-	-	2	-
6	61	Breakdown of reserves into distributable and non-distributable categories	M	-	-	2	-	-
7	65	Employee group covered by retirement plan	V	-	-	0	-	-
8	66	Funding policy of retirement plan	V	-	-	0	-	-
9	85	Expenses on research and development		M			0	
10	87	Expenses on human resources	V	V	-	0	0	-
11	99	Breakdown of bought in components into domestic and foreign	-	V	V	-	0	0
12	112	Research and development costs	V	M	-	0	0	-
13	124	Segmental information (SI): a. Domestic/Export segmentation	-	M	-	-	0	-
14	126	b. Assets employed	-	M	-	-	0	-
15	127	Terms of long-term lease by property type	V	M	-	0	0	-
16	134	Details of restriction on dividend payment	V	-	-	3	-	-
17	135	Market share of major products	V	V	-	0	0	-

Table 10.10: Items Disclosed By Less Than 5% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
18	136	Distribution of share ownership: Number of owners	V	-	-	0	-	-
19	137	Number of owners within size and value groups	V	-	-	0	-	-
20	138	Number of owners holding 5% or more shares	V	-	-	0	-	-
21	139	Classification of owners/shareholders	V	-	-	0	-	-
22	143	Terms of stock option plans	M	-	-	4	-	-
23	145	Directors' benefit in contracts	M	-	-	0	-	-
24	146	Arrangement for directors to acquire shares	M	-	-	0	-	-
25	147	Statements regarding: a. circumstances that could render amounts in account to be misleading	M	-	-	0	-	-
26	148	b. bad debts provision	M	-	-	2	-	-
27	149	c. ascertainment of current assets	M	-	-	0	-	-
28	151	d. assets charged to secure liabilities	M	M	-	0	2	-
29	156	e. material transfers to and from reserves/provisions	M	M	-	0	2	-
30	167	Cash flow projections for the next 2-5 years	V	V	V	0	0	0
31	174	Stock price movement	V	-	-	0	-	-
32	177	Biographical details of directors	V	V	V	0	0	2
33	179	Productivity indicator	V	V	V	0	2	4

Table 10.10: Items Disclosed By Less Than 5% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
34	180	Proportion of production raw materials and components from local sources	V	V	V	0	0	0
35	181	Community care programmes	V	-	-	0	-	-
36	182	Environmental care programmes	V	V	-	0	0	-
37	184	Equal opportunity for employment	V	V	V	4	4	2
38	197	Date of incorporation	V	-	-	4	-	-
39	198	Brief history of firm	V	V	-	4	4	-

V = Voluntary
M = Mandatory

Table 10.11: Items Disclosed by More Than 95% of Companies

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
1	01	Gross value of fixed assets	M	M	M	100	100	100
2	02	Net value of fixed assets	M	M	M	100	100	100
3	03	Accumulated depreciation on fixed assets	M	M	M	100	100	100
4	04	Disaggregation into land and building, plant and machinery	M	M	M	98	100	100
5	05	More detailed breakdown than 04	V	V	V	97	98	100
6	07	Proportion of fixed assets leased	-	M	M	-	100	100
7	08	Proportion of fixed assets pledged	M	-	-	100	-	-
8	10	Restriction to title of fixed assets	-	M	M	-	100	100
9	11	Assets acquired on instalment basis	-	M	M	-	100	100
10	12	Assets retired from active use	V	-	M	100		100
11	13	Investments in subsidiaries and associates	M	M	M	100	100	98
12	14	List of subsidiaries and associates	M	M	M	97	100	98
13	15	Degree of control in subsidiaries	-	M	M	-	98	100
14	16	Percentage of holdings in associates and affiliates	-	M	M	-	100	100
15	17	Domestic and foreign breakdown of investments	-	M	-	-	95	-
16	19	Cost: Marketable securities (M.S.)	M	M	M	100	100	100
17	20	Market value: (M.S.)	M	M	-	100	100	-

Table 10.11: Items Disclosed by More Than 95% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
18	23	Inventory: Total value	M	M	M	100	98	100
19	24	Inventory breakdown	-	-	M	-	-	98
20	25	Movement in equity during the year	-	M	-	-	98	-
21	30	Prepaid company tax	M	-	-	100	-	-
22	32	Details of intangible assets	-	-	M	-	-	100
23	33	Goodwill recognised on each acquisition	M	M	M	100	100	100
24	37	Bank loans and overdraft	M	M	M	100	100	100
25	38	Breakdown into secured and unsecured liabilities	-	M	M	-	98	100
26	39	Proposed dividend	M	M	M	100	100	100
27	40	Amount outstanding for long term debt	M	M	M	100	100	100
28	41	Component breakdown	-	M	M	-	97	98
29	44	Amount of deferred corporate taxes	V	M	M	100	100	100
30	45	Disaggregation into different causes	V	-	-	100	-	-
31	46	Tax payable outside Malaysia	M	M	M	100	100	100
32	48	Component breakdown of authorised capital	M	M	M	100	100	100
33	49	Amount of preference shares	-	-	M	-	-	100
34	50	Breakdown by type (dividend/interest)	-	-	M	-	-	100
35	51	Information about redemption of each type	-	-	M	-	-	100
36	54	Purpose and terms of share/debenture issue	M	M	M	100	96	96
37	58	Minority interests in equity	M	M	M	100	100	100
38	59	Information on future dilution of equity	-	-	V	-	-	100

Table 10.11: Items Disclosed by More Than 95% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
39	60	Amount of reserves	M	M	M	100	100	100
40	62	Amount/Estimate of contingent liabilities	M	M	M	100	100	100
41	63	Breakdown by types/nature	M	M	M	97	100	100
42	64	Description of retirement benefit plan	-	V	-	-	97	-
43	67	Amount of expenditure carried forward	V	-	M	100	-	100
44	69	Amount/Estimate of post balance sheet events	-	M	M	-	100	100
45	70	Nature of the event	-	M	M	-	100	100
46	71	Amount of sales/revenue	-	M	M	-	100	100
47	72	Sources of sales/revenue	-	M	M	-	96	100
48	73	Income or gain carried forward	M	M	M	100	100	100
49	74	Prior period items (charges or credit due to errors)	-	-	M	-	-	100
50	75	Net amount of profit/loss after tax	-	M	M	-	100	100
51	76	Operating income before extra-ordinary items	V	M	M	100	100	100
52	77	Provision for pension or retirement benefits	V	-	M	100	-	100
53	78	Disaggregated income by subsidiaries	M	M	M	100	100	100
54	79	Other investment income	M	M	M	100	100	100
55	80	Receipts (rental income) from long-term leases	V	M	M	100	100	100

Table 10.11: Items Disclosed by More Than 95% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
56	81	Gains from foreign currencies translation/conversion	-	M	M	-	100	100
57	82	Extra-ordinary gains and losses	M	M	M	100	97	100
58	86	Expenses on advertising and publicity	-	-	V	-	-	100
59	88	Depreciation expense	M	M	M	98	100	100
60	89	Corporate taxes	M	M	M	98	100	100
61	90	Amortisation of goodwill and other intangibles	-	-	M	-	-	95
62	92	Dividends paid	M	M	M	100	100	100
63	93	Interest expenses (various sources)	M	M	M	97	100	100
64	94	Rental expenses (various sources)	M	M	M	100	100	100
65	95	Statement of sources and application of funds	-	M	M	-	100	100
66	96	Changes in working capital components	-	M	M	-	100	100
67	102	Reference to International Accounting Standards	-	-	M	-	-	100
68	104	Terms of reference	-	-	M	-	-	98
69	105	Other details given	-	-	M	-	-	100
70	107	Basis of valuation of inventories	-	M	M	-	98	100
71	108	Method of determining cost of inventories	-	-	M	-	-	96
72	110	Disclosure of methods and rates of depreciation	-	M	M	-	100	100

Table 10.11: Items Disclosed by More Than 95% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
73	111	Depreciation method used based on historical cost	-	M	M	-	100	100
74	114	Accounting method for advertising & publicity	-	M	M	-	100	100
75	116	Translation of accounts of foreign subsidiaries	M	M	M	98	100	100
76	117	Change in accounting methods and policies	M	M	M	100	100	100
77	118	Disclosure of method for treating deferred taxation	M	-	M	100	-	96
78	119	Disclosure of method for treating deferred expenditure	-	-	M	-	-	95
79	120	Accounting method for borrowing cost	-	V	M	-	100	100
80	122	Earnings per share (EPS)	-	-	M	-	-	100
81	123	Basis of arriving at EPS	-	-	M	-	-	98
82	128	Changes in the nature of firm's activities	-	-	M	-	-	96
83	130	Related party disclosure (RPD): Purchase or sales of goods/property	-	M	M	-	100	100
84	131	Rendering or receiving of services (RPD)	-	M	M	-	100	100
85	132	Manufacturing, licensing and technical agreement (RPD)	V	M	M	100	100	100
86	133	Dividends per share	M	M	M	98	100	100

Table 10.11: Items Disclosed by More Than 95% of Companies (Ctd.)

No.	Item No.	Item of Information	Nature of Item			% Disclose		
			74	84	94	74	84	94
87	136	Distribution of share ownership: number of owners	-	-	V	-	-	100
88	137	Number of owners within size and value groups	-	-	V	-	-	100
89	138	Number of owners holding 5% or more shares	-	-	V	-	-	100
90	155	Principal activities of firms	-	M	M	-	100	100
91	162	Discussion of new product development	-	V	V	-	100	100
92	164	Capital expenditure on commitments (CEC): contracted for but not provided for in the accounts	M	M	M	100	100	100
93	165	CEC: authorised but not contracted for	M	M	M	100	100	100
94	169	Discussion on technological factor	-	V	V	-	100	96
95	171	Discussion on contractual factor	V	-	V	100	-	97
		Total number of applicable items	47	67	120			
		No. of mandatory items from Appendix 10.3	24	25	-			
		Total no. of items	71	92	120			

V = Voluntary
M = Mandatory

Table 10.13: Summary of Users' Responses and Company Disclosure Practices

Rank	Items of Information	Users' Mean Score	No. of Companies Disclosing	Companies' Mean Score	Consistency Rating (%)
1	Amount and sources of revenue for the period	4.669	54	4.669	100
2	Turnover/sales for the period	4.659	54	4.659	100
3	Earnings per share for the period	4.459	54	4.459	100
4	Long-term and current liabilities (including its composition) at the end of the period	4.415	54	4.415	100
5	Amount of each subsidiary's earnings and parent company's share of each amount	4.393	54	4.393	100
6	Comparative balance sheet: 2 years	4.281	54	4.281	100
6	Comparative income statement: 2 years	4.281	54	4.281	100
8	Total current assets including its composition at the end of the period	4.237	54	4.237	100
9	Discussion of factors affecting future business of the company	4.230	40	3.133	74.07
10	Amount and breakdown of expenses for the period	4.222	54	4.222	100
11	Number of authorised and issued share capital	4.200	54	4.200	100
12	Cash flow projections for next two to five years	4.193	0	0	0
13	Half yearly financial statements	4.067	na	-	-
14	List of financial ratios	4.059	34	2.556	62.96
15	Dividends paid and proposed	4.052	54	4.052	100
16	Income from investment	3.993	41 [41]	3.993	100
17	Income tax expense for the period	3.970	54	3.970	100

Table 10.13: Summary of Users' Responses and Company Disclosure Practices (Ctd.)

Rank	Items of Information	Users' Mean Score	No. of Companies Disclosing	Companies' Mean Score	Consistency Rating (%)
17	Reserves (and its classification)	3.970	53 [53]	3.970	100
17	Method used in the recognition of revenue	3.970	49	3.602	90.73
20	Comparative income statement: More than 2 years	3.940	12	0.875	22.21
21	Amount of extra-ordinary gains and losses reported for the period	3.933	40 [40]	3.933	100
22	Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period	3.911	50 [51]	3.834	98.03
23	Income from acquisitions	3.889	na	-	-
24	Amount of depreciation for the period	3.881	54	3.881	100
24	Basic policies and objectives of management	3.881	46	3.306	85.19
26	Comparative balance sheet: More than 2 years	3.874	12	0.861	22.22
27	Breakdown of income by location, operating division, product line or customer group	3.844	35 [38]	3.541	92.10
28	Particulars of any contracts (during the period) in which a director was materially interested	3.837	53	3.766	98.15
29	Breakdown of sales by location, operating division, product line or customer group	3.793	6 [8]	2.845	75.00
30	Contingent liabilities	3.791	36 [36]	3.791	100
31	Breakdown of investment by location, operating division, product line or customer group	3.770	26 [28]	3.501	92.86

Table 10.13: Summary of Users' Responses and Company Disclosure Practices (Ctd.)

Rank	Items of Information	Users' Mean Score	No. of Companies Disclosing	Companies' Mean Score	Consistency Rating (%)
31	Disclosure of accounting policies regarding various items	3.770	54	3.770	100
33	Compounded rate of growth of earnings per share for the last five to ten years	3.756	34 [54]	2.365	62.96
34	Methods used in computing earnings per share	3.754	53 [54]	3.684	98.15
35	Analysis of shareholdings	3.667	54	3.667	100
36	Number of shares in the company owned by each directors	3.659	53	3.591	98.15
37	Quarterly financial statements	3.652	na	-	-
38	Expenditures not yet written off	3.585	18 [18]	3.585	100
39	Change in dividend	3.578	28	1.855	51.85
40	Amount and classification of fixed assets by major items at the end of the period	3.570	54	3.570	100
41	Provision for taxation	3.556	45 [45]	3.556	100
42	Amount and breakdown of inventory/stocks reported under major categories at the end of the period	3.548	47 [48]	3.474	97.92
43	Accounting method for translating foreign currencies	3.541	49 [49]	3.541	100
44	Profit or loss on disposal of fixed assets	3.500	na	-	
45	List of directors	3.452	54	3.452	100
46	Amount and breakdown of intangible assets	3.440	23 [23]	3.440	100

Table 10.13: Summary of Users' Responses and Company Disclosure Practices (Ctd.)

Rank	Items of Information	Users' Mean Score	No. of Companies Disclosing	Companies' Mean Score	Consistency Rating (%)
47	Amount of accumulated depreciation on fixed assets at the end of the period	3.422	54	3.422	100
48	Methods used in computing depreciation	3.393	54	3.393	100
49	Directors' emoluments	3.326	54	3.326	100
50	Report of audit committee	3.311	53	3.250	98.15
51	Details regarding product or service contribution	3.237	22	1.319	40.74
52	Price level adjusted corporate reports as supplementary statements	3.172	na	-	-
53	Provision for pension and retirement benefits	3.141	21 [21]	3.141	100
54	Particulars relating to human resources	2.956	10	0.547	18.5
55	Discussion on physical resources and environmental contribution	2.756	4	0.204	7.41
56	Particulars relating to community involvement	2.659	14	0.689	25.93

Table 10.14: Comparison of Item-wise Disclosure in Three Studies

No.	Item of Information	NA	Disclose			Not Disclose			% Disclose		
		P	W	K	P	W	K	P	W	K	P
1	Disaggregation into land and building, plant and machinery	-	47	160	54	0	1	0	100	99	100
2	Proportion of fixed assets leased	4	0	2	50	47	159	0	0	1	100 [93]
3	Total current assets	-	47	54	161	0	0	0	100	100	100
4	Total current liabilities	-	47	161	54	0	0	0	100	100	100
5	Breakdown into secured and unsecured liabilities	12	47	161	42	0	0	0	100	100	100 [78]
6	Number and amount of authorised share capital	-	47	160	54	0	1	0	100	99	100
7	Percentage of equity owned by management	39	47	8	1	0	153	14	100	5	7 [2]
8	Breakdown of operating expenses	-	0	159	54	47	2	0	0	98	100
9	Expenses on advertising and publicity	53	0	146	1	47	15	0	0	91	100 [2]
10	Statement of sources and application of funds	-	47	70	54	0	91	0	100	44	100
11	Revenue recognition	-	0	14	49	47	147	5	0	9	91
12	Segmental information (SI): Domestic/Export segmentation	46	0	3	6	47	158	2	0	2	75 [11]
13	Sales/revenue (SI)	16	0	56	35	47	105	3	0	35	92 [65]
14	Manufacturing, licensing and technical agreement (RPD)	41	0	14	13	47	147	0	0	9	100 [24]
15	Information in directors' report: List of directors	-	47	153	54	0	8	0	100	95	100
16	List of top management and positions	-	47	66	11	0	95	43	100	41	20

Table 10.14: Comparison of Item-wise Disclosure in Three Studies (Ctd.)

No.	Item of Information	NA	Disclose			Not Disclose			% Disclose		
		P	W	K	P	W	K	P	W	K	P
17	Directors' shareholdings	-	47	58	53	0	103	1	100	36	98
18	Statutory declaration as to the correctness of accounts	-	0	13	54	47	148	0	0	8	100
19	Planned capital expenditure	12	0	44	42	47	117	0	0	27	100 [78]
20	Planned advertising and publicity expenditure	54	0	0	na	47	161	na	0	0	na [0]
21	Cash flow projections for the next 2-5 years	-	0	2	0	47	159	54	0	1	0
22	Discussion on economic factor	-	47	115	40	0	46	14	100	71	74
23	Discussion of industry trends	-	0	106	45	47	55	9	0	66	83
24	Proportion of raw materials and components (used in production) from local sources	36	0	17	0	47	144	18	0	11	0
25	Auditor's report	-	47	153	54	0	8	0	100	95	100

P = Present study; W = Wallace's study; K = Karim's study; na = not applicable
Figures in [ ] represent alternative disclosure percentage if 'na' items are considered as non-disclosure (0 score).

CHAPTER ELEVEN
CORPORATE CHARACTERISTICS AND EXTENT OF DISCLOSURE

11.1 Introduction

This chapter provides further analysis on the extent of disclosure of information in annual reports of the selected companies and investigates the association between selected corporate attributes and the extent of disclosure. In Chapter Ten, the disclosure of individual items was analysed by individual and various categories of companies for the three different years. In addition, the overall and segregated disclosure scores in different parts of the annual reports were determined. The main aim of this chapter is to investigate empirically the possible relationship between the extent of disclosure and various corporate attributes. Multiple linear regression technique is used to identify the determinants of corporate disclosure. The analysis and discussion in the previous chapter have already revealed the presence of differences in the quality and extent of disclosure of the sampled companies. The reasons for these differences may lie in those characteristics that differentiate one company from another. As such, this chapter tries to identify the nature of the company characteristics that are significantly associated with the level of disclosure.

The rest of the chapter has been organised as follows: Section 11.2 describes the hypothesis of the study; Section 11.3 sets out the dependent and independent variables; Section 11.4 presents the results of the regression analysis with the dependent variables being categorised into overall, mandatory and voluntary disclosure indexes; Section 11.5 provides a discussion of the results whilst Section 11.6 presents a comparison of the results with other similar studies done in developing countries. Section 11.7 addresses the issue of multicollinearity in the regression analysis and finally, Section 11.8 summarises the results of the study and concludes the chapter.

11.2 Hypothesis of the Study

The main aim of this chapter, as mentioned earlier is to examine the possible association between the extent of disclosure in corporate annual reports and several corporate attributes. The hypotheses are restated below:

Ho: There is no significant relationship between the extent of disclosure and various company characteristics such as assets size, annual sales, number of shareholders, leverage ratio, proportion of shares owned by outsiders, liquidity ratio, earnings return, profit margin, parent company size, scope of operation, market capitalisation, international link of audit firm, type of management, financial year end, and corporate image.

Since the annual reports of companies are selected from three different years which are ten years apart from each other (1974, 1984 and 1994) it is not possible to examine all the company characteristics listed above for all the respective years. This is because the amount of information disclosed in the annual reports of companies in 1974 is generally less than those disclosed in 1984 and 1994. The evidence of this fact was already established in the pattern of disclosure scores for the three selected years in the previous chapter.

Three types of disclosure indexes are used as the dependent variables in order to test their possible association with some corporate characteristics. The first disclosure index covers all the information items (mandatory and voluntary) that may appear in the corporate annual reports and is referred hereafter as the overall disclosure index (ODI). The second and third disclosure indexes merely segregate the ODI into its two major components, namely the mandatory and voluntary items and is hereafter referred to as the Mandatory Disclosure Index (MDI) and Voluntary Disclosure Index (VDI).

11.3 The Dependent and Explanatory Variables.

11.3.1 Dependent Variables.

Three types of disclosure scores as mentioned earlier are calculated for each company for each of the three selected years. These scores are obtained from the raw scores presented in the previous chapter and transformed into percentage scores. Table 11.1 presents the distribution of the three scores among the fifty-four companies. The normality of distribution of the index scores was tested using the normality plot histogram and all of them were found to be normally distributed.

Table 11.1: Distribution of Three Disclosure Indices

Company	Overall Index (%)			Mandatory Index (%)			Voluntary Index (%)		
No.	1974	84	94	1974	84	94	1974	84	94
01	52	67	75	75	85	91	26	29	24
02	53	61	77	76	82	94	20	16	40
03	59	71	83	76	82	91	37	48	61
04	60	68	80	81	84	98	34	32	24
05	50	53	81	75	79	99	20	13	43
06	54	67	80	82	84	91	19	27	46
07	46	75	85	72	84	94	10	50	60
08	63	70	76	78	86	95	42	29	29
09	50	63	79	80	81	89	12	21	50
10	51	63	81	78	81	96	18	18	38
11	55	78	82	81	83	89	16	67	61
12	53	61	81	80	83	97	21	15	44
13	59	71	82	80	82	94	32	46	55
14	47	69	73	76	83	88	9	38	38
15	51	62	71	81	83	88	13	17	25
16	61	79	93	82	85	94	32	62	88
17	47	72	74	72	85	91	17	46	29
18	58	71	84	83	83	95	26	41	58
19	45	61	74	73	82	93	8	19	29
20	54	75	82	77	85	92	21	50	55
21	54	68	80	77	87	92	22	25	43
22	61	78	86	81	86	95	36	62	59
23	49	66	75	74	87	92	16	15	29
24	67	74	81	84	85	93	40	47	48
25	59	57	88	85	74	98	28	21	64
26	56	61	77	80	76	93	22	22	29
27	50	69	82	73	88	93	17	21	51
28	52	70	79	79	84	94	18	33	43
29	59	72	85	84	82	90	26	45	69

Table 11.1: Distribution of Three Disclosure Indices (Ctd.)

Company	Overall Index (%)			Mandatory Index (%)			Voluntary Index (%)		
No.	1974	84	94	1974	84	94	1974	84	94
30	54	66	76	77	85	92	24	18	27
31	44	59	85	69	80	95	13	13	55
32	51	69	84	76	83	95	22	37	51
33	51	59	73	78	81	90	18	18	34
34	58	63	81	83	83	89	24	24	63
35	48	52	85	76	74	94	16	11	59
36	55	63	77	81	84	93	16	17	35
37	52	71	84	76	85	92	19	39	61
38	56	62	74	78	82	94	30	23	21
39	48	55	84	78	74	95	9	16	50
40	53	67	81	80	79	93	16	38	48
41	60	63	77	84	77	91	32	32	41
42	54	60	70	78	78	90	23	23	21
43	55	75	82	79	85	92	22	53	59
44	46	60	74	72	85	95	15	17	33
45	48	69	78	73	82	96	11	39	31
46	49	65	75	78	84	93	11	21	29
47	54	62	67	81	78	91	20	31	14
48	59	60	81	77	77	91	36	28	58
49	69	59	83	83	78	93	49	19	53
50	52	76	76	73	83	91	23	58	33
51	52	69	83	77	81	95	23	44	49
52	71	73	84	84	80	93	51	56	62
53	44	48	81	73	81	93	6	0	50
54	59	72	85	84	85	96	26	43	55

11.3.2 Explanatory Variables.

As explained in the previous section, there are fifteen firm characteristics that have been identified as the explanatory variables. Following Lang and Lundholm (1993) and Wallace et al. (1994), the firm characteristics considered as possible predictors of the indexes of disclosure are classified, for analytical purposes, into three non-mutually exclusive categories: structure related, performance related and market related variables. The relationships between each of these three types of characteristics and the indexes of disclosure are discussed below.

11.3.2.1 Structure Related Variables

Structural variables measure firm characteristics that are widely known and likely to remain relatively stable over a period of time. In other words, these variables describe a firm on the basis of its underlying structure such as its size and its gearing. The structure related variables considered as possible predictors of the extent of disclosure in the corporate annual reports of the sampled firms are debt to equity ratio (leverage), four corporate size variables, and proportion of shares owned by outsiders (i.e., excluding shares owned by directors and dominant shareholders). The theoretical motivation for selecting these corporate attributes are discussed below.

Debt-equity Ratio (Leverage): The degree to which a firm's financial structure is geared has been used in several disclosure studies to examine any possible association between leverage ratio and disclosure levels. A highly leveraged firm has a wider obligation to satisfy the needs of its long-term creditors for information. As such, they may provide more detailed information in its annual report to meet those needs compared to a lowly leveraged firm. According to Myers (1977, pp. 164-167) and Schipper (1981, p. 86), the long-term creditors require additional information to reduce their suspicion that shareholders and management are more likely to encroach on the claims that accrue to them through bond covenants. In discussing agency theory, Jensen and Meckling (1976) argued that more highly leveraged firms incur higher monitoring costs. In other words, management may voluntarily disclose more information in annual reports for monitoring purposes. As such, a positive relationship between leverage and extent of disclosure can be expected. However, studies that have investigated this association provided inconsistent results. For example studies by Chow and Wong-Boren (1987) and Ahmed and Nicholls (1994) found no significant relationship between leverage and the extent of voluntary disclosure in Mexico and Bangladesh, respectively. On the other hand, Belkaoui and Kahl (1978) found a significant negative relationship between the two variables, while Robbins and Austin (1986) observed a significant positive association between debt and municipal disclosure. Choi (1973a) noted that companies voluntarily increase the extent of disclosure prior to entering the European capital market. Similarly Dhaliwal (1980) found that diversified firms obtaining long-term capital externally were more likely to disclose segmental financial data voluntarily. Bradbury (1992) also found a significant positive association between leverage and extent of voluntary segment disclosure among New Zealand firms. The conflicting results may be due to the fact that the research studies dealt with differing experimental units - in terms of the companies selected, countries and year of study, the different measures of leverage used, coupled with differences in the list of items developed for their respective disclosure indexes. This variable is labelled as 'leverage' in the regression analysis.

Size of Firm: The variable size of firm, has been used in many disclosure studies to test its association with the extent of disclosure in annual reports. The direction of association may be either positive or negative. However, evidence from previous research provides greater support for the hypothesis that there is a positive relationship between firm size and extent of disclosure, even though there was an unclear theoretical basis for such a relationship.

There are several reasons that could explain the existence of such positive or negative relationship. At one end, theoretical arguments such as by Jensen and Meckling (1978), Watts and Zimmerman (1989) argue that large firms are generally more visible and exposed to political pressure in the form of increasing demands for the exercise of social responsibility and/or for wider regulation such as price controls, higher corporate taxes and the threat of nationalisation policy. As a result, firms will try to minimise such governmental intervention by disclosing less information in their annual reports.

On the other hand, several empirical studies provide evidence that large firms may be influenced to disclose more information in their annual reports. For example, Buzby (1975b, p. 18) states that because the 'accumulation and dissemination of information are costly, smaller firms may not possess the necessary resources for collecting and presenting an extensive array of information.' However, this argument may not hold true in all cases. The cost of accumulating information depends on the type of information desired. Information relating to corporate policies (such as depreciation methods or inventory valuation method) and information which is easily available in the firm (e.g., number of shareholders, names of directors etc.) may not be considered too costly because such information is usually accumulated for internal reporting to top management and/or for external reporting to regulatory agencies. Even for small firms, the additional expense of publicly distributing data is not likely to prove burdensome since a large portion of this information is required for internal purposes. In addition, with the fast growing information technology systems, the cost of acquiring and distributing information may be relatively lower than before. The argument may be valid for information not required by regulatory bodies, where such information is not accumulated by the firm and the firm is not in a position to absorb the additional cost. In addition, Buzby (1975b) argued that since larger firms tend to be listed on stock exchanges (including overseas stock exchanges), they will be motivated to provide more information in order to create or maintain strong demand for their securities. In fact, there are other reasons for such firms to disclose more information; for example the firms may use their listing status as a vehicle in marketing their products.

Some researchers such as Dye (1985) and Craswell and Taylor (1992) propose a proprietary cost theory in discussing voluntary information disclosure by companies. They contend that proprietary costs are industry specific and tend to be increasingly related to firm size. Hence, managers of smaller firms (compared to larger firms) are more likely to feel that full information disclosure in annual reports will put their firms at a competitive disadvantage. Such argument was also supported by Singhvi and Desai (1971) and Mautz and May (1978).

Another reason for expecting a positive relationship between size and extent of disclosure is the demand for information by analysts. For example, Schipper (1991) and Barry and Brown (1986) argue that annual reports of larger firms are more likely to be scrutinised by financial analysts than those of smaller firms. The authors argue that large listed firms have an incentive to disclose more information than smaller firms since non-disclosure may be interpreted by investors as 'bad news' and this could severely affect firm value. Thus larger firms may be subjected to greater demand by analysts for more information. Likewise, Firth (1979b) argues that firms which are more visible in the 'public eye' are much more likely to disclose more information to enhance their corporate reputation and public image.

The discussion so far brings two conflicting views. Large enterprises have the tendency to disclose more information as well as to disclose less information in their annual reports. Similarly, small companies may possibly disclose more information or less. For example, small companies may disclose more information in order to highlight their potentials to the public or other interested groups. As such, the directions (positive or negative) of the relationship between size and disclosure levels by firms within a country cannot be specified.

Corporate size can be measured in several ways and there is no overriding factor to prefer one measure over the other(s) (Cooke, 1991). The most common measures of size used in previous research are annual sales, total assets, shareholders' equity, capital employed, number of shareholders, number of employees, and market value of firm. In this study, four measures of firm size are used, namely total assets, annual sales, number of shareholders, and market capitalised value of the firm. The inclusion of these variables as proxies for corporate size were motivated by their use in previous studies and the desire to compare the results of this study with the results of earlier studies. For example, assets' size has appeared in studies by Cerf (1961), Singhvi and Desai (1971), Buzby (1975), Malone et al. (1994); sales in studies by Stanga (1976), Cooke (1989) and Wallace et al. (1994); number of shareholders in Wallace (1987) and Cooke (1991); and market capitalisation in studies by Belkaoui and Kahl (1978), Chow and Wong-Boren (1987), Lang and Lundholm (1993), Hossain et al. (1994), and Wallace and Naser (1995). Unlike sales and asset size, market capitalisation is an externally determined measure (not internally determined) regarding a firm's importance from the viewpoint of the investing public.

Number of shareholders: Differences in the number of shareholders owning the entire equity of a company may account for the observed differences in the disclosure scores for several reasons. Firstly, the more people who need to know about the affairs of a company, the more will be the types of information required and the greater disclosure of information will be provided by firms. Secondly, since different user groups have different needs as to the type of information they required, management will inevitably have to disclose more information. Thirdly, a higher number of shareholders would encourage accounting regulators to seek greater disclosure from the reporting entity in order to safeguard the interest of the shareholders.

The number of shareholders in the sampled Malaysian companies varies from year to year. The category of shareholders and their percentage of share ownership in a company also varies from one company to another. The two main categories of shareholders are private shareholders and institutional shareholders. For example, the lowest number of shareholders (for both categories) in 1984 and 1994 was 311 and 712 respectively, whereas the highest number of shareholders recorded for the same years was 54,527 and 49,586 respectively. None of the companies provided the number of shareholders in their 1974 annual reports. None of all the size variables discussed above are normally distributed (the correlation among them ranges from 0.315 to as high as 0.810). The problem of skewness was averted by transforming the original values of these variables into natural logarithms. The four variables are labelled as lnassets, lnsales, lnshares and lnmarket.

Proportion of Shares Owned by Outsiders: There is some variation in the number of shareholders in the sample Malaysian companies. Differences in the proportion of shares owned by outsiders may account for some of the observed differences in the level of disclosure scores by the firms because the larger the audience who need to know about the affairs of a firm, the greater will be the details of item of information that need to be disclosed. Leftwich et al. (1981) state that issuing annual reports could solve monitoring problems associated with increases in the proportion of the firm's shares owned by outsiders. If his argument is true, one would expect that as the number of shareholders or the proportion of the firm's shares owned by outsiders increases, the level of information disclosed in annual reports will be much higher. In order to derive the proportion of firm's equity owned by outsiders, the proportion of equity belonging to directors and dominant shareholders are added together and then subtracted from the total share equity. This variable is labelled as 'owners'.

11.3.2.2 Performance Related Variables

Performance variables vary from time to time and represent information that may be of interest to a particular user group. The performance related variables used in this study are: liquidity ratio, earnings return and profit margin. All the three variables represent characteristics by which firm's performance can be compared over a particular time period. Both profit margin and earnings return represent specific measures of market success. Both variables have been identified in previous studies as variables likely to be positively associated with the revealed variation in the extent of corporate disclosure. A firm may release information regarding to its relative competitive performance by indicating which of its product lines are more profitable than the others. As Singhvi and Desai (1971) mention, higher earnings return or profit margin would stimulate managers to report more detail information because they believe it can assure investors about the firm's profitability and to boost management's compensation. Furthermore, firms with good news tend to disclose more detailed and precise information than firms with bad news, especially in situation where more information allows investors: (1) to smooth earnings across periods (Imhoff, 1992, and Newman and Sansing, 1993) and (2) to change the composition of firms in their investment portfolios. As Lang and Lundholm (1993) posit, 'disclosure may be related to the variability of firm's performance, if performance serves as proxy for information asymmetries between investors and managers.' However, they caution that 'the results from the theoretical and empirical research suggest disclosure could be increasing, constant, or even decreasing in correspondence with firm's performance.'

Liquidity ratios measure the firm's ability to meet its short-term financial obligation without having to liquidate its long-term assets or discontinue operations. It represents an important measure in the evaluation of firms by interested parties such as investors, creditors and regulatory bodies. The inability of a firm to meet its current obligations may suggest a deferment of the payment of interest and principal on loans to the detriment of the lender; and in some extreme case, it may mean bankruptcy. To allay the fears of investors and lenders, reporting firms tend to give more details in the annual report about their ability to meet financial obligations as they fall due and about the state of the firm that it is a 'going concern'. Previous research (Belkaoui and Kahl, 1978; Cooke, 1989b) suggest that the soundness of a firm (as indicated by a high liquidity ratio) can be expected to be associated with greater disclosure. This is based on the expectation that a financially strong firm is more likely to disclose more information than a financially weak firm. On the other hand, if liquidity is perceived in the market as a measure of performance, a firm with a low liquidity ratio may need to give more detailed information to explain its 'weak' performance than a firm with high liquidity ratio. All the variables discussed above are labelled as 'earnings', 'profit' and 'liquid' respectively.

From the preceding discussion regarding performance related and structure related firm characteristics suggest that disclosure may be increasing, increasing, constant, or even decreasing in line with firm's structure and performance as argued by Lang and Lundholm (1993) and evidenced by Wallace et al. (1994).

11.3.2.3 Market Related Variables (MRV).

The MRV used in this study are qualitative in character and categorical. They differ from the structure and performance related variables which take in quantitative values in a well-defined scale. In other words, a firm may either belong or does not belong to a category of classification. As Wallace et al. (1994) state, 'market related variables may be time-period specific and/or relatively stable over time and they may be within or outside the control of the firm'. They further argue that many MRV refer to aspects of a firm's behaviour brought about by the firm's association with other firms in its operational environment. In other words, corporate reporting is a body of organisational cultures that is affected by several factors in a conjunctional manner. Every culture shapes corporate reporting behaviour either through a common action (such as uniform accounting practices within an industry) or by continually offering certain practices which a firm may conceivably want to imitate. The underlying theory here is that a firm's behaviour may differ from what is captured by an index of disclosure score if it had not been associated with a particular market culture. The MRV incorporated in this study are market capitalisation, parent company size, type of management, financial year end, scope of business operation, type of external auditor, and corporate image. Each is discussed below.

Market Capitalisation: The motivation for selecting this variable has been discussed under firm size. The data regarding this variable were the only ones obtained outside the annual reports of the sampled companies using the Datastream. The market value of the firms obtained from the Datastream is the share price multiplied by the number of ordinary shares in issue. The amount in issue is updated whenever new shares are issued or after a capital change. However, the information was only available for the year 1994; and as such, this variable is only applicable for that year. This variable is labelled as 'lnmarket'.

Parent Company Size: A holding company is presumed to have more information to disclose than a company without subsidiaries. The former company also has the opportunity to disclose sectorial information based on the performance of the subsidiaries. Holding companies are also required to provide information on the consolidation of the accounts of the subsidiaries. In the same token, parent companies having many subsidiaries would presumably have the tendency to disclose more information in their annual reports compared to parent companies which have few subsidiaries. As for the sampled companies of this study, the number of parent companies having more than ten subsidiaries in 1974 was only 3, then it increased to 17 and 36 respectively in 1984 and 1994. On the other hand, the number of parent companies having less than 10 subsidiaries in 1974 was 51, then the number reduced to 37 and 18 in 1984 and 1994 respectively (see Table 11.2 at the end of this section). As such it is worthwhile to examine if the number of subsidiaries owned by the parent company would influence the level of disclosure of information in the annual report. This dummy variable is labelled as 'parent' and a value of 1 is assigned for parent company having less than 10 subsidiaries, and 0 for parent company having more than 10 subsidiaries.

Type of Management: The first study that employs this corporate characteristic was by Singhvi (1967) in his study about disclosure of information by companies in India. In the current study, type of management refers to the composition of the members of board of directors in the sampled companies. Each of the company's annual report was scrutinised to see whether the board of directors wholly consist of local indigenous people or there is a mixture of local as well as foreign people. Firms which have a mixture of local and foreign people as the board of directors would presumably have an international link with outside parties in the sense that these companies might have a joint venture agreement or contractual arrangement with foreign companies. With this type of arrangement, the firm may be required to appoint one or two persons who are non-indigenous people to be member (s) of the board of directors. This foreign member of the board of directors may have to follow certain policies or guidelines imposed by its foreign company's management as to the operation of the local company according to the aforementioned agreement between the two parties. This would indirectly involve decision making and policy matters including the disclosure of information in annual reports. This dummy variable is labelled as 'management' with a value of 1 for companies whose board of directors consist wholly of local people, and 0 for companies having a mixture of local and foreign people as the board of directors.

Financial Year End: Companies in Malaysia are free to choose their own financial year end as long as it is used consistently. As a result, there are different dates of accounting year end adopted by companies. However, since the financial year end for government departments follows the 31st December date, most public companies also follow the same accounting year end; and for auditors and company management, every year during the end of December would be considered to be 'busy season'. Companies having a December year-end also have the tendency to disclose more information since the annual budget of the country was normally announced during the middle of October each year. As such, new information released by the government that could affect particular industry or business sectors in which the company is engaged can be used and assimilated by these firms and portrayed in their annual reports. This is because they still have sufficient time (at least for one and a half month) to compile such information and published it in their annual report. Companies having a non-December accounting year end may not have such opportunity to provide additional information in their annual reports except those firms having financial year end on 30th November. However, they are still in a less better position than those firms having a December year end in terms of the time required to assemble and publish such information. As shown in Table 11.2 at the end of this section, the number of companies using 31st December as the accounting year end is relatively the same with those companies adopting other non-December accounting dates. Their average disclosure scores also remain relatively the same for all the three years under consideration. Since this variable is rarely used in prior studies, it might be too premature to expect any significant relationship with the extent of disclosure. The only previous study that employed this variable was Karim (1995). Although he found no significant relationship between this variable and disclosure scores, for reason of making comparison, this variable is employed in the current study and labelled as 'yearend'. A value of 1 is given for companies having year end on 31st December and 0 for other dates.

Scope of Business Operation: The sample of companies used in this study comes from six different sectors or industries, with 48% (26 companies) belonging to property, plantation, mining, hotel and construction, and the remaining 52% (28 companies) involved in other sectors of the economy (industrial, consumer goods and trading). In addition to the minimum disclosure requirements from the three regulatory sources (Companies Act, 1965; the Approved Accounting Standards, and the KLSE requirements), different industries may provide additional disclosure in line with the peculiarities of their industries (Dye and Sridhar, 1995). The adoption of industry-related disclosures may lead to varying degree of disclosure on similar items in annual reports published by firms in different industries. Items that are considered important in one industry may be regarded as trivial in another industry. It is also possible that the existence of a nationally dominant firm with a high level of disclosure within a particular industry may produce a bandwagon or 'follow the leader' effects on the levels of disclosure adopted by other firms in that industry (Cooke, 1991).

Previous research also lends support for the inclusion of type of industry as a variable in this study. For instance, Cooke (1989b) found that voluntary disclosure by trading firms in Sweden is significantly lower than those by non-trading firms. Cooke (1991) also found that manufacturing firms disclose more information than non-manufacturing firms in a study of both listed and non-listed Japanese firms. However, there is no definite theory that one particular industry would outperform other industry in disclosure level. Nevertheless, in this study, companies operating in property, plantation and mining and hotel sectors may be expected to have less information to disclose than companies which operate in trading, consumer or industrial category, since the economic activities in the later sectors are more complex and generate more reportable events than property-based activities. In this study, each of the company's annual report was scrutinised to determine whether the scope of their business operation is limited to a particular line of activities (non-conglomerate) in a particular industry or diverse in nature (conglomerate). As such, conglomerate firms are expected to provide more information in their annual reports than non-conglomerate firms because a conglomerate's scope of operations subsumes the operations of firms in other categories.

On the other hand, it can be argued that conglomerate firms may not provide more information because when consolidated accounts are prepared, some information may be lost during that process since their transaction results are combined together, for example total assets and liabilities. It may be difficult to see which of its subsidiary has profitable operation compared to the other subsidiary. The other argument is that conglomerate firms may not provide more information since by doing so may invite new competitors in the market scene which could hurt its profit position and may endanger its survival. As such, there may be a positive or negative relationship between this variable and the extent of disclosure. This dummy variable is labelled as 'scope' and a value of 1 is given for non-conglomerate firms and 0 for conglomerate firms.

International Link of Audit Firm: Previous research found that the extent of disclosure by firms varied because of the differences in their external auditors (Cerf, 1961; Singhvi and Desai, 1971; De Angelo, 1981; and Craswell and Taylor, 1992). Smaller audit firms are more sensitive to client demands because they could face the economic consequences associated with the loss of a client (Malone et al., 1993). Larger audit firms like the Big Six audit firms, however, are less likely than small audit firms to depend on one or a few clients. This state of independency on few clients would enable the Big Six audit firms to demand greater details of disclosure in the annual reports of their clients. As such, it would be expected that in countries where the Big Six audit firms operate, financial statement certified by any of these firms will carry more credibility than the other local and smaller audit firms. The number of firms audited by the Big Six audit firms in the sample of Malaysian companies have rose steadily from 17 firms (1974) to 25 and 42 firms in 1984 and 1994, respectively. Auditing firms may use the information disclosed by their clients in annual reports as a way of signalling their own quality. De Angelo (1981) argues that larger audit firms have incentives to supply a higher level of audit quality, and they risk some of their reputation if they are associated with clients whose reporting practices are considered as offering 'bad quality'. Therefore, as Craswell and Taylor (1992) note, a firm's choice of auditors is likely to be associated with the decision to disclose more or less information. Big Six audit firms are larger than the other local audit firms in Malaysia and it is expected that clients of these firms will disclose more information.

However, it may be argued that auditing firms may not want to lose their audit service because they may also provide or sell other services to the same clients. As such, the audit firms may wish to remain with the same clients as long as their audit and other non-audit services are required by their clients. In this situation, more information disclosure by firms may not occur because most audit firms are concerned with ensuring that annual reports comply with legal requirements, whereas any information disclosed beyond the law requirements is at the discretion of the management. In other words, audit quality is not the same as disclosure quality.

Previous studies that examined the potential association between auditor size and extent of disclosure produced inconsistent results. Among them, Singhvi and Desai (1971), Hossain et al. (1994), Ahmed and Nicholls (1994), and Inchausti (1997) found positive association between the two variables; whereas Wallace and Naser (1995) find a negative association between the two variables. On the other hand, Firth (1979b) and Wallace et al. (1994) did not find any significant relationship.

From the above discussion, it shows that there may be a positive, negative or no significant relationship between the variable audit firm and extent of disclosure. However, taking account of recent mergers between large audit firms, it can be hypothesised that the extent of disclosure is larger for companies audited by Big Six audit firms. A dichotomous procedure was used to operationalise this variable by awarding 1 to local audit firm with no affiliation to the Big Six audit firms, and 0 for those audit firms affiliated to the Big Six international audit firms. This variable is labelled as 'audit'.

Corporate Image: This study also introduces a new variable which has not been employed by any previous research. It moves away from the predominantly accounting communications of corporate financial performance to non-accounting projections of corporate identity in a consumer-oriented world. This approach is based on the arguments by Ewen (1988) that corporate executives use the annual report as a part of an image management function to influence external stakeholders. Ewen's initial premise is that there is an observable phenomenon called style which aesthetically reflects societal assumptions, values, and structures. He argues that this 'style' is historically linked to consumption (e.g. luxury goods) and in modern times to the power of mass media to manipulate and influence consumers. According to Ewen, it is the surface rather than the substance of goods and services in the market which dominates.

In other words, style becomes a compensation for substance and value is based on aesthetic appeal rather than intrinsic worth. He explains that images were constructed as artefacts to identify and signal existence. He also emphasises the importance of design in an image manufacturing process, with a marriage between art and commerce in the context of market advertising.

The first research that employs the Ewen's approach to reflect corporate style was done by Lee (1994) using 25 annual reports of British industrial companies for a period between 1965 and 1988. In this study, Lee only describes the shape and structure of annual reports rather than their specific content. He made page counts to examine the changes in the reporting volume of general categories of disclosure (mandatory versus voluntary, normative versus pictorial, and operational versus non-operational). No attempt was made to associate the shape and structure of the annual reports to the extent of disclosure. As such, this study will bridge such gap by looking at one type of behaviour by firms to project their image, that is, the change in corporate name. The Malaysian companies included in the samples are incorporated in early 60's or 70's. As such, it would be expected that some of the companies might have diversified their operations that their old corporate name may no longer reflect the true nature of their activities. The management of such companies may feel that it is better to change their corporate name to reflect their current business operations. On the other hand, some companies may feel that their corporate name is so important which reflects their corporate identity in the mind of the interested user groups such as their shareholders. A change in corporate name may signal 'bad news' to their shareholders. As such, it is better to retain the same corporate name as it could enhance the value of their goodwill. As discussed in the previous chapter, there was no change in corporate name in 1974.

This may reflect the fact that these firms were just being incorporated, that a change in corporate name was regarded as unnecessary. However, in 1984, there were 44 companies that have changed their corporate name and the number reduced to 34 in 1994. As such, it can be argued that this change in corporate name may have some bearing in the level of disclosure in annual reports. This qualitative aspect was considered using a dichotomous variable labelled as 'image', with the value of 1 for a change in corporate name, and 0 if there is no such change.

In order to see the general disclosure pattern of the sampled companies based on the dichotomisation of all the dummy variables discussed above, the mean scores for all the three types of disclosures are presented in Table 11.2 on the next page. It is clear from the table that the disclosure pattern by the sample companies based on the overall disclosure score is relatively the same. The only difference in mean disclosure scores is noticeable for two dummy variables: parent company size and scope of business operation. For 1984 and 1994, it appears that parent companies having more than ten subsidiaries would disclose more information than those firms having less than ten subsidiaries. Also firms operating in more than one business category also disclose more information than those operating in a specific business category.

Table 11.2: Summarised Mean Disclosure Scores Based on Dummy Variables (1974, 1984 & 1994)

Category	Number of Entities			Overall Index Score (%)			Mandatory Index Score (%)			Voluntary Index Score (%)		
	1974	1984	1994	1974	1984	1994	1974	1984	1994	1974	1984	1994
Holding-subsidiary company size:												
Parent with more than 10 subs.	3	17	36	60.17	70.15	80.91	83.0	82.4	93.2	27.3	41.8	47.1
Parent with 10 subs. or less	51	37	18	53.60	64.17	77.01	77.9	82.0	92.6	22.2	26.5	40.5
Type of management (Composition of Board of Directors):												
Local & foreigner	33	26	15	54.82	65.88	79.51	78.2	82.2	92.4	24.7	32.1	48.5
Local	21	28	39	52.61	66.22	79.65	78.3	82.1	93.2	18.9	30.7	43.5
Financial year ending:												
Non-December	26	28	26	54.84	66.46	80.46	79.4	81.6	93.1	23.5	33.4	47.0
December	28	26	28	53.15	65.62	78.82	77.1	82.7	92.9	21.5	29.1	43.0
Scope of company's operation:												
Conglomerate	10	25	39	58.16	69.14	80.42	80.6	82.3	93.1	27.5	38.6	46.3
Non-conglomerate	44	29	15	53.01	63.39	77.51	77.7	82.0	92.7	21.3	25.1	41.2
International link of audit firm:												
Auditor with international link	17	25	42	55.08	66.94	79.48	78.7	81.9	93.0	24.5	34.2	45.0
Auditor without international link	37	29	12	53.45	65.29	80.07	78.0	82.3	93.1	21.5	28.9	44.4
Corporate image:												
Change in corporate name	-	44	34	na	65.47	79.50	na	81.8	93.3	na	30.5	44.9
No change in corporate name	54	10	20	na	68.62	79.79	na	83.7	92.5	na	35.1	45.0

Table 11.3: List of Variables, Their Code Names and Expected Signs in the Regressions

Variable in Equation	Description of Variables	Code Name in OLS Regression (Expected Signs)
β_1	Leverage ratio represents the relationship between a company's total long-term debt and its total outstanding equity at the beginning of that year.	Leverage (+)
β_{2a}	Size of firm's total assets for the year under consideration, transformed into natural logarithm (ln) of total assets	Lnassets (+/-)
β_{2b}	A firm's total sales for the year under consideration, transformed into ln of total sales.	Lnsales (+/-)
β_{2c}	A firm's total number of shareholders for the year under consideration, transformed into ln of total shareholders.	Lnshares (+/-)
β_{2d}	Market capitalisation of firm. The market value of firm's outstanding equity at the end of the year under consideration, transformed into ln market capitalisation.	Lnmarket (+/-)
β_3	The proportion of a firm's outstanding equity at the end of the year under consideration owned by the public, i.e. total equity less the proportion owned by directors and dominant shareholders.	Owners (+)
β_4	Earnings return represents the relationship between a firm's total earnings before tax for the year under consideration and its total outstanding equity at the beginning of that year.	Earnings (+/-)
β_5	Profit margin represents the relationship between a firm's total earnings before tax and total sales in the year under consideration.	Profit (+/-)
β_6	Liquidity ratio represents the relationship between a firm's current assets and current liabilities at the end of the year under consideration.	Liquid (+/-)
β_7	Parent company size. This is a surrogate for the number of subsidiaries owned by the holding company. 0 = having 10 subsidiaries or more; 1 = having less than 10 subsidiaries.	Parent (+)
β_8	Type of management. This is a surrogate for the composition of Board of Directors. 0 = Foreign and local people. 1 = Local people only.	Management (+)
β_9	Financial year end. 0 = Non-December; 1 = December.	Yearend (+)
β_{10}	Scope of firm's business. This is a surrogate for industry type and complexity. Conglomerates are considered to belong to many industry categories and expected to disclose more information than non-conglomerates. 0 = conglomerate; 1 = non-conglomerate.	Scope (+)
β_{11}	Type of external auditor. 0 = external auditor is local and affiliated with a Big Six firm; 1 = external auditor is a local non-Big Six affiliated firm.	Audit (+)
β_{12}	Corporate image. 0 = No change in corporate name; 1 = Change in corporate name.	Image (+)

Table 11.4 (A): Descriptive Statistics for All Variables - 1974

Variable	Obs.	Mean	Std. dev.	Min.	Max.
Dependent:					
Overall index	54	54.0	6.0	44.0	71.0
Mandatory index	54	78.204	3.8529	69.00	85.00
Voluntary index	54	22.463	10.015	6.00	51.0
Explanatory:					
Leverage	54	0.090	0.168	0	0.67
Lnassets	54	9.945	1.041	7.560	12.997
Earnings	54	0.230	0.217	-0.500	0.910
Liquid	54	1.839	2.285	0.180	15.000
Parent	54	0.944	0.231	0	1
Management	54	0.388	0.492	0	1
Yearend	54	0.518	0.504	0	1
Scope	54	0.814	0.392	0	1
Audit	54	0.685	0.468	0	1

Table 11.4 (B): Descriptive Statistics for All Variables - 1984

Variable	Obs.	Mean	Std. dev.	Min.	Max.
Dependent:					
Overall index	54	66.1	6.9	48	78
Mandatory index	54	82.130	3.353	74	88
Voluntary index	54	31.352	15.495	0.00	67
Explanatory:					
Leverage	54	0.151	0.267	0.00	1.590
Lnassets	54	11.470	1.392	5.700	13.718
Lnsales	54	10.673	1.824	4.060	13.954
Earnings	54	0.206	0.240	-0.470	0.910
Profit	54	0.229	0.397	-0.300	2.530
Liquid	54	2.097	2.269	0.110	13.300
Parent	54	0.685	0.468	0	1
Management	54	0.518	0.504	0	1
Yearend	54	0.481	0.504	0	1
Scope	54	0.537	0.503	0	1
Audit	54	0.537	0.503	0	1
Image	54	0.185	0.392	0	1

Table 11.4 (C): Descriptive Statistics for All Variables - 1994

Variable	Obs.	Mean	Std. dev.	Min.	Max.
Dependent:					
Overall index	54	79.6	4.9	67	93
Mandatory index	54	92.981	2.499	88.000	99.000
Voluntary index	54	44.889	15.094	14.000	88.000
Explanatory:					
Leverage	54	0.188	0.267	0.0	1.18
Lnassets	54	12.834	1.144	10.554	14.953
Lnsales	54	11.894	1.532	8.323	15.385
Lnshares	54	8.354	0.984	6.568	10.811
Lnmarket	54	6.591	1.048	3.637	8.826
Owners	54	0.520	0.187	0.22	0.93
Earnings	54	0.273	0.380	-0.100	2.000
Profit	54	0.335	0.894	-1.120	6.050
Liquid	54	2.144	2.327	0.130	16.000
Parent	54	0.333	0.475	0	1
Management	54	0.722	0.452	0	1
Yearend	54	0.518	0.504	0	1
Scope	54	0.277	0.452	0	1
Audit	54	0.222	0.419	0	1
Image	54	0.370	0.487	0	1

11.4 Estimation Procedure.

The description of the three dependent variables and fifteen independent variables, their code names and expected signs are presented in Table 11.3. The descriptive statistics relating to these variables are presented in Table 11.4 (A), (B) and (C). Table 11.4 indicates that the distributions of the corporate size variables (assets, sales, number of shareholders, and market capitalisation) in the sample firms were skewed. In order to reduce the potential size effects of these variables on the regression equations, their original numbers were transformed into natural logarithm. Such log transformation or square root transformation was used in some previous research such as by Ahmed and Nicholls (1994), Ashton et al. (1989), Charles et al. (1991), and Wallace (1995).

Table 11.5: Correlation Coefficients Between Variables

A - 1974

	ODI	Liquid	Parent	Mgmt	Yrend	Lev.	Scope	Audit	Lnassets	Earnings	MDI
Liquid	-0.382*										
Parent	-0.254	0.110									
Management	-0.182	-0.110	0.028								
Yearend	-0.142	0.012	-0.072	0.008							
Leverage	-0.039	-0.005	0.121	0.048	0.029						
Scope	-0.338	-0.026	0.301	0.087	0.113	0.151					
Audit	-0.128	-0.134	0.010	0.377*	0.225	0.136	0.293				
Earnings	0.061	0.085	0.000	-0.082	0.104	-0.070	-0.141	-0.046			
Lnassets	0.614*	-0.259	-0.373*	-0.078	-0.243	0.123	-0.518*	-0.127	0.062		
MDI	0.768*	-0.297	-0.305	0.017	-0.298	0.042	-0.299	-0.089	-0.097	0.476*	
VDI	0.929*	-0.368*	-0.119	-0.282	-0.101	-0.046	-0.242	-0.137	0.093	0.536*	0.529*

B - 1984

	ODI	Liquid	Parent	Mgmt	Yrend	Lev.	Scope	Audit	Image	Earnings	Profit	Lnassets	Lnsales	MDI
Liquid	-0.272													
Parent	-0.404*	0.231												
Management	0.025	0.011	-0.174											
Yearend	-0.061	-0.136	0.095	0.038										
Leverage	0.121	-0.184	0.033	0.034	0.089									
Scope	-0.417*	0.111	0.490*	-0.077	-0.072	0.039								
Audit	-0.119	0.030	0.090	0.443*	0.003	-0.065	0.106							
Image	0.178	0.189	0.118	0.173	0.304	0.023	-0.227	-0.131						
Earnings	0.141	0.429*	-0.071	-0.090	-0.123	-0.089	-0.121	-0.031	0.262					
Profit	0.053	0.064	0.137	-0.226	-0.193	-0.335	-0.128	-0.126	-0.071	0.197				
Lnassets	0.629*	-0.175	-0.464*	-0.075	-0.082	0.095	-0.521*	-0.107	0.104	0.224	-0.044			
Lnsales	0.459*	-0.120	-0.564*	-0.085	-0.055	0.025	-0.336	-0.091	0.029	0.280	-0.425*	0.810*		
MDI	0.624*	-0.294	-0.046	-0.007	0.152	0.081	-0.042	0.070	0.225	0.032	0.103	0.253	0.038	
VDI	0.905*	-0.141	-0.462*	-0.046	-0.140	0.114	-0.438*	-0.172	0.116	0.223	-0.003	0.594*	0.498*	0.305

Table 11.5: Correlation Coefficients Between Variables (Ctd.)

C - 1994

	ODI	Liqd	Parent	Mgmt	Yrend	Lev.	Scope	Owners	Audit	Image	Earngs	Profit	Lnassets	Lnsales	Lnshares	Lnmarket	MDI
Liquid	-0.093																
Parent	-0.378*	0.084															
Mgmt	0.013	-0.029	-0.175														
Yearend	-0.168	-0.044	0.052	-0.018													
Leverage	0.211	-0.003	-0.050	0.243	-0.120												
Scope	-0.267	0.096	0.702*	-0.262	0.184	-0.312											
Owners	0.274	-0.086	-0.291	0.292	-0.074	0.249	-0.274										
Audit	0.050	-0.141	-0.094	0.232	0.158	-0.186	-0.033	0.293									
Image	0.029	-0.261	-0.136	0.219	0.048	-0.009	-0.219	0.108	0.143								
Earnings	0.010	-0.023	0.060	-0.077	-0.086	-0.033	-0.096	-0.114	-0.240	0.120							
Profit	-0.057	-0.030	0.126	-0.006	-0.239	-0.083	0.197	-0.064	-0.065	-0.184	-0.155						
Lnassets	0.678*	-0.332	-0.577*	0.009	-0.241	0.240	-0.585*	0.322	0.069	-0.001	0.002	0.047					
Lnsales	0.572*	-0.295	-0.480*	-0.147	-0.015	0.047	-0.362*	0.128	0.012	-0.035	0.160	-0.335	0.740*				
Lnshares	0.273	-0.279	-0.490*	0.259	0.099	-0.212	-0.514*	0.199	0.228	0.354	-0.019	-0.150	0.464*	0.315			
Lnmarket	0.366*	-0.232	-0.503*	-0.001	-0.308	0.043	-0.524*	0.031	-0.139	-0.007	0.278	0.056	0.679*	0.542*	0.349		
MDI	0.416*	-0.070	-0.122	0.129	-0.037	0.298	-0.062	0.300	0.022	-0.165	0.024	0.106	0.189	0.029	-0.191	0.064	
VDI	0.906*	-0.013	-0.208	-0.148	-0.134	0.103	-0.153	0.109	-0.017	0.003	0.092	-0.088	0.587*	0.567*	0.276	0.343	0.078

* Coefficient of correlation significant at 1% level or better.
ODI - Overall Disclosure Index
MDI - Mandatory Disclosure Index
VDI - Voluntary Disclosure Index

For each year, three models of disclosure indexes are developed to examine the possible relationship between the dependent and independent variables. The first model is the overall disclosure index as the dependent variable. The second and third models are the mandatory and voluntary disclosure indexes respectively. The Pearson product- moment correlation coefficient for all the independent variables is constructed and presented in Table 11.5 (A), (B) and (C) for the three selected years.

The coefficients of correlation between the three types of disclosure indexes and the corporate size variables (assets, sales, number of shareholders, and market capitalisation) are higher than the coefficients of the correlation between disclosure indexes and the other independent/explanatory variables. This means that the four size variables captured phenomenon which may be impounding and that collinearity among the four variables may be an issue while collinearity among other explanatory variable is not. Table 11.5 shows a large amount of significant collinearity ($\rho \leq 0.05$) among these four variables.

For example, the highest correlation coefficient between total assets and annual sales in 1984 was 0.810. In 1994 the correlation coefficient between the two variables was 0.740 and the correlation coefficient between total assets and market capitalisation was 0.679. Other significant but milder coefficients are reported for the correlation between parent company size and total assets (-0.577), scope of business operation and market capitalisation (-0.524) as shown in Table 11.5 (C) for 1994; and between parent company size and annual sales (-0.564) in 1984 (Table 11.5-C). These significant correlations suggest that multicollinearity may be a problem. Several strategies were used to take care of the potential for multicollinearity, and this is addressed in a later section.

The ordinary least squares (OLS) regression estimates are used to examine the incremental explanatory power of the variables involved. The following equations provide the basis of the regression estimation for the three types of disclosure indexes:

$$(1)\ ODI_j = \beta_0 + \beta_1 leverage_j + \beta_2 assets_j + \beta_3 sales_j + \beta_4 shares_j + \beta_5 market_j + \beta_6 owner_j + \beta_7 earnings_j + \beta_8 profit_j + \beta_9 liquid_j + \beta_{10} parent_j + \beta_{11} management_j + \beta_{12} yearend_j + \beta_{13} scope_j + \beta_{14} auditor_j + \beta_{15} image_j + e_j$$

$$(2)\ MDI_j = \beta_0 + \beta_1 leverage_j + \beta_2 assets_j + \beta_3 sales_j + \beta_4 shares_j + \beta_5 market_j + \beta_6 owner_j + \beta_7 earnings_j + \beta_8 profit_j + \beta_9 liquid_j + \beta_{10} parent_j + \beta_{11} management_j + \beta_{12} yearend_j + \beta_{13} scope_j + \beta_{14} auditor_j + \beta_{15} image_j + e_j$$

$$(3)\ VDI_j = \beta_0 + \beta_1 leverage_j + \beta_2 assets_j + \beta_3 sales_j + \beta_4 shares_j + \beta_5 market_j + \beta_6 owner_j + \beta_7 earnings_j + \beta_8 profit_j + \beta_9 liquid_j + \beta_{10} parent_j + \beta_{11} management_j + \beta_{12} yearend_j + \beta_{13} scope_j + \beta_{14} auditor_j + \beta_{15} image_j + e_j$$

where;

ODI = each sample firm's (j =1,..., 54) overall disclosure score divided by the total possible scores

MDI = each sample firm's (j =1,..., 54) mandatory disclosure score divided by the total possible scores

VDI = each sample firm's (j =1,..., 54) voluntary disclosure score divided by the total possible scores

β_0 = the intercept (constant)

e_j = the residual (error term)

11.4.1 Results of Regression Analyses

As a result of the potential collinearity between the various categories of explanatory variables (structure-related, performance-related and market-related variables), the coefficients of the explanatory variables were estimated using two levels of analysis. At the first level, a reduced regression model that included only one structure-related (asset) variable, one performance-related (profit margin) variable, and four market-related variables was developed for each selected years. The four market-related variables to be used also vary from one year to another depending on their applicability in each of the selected years. The motivation for selecting the variables to enter into the reduced regression model is based on two criteria. First, the variables are popularly used in previous studies. Popularity here means that the firm characteristic has been found to be a significant predictor of disclosure score in more than three country studies. Corporate size (assets or sales), auditor type, scope of business operation, and liquidity ratio have been shown to be significant predictors of the extent of disclosure scores in previous studies. The second criterion is that each of the explanatory variables should not correlate significantly with more than one other explanatory variable. In the second level, all the explanatory variables are included in the regression model. These two methods of analysis were also employed in previous studies by Wallace and Naser (1995) and Wallace et al. (1994).

For 1984, Table 11.5 (B) shows that the correlation coefficient between the variable total assets and annual sales is 0.810. This could pose a serious multicollinearity problem. It has been suggested (Farrar and Glauber, 1967; Judge et al., 1985) that correlation coefficients should not be considered harmful until they exceed 0.80. As a result, the variable 'total sales' was dropped from the full regression in 1984 because it had a correlation coefficient of 0.810. So, only the variable 'total assets' is needed for predicting the indexes of disclosure.

In the following statistical analyses, the variables to be tested are designated with their own codes as shown in Table 11.5 D below:

Table 11.5 D: Codes for Variables Used in Regression Analysis

Explanatory Variable	Code
Leverage	C9
Total assets (natural log.)	C17
Annual sales (natural log.)	C18
Number of shareholders (natural log.)	C19
Market capitalisation of firm (natural log.)	C20
Outside ownership of equity	C12
Earnings return	C15
Profit margin	C16
Liquidity ratio	C3
Parent company size	C6
Type of management	C7
Financial year end	C8
Scope of business operation	C10
Type of audit firm	C13
Corporate image	C14

11.4.1.1 Reduced Regression - Overall Disclosure Index (ODI)

The regression with some of the explanatory variables omitted for the three years are presented in Table 11.6 (A), (B), and (C).

Table 11.6: Results of the Reduced Regression of Overall Disclosure Index on Firm Characteristics

A-1974

The regression equation is
ODI = 21.4 - 0.75 C6 - 1.64 C7 + 0.01 C8 + 3.41 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	21.434	9.103	2.35	0.023
Parent	-0.754	3.147	-0.24	0.812
Management	-1.641	1.354	-1.21	0.231
Yearend	0.006	1.380	0.00	0.997
Lnassets	3.4061	0.7204	4.73	0.000

Source	df	SS	MS	F	p
Regression	4	751.08	187.77	8.03	0.000
Error	49	1145.39	23.38		
Total	53	1896.47			

Number of obs. = 54
Root MSE = 4.835;
R-square = 39.6%; R-square (adj) = 34.7%

B-1984

The regression equation is
ODI = 30.7 + 2.54 C7 - 0.76 C8 - 2.11 C13 + 1.21 C14 + 1.67 C16 + 3.07 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	30.675	6.566	4.67	0.000
Management	2.542	1.768	1.44	0.157
Yearend	-0.760	1.576	-0.48	0.632
Audit	-2.105	1.735	-1.21	0.231
Image	1.214	2.083	0.58	0.563
Profit	1.675	1.951	0.86	0.395
Lnassets	3.0684	0.5380	5.70	0.000

Source	df	SS	MS	F	p
Regression	6	1121.67	186.95	6.58	0.000
Error	46	1307.31	28.42		
Total	52	2428.99			

Number of obs. = 54
Root MSE = 5.331;
R-square = 46.2%; R-square (adj) = 39.2%
53 cases used 1 cases contain missing values

C-1994

The regression equation is
ODI = 42.6 + 0.04 C7 - 0.28 C8 - 0.01 C13 + 0.14 C14 - 0.511 C16 + 2.90 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	42.600	6.337	6.72	0.000
Management	0.039	1.216	0.03	0.975
Yearend	-0.276	1.118	-0.25	0.806
Audit	-0.011	1.314	-0.01	0.993
Image	0.135	1.124	0.12	0.905
Profit	-0.5112	0.6124	-0.83	0.408
Lnassets	2.9024	0.4742	6.12	0.000

Source	df	SS	MS	F	p
Regression	6	599.76	99.96	6.89	0.000
Error	47	681.55	14.50		
Total	53	1281.31			

Number of obs. = 54
Root MSE = 3.808;
R-square = 46.8%; R-square (adj) = 40.0%

For 1974, the table shows that the coefficient of the variable lnassets (log of assets) is significantly positive ($\rho = 0.0$), suggesting that the index of overall disclosure score is increasing with firm size. This result is similar to the results obtained in previous studies (e.g. Cerf, 1961; Singhvi and Desai, 1971; Cooke, 1989a, 1989b; Wallace et al., 1994).

For 1984 and 1994, Tables 11.6 (B) and C show that only the variable lnassets is significantly positive ($\rho = 0.0$), which again reconfirm the similar results obtained in 1974.

11.4.1.2 Reduced Regression - Mandatory Disclosure Index (MDI)

Table 11.7 (A), (B) and (C) presents the results of the reduced regression analysis of the explanatory variables with the mandatory disclosure score as the dependent variable.

Table 11.7: Results of the Reduced Regression of Mandatory Disclosure Index on Firm Characteristics

A-1974

The regression equation is
MDI = 68.9 - 3.17 C6 + 0.408 C7 - 1.73 C8 + 1.31 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	68.891	6.334	10.88	0.000
Parent	-3.172	2.190	-1.45	0.154
Management	0.4077	0.9420	0.43	0.667
Yearend	-1.7284	0.9602	-1.80	0.078
Lnassets	1.3117	0.5013	2.62	0.012

Source	df	SS	MS	F	p
Regression	4	232.23	58.06	5.13	0.002
Error	49	554.53	11.32		
Total	53	786.76			

Number of obs. = 54; Root MSE = 3.364;
R-square = 29.5%; R-square (adj) = 23.8%

B-1984

The regression equation is
MDI = 73.8 + 0.10 C7 + 0.751 C8 + 0.59 C13 + 1.41 C14 + 1.33 C16 + 0.626 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	73.794	3.863	19.10	0.000
Management	0.099	1.040	0.10	0.925
Yearend	0.7511	0.9271	0.81	0.422
Audit	0.586	1.020	0.57	0.569

Predictor	Coef.	Std. Dev.	t-ratio	p
Image	1.409	1.225	1.15	0.256
Profit	1.332	1.148	1.16	0.252
Lnassets	0.6257	0.3165	1.98	0.054

Source	df	SS	MS	F	p
Regression	6	76.334	12.722	1.29	0.279
Error	46	452.420	9.835		
Total	52	528.755			

Number of obs. = 54; Root MSE = 3.136;
R-square = 14.4%; R-square (adj) = 3.3%
53 cases used 1 cases contain missing values

C-1994

The regression equation is
MDI = 87.1 + 0.946 C7 + 0.198 C8 - 0.033 C13 - 0.972 C14 + 0.202 C16
+ 0.423 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	87.066	4.199	20.74	0.000
Management	0.9461	0.8054	1.17	0.246
Yearend	0.1981	0.7406	0.27	0.790
Audit	-0.0330	0.8704	-0.04	0.970
Image	-0.9722	0.7447	-1.31	0.198
Profit	0.2022	0.4058	0.50	0.621
Lnassets	0.4230	0.3142	1.35	0.185

Source	df	SS	MS	F	p
Regression	6	31.755	5.292	0.83	0.552
Error	47	299.227	6.367		
Total	53	330.981			

Number of obs. = 54; Root MSE = 2.523;
R-square = 9.6%; R-square (adj) = 0.0%

In 1974, Table 11.7 (A) indicates that the variable lnassets again produces a significant positive relationship (ρ = 0.012) which reconfirm the same results obtained in the previous section. Another variable, 'yearend' shows a significant negative association (ρ = 0.078) only if the significance level is relaxed from 5% or less to 10% or less. This result suggests that firms which adopt a non-December financial year would provide more information of mandatory items in their annual reports. For the year 1984, Table 11.7 (B) shows that the variable lnassets is significantly positive (ρ = 0.054) only if the significance level is relaxed from 5% or less to 10% or less. Lastly in 1994, Table 11.7 (C) indicates that none of the explanatory variables has any significant association with the mandatory disclosure scores.

11.4.1.3 Reduced Regression - Voluntary Disclosure Score (VDI)

As for the voluntary disclosure scores, the results of the regression analysis are shown in Table 11.8 (A), (B) and (C).

Table 11.8: Results of the Reduced Regression of Voluntary Disclosure Index on Firm Characteristics

A-1974

The regression equation is
VDI = - 34.5 + 4.42 C6 - 4.91 C7 + 0.92 C8 + 5.45 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-34.49	15.75	-2.19	0.033
Parent	4.424	5.444	0.81	0.420
Management	-4.907	2.342	-2.10	0.041
Yearend	0.916	2.387	0.38	0.703
Lnassets	5.451	1.246	4.37	0.000

Source	df	SS	MS	F	p
Regression	4	1887.87	471.97	6.75	0.000
Error	49	3427.55	69.95		
Total	53	5315.43			

Number of obs. = 54
Root MSE = 8.364;
R-square = 35.5%; R-square (adj) = 30.3%

B-1984

The regression equation is:
VDI = - 37.3 + 2.93 C7 - 4.20 C8 - 5.38 C13 + 1.89 C14 - 0.04 C16 + 6.28 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-37.27	15.72	-2.37	0.022
Management	2.927	4.231	0.69	0.493
Yearend	-4.200	3.772	-1.11	0.271
Audit	-5.375	4.152	-1.29	0.202
Image	1.895	4.985	0.38	0.706
Profit	-0.042	4.670	-0.01	0.993
Lnassets	6.282	1.288	4.88	0.000

Source	df	SS	MS	F	p
Regression	6	4992.6	832.1	5.11	0.000
Error	46	7491.6	162.9		
Total	52	12484.2			

Number of obs. = 54; Root MSE = 12.76;
R-square = 40.0%; R-square (adj) = 32.2%
53 cases used 1 cases contain missing values

C-1994

The regression equation is:
VDI = - 50.7 - 5.08 C7 - 0.55 C8 - 1.09 C13 + 0.63 C14 - 2.01 C16 + 7.81 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-50.72	20.94	-2.42	0.019
Management	-5.078	4.016	-1.26	0.212
Yearend	-0.551	3.693	-0.15	0.882
Audit	-1.086	4.341	-0.25	0.803
Image	0.634	3.714	0.17	0.865
Profit	-2.005	2.024	-0.99	0.327
Lnassets	7.811	1.567	4.98	0.000

Source	df	SS	MS	F	p
Regression	6	4633.7	772.3	4.88	0.001
Error	47	7441.6	158.3		
Total	53	12075.3			

Number of obs. = 54; Root MSE = 12.58;
R-square = 38.4%; R-square (adj) = 30.5%

For 1974, Table 11.8 (A) shows that the variable lnassets again produces a significant positive relationship (ρ = 0.0) with voluntary disclosure score. The coefficient for another variable, 'type of management' is significantly negative (ρ = 0.041) which suggest that companies whose board of directors composed of only the local people (coded 1) disclosed less voluntary information in their annual reports than firms which have a mixture of local and foreign people as members of the board of directors. For 1984 and 1994, Table 11.8 (B) and (C) again shows that only the variable lnassets again produces a significant positive relationship (ρ = 0.0) which again support the hypothesis that the index of disclosure score for voluntary items is increasing with firm size.

11.4.1.4 Full Regression - Overall Disclosure Index (ODI)

The second stage of the regression analysis involves taking all the independent variables to be regressed with all the three types of disclosure scores. This section provides the results for the overall disclosure score.

Table 11.9: Results of the Full Regression of Overall Disclosure Index on Firm Characteristics

A-1974

The regression equation is:
ODI = 27.6 - 0.710 C3 - 0.16 C6 - 1.90 C7 - 0.08 C8 - 3.00 C9 - 0.64 C10
- 0.18 C13 + 0.76 C15 + 2.95 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	27.60	11.18	2.47	0.018
Liquid	-0.7104	0.3096	-2.29	0.027
Parent	-0.156	3.198	-0.05	0.961
Management	-1.903	1.458	-1.31	0.199

Predictor	Coef.	Std. Dev.	t-ratio	p
Yearend	-0.076	1.418	-0.05	0.957
Leverage	-2.998	4.160	-0.72	0.475
Scope	-0.636	2.150	-0.30	0.769
Audit	-0.177	1.634	-0.11	0.914
Earnings	0.762	3.109	0.25	0.808
Lnassets	2.9488	0.8749	3.37	0.002

Source	df	SS	MS	F	p
Regression	9	892.61	99.18	4.35	0.000
Error	44	1003.85	22.81		
Total	53	1896.47			

Number of obs. = 54; Root MSE = 4.776;
R-square = 47.1%; R-square (adj) = 36.2%

B-1984

The regression equation is:
ODI = 38.0 - 0.867 C3 - 0.87 C6 + 2.26 C7 - 1.52 C8 + 0.90 C9 + 0.32 C10
- 1.80 C13 + 2.54 C14 + 2.49 C15 + 1.89 C16 + 2.58 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	37.962	9.175	4.14	0.000
Liquid	-0.8667	0.4063	-2.13	0.039
Parent	-0.867	2.269	-0.38	0.704
Management	2.264	1.962	1.15	0.255
Yearend	-1.517	1.627	-0.93	0.357
Leverage	0.896	3.068	0.29	0.772
Scope	0.321	1.979	0.16	0.872
Audit	-1.799	1.866	-0.96	0.341
Image	2.536	2.402	1.06	0.297
Earnings	2.493	3.869	0.64	0.523
Profit	1.891	2.239	0.84	0.403
Lnassets	2.5783	0.6947	3.71	0.001

Source	df	SS	MS	F	p
Regression	11	1289.24	117.20	4.22	0.000
Error	41	1139.75	27.80		
Total	52	2428.99			

Number of obs. = 54; Root MSE = 5.272;
R-square = 53.1%; R-square (adj) = 40.5%
53 cases used 1 cases contain missing values

C-1994

The regression equation is:
ODI = 27.8 + 0.434 C3 - 1.54 C6 + 0.39 C7 - 0.76 C8 + 2.46 C9 + 4.64 C10
+ 0.42 C12 + 0.05 C13 + 1.08 C14 + 0.77 C15 - 0.393 C16 + 3.50 C17
+ 0.394 C18 + 0.393 C19 - 0.590 C20

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	27.83	10.55	2.64	0.012
Liquid	0.4342	0.2625	1.65	0.106
Parent	-1.536	1.841	-0.83	0.409
Management	0.395	1.435	0.28	0.785
Yearend	-0.764	1.222	-0.63	0.535
Leverage	2.457	3.002	0.82	0.418
Scope	4.637	2.189	2.12	0.041
Owners	0.419	3.386	0.12	0.902
Audit	0.051	1.499	0.03	0.973
Image	1.077	1.272	0.85	0.403
Earnings	0.766	1.627	0.47	0.640

Predictor	Coef.	Std. Dev.	t-ratio	p
Profit	-0.3927	0.8558	-0.46	0.649
Lnassets	3.501	1.304	2.68	0.011
Lnsales	0.3943	0.7593	0.52	0.607
Lnshares	0.3933	0.8991	0.44	0.664
Lnmarket	-0.5903	0.8358	-0.71	0.484

Source	df	SS	MS	F	p
Regression	15	736.89	49.13	3.43	0.001
Error	38	544.43	14.33		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 3.785;
R-square = 57.5%; R-square (adj) = 40.7%

Table 11.9 (A) presents the results of the regression analysis for the year 1974. The coefficient of the variable lnassets is still significantly positive (ρ = 0.002) which lends support to earlier results of the reduced regression analysis in the previous section. In addition, the coefficient of liquidity ratio shows a significant negative association (ρ = 0.027) which also supports the result obtained for the reduced regression analysis. For 1984, Table 11.9 (B) shows that the coefficient of the variable lnassets is again significantly positive (ρ = 0.019), which support the result obtained for the reduced regression model. In addition, the liquidity ratio again shows a significant negative association (ρ = 0.039) which support the result obtained in 1974. In 1994, Table 11.9 (C) indicates that there are two variables which show significant positive correlation coefficients namely scope of business operation (ρ = 0.041) and lnassets (ρ = 0.011). These results may indicate that firms with higher total assets and which operate in a specific business category (non-conglomerate) offer more disclosure of information than firms which operate in more than one business category (conglomerate) and have lower total assets.

11.4.1.5 Full Regression - Mandatory Disclosure Score (MDI)

Table 11.10 (A), (B) and (C) present the results of the full regression analysis for mandatory disclosure score for the three years.

Table 11.10: Results of the Full Regression of Mandatory Disclosure Index on Firm Characteristics

A-1974

The regression equation is:
MDI = 75.1 - 0.352 C3 - 3.03 C6 + 0.23 C7 - 1.73 C8 + 1.24 C9 - 1.16 C10 - 0.18 C13 - 1.45 C15 + 0.874 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	75.114	8.010	9.38	0.000
Liquid	-0.3522	0.2218	-1.59	0.119
Parent	-3.029	2.291	-1.32	0.193
Management	0.226	1.044	0.22	0.830
Yearend	-1.730	1.016	-1.70	0.096
Leverage	1.239	2.980	0.42	0.679
Scope	-1.157	1.540	-0.75	0.456
Audit	-0.182	1.170	-0.16	0.877
Earnings	-1.446	2.227	-0.65	0.520
Lnassets	0.8744	0.6267	1.40	0.170

Source	df	SS	MS	F	p
Regression	9	271.71	30.19	2.58	0.018
Error	44	515.05	11.71		
Total	53	786.76			

Number of obs. = 54; Root MSE = 3.421;
R-square = 34.5%; R-square (adj) = 21.1%

B-1984

The regression equation is:
MDI = 71.2 - 0.636 C3 + 0.34 C6 + 0.65 C7 + 0.316 C8 - 0.14 C9 + 2.13 C10 + 0.27 C13 + 2.39 C14 + 1.14 C15 + 1.79 C16 + 0.821 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	71.160	5.007	14.21	0.000
Liquid	-0.6361	0.2217	-2.87	0.006
Parent	0.341	1.238	0.28	0.785
Management	0.648	1.070	0.61	0.548
Yearend	0.3156	0.8881	0.36	0.724
Leverage	-0.144	1.674	-0.09	0.932
Scope	2.128	1.080	1.97	0.056
Audit	0.274	1.018	0.27	0.789
Image	2.386	1.311	1.82	0.076
Earnings	1.136	2.111	0.54	0.594
Profit	1.789	1.222	1.46	0.151
Lnassets	0.8209	0.3791	2.17	0.036

Source	df	SS	MS	F	p
Regression	11	189.330	17.212	2.08	0.045
Error	41	339.425	8.279		
Total	52	528.755			

Number of obs. = 54;
Root MSE = 2.877;
R-square = 35.8%; R-square (adj) = 18.6%
53 cases used 1 cases contain missing values

C-1994

The regression equation is:
MDI = 92.8 - 0.146 C3 - 1.42 C6 + 0.804 C7 + 0.630 C8 + 0.55 C9 + 0.92 C10
+ 2.58 C12 - 0.017 C13 - 0.804 C14 + 1.16 C15 - 0.205 C16
+ 1.26 C17 - 0.662 C18 - 1.07 C19 - 0.133 C20

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	92.804	6.793	13.66	0.000
Liquid	-0.1462	0.1690	-0.86	0.392
Parent	-1.423	1.185	-1.20	0.237
Management	0.8037	0.9236	0.87	0.390
Yearend	0.6301	0.7864	0.80	0.428
Leverage	0.551	1.933	0.29	0.777
Scope	0.924	1.409	0.66	0.516
Owners	2.579	2.180	1.18	0.244
Audit	-0.0167	0.9649	-0.02	0.986
Image	-0.8044	0.8191	-0.98	0.332
Earnings	1.163	1.047	1.11	0.274

Predictor	Coef.	Std. Dev.	t-ratio	p
Profit	-0.2046	0.5509	-0.37	0.712
Lnassets	1.2570	0.8394	1.50	0.143
Lnsales	-0.6620	0.4888	-1.35	0.184
Lnshares	-1.0742	0.5788	-1.86	0.071
Lnmarket	-0.1330	0.5380	-0.25	0.806

Source	df	SS	MS	F	p
Regression	15	105.366	7.024	1.18	0.325
Error	38	225.616	5.937		
Total	53	330.981			

Number of obs. = 54; Root MSE = 2.437;
R-square = 31.8%; R-square (adj) = 4.9%

For 1974, as presented in Table 11.10 (A), none of the variables has any significant correlation coefficient at the 5% level. The coefficient of the variable 'financial year end' is only significant (ρ = 0.056) if the significance level is relaxed from 5% or less to 10% or less, which supports the result obtained in the previous reduced regression model. For 1984, Table 11.10 (B) shows some interesting results. Firstly, the coefficient of the variable 'lnassets' is again found to be significantly positive (ρ = 0.036) and the coefficient of the variable liquidity ratio is also found to be significantly negative (ρ = 0.006). Two other variables, namely 'scope of business operation' and 'company image' produce significant positive associations (with ρ = 0.056 and 0.076 respectively) only when the level of significance is relaxed from 5% or less to 10% or less. The results seem to suggest that firms with higher asset size, lower liquidity ratio, operating in specific business category (non-conglomerate), and having change their corporate name have more information to disclose than those firms which do not. On the other hand, Table 11.10 (C) shows that for 1994, only one variable, namely 'number of shareholders' shows a significantly negative coefficient (ρ = 0.071) only when the significance level is relaxed from 5% or less to 10% or less.

11.4.1.6 Full Regression - Voluntary Disclosure Score (VDI)

Table 11.11 (A), (B) and (C) present the results of the full regression analysis for voluntary disclosure score for the three selected years.

Table 11.11: Results of the Full Regression of Voluntary Disclosure Index on Firm Characteristics

A-1974

The regression equation is:

$$VDI = - 29.0 - 1.23\ C3 + 5.24\ C6 - 5.40\ C7 + 0.72\ C8 - 6.78\ C9 + 0.82\ C10 - 0.20\ C13 + 2.53\ C15 + 5.03\ C17$$

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-29.02	19.18	-1.51	0.137
Liquid	-1.2306	0.5310	-2.32	0.025
Parent	5.236	5.485	0.95	0.345
Management	-5.400	2.501	-2.16	0.036
Yearend	0.721	2.432	0.30	0.768
Leverage	-6.777	7.135	-0.95	0.347

Predictor	Coef.	Std. Dev.	t-ratio	p
Scope	0.819	3.687	0.22	0.825
Audit	-0.196	2.802	-0.07	0.945
Earnings	2.528	5.333	0.47	0.638
Lnassets	5.030	1.501	3.35	0.002

Source	df	SS	MS	F	p
Regression	9	2361.82	262.42	3.91	0.001
Error	44	2953.60	67.13		
Total	53	5315.43			

Number of obs. = 54; Root MSE = 8.193;
R-square = 44.4%; R-square (adj) = 33.1%

B-1984

The regression equation is:
VDI = - 8.0 - 0.802 C3 - 5.95 C6 + 0.44 C7 - 4.65 C8 + 4.07 C9 - 2.76 C10
- 3.41 C13 + 3.34 C14 + 8.30 C15 - 0.04 C16 + 4.17 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-7.98	22.36	-0.36	0.723
Liquid	-0.8020	0.9903	-0.81	0.423
Parent	-5.947	5.530	-1.08	0.288
Management	0.436	4.781	0.09	0.928
Yearend	-4.645	3.966	-1.17	0.248
Leverage	4.071	7.478	0.54	0.589
Predictor	Coef.	Std. Dev.	t-ratio	p
Scope	-2.763	4.823	-0.57	0.570
Audit	-3.410	4.548	-0.75	0.458
Image	3.344	5.854	0.57	0.571
Earnings	8.304	9.430	0.88	0.384
Profit	-0.043	5.457	-0.01	0.994
Lnassets	4.166	1.693	2.46	0.018

Source	df	SS	MS	F	p
Regression	11	5713.2	519.4	3.14	0.004
Error	41	6771.0	165.1		
Total	52	12484.2			

Number of obs. = 54; Root MSE = 12.85;
R-square = 45.8%; R-square (adj) = 31.2%
53 cases used 1 cases contain missing values

For 1974, Table 11.11 (A) shows that the coefficients of the variables liquidity ratio and 'type of management' are significantly negative (ρ = 0.025 and 0.036 respectively) whereas the coefficient of the variable lnassets is again significantly positive (ρ = 0.002). The results seemed to suggest that firms with higher assets' size, lower liquidity ratio, and employ a mixture of local and foreign people as their board of directors would provide more voluntary information in their annual reports than firms that are not.

For 1984, however, Table 11.11 (B) shows that only the coefficient of the variable 'lnassets' is significantly positive (ρ = 0.018); and for 1994, Table 11.11 (C) shows that three variables namely liquidity ratio, scope of business operation, and asset size show significant positive associations with voluntary disclosure score (with ρ = 0.013, 0.047 and 0.041 respectively). These results may suggest that firms with higher asset size, higher liquidity ratio, and operating in a specific business category (non-conglomerate) would disclose more voluntary information than firms that are not. The negative coefficient of the liquidity ratio seems to contradict previous results in earlier sections.

11.4.1.7 Regression for Fixed Explanatory Variables

Even though there are fifteen independent variables being employed in the regression analysis, not all of them are applicable in all the three selected years. For example, for the full regression model in 1974, only nine variables are used. This is because data regarding some variables (e.g., number of shareholders and market capitalisation) are not provided in the annual reports. Even if they are provided, the number of non-disclosing firms outnumbered those of disclosing firms. As such, there will be many missing variables to be encountered with in that year if all the variables are allowed to enter the regression analysis, and the results would be meaningless. The same case applies in 1984 whereby only eleven independent variables are available from the annual reports which can be used in the regression analysis. However, in 1994, all the fifteen independent variables are available in the annual reports and as such all of them can be used in the regression analysis using the statistical software, MINITAB. Since the number of independent variables used in each year is different, it is considered worthwhile to select those variables which are applicable in all the three selected years. There are nine variables considered to be applicable namely asset's size, leverage ratio, liquidity ratio, earnings return, parent company size, type of external auditor, type of management, scope of business operation, and financial year end. All these variables are actually being derived from the full regression analysis for 1974, which has been discussed in the previous section. As such, in the following discussion, only the results for 1984 and 1994 will be presented and then compared with those obtained in 1974. These nine explanatory variables will be used to examine the stability of their relationship with the three types of disclosure scores over the twenty-year period. The results are shown in Table 11.12 and Table 11.13.

For 1984, Table 11.12 (A) presents the regression containing all the nine variables for the overall disclosure score. It shows that only the coefficient of the variable 'lnassets' is significantly positive (ρ = 0.002), suggesting that the index of overall disclosure is increasing with firm size in terms of total assets. This result also supports the results obtained for 1974 (in Table 11.9-A earlier). For the mandatory disclosure score, Table 11.12 (B) shows that the coefficient of the variable liquidity ratio is significantly negative (ρ = 0.052) suggesting that firms with higher liquidity ratios tend to provide less detailed information in their corporate annual reports and accounts; whereas for the voluntary disclosure score, Table 11.12 (C) shows that the coefficient of the variable 'lnassets' is significantly positive (ρ = 0.016), which again support the previous result obtained for 1974 (in Table 11.11-A earlier).

Table 11.12: Results of the Standardised Regression of Disclosure Indexes on Firm Characteristics-1984

A- Overall Disclosure Index (ODI)

The regression equation is:

ODI = 40.2 - 0.642 C3 - 0.75 C6 + 1.29 C7 - 0.63 C8 + 1.23 C9 - 1.26 C10
- 1.12 C13 + 3.25 C15 + 2.42 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	40.213	9.403	4.28	0.000
Liquid	-0.6417	0.4118	-1.56	0.126
Parent	-0.750	2.102	-0.36	0.723
Management	1.294	1.815	0.71	0.479
Yearend	-0.633	1.588	-0.40	0.692

Predictor	Coef.	Std. Dev.	t-ratio	p
Leverage	1.235	3.006	0.41	0.683
Scope	-1.263	1.947	-0.65	0.520
Audit	-1.122	1.759	-0.64	0.527
Earnings	3.246	3.795	0.86	0.397
Lnassets	2.4201	0.7237	3.34	0.002

Source	df	SS	MS	F	p
Regression	9	1167.32	129.70	4.12	0.001
Error	44	1383.92	31.45		
Total	53	2551.23			

Number of obs. = 54; Root MSE = 5.608;
R-square = 45.8%; R-square (adj) = 34.7%

B- Mandatory Disclosure Index (MDI)

The regression equation is:
MDI = 72.8 - 0.485 C3 + 0.72 C6 + 0.10 C7 + 0.992 C8 - 0.14 C9 + 0.80 C10
+ 0.57 C13 + 2.09 C15 + 0.712 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	72.803	5.539	13.14	0.000
Liquid	-0.4849	0.2426	-2.00	0.052
Parent	0.720	1.238	0.58	0.564
Management	0.105	1.069	0.10	0.922
Yearend	0.9916	0.9357	1.06	0.295
Leverage	-0.137	1.771	-0.08	0.939
Scope	0.802	1.147	0.70	0.488
Audit	0.573	1.036	0.55	0.583
Earnings	2.089	2.236	0.93	0.355
Lnassets	0.7123	0.4263	1.67	0.102

Source	df	SS	MS	F	p
Regression	9	115.87	12.87	1.18	0.332
Error	44	480.23	10.91		
Total	53	596.09			

Number of obs. = 54; Root MSE = 3.304;
R-square = 19.4%; R-square (adj) = 3.0%

C- Voluntary Disclosure Index (VDI)

The regression equation is:
VDI = - 7.8 - 0.475 C3 - 6.20 C6 - 0.30 C7 - 3.17 C8 + 5.44 C9 - 4.11 C10
- 2.61 C13 + 8.56 C15 + 4.10 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-7.76	21.26	-0.36	0.717
Liquid	-0.4745	0.9310	-0.51	0.613
Parent	-6.200	4.753	-1.30	0.199
Management	-0.301	4.103	-0.07	0.942
Yearend	-3.167	3.592	-0.88	0.383
Leverage	5.445	6.796	0.80	0.427
Scope	-4.114	4.403	-0.93	0.355
Audit	-2.606	3.977	-0.66	0.516
Earnings	8.560	8.581	1.00	0.324
Lnassets	4.102	1.636	2.51	0.016

Source	df	SS	MS	F	p
Regression	9	5649.0	627.7	3.90	0.001
Error	44	7075.3	160.8		
Total	53	12724.3			

Number of obs. = 54;
Root MSE = 12.68;
R-square = 44.4%;
R-square (adj) = 33.0%

For 1994, the same nine explanatory variables are regressed against the three types of disclosure scores and the results are presented in Table 11.13 (A), (B) and (C).

Table 11.13: Results of the Standardised Regression of Disclosure Indexes on Firm Characteristics-1994

A-Overall Disclosure Index

The regression equation is:
ODI = 31.9 + 0.354 C3 - 1.74 C6 + 0.49 C7 - 0.08 C8 + 2.24 C9 + 4.09 C10
+ 0.53 C13 + 0.98 C15 + 3.53 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	31.875	9.363	3.40	0.001
Liquid	0.3540	0.2384	1.48	0.145
Parent	-1.739	1.696	-1.02	0.311
Management	0.492	1.272	0.39	0.701
Yearend	-0.084	1.076	-0.08	0.938
Leverage	2.244	2.245	1.00	0.323
Scope	4.087	1.841	2.22	0.032
Audit	0.530	1.361	0.39	0.699
Earnings	0.982	1.417	0.69	0.492
Lnassets	3.5297	0.6610	5.34	0.000

Source	df	SS	MS	F	p
Regression	9	685.55	76.17	5.63	0.000
Error	44	595.76	13.54		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 3.680;
R-square = 53.5%; R-square (adj) = 44.0%

B-Mandatory Disclosure Index

The regression equation is:
MDI = 87.4 - 0.018 C3 - 1.26 C6 + 0.445 C7 - 0.051 C8 + 3.29 C9 + 1.89 C10
+ 0.424 C13 + 0.686 C15 + 0.333 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	87.449	6.406	13.65	0.000
Liquid	-0.0182	0.1631	-0.11	0.912
Parent	-1.259	1.161	-1.08	0.284
Management	0.4449	0.8702	0.51	0.612
Yearend	-0.0509	0.7363	-0.07	0.945
Leverage	3.288	1.536	2.14	0.038
Scope	1.890	1.260	1.50	0.141
Audit	0.4244	0.9314	0.46	0.651
Earnings	0.6855	0.9698	0.71	0.483
Lnassets	0.3327	0.4523	0.74	0.466

Source	df	SS	MS	F	p
Regression	9	52.080	5.787	0.91	0.523
Error	44	278.902	6.339		
Total	53	330.981			

Number of obs. = 54; Root MSE = 2.518;
R-square = 15.7%; R-square (adj) = 0.0%

C-Voluntary Disclosure Index

The regression equation is:
VDI = -112 + 1.64 C3 + 1.80 C6 - 1.93 C7 + 1.26 C8 + 0.65 C9 + 9.74 C10
+ 0.40 C13 + 4.88 C15 + 11.6 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-112.01	30.59	-3.66	0.001
Liquid	1.6354	0.7788	2.10	0.042
Parent	1.801	5.541	0.33	0.747
Management	-1.929	4.155	-0.46	0.645
Yearend	1.265	3.515	0.36	0.721

Predictor	Coef.	Std. Dev.	t-ratio	p
Leverage	0.650	7.333	0.09	0.930
Scope	9.738	6.014	1.62	0.113
Audit	0.403	4.447	0.09	0.928
Earnings	4.881	4.630	1.05	0.298
Lnassets	11.632	2.159	5.39	0.000

Source	df	SS	MS	F	p
Regression	9	5717.9	635.3	4.40	0.000
Error	44	6357.4	144.5		
Total	53	12075.3			

Number of obs. = 54; Root MSE = 12.02;
R-square = 47.4%; R-square (adj) = 36.6%

For the overall disclosure score, Table 11.13 (A) shows that the coefficients of the variables asset size and scope of business operation are significantly positive ($\rho = 0.00$ and 0.032) which suggest that firms with higher asset size and operating in a specific business category (non-conglomerate) would disclose more information in their annual reports than firms that are not. For mandatory disclosure score, Table 11.13 (B) shows that the coefficient of the variable leverage is significantly positive ($\rho = 0.038$) suggesting that firms with higher leverage ratio would provide more mandatory information than firms that are not. Lastly, for voluntary disclosure score, Table 11.13 (C) shows that the coefficient of the variables liquidity ratio and asset size are significantly positive ($\rho = 0.042$ and 0.00 respectively) which suggest that firms with higher liquidity ratio and higher asset size would provide more voluntary information in their annual reports than firms that are not. The significant result obtained for the variable total assets above also support the results obtained in 1974 and 1984 in determining the levels of the overall and voluntary disclosure scores (refer to Table 11.9 A & B, and Table 11.11 A & B).

11.4.1.8 Treatment for Firm Size Variables

As discussed in earlier section regarding the explanatory variables, there are four size variables that are being included in this study namely total asset, annual sales, number of shareholders, and market capitalisation. In 1974 and 1984, only one size variable was used (total asset) in the regression analysis. However, in 1994, all the size variables were included in the full regression analysis, as shown in the previous section. The results of the full regression may be impaired due to the high correlation between some of these four variables. For example, Table 11.5 (C) in earlier section shows that the correlation coefficient between total assets and annual sales is 0.740, whereas the correlation coefficients between total assets and market capitalisation, and between annual sales and market capitalisation are 0.679 and 0.542 respectively. As such, if all these variables are simultaneously entered the regression analysis, it may not revealed which variable exerts greater influence on the level of disclosure scores. In order to provide a robust method of regression analysis, only one size variable is entered at a particular time, while dropping the other three variables.

Table 11.14 (A), (B), (C) and (D) present the results of the regression analysis using each of the four size variables for the overall disclosure score.

Table 11.14: Results of the Regression of Overall Disclosure Index on Firm Size Variables-1994

A-Lnassets

The regression equation is:
ODI = 27.8 + 0.434 C3 - 1.54 C6 + 0.39 C7 - 0.76 C8 + 2.46 C9 + 4.64 C10 + 0.42 C12 + 0.05 C13 + 1.08 C14 + 0.77 C15 - 0.393 C16 + 3.50 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	27.83	10.55	2.64	0.012
Liquid	0.4342	0.2625	1.65	0.106
Parent	-1.536	1.841	-0.83	0.409
Management	0.395	1.435	0.28	0.785
Yearend	-0.764	1.222	-0.63	0.535
Leverage	2.457	3.002	0.82	0.418
Scope	4.637	2.189	2.12	0.041
Owners	0.419	3.386	0.12	0.902
Audit	0.051	1.499	0.03	0.973
Image	1.077	1.272	0.85	0.403
Earnings	0.766	1.627	0.47	0.640
Profit	-0.3927	0.8558	-0.46	0.649
Lnassets	3.501	1.304	2.68	0.011

Source	df	SS	MS	F	p
Regression	15	736.89	49.13	3.43	0.001
Error	38	544.43	14.33		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 3.785;
R-square = 57.5%; R-square (adj) = 40.7%

B-Lnsales

The regression equation is:
ODI = 51.7 + 0.307 C3 - 1.47 C6 - 0.01 C7 - 1.17 C8 + 3.80 C9 + 1.81 C10
+ 3.25 C12 + 0.73 C13 + 1.27 C14 - 0.37 C15 + 0.922 C16 + 2.07 C18

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	51.741	7.420	6.97	0.000
Liquid	0.3070	0.2783	1.10	0.276
Parent	-1.466	1.973	-0.74	0.462
Management	-0.012	1.457	-0.01	0.994
Yearend	-1.169	1.226	-0.95	0.346
Leverage	3.796	2.547	1.49	0.144
Scope	1.805	2.051	0.88	0.384
Owners	3.246	3.499	0.93	0.359
Audit	0.728	1.588	0.46	0.649
Image	1.273	1.331	0.96	0.344
Earnings	-0.369	1.649	-0.22	0.824
Profit	0.9218	0.7497	1.23	0.226
Lnsales	2.0656	0.5180	3.99	0.000

Source	df	SS	MS	F	p
Regression	12	587.76	48.98	2.90	0.006
Error	41	693.55	16.92		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 4.113;
R-square = 45.9%; R-square (adj) = 30.0%

C-Lnshares

The regression equation is:
ODI = 62.5 + 0.023 C3 - 4.42 C6 - 2.15 C7 - 2.04 C8 + 7.50 C9 + 4.19 C10
+ 2.85 C12 + 1.02 C13 - 0.68 C14 + 1.28 C15 - 0.110 C16 + 2.01 C19

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	62.468	8.710	7.17	0.000
Liquid	0.0230	0.2958	0.08	0.938
Parent	-4.417	2.021	-2.19	0.035

Predictor	Coef.	Std. Dev.	t-ratio	p
Management	-2.149	1.616	-1.33	0.191
Yearend	-2.042	1.391	-1.47	0.150
Leverage	7.504	3.227	2.33	0.025
Scope	4.185	2.542	1.65	0.107
Owners	2.845	3.935	0.72	0.474
Audit	1.020	1.779	0.57	0.569
Image	-0.682	1.464	-0.47	0.644
Earnings	1.283	1.824	0.70	0.486
Profit	-0.1102	0.7814	-0.14	0.889
Lnshares	2.0149	0.9668	2.08	0.043

Source	df	SS	MS	F	p
Regression	12	410.97	34.25	1.61	0.126
Error	41	870.35	21.23		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 4.607;
R-square = 32.1%; R-square (adj) = 12.2%

D-Lnmarket

The regression equation is:
ODI = 68.3 + 0.025 C3 - 3.57 C6 - 1.30 C7 - 0.95 C8 + 4.69 C9 + 2.97 C10
+ 4.33 C12 + 1.19 C13 + 0.37 C14 - 0.13 C15 - 0.357 C16 + 1.47 C20

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	68.304	7.518	9.09	0.000
Liquid	0.0250	0.3070	0.08	0.935
Parent	-3.565	2.168	-1.64	0.108
Management	-1.304	1.614	-0.81	0.424
Yearend	-0.947	1.442	-0.66	0.515
Leverage	4.686	2.911	1.61	0.115
Scope	2.965	2.427	1.22	0.229
Owners	4.325	4.018	1.08	0.288
Audit	1.192	1.819	0.66	0.516
Image	0.374	1.496	0.25	0.804
Earnings	-0.131	1.949	-0.07	0.947
Profit	-0.3566	0.8027	-0.44	0.659
Lnmarket	1.4670	0.8985	1.63	0.110

Source	df	SS	MS	F	p
Regression	12	377.53	31.46	1.43	0.193
Error	41	903.79	22.04		
Total	53	1281.31			

Number of obs. = 54; Root MSE = 4.695;
R-square = 29.5%; R-square (adj) = 8.8%

Table 11.14 (A) shows that if only the asset variable is used, the coefficient of the variable scope of business operation and total assets are significantly positive (ρ = 0.015 and 0.00 respectively), whereas for liquidity ratio, the coefficient is only significantly positive (ρ = 0.095) if the level of significance is relaxed from 5% or less to 10% or less. Table 11.14 (B), on the other hand shows that if only sales variable is used, only the variable annual sales is significantly positive (ρ = 0.00); and if only the variable 'number of shareholders' is used, Table 11.14 (C) shows that the coefficient of the variable 'parent company size' is significantly negative (ρ = 0.035), whereas for the variables leverage and number of shareholders, they are significantly positive (ρ = 0.025 and 0.043 respectively). Lastly, Table 11.14 (D) shows that if only the variable market capitalisation is used in the regression analysis, it produces no significant results for all the independent variables.

Table 11.15 (A), (B), (C) and (D) presents the results for the mandatory disclosure score.

Table 11.15: Results of the Regression of Mandatory Disclosure Index on Firm Size Variables-1994

A-Lnassets

The regression equation is:
MDI = 90.4 - 0.091 C3 - 1.17 C6 + 0.286 C7 + 0.168 C8 + 2.88 C9 + 1.24 C10
+ 3.07 C12 + 0.252 C13 - 1.05 C14 + 1.01 C15 + 0.349 C16 + 0.028 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	90.367	6.562	13.77	0.000
Liquid	-0.0915	0.1687	-0.54	0.591
Parent	-1.172	1.153	-1.02	0.316
Management	0.2856	0.8825	0.32	0.748
Yearend	0.1680	0.7496	0.22	0.824
Leverage	2.884	1.562	1.85	0.072
Scope	1.238	1.288	0.96	0.342
Owners	3.072	2.137	1.44	0.158
Audit	0.2515	0.9617	0.26	0.795
Image	-1.0497	0.7910	-1.33	0.192
Earnings	1.0120	0.9764	1.04	0.306
Profit	0.3485	0.4252	0.82	0.417
Lnassets	0.0282	0.4689	0.06	0.952

Source	df	SS	MS	F	p
Regression	12	79.358	6.613	1.08	0.403
Error	41	251.623	6.137		
Total	53	330.981			

Number of obs. = 54; Root MSE = 2.477;
R-square = 24.0%; R-square (adj) = 1.7%

B-Lnsales

The regression equation is:
MDI = 93.1 - 0.132 C3 - 1.47 C6 + 0.150 C7 + 0.129 C8 + 2.95 C9 + 1.23 C10 + 3.12 C12 + 0.275 C13 - 1.18 C14 + 1.12 C15 + 0.260 C16 - 0.174 C18

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	93.109	4.452	20.91	0.000
Liquid	-0.1323	0.1670	-0.79	0.433
Parent	-1.467	1.184	-1.24	0.222
Management	0.1502	0.8743	0.17	0.864
Yearend	0.1287	0.7360	0.17	0.862
Leverage	2.949	1.529	1.93	0.061
Scope	1.226	1.230	1.00	0.325
Owners	3.123	2.100	1.49	0.145
Audit	0.2751	0.9532	0.29	0.774
Image	-1.1768	0.7985	-1.47	0.148
Earnings	1.1202	0.9896	1.13	0.264
Profit	0.2597	0.4499	0.58	0.567
Lnsales	-0.1740	0.3108	-0.56	0.579

Source	df	SS	MS	F	p
Regression	12	81.245	6.770	1.11	0.377
Error	41	249.736	6.091		
Total	53	330.981			

Number of obs. = 54;
Root MSE = 2.468;
R-square = 24.5%; R-square (adj) = 2.5%

C-Lnshares

The regression equation is:
MDI = 96.9 - 0.150 C3 - 1.29 C6 + 0.521 C7 + 0.340 C8 + 1.77 C9 + 0.41 C10 + 3.36 C12 + 0.227 C13 - 0.858 C14 + 0.871 C15 + 0.327 C16 - 0.719 C19

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	96.914	4.573	21.19	0.000
Liquid	-0.1497	0.1553	-0.96	0.341
Parent	-1.294	1.061	-1.22	0.230
Management	0.5209	0.8487	0.61	0.543
Yearend	0.3398	0.7304	0.47	0.644
Leverage	1.775	1.694	1.05	0.301
Scope	0.406	1.335	0.30	0.762
Owners	3.360	2.066	1.63	0.111
Audit	0.2274	0.9340	0.24	0.809
Image	-0.8579	0.7686	-1.12	0.271
Earnings	0.8713	0.9576	0.91	0.368
Profit	0.3274	0.4102	0.80	0.429
Lnshares	-0.7193	0.5076	-1.42	0.164

Source	df	SS	MS	F	p
Regression	12	91.086	7.590	1.30	0.257
Error	41	239.895	5.851		
Total	53	330.981			

Number of obs. = 54;
Root MSE = 2.419;
R-square = 27.5%;
R-square (adj) = 6.3%

D-Lnmarket

The regression equation is:
MDI = 91.2 - 0.102 C3 - 1.24 C6 + 0.265 C7 + 0.134 C8 + 2.89 C9 + 1.17 C10
+ 3.06 C12 + 0.247 C13 - 1.08 C14 + 1.06 C15 + 0.360 C16 - 0.063 C20

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	91.243	3.966	23.01	0.000
Liquid	-0.1022	0.1619	-0.63	0.531
Parent	-1.244	1.144	-1.09	0.283
Management	0.2651	0.8514	0.31	0.757
Yearend	0.1343	0.7607	0.18	0.861
Leverage	2.888	1.536	1.88	0.067
Scope	1.171	1.281	0.91	0.366
Owners	3.062	2.120	1.44	0.156
Audit	0.2466	0.9597	0.26	0.798
Image	-1.0808	0.7895	-1.37	0.178
Earnings	1.059	1.028	1.03	0.309
Profit	0.3602	0.4235	0.85	0.400
Lnmarket	-0.0632	0.4740	-0.13	0.895

Source	df	SS	MS	F	p
Regression	12	79.445	6.620	1.08	0.402
Error	41	251.536	6.135		
Total	53	330.981			

Number of obs. = 54; Root MSE = 2.477;
R-square = 24.0%; R-square (adj) = 1.8%

From Table 11.15 (A), it shows that when only the variable total asset is used, the variable leverage ratio is significantly positive (ρ = 0.072) only if the level of significance is relaxed from 5% or less to 10% or less. Next, when only the variable annual sales is used, Table 11.15 (B) shows that the variable leverage ratio is again significantly positive (ρ = 0.061) only if the level of significance is relaxed from 5% or less to 10% or less. Then, when only the variable number of shareholders is used, Table 11.15 (C) indicates that none of the variables shows any significant results. Lastly, when only the 'market capitalisation' is entered in the regression analysis, Table 11.15 (D) shows that the variable leverage ratio is again significantly positive (ρ = 0.067) only if the level of significance is relaxed from 5% or less to 10% or less. The results seemed to suggest that firms with higher leverage ratio would provide more mandatory information in their annual reports than firms with lower leverage ratio.

For the voluntary disclosure score, the results are presented in Table 11.16 (A), (B), (C) and (D). The results show that when only the variable total assets is used, the coefficients of the variables liquidity ratio, scope of business operation, and total assets are significantly positive (ρ = 0.021, 0.038 and 0.00 respectively). Next, when the variable annual sales is used, only the coefficients of the variable annual sales is significantly positive (ρ = 0.00) whereas the coefficient of the variable liquidity ratio is significantly positive (ρ = 0.078) only if the level of significance is relaxed from 5% or less to 10% or less. Further, when the variable number of shareholders is used, two variables show significant positive coefficients namely number of shareholders and leverage positive (ρ = 0.005 and 0.029 respectively), whereas for the other variable, 'type of management', the coefficient is significantly negative (ρ = 0.034). Lastly, when only the market capitalisation is entered in the regression analysis, only the coefficient of the market capitalisation is significantly positive (ρ = 0.053) if the level of significance is relaxed from 5% or less to 10% or less. The overall results indicate that firms with higher leverage ratio, higher total assets, higher annual sales, higher number of shareholders, higher market value, higher liquidity ratio, having a mixture of local and foreign people as the board of directors, and operating in a specific business category would provide more voluntary information in their annual reports than firms that are not.

Table 11.16: Results of the Regression of Voluntary Disclosure Index on Firm Size Variables-1994

A-Lnassets

The regression equation is:
VDI = - 128 + 1.94 C3 + 2.28 C6 - 1.48 C7 - 0.19 C8 + 0.37 C9 + 13.2 C10
- 4.7 C12 - 0.35 C13 + 4.81 C14 + 2.85 C15 - 2.99 C16 + 13.0 C17

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-128.42	31.36	-4.09	0.000
Liquid	1.9432	0.8066	2.41	0.021
Parent	2.282	5.514	0.41	0.681
Management	-1.477	4.219	-0.35	0.728
Yearend	-0.187	3.583	-0.05	0.959
Leverage	0.365	7.466	0.05	0.961
Scope	13.190	6.155	2.14	0.038
Owners	-4.71	10.22	-0.46	0.647
Audit	-0.348	4.597	-0.08	0.940
Image	4.810	3.781	1.27	0.211
Earnings	2.850	4.667	0.61	0.545
Profit	-2.993	2.032	-1.47	0.148
Lnassets	12.995	2.241	5.80	0.000

Source	df	SS	MS	F	p
Regression	12	6325.9	527.2	3.76	0.001
Error	41	5749.5	140.2		
Total	53	12075.3			

Number of obs. = 54; Root MSE = 11.84;
R-square = 52.4%; R-square (adj) = 38.5%

B-Lnsales

The regression equation is:
VDI = - 51.1 + 1.60 C3 + 2.90 C6 - 2.89 C7 - 2.73 C8 + 6.80 C9 + 2.69 C10
+ 4.0 C12 + 1.73 C13 + 5.19 C14 - 0.28 C15 + 2.83 C16 + 7.39 C18

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-51.14	23.61	-2.17	0.036
Liquid	1.6006	0.8856	1.81	0.078
Parent	2.904	6.280	0.46	0.646
Management	-2.886	4.637	-0.62	0.537
Yearend	-2.726	3.903	-0.70	0.489
Leverage	6.801	8.107	0.84	0.406
Scope	2.691	6.526	0.41	0.682
Owners	3.95	11.14	0.35	0.725
Audit	1.727	5.055	0.34	0.734
Image	5.191	4.235	1.23	0.227
Earnings	-0.276	5.248	-0.05	0.958
Profit	2.831	2.386	1.19	0.242
Lnsales	7.387	1.648	4.48	0.000

Source	df	SS	MS	F	p
Regression	12	5051.7	421.0	2.46	0.016
Error	41	7023.7	171.3		
Total	53	12075.3			

Number of obs. = 54;
Root MSE =13.09;
R-square = 41.8%;
R-square (adj) = 24.8%

C-Lnshares

The regression equation is:
VDI = - 28.6 + 0.724 C3 - 7.40 C6 - 11.2 C7 - 6.31 C8 + 23.0 C9 + 13.3 C10
+ 1.8 C12 + 2.85 C13 - 2.32 C14 + 6.00 C15 - 0.79 C16 + 9.05 C19

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	-28.57	27.39	-1.04	0.303
Liquid	0.7240	0.9301	0.78	0.441
Parent	-7.397	6.354	-1.16	0.251
Management	-11.168	5.083	-2.20	0.034
Yearend	-6.306	4.374	-1.44	0.157
Leverage	22.95	10.15	2.26	0.029
Scope	13.278	7.992	1.66	0.104
Owners	1.83	12.37	0.15	0.883
Audit	2.848	5.593	0.51	0.613
Image	-2.319	4.603	-0.50	0.617
Earnings	5.998	5.735	1.05	0.302
Profit	-0.795	2.457	-0.32	0.748
Lnshares	9.049	3.040	2.98	0.005

Source	df	SS	MS	F	p
Regression	12	3471.1	289.3	1.38	0.215
Error	41	8604.2	209.9		
Total	53	12075.3			

Number of obs. = 54;
Root MSE = 14.49;
R-square = 28.7%;
R-square (adj) = 7.9%

D-Lnmarket

The regression equation is:
VDI = 3.6 + 0.653 C3 - 4.16 C6 - 7.45 C7 - 1.70 C8 + 10.1 C9 + 7.25 C10
+ 8.1 C12 + 3.48 C13 + 2.17 C14 + 0.18 C15 - 1.81 C16 + 5.82 C20

Predictor	Coef.	Std. Dev.	t-ratio	p
Constant	3.60	24.42	0.15	0.883
Liquid	0.6528	0.9972	0.65	0.516
Parent	-4.159	7.042	-0.59	0.558
Management	-7.449	5.243	-1.42	0.163
Yearend	-1.700	4.685	-0.36	0.718
Leverage	10.118	9.457	1.07	0.291
Scope	7.253	7.885	0.92	0.363
Owners	8.10	13.05	0.62	0.538
Audit	3.484	5.910	0.59	0.559
Image	2.168	4.861	0.45	0.658
Earnings	0.176	6.333	0.03	0.978
Profit	-1.810	2.608	-0.69	0.492
Lnmarket	5.823	2.919	1.99	0.053

Source	df	SS	MS	F	p
Regression	12	2537.2	211.4	0.91	0.546
Error	41	9538.1	232.6		
Total	53	12075.3			

Number of obs. = 54;
Root MSE = 15.25;
R-square = 21.0%;
R-square (adj) = 0.0%

11.5 Discussion of the Results

The regression analysis conducted in this chapter provides some unique aspects. Firstly, the sample of public companies provides a fair representation of the industries or sectors they are involved. This would provide an overall picture of the pattern of disclosure by Malaysian companies in general.

Secondly, in order to provide a robust method of estimation, four models of regression analysis are developed. First is the reduced regression model where some explanatory variables are omitted from the regression analysis. Secondly, the full regression model is developed containing all the explanatory variables applicable in a particular year. Thirdly, a standardised regression model which employs the same explanatory variables is developed to examine the stability of such variables in influencing the level of disclosure over time. Lastly, a regression model which employs only one (out of four) size variable at a time was developed specifically for 1994 in order to alleviate the problem of multicollinearity.

Thirdly, three types of disclosure indexes are used as the dependent variables namely the overall disclosure index, mandatory disclosure index, and the voluntary disclosure index. By this way, it is possible to examine which explanatory variables would have greater influence on each disclosure score.

In the following discussions, Table 11.17 and Table 11.18 which present the summary of the results in the previous section will be referred.

In the reduced regression model, only four independent variables are used for 1974. In 1984 and 1994, the number of independent variables used is six. As to the overall disclosure index, out of these six variables, only three variables are similar for all the three years, namely asset's size, type of management, and financial year end. Again, out of these three variables, only 'total assets' shows a significant positive association suggesting that firms with higher total assets provide more information than firms having lower total assets. The other two variables did not provide any significant results, suggesting that there is no difference in disclosure scores between firms having financial year ending on 31st December and firms having financial year ending on other dates; or between firms whose board of directors consist of only local people or those firms having a mixture of local and foreign people. The other three variables that did not produce any significant results in two years (1984 and 1994) are profit margin, type of external auditor, and company image. This indicates that firms with higher profit margin are no better than firms with lower profit margin with respect to disclosure of information.

Companies employing local audit firms affiliated to Big-Six audit firms also seem not to disclose more information than those firms employing non-Big-Six audit firms. In addition, firms which have changed their corporate name also did not provide more information than those firms which prefer not to change their corporate name. The other variable, parent company size, which is applicable only in 1974 (under the reduced regression model) did not produce any significant result, suggesting that there is no difference in disclosure scores between firms having more than ten subsidiaries and firms having less than ten subsidiaries.

In the second analysis using the full regression model, nine, eleven, and fifteen variables are used in 1974, 1984 and 1994 respectively to examine the relationship of such variables with the overall disclosure index. Only nine of such variables are similar in all the three years. One variable shows a significant positive relationship for all the three years namely, total assets, which again reconfirm the previous result that overall disclosure score is increasing with firm asset's size. There are six variables which did not provide any significant results for all the three years namely leverage ratio, earnings ratio, parent company size, type of management, financial year end, and type of external auditor. The other two variables which are only applicable in 1984 and 1994, namely profit margin, and company image also show no significant results. The other two variables show conflicting results. For instance, liquidity ratio shows significantly negative coefficient in 1974 and 1984, but not statistically significant in 1994. The other variable, scope of business operation is significantly positive in 1994 but not statistically significant in 1974 and 1984.

Table 11.17 (A)
Summary of Regression Results for Overall Disclosure Index: Explanatory Power of Firm Characteristics Under Three Regression Models

Explanatory Variable	Reduced Regression			Full Regression			Regression with Nine Standard Variables		
	1974	84	94	1974	84	94	1974	84	94
Leverage	na	na	na	X	X	X	X	X	X
Lnassets	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lnsales	na	na	na	na	na	X	na	na	na
Lnshareholders	na	na	na	na	na	X	na	na	na
Lnmarket	na	na	na	na	na	X	na	na	na
Owners	na	na	na	na	na	X	na	na	na
Earnings	na	na	na	X	X	X	X	X	X
Profit	na	X	X	na	X	X	na	na	na
Liquid	na	na	na	✓	✓	X	✓	X	X
Parent co. size	X	na	na	X	X	X	X	X	X
Type of mgt.	X	X	X	X	X	X	X	X	X
Fin. year end	X	X	X	X	X	X	X	X	X
Scope	na	na	na	X	X	✓?	X	X	✓?
Audit	na	X	X	X	X	X	X	X	X
Image	na	X	X	na	X	X	na	na	na

Table 11.17 (B)
Summary of Regression Results for Mandatory Disclosure Index: Explanatory Power of Firm Characteristics Under Three Regression Models

Explanatory Variable	Reduced Regression			Full Regression			Regression with Standard Variables		
	1974	84	94	1974	84	94	1974	84	94
Leverage	na	na	na	X	X	X	X	X	✓
Lnassets	✓	✓**	X	X	✓	X	X	X	X
Lnsales	na	na	na	na	na	X	na	na	na
Lnshareholders	na	na	na	na	na	✓**	na	na	na
Lnmarket	na	na	na	na	na	X	na	na	na
Owners	na	na	na	na	na	X	na	na	na
Earnings	na	na	na	X	X	X	X	X	X
Profit	na	X	X	na	X	X	na	na	na
Liquid	na	na	na	X	✓	X	X	✓**	X
Parent co. size	X	na	na	X	X	X	X	X	X
Type of mgt.	X	X	X	X	X	X	X	X	X
Fin. year end	✓**	X	X	✓**	X	X	✓**	X	X
Scope	na	na	na	X	✓?**	X	X	X	X
Audit	na	X	X	X	X	X	X	X	X
Image	na	X	X	na	✓**	X	na	na	na

Table 11.17 (C)
Summary of Regression Results for Voluntary Disclosure Index: Explanatory Power of Firm Characteristics Under Three Regression Models

Explanatory Variable	Reduced Regression			Full Regression			Regression with Standard Variables		
	1974	84	94	1974	84	94	1974	84	94
Leverage	na	na	na	X	X	X	X	X	X
Lnassets	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lnsales	na	na	na	na	na	X	na	na	na
Lnshareholders	na	na	na	na	na	X	na	na	na
Lnmarket	na	na	na	na	na	X	na	na	na
Owners	na	na	na	na	na	X	na	na	na
Earnings	na	na	na	X	X	X	X	X	X
Profit	na	X	X	na	X	X	na	na	na
Liquid	na	na	na	✓	X	✓	✓	X	✓
Parent co. size	X	na	na	X	X	X	X	X	X
Type of mgt.	✓	X	X	✓	X	X	✓	X	X
Fin. year end	X	X	X	X	X	X	X	X	X
Scope	na	na	na	X	X	✓?	X	X	X
Audit	na	X	X	X	X	X	X	X	X
Image	na	X	X	na	X	X	na	na	na

Table 11.18
Summary of Regression Results Using One Size Variable At a Time for 1994

A. Overall Disclosure Index

Other Explanatory Variable	Size Variable Used			
	lnassets	lnsales	lnshare	lnmarket
Leverage	X	X	✓	X
Lnassets	✓	na	na	na
Lnsales	na	✓	na	na
Lnshareholders	na	na	✓	na
Lnmarket	na	na	na	X
Owners	X	X	X	X
Earnings	X	X	X	X
Profit	X	X	X	X
Liquid	X	X	X	X
Parent co. size	X	X	✓	X
Type of mgt.	X	X	X	X
Fin. year end	X	X	X	X
Scope	✓?	X	X	X
Audit	X	X	X	X
Image	X	X	X	X

B. Mandatory Disclosure Index

Other Explanatory Variable	Size Variable Used			
	lnassets	lnsales	lnshare	lnmarket
Leverage	✓**	✓**	X	✓**
Lnassets	X	na	na	na
Lnsales	na	X	na	na
Lnshareholders	na	na	X	na
Lnmarket	na	na	na	X
Owners	X	X	X	X
Earnings	X	X	X	X
Profit	X	X	X	X
Liquid	X	X	X	X
Parent co. size	X	X	X	X
Type of mgt.	X	X	X	X
Fin. year end	X	X	X	X
Scope	X	X	X	X
Audit	X	X	X	X
Image	X	X	X	X

C. Voluntary Disclosure Index

Other Explanatory Variable	Size Variable Used			
	lnassets	lnsales	lnshare	lnmarket
Leverage	X	X	✓	X
Lnassets	✓	na	na	na
Lnsales	na	✓	na	na
Lnshareholders	na	na	✓	na
Lnmarket	na	na	na	✓**
Owners	X	X	X	X
Earnings	X	X	X	X
Profit	X	X	X	X
Liquid	✓	✓**	X	X
Parent co. size	X	X	X	X
Type of mgt.	X	X	✓	X
Fin. year end	X	X	X	X
Scope	✓?	X	X	X
Audit	X	X	X	X
Image	X	X	X	X

Key: ** Significant at 10% level or less (p values are for two-tail tests).
na - not applicable.
✓ - significant at 5% level and expected sign supported.
✓? - significant at 5% level but expected sign not supported.
X - not supported.

The results show that while the variables assets' size, liquidity ratio and scope of business operation do to some extent contribute to the differential disclosure scores by the sample firms, other variables such as leverage, earnings return, profit margin, parent company size, type of management, financial year end, type of external auditor, and image of company did not influence much of the variability in overall disclosure scores.

The standardised regression model (whereby the same nine variables are used in each selected year) reveals that only 'total assets' show a significantly positive relationship whereas liquidity ratio is only significantly negative in 1974; and scope of business operation is significantly positive only in 1994. The other six variables seemed to have little influence on the level of overall disclosure score. From the three types of regression models discussed above, it indicates that there are only three variables which relatively remain statistically significant in influencing the level of disclosure scores namely total assets, liquidity ratio, and scope of business operation.

For the mandatory disclosure index, a slightly different picture is observed. The variable 'total assets' is only significantly positive in two years (1974 & 1984) when the reduced regression model is used; then reduced to one occasion (1984) when the full regression model is used, and finally the variable is not significant at all when it is regressed using the other eight standardised variables. On the other hand, the variable leverage ratio which is not significant in any particular year using the full regression model, becomes significantly positive in 1994 using the standardised regression model. These two variables show a strong relationship (at 5% level) which is significantly positive, suggesting that firms with higher leverage ratio and higher assets' size provide more mandatory information than firms that are not. There are also five other variables which show significant results in either one of the three regression models but only if the level of significance is relaxed from 5% or less to 10% or less, namely number of shareholders (1994-full regression), financial year end (1974-reduced and full regression), scope of business operation and company image (1984-full regression) and liquidity ratio (1984-standardised regression) except for 1984 using the full regression model whereby liquidity ratio is significantly negative at the 5% level. The other variables which show no significant results in any particular year are earnings return, profit margin, parent company size, type of management, and type of external auditor. The other three variables which also produce no significant results but only applicable in 1994 are total sales, market capitalisation, and proportion of shares owned by outsiders.

With respect to voluntary disclosure index, Table 11.17 (C) also produces relatively similar results with the overall disclosure index with only a slight variation. The variable total assets again shows a significantly positive relationship in all the three regression models for all the three years. On the other hand, liquidity ratio which was formerly not significant in the reduced regression model becomes significantly positive (or negative) under the full regression and standardised regression models. The other variable, type of management is significantly negative for 1974 using both the reduced and full regression models. Lastly the variable scope of business operation is significantly positive only in 1994 under the full regression model. The overall results for VDI seemed to suggest that firms' disclosure scores are highly influenced by the level of assets, liquidity ratio, type of management, and scope of business operation.

The overall results for all the three disclosure indices indicate that firms with high total assets would provide more information in their annual reports. These findings are consistent with the findings in previous studies (Wallace, 1987 and Cooke, 1989a). However, three variables provide inconsistent results with prior studies namely leverage, liquidity ratio and scope of business operation. Whilst in previous studies, leverage was found to be insignificant (Wallace, 1987; Wallace et al., 1994; and Karim, 1995), this study finds it to be significant in determining the level of mandatory disclosure score. The variable liquidity ratio which produced inconsistent results in previous studies also reveals the same results in the present study. For the overall disclosure index and mandatory disclosure index, it is found that firms with low liquidity ratio would provide more information in their annual report, whereas for voluntary disclosure index, the variable is found to be significantly negative in 1974, but then becomes significantly positive in 1994. Lastly, the variable 'scope of business operation' which classifies companies into conglomerate and non-conglomerate produces significantly positive results which suggest that non-conglomerate firms provide more information in their annual reports than conglomerate firms with respect to all types of disclosures. These findings are inconsistent with the results obtained by Wallace and Naser (1995). The results may suggest that conglomerate firms tend to regard more disclosure as damaging their competitive advantage. This may happen in a situation where competitors may use the information for their own interest for example by entering into a new target market which the firm has already planned to capture. More disclosure may also mean encouraging the regulatory bodies to scrutinise their operation more closely, since the highly diversified the firm is, the riskier will be its business operation. So, in order to protect the interest of the various stakeholders, their operation has to be closely monitored. In order to reduce such pressures, they would prefer to have less disclosure than more disclosure of information.

With respect to the four firm size variables which have been used specifically for 1994, Table 11.18 clearly shows that there are three variables that could influence the level of disclosure scores if either one of them is used at a particular time. The variables listed according to their degree of influence are number of shareholders, total assets, and annual sales. As shown in Table 11.18A regarding the overall disclosure index, if the variable 'number of shareholders' is used alone in the regression analysis, it gives a significant positive coefficients together with two other variables, namely leverage and parent company size. When the same variable is regressed against voluntary disclosure index, it again produces significant positive coefficient together with two other variables namely leverage and 'type of management'. On the other hand, if only the variable 'total assets' is used in the regression analysis, the variable produces a significant positive coefficient, together with the variables liquidity and scope of business operation on the voluntary disclosure scores (at 5% level), and also produces significant results with the variable 'scope of business operation' on the overall disclosure score. Lastly, when only the variable 'annual sales' is used, it gives a significant positive coefficient for both the overall and voluntary disclosure scores plus a weak relationship between liquidity ratio and voluntary scores (10% level). However, all the three variables did not exert any strong influence on the level of mandatory disclosure score.

11.6 Comparison of Results with Other Studies

This section provides a comparison of this study with two other similar studies done in developing countries; that is the Wallace (1987) and Karim (1995) studies. Wallace investigated the relationship between the extent of disclosure and eight corporate characteristics - three size variables (assets, sales and number of shareholders), profitability, liquidity, type of management, country of origin of multinational company, and type of business. Two disclosure models were developed namely overall disclosure index and statutory disclosure index as the dependent variables. He found two variables to be significant in explaining the variation in both types of disclosure scores, namely type of management and total assets. All the other six variables failed to enter the models because they were not significant at the 5% level. The use of the three size variables also posed serious multicollinearity problems since they have a strong correlation between them (more than 0.90 for variables assets and sales, assets and number of shareholders, and 0.785 between sales and number of shareholders). It was not clearly stated how the multicollinearity problem is addressed. The rationale for using the variables 'management type' and 'parent country of origin' to capture the effect of external influence was also unclear, and correlation coefficient between the two variables was also not given to examine if they were strongly correlated or not. Nevertheless, the size variable which is found significant in his study is consistent with the findings of the present study. The other variable, type of management which is found to be significant in his study is partially supported in the current study only for explaining the variation in voluntary disclosure scores, the disclosure index which is not covered in his study. The other variable found to be insignificant in his study namely total sales and number of shareholders also produce the same results in the current study. However, two other variables which are found to be insignificant in his study is inconsistent with the findings of the current study. The two variables are liquidity ratio and scope of business operation (type of business).

Karim (1995), on the other hand, developed two types of disclosure scores namely unweighted aggregate disclosure index and weighted disclosure index as the dependent variables, and used twelve explanatory variables to examine their influence on the level of disclosure of information. He also used two samples of companies, firstly covering all 161 companies from both financial and non-financial companies, and secondly by segregating these companies into financial and non-financial companies. For non-financial companies, the variable leverage is used in place of the variable 'financial sector' for 'all the companies' category. For the first category of company, he found that eight variables were significantly positive for both types of disclosure scores. The variables were the existence of qualified accountants, audit firm with international link, financial company, government ownership of shares, total sales, market capitalisation, multinational parent, and net profit to sales. For the second sample of companies (non-financial), he found that eight variables produce significant results namely the existence of qualified accountants, audit firm with international link, government ownership of shares, total sales, market capitalisation, multinational parent, multiple use of language, and net profit to sales.

In other words, for both sample firms, firms which employed qualified accountant, having an external auditor with international link, actively traded in the Dhaka Stock Exchange, have larger sales, have higher profit to sales ratio, a subsidiary of a multinational company, has more shares owned by the government, and use multiple language in the annual reports would provide more information in their annual reports than firms that are not.

The variables that are similar in both the current study and Karim's study are total sales, financial year end, leverage, type of external auditor and profit margin. Whereas 'annual sales' was found to be significantly positive in Karim's study, it is not consistent with the findings of the current study. The variable financial year end was found not significant in Karim's study, but it was found significant in the present study, in explaining the variability in mandatory disclosure score (even though at only 10% significance level). While leverage was found insignificant in his study, the current study found it to be significant in explaining the level of disclosure for mandatory items, even though it only appeared in 1994. On the contrary, his findings of the significance of the variables 'profit margin' and 'external auditor with international link' was not consistent with the findings of the present study.

The conflicting results among the three studies discussed above may reflect the difference in the category and number of companies employed in the sample. While this study only includes all public listed companies, Karim's study covers both private and public companies. So, caution must be exercised in interpreting the results of these three studies. For private companies (as in Karim's study), they are generally not require to disclose much information compared to listed companies. As such it is not surprising to find that the scores obtained in his sample were much lower compared to the current study. The present study only employs 54 companies compared to 161 in Karim's study and 47 companies in Wallace's study. Karim's study used both financial and non-financial companies, whereas in Wallace and the present studies, only non-financial companies were used. Such differences may contribute to the conflicting results among the three studies.

11.7 Test for Multicollinearity

The main problem faced in interpreting the results of multiple regression analysis is the possible collinearity between the selected explanatory variables which may result in inflated standard errors for their coefficients. Multicollinearity appears when there is strong correlation among independent variables, and as a consequence it is difficult to differentiate among the individual effects of those variables on the dependent variable. It may produce problems when estimating the regression coefficients (Maddala et al., 1993).

In order to address the problem, the following tests for multicollinearity were performed:

(i) The first was introduced by Haitovsky (1969) and later used by Anderson and Zeghal (1994). The method involves computing the ratio r_{ij}/R_y, where R_y represents the multiple correlation coefficient between the dependent variable and the independent variables, and r_{ij} is the zero-order partial correlation coefficients between all pairs of independent variables. A high value of r_{ij} and therefore a ratio $r_{ij}/R_y > 1$ represents a high degree of collinearity. The computations indicate that there is no severe multicollinearity problem in the data. None of the values exceed 1.

(ii) The second test is found in the MINITAB statistical package used to analyse the data and follows the approach of Belsley et al. (1980). The potential effect of collinearity on each regression was evaluated by computing the variance inflation factor (VIF) and condition number for each explanatory variable. VIF is equal to $1/(1 - R^2)$, where R^2 is derived from the regression of an explanatory variable on all other explanatory variables (Gunst and Mason, 1980). For example, when the variable lnsales is regressed with other explanatory variables using the full regression model, the R^2 is equalled to 0.80. Hence, its VIF is 1/(1-0.80), that is equal to 5.0. Collinearity is considered a problem only when VIF exceeds 10 (Neter et al., 1983). The highest VIF reported was for the variable total assets in 1994 (8.26). Hence, collinearity did not appear to be a serious problem in interpreting the regression results.

(iii) The third test involves examining the correlation coefficient between all the independent variables. This follows the suggestion by Farrar and Glauber (1967). They argued that correlation coefficients should not be considered harmful until they exceed 0.80. The correlation coefficients of all the independent variables in all the three years were examined from the table of correlation presented in earlier sections. Only the variable annual sales (1984) has a correlation coefficient of 0.810 with the variable total assets. As such, the variable annual sales was dropped from all regression analyses for 1984.

11.8 Summary and Conclusion

This chapter reported the results of multiple linear regressions of the association between a number of corporate characteristics and the extent of disclosure in Malaysian corporate annual reports. The extent of disclosure was measured using three types of disclosure indexes - the overall disclosure index, the mandatory disclosure index, and the voluntary disclosure index. Three models of regression analyses were developed. First, some explanatory variables were omitted from the regression analysis, and this method is known as the reduced regression model. Secondly, a full regression analysis was carried out by entering all the independent variables (applicable in that particular year) in the regression analysis. Lastly, only selected number of explanatory variables was used in all the three years to examine their consistency in influencing the extent of disclosure scores.

The results show that the level of disclosure of information was influenced by some corporate characteristics. For the overall disclosure index, the only variable found to be positively significant in determining its disclosure level was total assets. The results indicate that firms with high total assets disclose more information in their annual reports. The two variables, namely liquidity ratio and scope of business operation showed inconsistent results when they were entered into different regression models.

For the mandatory disclosure index, no consistent results were produced although the variable total assets still showed some positive relationship under two regression models. The other two variables, namely leverage and liquidity ratio were only significant under one regression model. Other variables that could be associated with the levels of mandatory disclosure at a weaker level (10% level of significance) were number of shareholders, liquidity ratio, financial year end, corporate image, and scope of business operation. However, they did not produce consistent results under the three regression models.

On the other hand, for the voluntary disclosure index, only the variable total assets was found to be significant in determining its disclosure level. The results indicate that firms with higher total assets provide more voluntary information in their annual reports than other firms. Other variables such as liquidity ratio, type of management, and scope of business operation produced inconsistent results when they were analysed along the different years selected but consistent results were revealed if they were analysed along the different regression models used. In addition, some variables produced inconsistent directions of relationship. For example, liquidity ratio provides inconclusive evidence due to the significant positive and negative correlation, which suggest that firms with lower or higher liquidity ratio may provide more or less information in their annual reports.

This study is probably the first study on disclosure of information which introduces a new variable, corporate image, as one of the explanatory variable in explaining the variability in disclosure scores. This study also examines the variable 'type of management' from a different perspective. Rather than using a percentage of foreign ownership of shares (as in Wallace, 1987), this study looks at whether the member of the board of directors in each company is composed of wholly local people or a mixture of local and foreign people. The reason for the change in definition was that the new definition was more appropriate in the context of Malaysia. The variable type of management was found to be significantly negative with the overall disclosure index in 1974 under all regression models, suggesting that firms employing foreign and local people (coded 0) as members of the board of directors provide more voluntary information in their annual reports than those firms employing only local people as their board of directors. The other variable 'corporate image' was also found to be significantly positive in determining the disclosure level of mandatory information only under the full regression model. Although the significance of this variable is weak (at the 10% level of significance), it would trigger future research in examining its influence on disclosure scores.

Finally, it was found that the variables total sales, market capitalisation, proportion of shares owned by outsiders, profit margin, parent company size, and type of external auditor were less useful in explaining the variations in disclosure scores. The consistent results obtained for the variable total assets (representing firm size) may reflect the nature of the variable itself which has proved to be significant in most accounting and finance literature. So, it is not surprising to find the same results obtained in this study. As for the other variables, the theoretical support for them is less than convincing and it is no surprise that previous studies have shown that their relationships with the extent of disclosure to be inconsistent. These results were repeated here. This study, using three different points of time (partial longitudinal study) further supports the evidence that such variables may be negatively or positively related to the extent of disclosure or they may not have any relationship with the disclosure score. In addition, the measures used by researchers in measuring the variables were not the same. For example, in measuring leverage some researchers used total debt to outstanding equity, while other researchers used long-term debt to total assets. As such, it is not surprising to find that the same variables used in different studies produced inconsistent results. This may suggest that the explanatory variables employed may represent blunt or crude measures of influence on the extent of corporate disclosure.

CHAPTER TWELVE

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

12.1 Introduction

The primary aim of this chapter is to (a) provide a summary of the background of the research project; (b) present the limitations of the study; (c) summarise the major findings; and (d) provide some recommendations for future research. The rest of the chapter is organised as follows: Section 12.2 provides a brief review of the research project and the methodology employed; Section 12.3 summarises the major findings of the study, the results of which have supported or refuted the findings of earlier studies; Section 12.4 discusses the limitations and problems encountered in conducting the research project; and finally Section 12.5 describes further areas that could be explored in future research.

12.2 The Background of the Study

As Malaysia is moving towards achieving a status of developed country in the year 2020, rapid industrialisation programme has been implemented by the Malaysian government including the active role by the private sector to promote economic growth especially in the manufacturing, construction and services sectors. This would have a significant impact on the corporate financial reporting environment in Malaysia. Since the annual reports served to be the main communication channel between a business enterprise and its users, both at the national and the international levels, regulation of corporate disclosure is deemed necessary to safeguard the interest of the public especially the stakeholders who have a direct interest with the enterprise. Corporate disclosure quality would then be largely determined by the willingness of the management of such enterprise to disclose information that merely satisfies the minimum requirements of law or to go beyond that by providing additional information as to assist the users in making their decision regarding the company. This study was undertaken to examine empirically (i) the extent of disclosure of information in annual reports of public listed companies in Malaysia, and to relate its possible relationship with some corporate attributes; (ii) the perception of two user groups in Malaysia with regard to the importance of selected items of information that may appear in the annual reports.

The study then moved to discuss the term 'disclosure' by identifying nine dimensions of the broad concept of disclosure in the context of financial reporting. This was discussed in Chapter 2. The chapter also presented the variables that could determine the level of disclosure of information in a country, which were classified into national and international influence.

The next chapter, Chapter Three dealt with the review of previous literature regarding (a) user perceptions on the importance of items of information that may appear in the annual reports; and (b) the extent of disclosure of information in corporate annual reports and its association with some firm-specific attributes. The literature review covered both studies done in developed as well as developing countries. The review of previous studies revealed that the perception of different user groups varied according to the different types of information items. The corporate attributes employed in the studies also varied in number, ranging from as low as one to fifteen variables. Some conflicting results were also noted which suggested for further testing or refinements of the variables in future research in examining its consistency of influence on disclosure score, as what the present study sought to accomplish.

In the next chapter, Chapter Four provided a brief overview of the political, economic and geographic background of Malaysia. The rationale for regulation of corporate disclosure and the role of various bodies at the national and international levels were discussed. It was demonstrated that disclosure regulation in Malaysia (concerning company law) was largely influenced by external factors due to its colonial ties. The role of international accounting bodies such as the IASC and the IFAC also had a great impact on the development of accounting standards in the country. Another new internal influence was the increasing role of the government in the standards-setting process with the creation of the Securities Commission in 1993 that led to the proposed establishment of the Malaysian Accounting Standards Board (MASB) in October 1996.

The next chapter, Chapter Five described the accounting regulation in Malaysia with special emphasis on the provisions contained in the Companies Act, 1965 and the approved accounting standards issued by the MIA and MACPA. It revealed that the number of disclosure items required by law has increased substantially due to the several amendments that have taken place in the Companies Act since 1985. The same applies to the increasing number of IASs adopted by MIA and MACPA after considering their applicability to the Malaysian environment. The chapter also discussed the concepts of 'materiality' and 'true and fair view' in relation to disclosure of information.

The next two chapters (Chapters Six and Seven) described the research methodology and data sets employed in the study. In order to evaluate the importance of information items as perceived by the two user groups, a survey questionnaire was developed. In order to obtain a high response rate, two methods of survey were carried out, one using a personal interview, and the other involved mail questionnaire method. 150 questionnaires were distributed to each user group. 55 and 80 useable questionnaires were collected from the accountants and financial analysts' groups respectively; representing a response rate of 37% and 53% respectively for the two groups, or an overall response rate of 45%. The second stage of analysis involved measuring the extent of disclosure of information in the annual reports of 54 selected companies based on a disclosure checklist containing 202 items of information. Three unweighted disclosure indices were used namely Overall Disclosure Index, Mandatory Disclosure Index and Voluntary Disclosure Index. Disclosure scores for each index were calculated by dividing the number of actual items disclosed by the maximum possible number of items disclosed by a company. The main results are presented in the next section.

12.3 Conclusions and Major Findings

The eleven hypotheses formulated earlier are listed below:

1. There is no significant difference between the two user groups with regard to their purposes of using the annual reports.
2. There is no significant difference between the two user groups with regard to their perceived importance of various sources of information.
3. There is no significant difference between the two user groups with regard to the perceived importance they attach to different parts contained in the annual reports.
4. There is no significant difference between the two user groups with regard to the degree of influence of different parts contained in the annual reports on their decision making process.
5. There is no significant difference between the two user groups regarding the degree of thoroughness in reading the contents of the annual report.
6. There is no significant difference between the two user groups in their perceived importance of selected items of information that may appear in the annual reports.
7. There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies.
8. There is no difference between the items disclosed in corporate annual reports and the regulatory disclosure requirements in Malaysia.
9. There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies across different industries.
10. There is no difference between the items disclosed in corporate annual reports and the needs of two user groups in Malaysia.
11. There is no relationship between the quality of disclosure and various corporate attributes such as total assets, annual sales, etc.

The discussion below attempts to summarise sequentially the results of testing all the eleven hypotheses.

12.3.1 Hypothesis 1: Users' Purposes of Using the Annual Reports

There is no significant difference between the two user groups with regard to their purposes of using the annual reports.

This hypothesis was rejected for four purposes of using the annual reports. The two user groups revealed significant differences in using the annual reports for the following four purposes: (a) for reading or academic interest, (b) for making decision on behalf of clients or employer, (c) for advising clients, and (d) for other purposes. The accountants' group revealed more interest for items (a), (b) and (c) than the financial analysts' group. The financial analysts' group used the annual reports 'for other purposes' that were unique according to the nature of their job which were more research-based such as in evaluating companies' track record, measuring their creditworthiness and evaluating their current and future prospects that will contribute to future earnings. However, both groups revealed similar purpose of using the annual reports for buying, holding or selling shares in their own capacity (63%) and less preferences were given for the purposes of negotiating labour contract, trade agreement, granting trade credit, exercising their discretion as government official or in appraising the social contribution of companies.

12.3.2 Hypothesis 2: Importance of Various Sources of Information.

> There is no significant difference between the two user groups with regard to their perceived importance of various sources of information.

This hypothesis was rejected for five sources (out of 14 sources) of information namely: (a) communications with management, (b) corporate press releases, (c) interim reports of companies, (d) stockbrokers' advice and reports and (e) visits to companies. All the five sources of information were given more importance by the financial analysts' group than the accountants' group. Both groups, however, revealed similar views on the importance of advisory services, annual reports and prospectus in making business decision.

12.3.3 Hypothesis 3: Importance of Different Parts of the Annual Reports.

> There is no significant difference between the two user groups with regard to the perceived importance they attach to different parts contained in the annual reports.

This hypothesis was rejected for seven parts (out of 14 parts) parts of the annual reports namely: (a) accounting policies, (b) auditors' report, (c) statement of changes in financial position, (d) statistical data or summary of operations, (e) management discussion and analysis of operations of preceding years, (f) management discussion and analysis of operations of the coming year, and (g) management forecast of expected profits (losses) for the coming year. The accountants' group gave more preference on item (a) and (b) while the financial analysts' group showed more preference on item (c) to (g) than the accountants' group.

12.3.4 Hypothesis 4: Influence of Different Parts of the Annual Reports.

> There is no significant difference between the two user groups with regard to the degree of influence of different parts contained in the annual reports on their decision making process.

This hypothesis was rejected for the same seven parts reported in hypothesis 3 above. It seemed that what was considered as 'important' to these two user groups also conveyed the same meaning of 'influence' of the different parts of the annual reports on their decision making.

12.3.5 Hypothesis 5: Thoroughness in Reading Different Parts of the Annual Reports.

> There is no significant difference between the two user groups regarding the degree of thoroughness in reading the contents of the annual report.

This hypothesis was rejected for four parts or sections (out of 10 parts) of the annual reports namely: (a) auditors' report, (b) profit and loss account, (c) statement of changes in financial position, and (d) statistical data or summary of operations. The accountants' group preferred to read more on auditors' report, while the financial analysts' group showed more interest in reading items (b) to (d) than the accountants' group.

12.3.6 Hypothesis 6: Users' Perceived Importance on Selected Information Items

> There is no significant difference between the two user groups in their perceived importance of selected items of information that may appear in the annual reports.

This hypothesis was rejected for 31 (55%) items out of the 56 items of information. In other words, both groups perceived differently on the importance of these items, but they have similar perceptions on the remaining 25 items. The 31 items consisted of both mandatory (20 items) and voluntary (11 items). The financial analysts' group gave more importance on detail breakdown of items in the profit and loss account and the balance sheet such as major sources of revenue, detailed operating expenses, segmental information and historical data spanning for more than two years. Comparison of the results with two similar studies in Nigeria and Bangladesh revealed that there were strong positive relationships between the mean scores of these two user groups in the three countries.

12.3.7 Hypothesis 7: Disclosure Indexes - Disclosure Practices

> There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies.

This hypothesis was rejected for all the three aggregated disclosure indexes except for the voluntary disclosure scores obtained in 1974 and 1984, where the scores obtained were relatively the same. The overall and mandatory disclosure indexes revealed an increasing trend in disclosure level by 50% and 57% respectively between 1974 and 1984 and then increased at a slower pace by 29% and 28% respectively between 1984 and 1994. The voluntary disclosure index, however, recorded an increase in disclosure level at much slower rate by only 20% between 1974 and 1984, and then increased slightly by 38% between 1984 and 1994. The hypothesis was also rejected when it was tested along the dimension of the different parts of the annual reports except for social reporting where the scores for 1974 and 1984 were relatively the same. The overall disclosure index of the sampled companies ranged from 44% to 71% in 1974, from 48% to 79% in 1984 and from 67% to 93% in 1994. The range of this index was larger than those reported in previous studies by Wallace (1987) on Nigeria who reported a range of 17%, but narrower than those reported by Marston (1986) on India (52%) and Karim (1995) on Bangladesh (50%).

12.3.8 Hypothesis 8: Compliance with Disclosure Regulations

> There is no difference between the items disclosed in corporate annual reports and the regulatory disclosure requirements in Malaysia.

To test this hypothesis, the mandatory disclosure items were used to examine the degree of compliance by companies to disclosure requirements. This hypothesis was supported when 32 mandatory items that were applicable to all companies were examined. The results indicated that the degree of compliance has increased considerably from 75% (in 1974) to 78% and 100% in 1984 and 1994 respectively. However, if the criterion of non-applicable items was dropped, whereby a company was awarded a zero score for not disclosing such item even though the item was not relevant to its nature of business operation, the degree of compliance would be much lower, i.e. by only 50%, 55% and 66% in 1974, 1984 and 1994 respectively.

12.3.9 Hypothesis 9: Disclosure Indexes - Disclosure Practices Across Industries

> There is no difference in the quality of information disclosed in annual reports of Malaysian public listed companies across different industries.

This hypothesis was supported when the one-way ANOVA test revealed no significant differences between the scores obtained across all the six different sectors. The reason for supporting this hypothesis may be due to the small number of companies that represent each sector or industry in the sample.

12.3.10 Hypothesis 10: Users' Perceptions and Disclosure Practices

> There is no difference between the items disclosed in corporate annual reports and the needs of two user groups in Malaysia.

There is a considerable convergence between the actual disclosure and desired disclosure in respect of all the mandatory items with consistency ratings of more than 75%. Twenty-eight items show consistency ratings of 100%, with nine of them ranked by users as being in the ten most important items to disclose. On the other hand, there is a considerable divergence between the actual disclosure and desired disclosure in respect of voluntary items. Only seven (41%) out of 17 voluntary items have consistency ratings of more than 50%. The lowest consistency rating was found for items relating to social responsibility reporting.

As such, the hypothesis was rejected for the voluntary disclosure items but was accepted for the mandatory disclosure items.

12.3.11 Hypothesis 11: Disclosure Indexes - Corporate Attributes

> There is no relationship between the quality of disclosure and various corporate attributes such as total assets, leverage, etc.

Assets' size, scope of business operation and liquidity ratio were found to be significantly associated with all the three disclosure indexes. Leverage was found to be significantly related to the extent of mandatory disclosure index, and type of management was significantly associated with voluntary disclosure index. However, all the above variables did not produce consistent results over the three selected years when different regression models were introduced. Apart from that, some variables also only revealed weak relationships with the some disclosure indexes. For example, number of shareholders, corporate image, liquidity ratio and financial year end shown weak relationships with mandatory disclosure index in either one of the three selected years. In terms of direction of relationship, only the variable assets' size produced a positive relationship with all the three disclosure indexes, though not significant in all cases.

12.4 Limitations and Problems

This study has its own limitations and this matter has to be considered in interpreting the results.

- This study focused on the disclosure of information in the annual reports only. There are other sources of information available such as corporate press releases, newspapers, government publications, etc. If companies have somehow released some information through these various channels of communication, this will affect the amount of information to be disclosed in the annual reports. If the information was required by law, the company may be obliged to disclose it again in the annual reports. However, if the information is voluntary in nature, it may or may not be disclosed at all depending on the discretion of the management.

- The disclosure index used in this study is just a relative measure. Marston and Shrive (1987) argued that there are problems with regard to reliability and validity in using such an index. The index scores are considered reliable if the results can be replicated by another researcher. This may not pose significant problems because the scores are derived from published annual reports. The additional problem arises in awarding the score for each item of information. Will it be a full score, partial score or whether weighted scores should be used rather than unweighted score. A Problem also arises in determining which items are to be considered applicable (or non-applicable), relevant or irrelevant to a company. For example, if contingent liabilities are not disclosed, does it mean that the company is not willing to disclose such an item or that there is no economic event or transaction that has taken place that requires such disclosure. Previous researchers have adopted different ways in addressing this problem. For example, Buzby (1974b) only used disclosure items that were considered relevant to all companies; whereas Cooke (1989a, 1989b) and Wallace (1988a) used to read the whole annual reports and made a suitable judgement as to whether an item was either not relevant or not disclosed by the company. This study employed the same approach as adopted by Cooke (1989a, 1989b) and Wallace (1988a).

The issue of validity here refers to whether the index scores do capture what the researchers intended to measure or do the index scores have any meaning in relation to disclosure of information. Previous studies using disclosure indices revealed that no one particular index has gained favour with researchers. Most researchers developed their own index to suit their particular research environment and their own research goals. As such there is no universal list of information items that could be used by all researchers in measuring disclosure levels. The disclosure checklist developed in this study might only be suitable to a Malaysian environment or it may be generalisable to some extent to other developing countries which have relatively similar disclosure items in terms of the requirements of company law or the adoption of the same IASs. Despite the limitations pointed out in the above discussion, disclosure indices have been regarded as useful tools in measuring disclosure adequacy. If the disclosure index is properly designed to meet a particular purpose and the unit of analyses (items or companies) is properly managed in terms of size and coverage, and further complemented with qualitative analyses, many of the problems discussed above will not arise.

- Only two user groups were employed in this study. The accountants group mainly represent those working in the public sector. Those working in private sectors such as in manufacturing and trading companies were not included in the sample. The majority of the analysts' group was selected from those working in merchant banks, stockbroking firms and unit trust companies. Financial analysts working in other areas such as in insurance industry or in government institutions were excluded. As such the perceptions of these two groups may not represent the 'general users' in Malaysia as there were many other user groups not covered in this study such as private investors, managers, government officials, etc.

- The list of items in the questionnaire was considered as relatively small (56 items) consisting of both mandatory (39 items) and voluntary (17 items) items. The number of items in the questionnaire did not correspond to the number of items in the disclosure checklist. As such, the investigation of whether the items disclosed in the annual reports did correspond to the needs of user groups could only be undertaken based on the 56 items rather than the whole 202 items in the checklist. However, the number of items developed in both the questionnaire and the disclosure checklist should reflect the objective of the study. By reducing the length of questionnaire may lessen the burden of respondents in completing it and would provide a high response rate, but at the same time losing much of the information needed on user perceptions regarding a wide array of disclosure items. The number of items included in the questionnaire was revised five times and finally reduced from 102 items to 56 items with the view that a long questionnaire would have a greater tendency to discourage respondents from completing it. On the other hand, the disclosure checklist was developed to measure the concept of 'adequate disclosure'. As such the number of items to be included rest at the discretion of the researcher after considering the various disclosure requirements and general disclosure practices by companies.

- In order to examine the perception of the two user groups, a survey questionnaire was developed. The main problem related to most survey questionnaire is in gaining a relatively high or good response rate. There are pros and cons in choosing the best methods of conducting a survey questionnaire either by using mail questionnaire, or by personally distributing it to the respondents or by conducting an interview. It was considered that multiple methods would be most appropriate since it could capture the sense of the reality (as suggested by Loveridge, 1990). As such the researcher employed three methods in conducting the survey: (a) by conducting an interview, (b) by personally distributing the questionnaire, and (c) by mailing the questionnaires.

- The initial plan of this survey was to compare the contents of annual reports from both listed as well as non-listed companies in order to provide a true picture of the general disclosure levels by companies in Malaysia. The researcher also planned to employ the longitudinal approach in analysing disclosure of information by gathering annual reports from companies incorporated in Malaysia during the late 1960s or early 1970s from their first published annual reports up to those published in 1994. This was not possible for two reasons. Firstly is the great difficulty in obtaining annual reports of unlisted companies. A request for some annual reports from the ROC in 1995 resulted in a reply saying that the Registry only kept annual reports for the last five years. As such, the unlisted companies were totally excluded. For the listed companies, out of 364 listed companies on the KLSE (in 1994), 54 companies belong to the unit trusts, finance and insurance industry. These companies were excluded due to different law requirements as to disclosure of information. Out of the remaining companies, only 123 companies were incorporated during that particular period (1965 to 1974). These listed companies are not too generous in providing their annual reports especially those that dated as far back as 1965s to early 1970s. As such, it was decided that the earliest annual reports should be taken from 1974 onwards up to 1994. Secondly, to conduct a longitudinal approach of disclosure study would require 20 annual reports to be collected from each company to cover the whole 20 year period. If twenty annual reports were to be collected from 123 companies, the total number of annual reports that need to be analysed would be 2,460 copies. This would be considered too large, too costly, time consuming and unmanageable. A change in disclosure level would only be noticeable if there were significant events taking place in the country that would have significant impact on corporate disclosure practice. For example, since the Malaysian Companies Act was enacted in 1965, a lapse of ten years was considered reasonable to see any changes in disclosure levels by companies that would indicate to extent to which they have complied to law requirements. As a result, it was considered reasonable to choose only three different years which were ten years apart from each other as the base years in analysing annual reports of companies. As such, the total number of companies included in the sample was reduced to 54 companies which represents 44% of the total eligible companies. This gave a total of 162 annual reports analysed in the study.

12.5 Recommendations for Future Research

Considering the previous discussion of the major findings and conclusions of this study, there are possible avenues that can be explored in future research regarding corporate financial disclosure practices and users' perceptions survey.

• instead of using the annual reports as the main unit of analysis, researchers may also choose other sources of information to capture the disclosure levels by firms such as interim reports, corporate press releases, prospectuses or newspapers.

• Rather than choosing a sample of companies representing different industries, it would also be possible to choose those companies belonging to only one particular industry so as to capture which items were generally applicable to that industry. This would also enable one to develop a disclosure index that could represent each particular industry as there are specific items that are peculiar to each industry. This would partially solve the problem of relevant or irrelevant items to a particular firm as discussed earlier and would facilitate the awarding of scores to companies in such sector or industry.

• Since this study was only a first step in applying a longitudinal approach based on annual reports published in only three different years, it can be replicated to include a number of continuous years for example, ten-years period or fifteen-years period so as to discover possible changes in the accounting systems of the country. It would be even better if this type of research could be institutionalised so that its regular results could provide the necessary input for policy action in the future. The use of longitudinal approach on disclosure practice in Malaysia or any other developing country would provide an interesting dimension to the literature of international accounting.

• This study can also be replicated in other countries in terms of testing the significance of the same explanatory variables over a number of years (longitudinal approach) in order to examine their consistency of influence on disclosure levels by companies. This would also enable one to see the trends in disclosure levels over the period and identify any significant events that took place in the country which could be considered as country specific or environmental specific variables that could have an influence on disclosure scores. So far, researchers have been focusing much more on firm-specific variables, but neglecting other variables that could influence disclosure levels by companies. As such, it was not surprising to find that the findings of this study and the previous studies produced mixed results in terms of the significance of the variables over time, as well as the direction of their relationships. This may be due to the fact that other external factors were not included in the model. The external factors may include the role of international accounting organisations or intergovernmental bodies such as the IASC and the World Bank, multinational enterprises, etc.

• Instead of using public listed companies in the main board, it may also be worthwhile to examine the level of disclosure of information in the annual reports of those companies listed in the second board category. This would enable one to see the corporate reporting behaviour by firms which are trying to qualify for entrance into the main board category. Even though unlisted companies have been excluded due to the problems mentioned in the previous section, it would be worthwhile to investigate the level of disclosure in this type of companies at a point of time and compare it with those of listed companies. This would confirm whether the differences which have been established to exist (in previous research) between these two categories of companies do in fact exist in Malaysia and whether such differences can be explained by the differences in size, type of management, liquidity ratio, etc. The same comparison can also be made between reporting practice of private firms and firms which have some government interest in its equity.

• Finally, there is a need to examine the perceptions of the two user groups included in this study in other countries (developed and developing) or the nearby countries such as among the ASEAN countries or other Asian countries to see whether the degree of consensus (or disagreement) between the two groups also exist in these countries. This would, hopefully, support or refute the implicit notion that the perceptions of the financial analysts' group act as a better surrogate than the accountants' group to represent the perception of other user groups (such as private investors) in general, or vice versa.

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UNIVERSITY OF
NEWCASTLE

15th April 1996

Dear Respondent,

Department of Accounting and Finance
University of Newcastle
Newcastle upon Tyne NE1 7RU

Disclosure of Accounting Information in Annual Reports of Companies in Malaysia[1]

Annual reports have been regarded as one of the best sources of information by various user groups in understanding the nature of firms' activities and their performance for a particular period of time. These reports could greatly influence the behaviour of each user group, especially in making decisions as to whether to invest or not to invest their scarce resources of money, time, raw materials and labour in the reporting entities. However, less is known about the uses of such reports or to what extent they are used by the various user groups, and whether the contents of such reports are adequate or comprehensive enough as to assist the users in making their decision. As such, there is a need to determine the extent of disclosure in the annual reports of companies. Accounting disclosure in Malaysia have been greatly influenced by statutory requirements prescribed in the Companies Act, 1965, the Securities Industry Act 1983, and the Listing Requirements of the Kuala Lumpur Stock Exchange (KLSE) as well as the approved accounting standards determined by the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA).

The main focus of the research is to:

1. determine the extent of compliance by companies with respect to various disclosure requirements.
2. measure whether the present disclosure items are adequate in meeting the needs of various user groups - investors, employees, government, customers and the public in Malaysia.

The ultimate aim is not only to portray the present state of financial reporting, including regulatory requirements and users' expectations, but also to provide findings that may be useful to the related agencies or interested parties for the betterment of financial reporting in Malaysia. This study attempts to measure the evaluation by users and/or preparers as to the importance of items disclosed in annual reports. This questionnaire contains a list of items that represents:

(a) present statutory disclosure requirements,
(b) items that are regarded as voluntary disclosure.

This research is under the supervision of Professor A. R. Appleyard, Northern Society Professor of Accounting and Finance, University of Newcastle upon Tyne, U.K.

You are one of the few users of financial reports being selected to take part in this study. In order that the results of this research truly represent the actual or perceived needs of the various users of financial reports in Malaysia, it is important that each questionnaire be completed and returned. As far as possible, responses to the questionnaire should be based on your judgement (or experience) of the importance of the items of information in the annual reports in meeting your particular needs. The validity of the results of this study relies greatly on the objectivity that you exercised in rating each item of information.

It will be greatly appreciated if you could spend some of your time in completing this questionnaire. Based on a pilot test of this questionnaire, it would take about 20 to 35 minutes to complete it.

All individual responses will be kept confidential and will be used solely for research purposes. The code at the top right-hand corner will be used to facilitate statistical analysis and for follow-up of non-respondents. All comments and suggestions described by responders, if relevant to the study, will not be identified in any way. So, feel free to respond.

The questionnaire is divided into two parts. Part I seeks general information about you. Please tick or write your response in the boxes or spaces provided. Part II requires information about your perception of the items of information. For each item of the questionnaire, it is firstly worded in the English language. Then, it is translated to a similar concept/meaning in the Malay language (in italics).

A stamped and addressed envelope is enclosed for your convenience. I certainly would appreciate your completing and returning the questionnaire before 10th of June 1996. Thank you again for your time. If you are interested in the results of the survey, please indicate at the end of the questionnaire and I will be happy to furnish you with a summary of the findings when it is ready.

Your co-operation is very much appreciated.

Thank you.

Yours truly,

Azhar Abdul Rahman
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University of Newcastle upon Tyne,
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RESEARCH QUESTIONNAIRE
ON
DISCLOSURE OF ACCOUNTING INFORMATION
IN ANNUAL REPORTS OF COMPANIES
IN MALAYSIA

SOALSELIDIK PENYELIDIKAN
MENGENAI
PENDEDAHAN MAKLUMAT PERAKAUNAN
DI DALAM LAPORAN TAHUNAN SYARIKAT-SYARIKAT
DI MALAYSIA

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A R Appleyard

ARA/pp

13th February 1996

To whom it may concern:

AZHAR ABDUL RAHMAN

This is to confirm that **Azhar Abdul Rahman** is a PhD student under my supervision in the Department of Accounting and Finance. The enclosed questionnaire is part of his study on 'Disclosure of Accounting Information in Annual Reports of Companies in Malaysia'.

It is very important to the success of this research project that your response be included to make the results of the study valid.

I appreciate your cooperation in responding to this questionnaire. I believe that the study would make a significant contribution in the area accounting and I strongly support that he be given the necessary assistance to enable him to pursue his endeavour.

A Appleyard

....

Professor A R Appleyard
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Enclosures

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Telex · 53654 (UNINEW G)

Part I (General Information)
Bahagian I (Maklumat Umum)

1. What is your occupation ?____________________ A[0-7]
   Apakah pekerjaan anda?

2. Have you ever had any formal educational training in accounting, finance, investment and the like?
   Adakah anda pernah menjalani latihan pendidikan formal dalam bidang perakaunan, kewangan, pelaburan atau yang bersangkutan dengannya?

   None *(Tiada)* ☐ [8]
   Yes *(Ya)* ☐ Describe the nature of the training [9]
   (Nyatakan jenis latihan yang diperolehi)

   ____

   ____

3. Have you ever been employed in a job in which you became familiar with accounting, finance, investment and the like?
   Adakah anda pernah memegang sebarang jawatan yang membolehkan anda mengenali dengan lebih jauh tentang bidang perakaunan, kewangan, pelaburan atau yang bersangkutan dengannya?

   None *(Tiada)* ☐ [10]
   Yes *(Ya)* ☐ Describe the nature of the job [11]
   (Nyatakan jenis tugas yang dijalankan)

   ____

   ____

4. Do you use financial reports as a basis for making any decisions about a company?
   Adakah anda menggunakan laporan tahunan sebagai asas bagi membuat sebarang keputusan mengenai sesebuah syarikat?

   Yes *(Ya)* ☐ No *(Tidak)* ☐ [12]

5. For what purpose(s) do you use financial reports ?
   (Please tick as many boxes as are relevant to you).
   Apakah tujuan anda menggunakan laporan tahunan?
   (Tandakan seberapa banyak jawaban yang relevan dengan anda)

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For reading or academic interest (*Kerana minat membaca atau tujuan akademik)* ☐ [14]
To decide if to buy, hold or sell shares in my private capacity ☐ [15]
(Bagi membuat keputusan samada untuk membeli, memegang atau menjual saham secara peribadi)
To negotiate labour contract (*Untuk merundingkan perjanjian buruh)* ☐ [16]
To negotiate trade agreement (*Untuk merundingkan perjanjian dagangan)* ☐ [17]
To grant trade credit (*Untuk meluluskan kredit dagangan)* ☐ [18]
To make decision on behalf of clients or employer ☐ [19]
(*Untuk membuat keputusan bagi pihak pelanggan atau majikan)*
To exercise discretion as a government official ☐ [20]
(Untuk menggunakan budibicara sebagai pegawai kerajaan)
To advise clients (*Untuk menasihati para pelanggan)* ☐ [21]
To appraise the social contribution of a company to the country ☐ [22]
(Untuk menilai sumbangan sosial syarikat terhadap negara)
Other (please specify)____ [23]
Lain-lain (sila nyatakan)

6. If you are a shareholder, how many companies do you hold shares in ?
Sekiranya anda merupakan pemegang saham mana-mana syarikat, berapa buah syarikatkah anda memiliki kepentingan saham?

_______company/companies [24]
syarikat

7. If you hold shares in more than one company, would you spend more time reading the annual reports?
Sekiranya anda mempunyai saham dalam lebih dari satu syarikat, adakah anda akan meluangkan lebih banyak masa untuk membaca laporan tahunan syarikat?

Yes ☐ No ☐ [25]
(Ya) *(Tidak)*

8. Are you a director of any company ?
Adakah anda menjadi pengarah dalam mana-mana syarikat?

Yes (*Ya)* ☐ No (*Tidak)* ☐ [26]

9. In making your decision about the company how would you rank the following sources of information?
(Please use a scoring scale of 1, 2, 3, 4, 5 awarding 5 to the most important and 1 to the least important. Please circle the number of your score)

please turn over ⇨

Dalam membuat keputusan mengenai sesebuah syarikat, apakah pangkatan kepentingan yang anda berikan kepada sumber-sumber maklumat berikut? (Sila gunakan skala skor 1, 2, 3, 4, 5, iaitu memberikan skor 5 bagi maklumat yang paling penting, dan skor 1 bagi maklumat yang tidak penting)

Information sources (*Sumber maklumat*)	Ranking (*Pangkatan*) low (*rendah*)				high (*tinggi*)	
Advice of friends (*Nasihat rakan-rakan*)	1	2	3	4	5	[28]
Advisory services (e.g. accountants, financial analysts) (*Khidmat nasihat (misalnya akauntan, juruanalisis kewangan)*)	1	2	3	4	5	[29]
Annual report of companies (*Laporan tahunan syarikat*)	1	2	3	4	5	[30]
Communications with management (*Komunikasi dengan pihak pengurusan*)	1	2	3	4	5	[31]
Corporate press releases (*Kenyataan akhbar syarikat*)	1	2	3	4	5	[32]
Government publications (*Penerbitan kerajaan*)	1	2	3	4	5	[33]
Interim reports of companies (*Laporan berkala syarikat*)	1	2	3	4	5	[34]
Business magazines (*Majalah perniagaan*)	1	2	3	4	5	[35]
Prospectuses (*Prospektus*)	1	2	3	4	5	[36]
Newspapers (*Akhbar*)	1	2	3	4	5	[37]
Proxy statements (*Penyata proksi*)	1	2	3	4	5	[38]
Stockbrokers advice and reports (*Nasihat dan laporan broker saham*)	1	2	3	4	5	[39]
Tips and rumours (*Maklumat dalaman dan khabar angin*)	1	2	3	4	5	[40]
Visits to companies (*Lawatan ke syarikat*)	1	2	3	4	5	[41]
Other sources (please identify) *Sumber-sumber lain (sila nyatakan)* ______________________	1	2	3	4	5	[42]

Question 10 and 11 is specifically for Investment Analysts only.
Soalan 10 dan 11 dikhususkan untuk Juruanalisis Pelaburan sahaja.

10. Is the ranking of the information sources (in Question 9) influenced by the recommendation to buy, hold or sell shares?
Adakah pangkatan sumber-sumber maklumat (dalam soalan 9) dipengaruhi oleh cadangan untuk membeli, memegang atau menjual saham?

Yes (*Ya*) ☐ No (*Tidak*) ☐ [43]

please turn over ⇨

11. How would you describe yourself?
(Please tick the box relevant to you. If you are in box 'c', please tick the relevant sub-box in that section)
Nyatakan jenis pekerjaan anda. (Tandakan kotak yang relevan dengan tugas anda. Sekiranya anda tergolong dalam kumpulan 'c', tandakan kotak kecil yang berkait dengannya)

- a. Security analyst (*Juruanalisis sekuriti*) ☐
- b. Investment counsellor (*Penasihat pelaburan*) ☐
- c. Fund or money manager (*Pengurus dana/wang*) ☐ [45]
  - in Insurance Company (*dalam Syarikat Insuran*) ☐
  - in Pension Fund (*dalam Dana Pencen*) ☐
  - in Merchant Bank (*dalam Bank Saudagar*) ☐
  - in Commercial Bank (*dalam Bank Perdagangan*) ☐
  - in Treasury of Government (*dalam Perbendaharaan Kerajaan*) ☐
- d. Other (please specify)______________________________ [46]
  *Lain-lain (sila nyatakan)*______________________________

12. What ranking of importance would you give to the following parts of a company annual report?
(5 = very-very important, 4 = very important, 3 = important, 2 = less important, 1 = not at all important)
Apakah pangkatan kepentingan yang boleh anda berikan kepada bahagian-bahagian dalam laporan tahunan syarikat seperti berikut?
(5 = teramat penting, 4 = sangat penting, 3 = penting, 2 = kurang penting, 1 = tidak penting samasekali)

	low *(rendah)*				high *(tinggi)*	
Accounting policies (*Polisi perakaunan*)	1	2	3	4	5	[47]
Auditors' report (*Laporan juruaudit*)	1	2	3	4	5	[48]
Balance sheet (*Lembaran imbangan*)	1	2	3	4	5	[49]
Directors' report (*Laporan pengarah*)	1	2	3	4	5	[50]
Chairman's statement (*Penyata pengerusi*)	1	2	3	4	5	[51]
Profit & loss statement (*Penyata untung & rugi*)	1	2	3	4	5	[52]
Notes to the accounts (*Nota kepada akaun*)	1	2	3	4	5	[53]
Pictorial statements (*Penyata gambarajah*)	1	2	3	4	5	[54]
Statement of changes in financial positions (*Penyata perubahan kedudukan kewangan*)	1	2	3	4	5	[55]
Statistical data or summary of operations (*Data statistik atau ringkasan operasi*)	1	2	3	4	5	[56]
Management discussion and analysis of operations of preceding year(s) (*Perbincangan dan analisis pengurusan mengenai operasi tahun-tahun terdahulu*)	1	2	3	4	5	[57]

please turn over ⇨

	low (*rendah*)				high (*tinggi*)	
Management discussion and analysis of operations of the coming year *(Perbincangan dan analisis pengurusan mengenai operasi tahun yang akan datang)*	1	2	3	4	5	[59]
Management forecast of expected profits (losses) for the coming year *(Unjuran pengurusan mengenai jangkaan untung (rugi) bagi tahun akan datang)*	1	2	3	4	5	[60]
Profiles of the Board of Directors *(Profail lembaga pengarah)*	1	2	3	4	5	[61]

13. What degree of influence does each part have in relation to your purpose of reading the annual report?
(5 = maximum, 4 = considerable, 3 = moderate, 2 = slight, 1 = none. Please circle the number of your score).
Sejauhmanakah bahagian-bahagian laporan tersebut boleh mempengaruhi tujuan anda membaca laporan tahunan berkenaan?
(5 = maksimum, 4 = besar, 3 = sederhana, 2 = sedikit, 1 = tiada. Sila bulatkan nombor jawaban anda).

	none (*tiada*)				maximum (*maksimum*)	
Accounting policies *(Polisi perakaunan)*	1	2	3	4	5	[62]
Auditors' report *(Laporan juruaudit)*	1	2	3	4	5	[63]
Balance sheet *(Lembaran imbangan)*	1	2	3	4	5	[64]
Directors' report *(Laporan pengarah)*	1	2	3	4	5	[65]
Chairman's statement *(Penyata pengerusi)*	1	2	3	4	5	[66]
Profit & loss statement *(Penyata untung dan rugi)*	1	2	3	4	5	[67]
Notes to the accounts *(Nota kepada akaun)*	1	2	3	4	5	[68]
Pictorial statements *(Penyata gambarajah)*	1	2	3	4	5	[69]
Statement of changes in financial positions *(Penyata perubahan kedudukan kewangan)*	1	2	3	4	5	[70]
Statistical data or summary of operations *(Data statistik atau ringkasan operasi)*	1	2	3	4	5	[71]
Management discussion and analysis of operations of preceding year(s) *(Perbincangan dan analisis pengurusan mengenai operasi tahun-tahun terdahulu)*	1	2	3	4	5	[72]
Management discussion and analysis of operations of the coming year *(Perbincangan dan analisis pengurusan mengenai operasi tahun yang akan datang)*	1	2	3	4	5	[73]

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	none (*tiada*)				maximum (*maksimum*)	
Management forecast of expected profits (losses) for the coming year *(Unjuran pengurusan mengenai jangkaan untung (rugi) bagi tahun akan datang)*	1	2	3	4	5	[75]
Profiles of the Board of Directors *(Profail lembaga pengarah)*	1	2	3	4	5	[76]

14. How thoroughly do you usually read the following parts of the annual report? (1 = Do not read at all, 2 = Skim, 3 = Read briefly for interest, 4 = Read somewhat thoroughly, 5 = Read thoroughly. (Please circle the appropriate number)
Sejauhmanakah anda membaca bahagian-bahagian laporan tahunan berikut?
(1 = Tidak membaca samasekali, 2 = Membaca sepintas lalu, 3 = Membaca secara ringkas, 4 = Membaca dengan mendalam, 5 = Membaca dengan penuh mendalam. Sila bulatkan jawaban anda).

	Do not read at all *(Tidak membaca sama sekali)*				Read thoroughly *(Membaca dengan penuh mendalam)*	
Auditors' report *(Laporan juruaudit)*	1	2	3	4	5	[77]
Balance sheet *(Lembaran imbangan)*	1	2	3	4	5	[78]
Directors' report *(Laporan pengarah)*	1	2	3	4	5	[79]
Chairman's statement *(Penyata pengerusi)*	1	2	3	4	5	[80]
Profit & loss statement *(Penyata untung & rugi)*	1	2	3	4	5	[81]
Notes to the accounts *(Nota kepada akaun)*	1	2	3	4	5	[82]
Pictorial statements *(Penyata gambarajah)*	1	2	3	4	5	[83]
Statement of changes in financial positions *(Penyata perubahan kedudukan kewangan)*	1	2	3	4	5	[84]
Statistical data or summary of operations *(Data statistik atau ringkasan operasi)*	1	2	3	4	5	[85]
Profiles of the Board of Directors *(Profail lembaga pengarah)*	1	2	3	4	5	[86]

We would like to find out if your experiences are similar to those of other people like you. Please tick the boxes that apply to you.
(Kami ingin mengetahui samada pengalaman anda adalah sama atau tidak dengan mereka yang lain. Sila tandakan kotak jawaban yang relevan bagi anda).

15. Age
Umur

- Less than 21 years old *(Kurang daripada 21 tahun)* ☐
- 21 - 30 years old *(21 - 30 tahun)* ☐
- 31 - 40 years old *(31 - 40 tahun)* ☐
- 41 - 50 years old *(41 - 50 tahun)* ☐
- Above 50 years old *(Melebihi 50 tahun)* ☐ [87]

please turn over ⇨

16. Sex
Jantina

Male (*Lelaki*) ☐ Female (*Perempuan*) ☐ [89]

17. Marital status
Status perkahwinan

Married (*Berkahwin*) ☐ Single (*Bujang*) ☐
Widowed/widowered (*Balu/duda*) ☐ Separated (*Berpisah*) ☐
Divorced (*Bercerai*) ☐ [90]

18. Annual income
Pendapatan tahunan

Less than RM5,000 ☐
(*Kurang daripada RM5,000*)
RM 5,001 - 10,000 ☐
RM10,001 - 30,000 ☐
RM30,001 - 50,000 ☐
Above RM50,000 ☐ [91]
(Melebihi RM50,000)

19. Education
(Please indicate your highest level of education attained).
Tahap pengajian
(Sila tandakan peringkat pengajian tertinggi yang telah dicapai)

Primary ☐ [92]
Sekolah rendah

Secondary: LCE ☐ MCE or equivalents ☐ [93]
Sekolah menengah: *SRP* *SPM atau yang setara dengannya*

Higher school: A Level/HSC or equivalents ☐ [94]
Menengah tinggi: *STP atau yang setara dengannya*

Polytechnic/College: Certificate (*Sijil*) ☐ Diploma ☐
Politeknik/Maktab: Advance Diploma (*Diploma Lanjutan*) ☐ [95]

University: Bachelor (*Sarjanamuda*) ☐ Master (*Sarjana*) ☐
Universiti: Doctorate (*Doktor Falsafah*) ☐ [96]

please turn over ⇨

20. If you are a member of a professional body, which professional body do you belong to? (Please tick the box that applies to you).
Jika anda menjadi ahli kepada mana-mana badan profesional, sila nyatakan badan profesional berkenaan. (Tandakan kotak jawaban yang relevan).

Accountancy (*Perakaunan*)	☐	Law (*Undang-undang*)	☐	
Medicine (*Perubatan*)	☐	Engineering (*Kejuruteraan*)	☐	
Other (Lain-lain)	☐	Not applicable (Tidak berkenaan)	☐	[98]

21. Please state your Nationality
Sila nyatakan Kewarganegaraan anda

Malaysian *(Warganegara Malaysia)* ☐ [99]

Non-Malaysian *(Bukanwarganegara Malaysia)* ☐ [100]

(please specify)*(sila nyatakan)*____________________________

22. If you are from Malaysia from which state are you?
Jika anda adalah warganegara Malaysia, dari negeri manakah anda berasal?

__________________________ [101-113]

please turn over ⇨

Part II

Instructions

This part of the questionnaire offers a list of items which represents (a) presently mandatory items, and (b) voluntary disclosure items that are and could be presented in the annual reports of companies in Malaysia. You are requested to indicate the importance of the items into five categories. Each category represents varying degree of importance to you of having the items of information appear in the annual reports of companies. Your frame of reference for judging each item should be that of a person using the annual report as a major input to his/her decision making about the company.

The decision may be *to buy, hold or sell shares of the company; to bargain on behalf of employees for more wages or better conditions of service; to lend money to the company; to refuse/grant the company supplier's credit, or government import licence or tax holiday; or to ascertain the contribution of the company to the welfare of the country.*

A five point 'scale of importance' has been designed and you are to identify your rating of each item of information by ticking the relevant column number. The choices available for each item or information are:

1) not at all important
2) less important
3) important
4) very important
5) very-very important

There are fifty-six (56) items of information to be rated. At the end of these structured enquiries, there are three unstructured requests for your opinion on several issues of corporate disclosure. Please write freely and frankly using extra sheets if necessary.

please turn over ⇨

Bahagian II

Arahan

Bahagian kedua soalselidik ini menyenaraikan item-item yang boleh digolongkan sebagai (a) item-item pendedahan berkanun atau mandatori dan (b) item-item pendedahan sukarela, yang biasa atau mungkin dipersembahkan di dalam laporan tahunan bagi kebanyakan syarikat-syarikat di Malaysia. Anda dikehendaki menunjukkan kepentingan item-item tersebut kedalam lima (5) kategori. Setiap kategori tersebut mempunyai darjah kepentingan yang berbeza bagi anda menentukan samada item-item berkenaan perlu didedahkan di dalam laporan tahunan syarikat ataupun tidak. Didalam mempertimbangkan setiap item berkenaan, anggaplah diri anda sebagai seorang yang menggunakan laporan tahunan tersebut sebagai sumber utama dalam membuat keputusan mengenai sesebuah syarikat.

Pembuatan keputusan tersebut boleh terdiri dari berbagai bentuk seperti *untuk membeli, memegang atau menjual saham; untuk membuat tuntutan bagi pihak pekerja, seperti kenaikan gaji atau keadaan perkhidmatan kerja yang lebih memuaskan; untuk memberi pinjaman wang kepada syarikat; untuk menolak atau memberi kredit kepada pembekal syarikat, atau permit import kerajaan, atau pengecualian cukai; atau untuk menilai sumbangan syarikat terhadap kebajikan negara.*

Satu 'skala kepentingan' menggunakan 5 skor telah dibentuk untuk anda meletakkan tahap atau darjah kepentingan bagi setiap item atau maklumat dengan menandakannya di dalam kolum/ruangan yang disediakan. Pilihan jawaban anda bagi setiap item atau maklumat adalah seperti berikut:

1) tidak penting samasekali
2) kurang penting
3) penting
4) amat penting
5) teramat penting

Sebanyak lima-puluh enam (56) item maklumat disediakan untuk anda menandakan darjah kepentingannya. Di akhir soalselidik ini terdapat tiga soalan terbuka yang meminta pandangan anda mengenai beberapa isu pendedahan korporat. Sila tuliskan pendapat anda dengan fikiran yang terbuka dalam kertas tambahan sekiranya perlu.

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Part II (Perception on Disclosure Items)
Bahagian II (Persepsi Mengenai Item-item Pendedahan)

Items of information *(Item maklumat)*	Degree of importance *(Darjah kepentingan)*					[B]
	not at all important *(tidak penting samasekali)*				very-very important *(teramat penting)*	
1. Amount and sources of revenue (operating and non-operating revenues) for the period. *Amaun dan sumber hasil (hasil operasi dan bukan operasi) bagi tempoh berkenaan.*	1	2	3	4	5	[1]
2. Amount of depreciation for the period. *Amaun susutnilai bagi tempoh berkenaan.*	1	2	3	4	5	[2]
3. Turnover/sales for the period. *Jualan bagi tempoh berkenaan.*	1	2	3	4	5	[3]
4. Amount of each subsidiary's earnings and parent company's share of each amount. *Amaun perolehan bagi setiap subsidiari dan peratus pemilikan syarikat induk bagi setiap amaun.*	1	2	3	4	5	[4]
5. Amount of income tax expense for the period. *Amaun cukai pendapatan bagi tempoh berkenaan.*	1	2	3	4	5	[5]
6. Earnings per share for the period. *Perolehan sesaham bagi tempoh berkenaan.*	1	2	3	4	5	[6]
7. Amount of extra-ordinary gains and losses reported for the period. *Amaun laba (rugi) luarbiasa bagi tempoh berkenaan.*	1	2	3	4	5	[7]
8. Income from investment (quoted and unquoted). *Pendapatan dari pelaburan (tersenarai dan tidak tersenarai).*	1	2	3	4	5	[8]
9. Dividends paid and proposed. *Dividen dibayar dan dicadangkan.*	1	2	3	4	5	[9]
10. Amount and breakdown of expenses (operating and non-operating expenses) for the period. *Amaun dan pecahan perbelanjaan (belanja operasi dan bukan operasi) bagi tempoh berkenaan.*	1	2	3	4	5	[10]
11. Directors' emoluments. *Imbuhan pengarah.*	1	2	3	4	5	[11]
12. Income from acquisitions. *Pendapatan dari pemerolehan.*	1	2	3	4	5	[12]
13. Profit or loss on disposal of fixed assets. *Untung (rugi) daripada pelupusan aset tetap.*	1	2	3	4	5	[13]

please turn over ⇨

	not at all important (tidak penting samasekali)				very-very important (teramat penting)	
14. Amount and breakdown of intangible assets. *Amaun dan pecahan aset taknyata.*	1	2	3	4	5	[15]
15. Amount and breakdown of inventory/stocks reported under major categories at the end of the period. *Amaun dan pecahan inventori dilaporkan dibawah kategori utama di hujung tempoh.*	1	2	3	4	5	[16]
16. Amount of accumulated depreciation on fixed assets at the end of the period. *Amaun susutnilai terkumpul atas aset tetap di hujung tempoh.*	1	2	3	4	5	[17]
17. Amount and classification of fixed assets by major items at the end of the period. *Amaun dan pecahan aset tetap mengikut kategori utama di hujung tempoh.*	1	2	3	4	5	[18]
18. Number of authorised and issued share capital. *Bilangan modal saham yang dibenarkan dan diterbitkan.*	1	2	3	4	5	[19]
19. Long-term and current liabilities (including its composition) at the end of the the period. *Tanggungan semasa dan tanggungan jangka-panjang(termasuk pecahannya) di hujung tempoh.*	1	2	3	4	5	[20]
20. Total current assets including its composition at the end of the period. *Jumlah aset semasa termasuk pecahannya di hujung tempoh.*	1	2	3	4	5	[21]
21. Number of shares in the company owned by each directors. *Bilangan saham syarikat yang dimiliki oleh setiap pengarah di hujung tempoh.*	1	2	3	4	5	[22]
22. Investment (quoted and unquoted) in each subsidiary or other corporations at the end of the period. *Pelaburan (tersenarai dan tidak tersenarai) dalam setiap subsidiari atau syarikat lain di hujung tempoh.*	1	2	3	4	5	[23]
23. Reserves (and its classification). *Rezeb-rezeb (dan pecahannya).*	1	2	3	4	5	[24]
24. Expenditures not yet written off. *Perbelanjaan belum dihapuskira.*	1	2	3	4	5	[25]
25. Provision for pension and retirement benefits. *Peruntukan pencen dan manfaat persaraan.*	1	2	3	4	5	[26]
26. Provision for taxation. *Peruntukan pencukaian.*	1	2	3	4	5	[27]

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	not at all important (*tidak penting samasekali*)				very-very important (*teramat penting*)	
27. Contingent liabilities. *Tanggungan kontingen.*	1	2	3	4	5	[29]
28. Comparative balance sheet: *Lembaran imbangan perbandingan:*						
2 years *2 tahun*	1	2	3	4	5	[30]
More than 2 years *Lebih dari 2 tahun*	1	2	3	4	5	[31]
29. Comparative income statement: *Penyata untung rugi perbandingan:*						
2 years *2 tahun*	1	2	3	4	5	[32]
More than 2 years *Lebih dari 2 tahun*	1	2	3	4	5	[33]
30. Price level adjusted corporate reports as supplementary statements. *Laporan korporat yang dilaras dengan paras harga umum sebagai penyata tambahan*	1	2	3	4	5	[34]
31. Quarterly financial statements. *Penyata kewangan suku tahun*	1	2	3	4	5	[35]
32. Half yearly financial statements. *Penyata kewangan separuh tahun.*	1	2	3	4	5	[36]
33. Analysis of shareholdings (e.g. size and category of shareholders) *Analisisi pemilikan saham (misalnya saiz dan kategori pemegang saham).*	1	2	3	4	5	[37]
34. List of directors. *Senarai ahli lembaga pengarah.*	1	2	3	4	5	[38]
35. Report of audit committee. *Laporan jawatankuasa audit.*	1	2	3	4	5	[39]
36. Change in dividend. *Perubahan dalam dividen.*	1	2	3	4	5	[40]
37. List of financial ratios. *Senarai nisbah-nisbah kewangan.*	1	2	3	4	5	[41]
38. Basic policies and objectives of management. *Polisi dan objektif asas pengurusan.*	1	2	3	4	5	[42]
39. Particulars of any contracts (during the period) in which a director was materially interested. *Keterangan mengenai sebarang kontrak (dalam tempoh) yang dilibatkan oleh mana-mana pengarah.*	1	2	3	4	5	[43]

please turn over ⇨

	not at all important (*tidak penting samasekali*)				very-very important (*teramat penting*)	
40. Compounded rate of growth of earnings per share for the last five to ten years. *Kadar pertumbuhan berganda perolehan sesaham bagi tempoh lima hingga sepuluh tahun lampau.*	1	2	3	4	5	[45]
41. Breakdown of sales by location, operating division, product line or customer group. *Pecahan jualan mengikut lokasi, bahagian operasi, jenis keluaran atau kumpulan pengguna.*	1	2	3	4	5	[46]
42. Breakdown of income by location, operating division, product line or customer group. *Pecahan pendapatan mengikut lokasi, bahagian operasi, jenis keluaran atau kumpulan pengguna.*	1	2	3	4	5	[47]
43. Breakdown of investment by location, operating division, product line or customer group. *Pecahan pelaburan mengikut lokasi, bahagian operasi, jenis keluaran atau kumpulan pengguna.*	1	2	3	4	5	[48]
44. Cash flow projections for next two to five years. *Unjuran alir tunai bagi tempoh dua hingga lima tahun akan datang.*	1	2	3	4	5	[49]
45. Discussion of factors affecting future business of the company. *Perbincangan mengenai faktor-faktor yang mempengaruhi perniagaan syarikat pada masa hadapan.*	1	2	3	4	5	[50]
46. Methods used in computing depreciation. *Kaedah yang digunakan bagi mengira susutnilai.*	1	2	3	4	5	[51]
47. Method used in the recognition of revenue (e.g.franchise, construction). *Kaedah yang digunakan bagi mengiktiraf hasil (misalnya francais, pembinaan).*	1	2	3	4	5	[52]
48. Methods used in computing earnings per share. *Kaedah yang digunakan bagi mengira perolehan sesaham.*	1	2	3	4	5	[53]
49. Disclosure of accounting policies regarding various items. *Pendedahan polisi perakaunan mengenai pelbagai item.*	1	2	3	4	5	[54]
50. Accounting method for translating foreign currencies. *Kaedah perakaunan bagi menterjemah matawang asing.*	1	2	3	4	5	[55]
51. Particulars relating to community involvement. *Keterangan mengenai penglibatan dengan masyarakat.*	1	2	3	4	5	[56]

please turn over ⇨

	not at all important (*tidak penting samasekali*)				very-very important (*teramat penting*)	
52. Discussion on physical resources and environmental contribution. *Perbincangan mengenai sumber-sumber fizikal dan sumbangan terhadap persekitaran.*	1	2	3	4	5	[58]
53. Details regarding product or service contribution *Penerangan mengenai keluaran atau sumbangan perkhidmatan.*	1	2	3	4	5	[59]
54. Particulars relating to human resources (e.g. recruitment, training etc.). *Penerangan mengenai sumber manusia (misalnya perjawatan, latihan dll).*	1	2	3	4	5	[60]

please turn over ⇨

55. Please provide any other item(s) of information which you think are very important to users of corporate reports but not shown in the list above. Please give your reason(s) as to why do you want to include the item(s).
Sila berikan item atau maklumat lain yang pada pendapat anda adalah amat penting kepada pengguna laporan kewangan tetapi tidak ditunjukkan di dalam senarai di atas. Nyatakan sebabnya sekali mengapa anda mahukan item atau maklumat tersebut disertakan.

56. Besides the item/s mentioned in Question 55, what other aspects of the annual reports do you think should be changed to meet the needs of the various user groups?
Selain daripada item-item yang disebutkan dalam Soalan 55 di atas, pada pendapat anda, apakah aspek-aspek lain bagi laporan tahunan yang perlu diubah untuk memenuhi keperluan pelbagai kumpulan pengguna?

please turn over ⇨

57. Please describe any deficiencies in the present disclosure requirements and give your suggestions of improving them.
Sila nyatakan sebarang kelemahan dalam keperluan undang-undang sekarang mengenai pendedahan maklumat syarikat dan berikan cadangan anda untuk memperbaikinya.

58. Comment (if any).
Komen (jika ada)

☐ Tick this box if you would like to have a copy of a summary of this research findings.
— Tandakan '/' di dalam kotak ini sekiranya anda mahukan ringkasan penemuan kajian ini

Thank you for taking time to complete this questionnaire.
Terima kasih diatas kesudian anda meluangkan masa untuk menjawab soalselidik ini.

Appendix 10.1: Check List of Disclosure Items

No.	Items	74	84	94
01	Gross value of fixed assets	M	M	M
02	Net value of fixed assets	M	M	M
03	Accumulated depreciation on fixed assets	M	M	M
04	Disaggregation into land and building, plant and machinery	M	M	M
05	More detailed breakdown than 4	V	V	V
06	Schedule of movement in fixed assets	V	M	M
07	Proportion of fixed assets leased	V	M	M
08	Proportion of fixed assets pledged	M	M	M
09	Total amount of fixed assets	V	V	V
10	Restriction to title of fixed assets	V	M	M
11	Assets acquired on installment basis	V	M	M
12	Assets retired from active use	V	M	M
13	Investments in subsidiaries and associates	M	M	M
14	List of subsidiaries and associates	M	M	M
15	Degree of control in subsidiaries	M	M	M
16	Percentage of holdings in associates and affiliates	M	M	M
17	Domestic and foreign breakdown of investments	M	M	M
18	Total current assets	M	M	M
19	Cost: Marketable securities (M.S.)	M	M	M
20	Market value: (M.S.)	M	M	M
21	List of M.S.	V	V	V
22	Domestic/Foreign breakdown: (M.S.)	M	M	M
23	Inventory: Total value	M	M	M
24	Inventory breakdown	V	M	M
25	Movement in equity during the year	M	M	M
26	Trade debts (amount)	M	M	M
27	Corporate mission/objective	V	V	V
28	Distinguished bet. depreciable non-depreciable assets	V	M	M
29	Allowance for doubtful debts	M	M	M
30	Prepaid company tax	M	M	M
31	Cash and bank balances	M	M	M
32	Details of intangible assets	M	M	M
33	Goodwill recognised on each acquisition	M	M	M
34	Amount of intangibles amortised to date	M	M	M
35	Total current liabilities	M	M	M
36	Trade creditors	M	M	M
37	Bank loans and overdraft	M	M	M
38	Breakdown into secured and unsecured liabilities	M	M	M
39	Proposed dividend	M	M	M
40	Amount outstanding for long term debt	M	M	M
41	Component breakdown	M	M	M
42	Principal terms of indebtedness	M	M	M
43	Maturity and debt repayment schedule	M	M	M
44	Amount of deferred corporate taxes	V	M	M
45	Disaggregation into different causes	V	M	M

Appendix 10.1: Check List of Disclosure Items (Ctd.)

No.	Items	74	84	94
46	Tax payable outside Malaysia	M	M	M
47	Number and amount of authorised share capital	M	M	M
48	Component breakdown of authorised capital	M	M	M
49	Amount of preference shares	M	M	M
50	Breakdown by type (dividend/interest)	M	M	M
51	Information about redemption of each type	M	M	M
52	Arrears of dividend on preference shares	M	M	M
53	Number and amount of ordinary shares/debentures issued	M	M	M
54	Purpose and terms of share/debenture issue	M	M	M
55	Breakdown into voting classes	M	M	M
56	Breakdown into paid and unpaid portions	M	M	M
57	Percentage of equity owned by management	V	V	V
58	Minority interests in equity	M	M	M
59	Information on future dilution of equity	V	V	V
60	Amount of reserves	M	M	M
61	Breakdown into distributable and non-distributable categories	M	M	M
62	Amount/Estimate of contingent liabilities	M	M	M
63	Breakdown by types/nature	M	M	M
64	Description of retirement benefit plan	V	V	M
65	Employee group covered by each plan	V	V	M
66	Funding policy	V	V	M
67	Amount of expenditure carried forward	V	M	M
68	Breakdown by categories	V	M	M
69	Amount/Estimate of post balance sheet events	V	M	M
70	Nature of the event	V	M	M
71	Amount of sales/revenue	V	M	M
72	Sources of sales/revenue	V	M	M
73	Income or gain carried forward	M	M	M
74	Prior period items (charges or credit due to errors)	V	M	M
75	Net amount of profit/loss after tax	M	M	M
76	Operating income before extra-ordinary items	V	M	M
77	Provision for pension or retirement benefits	V	M	M
78	Disaggregated income by subsidiaries	M	M	M
79	Other investment income	M	M	M
80	Receipts (rental income) from long-term leases	V	M	M
81	Gains from foreign currencies translation/conversion	M	M	M
82	Extra-ordinary gains and losses	M	M	M
83	Amount of operating expenses	M	M	M
84	Breakdown of operating expenses	M	M	M
85	Expenses on research and development	V	M	M
86	Expenses on advertising and publicity	V	V	V
87	Expenses on human resources	V	V	V
88	Depreciation expense	M	M	M
89	Corporate taxes	M	M	M

Appendix 10.1: Check List of Disclosure Items (Ctd.)

No.	Items	74	84	94
90	Amortisation of goodwill and other intangibles	M	M	M
91	Allowance for doubtful debts in the year	M	M	M
92	Dividends paid	M	M	M
93	Interest expenses (various sources)	M	M	M
94	Rental expenses (various sources)	M	M	M
95	Statement of sources and application of funds	NA	M	M
96	Changes in working capital components	NA	M	M
97	Derivation of value added	NA	V	V
98	Application of value added	NA	V	V
99	Breakdown of bought in components into domestic and foreign	NA	V	V
100	Disclosure of accounting policies	M	M	M
101	Notes to financial statements	M	M	M
102	Reference to International Accounting Standards	NA	M	M
103	Date of establishment of audit committee	NA	NA	M
104	Terms of reference	NA	NA	M
105	Other details given	NA	NA	M
106	Revenue recognition	V	M	M
107	Basis of valuation of inventories	M	M	M
108	Method of determining cost of inventories	V	M	M
109	Policy for determining the carrying amount of long-term investment	M	M	M
110	Disclosure of methods and rates of depreciation	V	M	M
111	Depreciation method used based on historical cost	V	M	M
112	Research and development costs	V	M	M
113	Accounting method for business combination	NA	V	M
114	Accounting method for advertising and publicity	M	M	M
115	Disclosure of long-term leases	M	M	M
116	Translation of accounts of foreign subsidieries	M	M	M
117	Change in accounting methods and policies	M	M	M
118	Disclosure of method for treating deferred taxation	M	M	M
119	Disclosure of method for treating deferred expenditure	V	M	M
120	Accounting method for borrowing cost	NA	V	M
121	Accounting method for investment in associates	V	M	M
122	Earnings per share (EPS)	NA	M	M
123	Basis of arriving at EPS	NA	M	M
124	Segmental information (SI): Domestic/Export segmentation	NA	M	M
125	Sales/revenue (SI)	NA	M	M
126	Assets employed (SI)	NA	M	M
127	Terms of long-term lease by property type	V	M	M
128	Changes in the nature of firm's activities	NA	V	M
129	Productive capacity and capacity utilized	V	V	V
130	Related party disclosure (RPD): Purchase or sales of goods/property	V	M	M

Appendix 10.1: Check List of Disclosure Items (Ctd.)

No.	Items	74	84	94
131	Rendering or receiving of services (RPD)	V	M	M
132	Manufacturing, licensing and technical agreement (RPD)	V	M	M
133	Dividends per share	M	M	M
134	Details of restriction on dividend payment	V	M	M
135	Market share of major products	V	V	V
136	Distribution of share ownership: number of owners	V	V	V
137	Number of owners within size and value groups	V	V	V
138	Number of owners holding 5% or more shares	V	V	V
139	Classification of owners/shareholders	V	V	V
140	Information in directors' report: List of directors	M	M	M
141	List of top management and positions	V	V	V
142	Directors' remuneration	M	M	M
143	Terms of stock option plans	M	M	M
144	Directors' shareholdings	M	M	M
145	Directors' benefit in contracts	M	M	M
146	Arrangement for directors to acquire shares	M	M	M
147	Statements regarding: Circumstances that could render amounts in account to be misleading	M	M	M
148	bad debts provision	M	M	M
149	ascertainment of current assets	M	M	M
150	valuation method of assets and liabilities	M	M	M
151	assets charged to secure liabilities	M	M	M
152	contingent liabilities	M	M	M
153	any unusual events that could affect the results of operations	M	M	M
154	the truthfulness and fairness of accounts	M	M	M
155	the principal activities of firms	V	M	M
156	material transfers to and from reserves/provisions	M	M	M
157	related party transactions	NA	M	M
158	post balance sheet events	NA	M	M
159	Statutory declaration as to the correctness of accounts	M	M	M
160	Details on employees	V	V	V
161	Description and proportion of interest in joint venture arrangement	V	V	M
162	Discussion of new product development	V	V	V
163	Planned expenditure on research and development	V	V	V
164	Capital expenditure on commitments (CEC): contracted for but not provided for in the accounts	M	M	M
165	CEC: authorised but not contracted for	M	M	M
166	Planned advertising and publicity expenditure	V	V	V
167	Cash flow projections for the next 2-5 years	V	V	V
168	Discussion on political factor	V	V	V
169	Discussion on technological factor	V	V	V
170	Discussion on economic factor	V	V	V
171	Discussion on contractual factor	V	V	V

Appendix 10.1: Check List of Disclosure Items (Ctd.)

No.	Items	74	84	94
172	Discussion of industry trends	V	V	V
173	Discussion of competitive position	V	V	V
174	Share price movement	V	V	V
175	Operating policies	V	V	V
176	Financial policies	V	V	V
177	Biographical details of directors	V	V	V
178	Employee training, health and safety	V	V	V
179	Productivity indicator	V	V	V
180	Proportion of production raw materials and components from local sources	V	V	V
181	Community care programmes	V	V	V
182	Environmental care programmes	V	V	V
183	Product safety or service quality	V	V	V
184	Equal opportunity for employment	V	V	V
185	Appropriation of current profits	M	M	M
186	Financial highlights (FH) as to: Turnover	V	V	V
187	FH: Profit	V	V	V
188	FH: Earnings per share	NA	V	V
189	FH: Dividend	V	V	V
190	FH: Net asset	V	V	V
191	Location of auditor's report	M	M	M
192	Form of auditor's report	M	M	M
193	Expression of opinion in auditor's report	M	M	M
194	Comparative income statement	V	V	V
195	Comparative balance sheet	V	V	V
196	Summary of other important statistics	V	V	V
197	Date of incorporation	V	V	V
198	Brief history of firm	V	V	V
199	Structure of firm	V	V	V
200	Graphic/photographic information	V	V	V
201	Amount for balance sheet items for the previous year	M	M	M
202	Amount for profit and loss items for the previous year	M	M	M
	M	97	141	149
	V	85	58	53
	NA	20	3	-
	Total	202	202	202

Abbreviation: M=Mandatory
V=Voluntary
NA=Not Applicable

Appendix 10.2: Disclosure Indexes

Co. No.	Rank			Disclosure Index (%)			Overall Raw Scores			Mandatory Items			Voluntary Items		
	74	84	94	74	84	94	74	84	94	74	84	94	74	84	94
01	33	27	45	52	66.7	74.5	52	78	111	40	67	102	12	11	9
02	28	43	38	52.9	60.4	76.6	63	84	108	53	77	90	10	7	18
03	11	16	15	59	70.4	82.5	69	88	118	50	68	93	19	20	25
04	7	25	32	60	67.8	79.6	63	80	121	47	68	112	16	12	9
05	40	52	22	50	53	81.3	53	53	117	43	48	97	10	5	20
06	26	26	31	53.8	67.3	79.8	64	103	126	54	91	107	10	12	19
07	50	7	7	46	74.5	84.9	46	105	135	42	85	109	4	20	26
08	4	17	41	62.6	69.9	75.9	72	95	110	51	84	98	21	11	12
09	40	36	34	50	62.7	78.6	57	79	114	51	71	95	6	8	19
10	38	34	28	50.5	62.9	80.7	54	90	125	45	83	109	9	7	16
11	20	2	21	54.8	78.4	81.4	69	116	127	61	88	100	8	28	27
12	28	41	25	52.9	60.9	80.8	54	78	105	44	72	88	10	6	17
13	13	13	17	58.8	71.1	82.3	67	108	121	51	87	97	16	21	24
14	48	20	50	46.5	69.1	73.1	46	94	98	42	78	83	4	16	15
15	37	37	52	51	62.4	71.1	54	73	96	48	67	87	6	6	9
16	5	1	1	61.2	78.9	92.6	82	123	149	64	97	111	18	26	38
17	48	11	47	46.5	72.3	73.8	53	112	110	44	89	98	9	23	12
18	16	14	9	57.5	70.9	84.3	65	100	134	52	83	108	13	17	26
19	52	40	46	45.1	61.3	74.4	41	68	96	38	61	85	3	7	11
20	23	5	20	54.3	75.3	81.8	69	119	121	58	97	99	11	22	22
21	25	24	30	54.1	68.2	80	53	90	124	44	80	108	9	10	16
22	6	3	3	60.6	78.3	85.6	77	130	155	56	98	126	21	32	29
23	43	29	43	49.2	66.2	75	58	96	117	50	90	105	8	6	12
24	3	8	25	66.7	73.5	80.8	80	111	135	61	90	113	19	21	22
25	10	50	2	59.3	57.3	88	70	79	107	55	70	117	15	9	30
26	18	42	38	56.3	60.8	76.6	63	79	111	53	71	100	10	8	11
27	40	23	17	50	68.5	82.3	64	100	121	55	91	102	9	9	19

Appendix 10.2: Disclosure Indexes (Ctd.)

Co. No.	Rank			Disclosure Index (%)			Overall Raw Scores			Mandatory Items			Voluntary Items		
	74	84	94	74	84	94	74	84	94	74	84	94	74	84	94
28	32	18	33	52.2	69.6	79	48	94	113	41	81	95	7	13	18
29	11	12	5	59	71.8	85	69	102	136	56	84	109	13	18	27
30	27	29	40	53.5	66.2	76.3	62	102	119	50	94	109	12	8	10
31	54	48	5	44	58.6	85	44	85	130	38	79	109	6	6	21
32	36	19	11	51.4	69.2	83.9	56	108	125	45	91	105	11	17	20
33	38	47	50	50.5	58.7	73.1	56	74	98	47	66	84	9	8	14
34	15	33	22	58	63	81.3	69	85	109	57	74	85	12	11	24
35	45	53	4	48.2	52.3	85.2	52	67	132	44	62	109	8	5	23
36	19	35	37	54.9	62.8	76.9	62	81	103	55	74	90	7	7	13
37	34	14	12	51.8	70.9	83.6	58	107	138	49	89	111	9	18	27
38	17	39	48	56.4	61.5	73.6	62	83	103	47	72	95	15	11	8
39	47	51	12	48	55.1	83.6	48	65	127	44	59	108	4	6	19
40	30	27	25	52.5	66.7	80.8	52	92	122	45	76	103	7	16	19
41	7	32	36	60	63.2	77.2	69	84	105	52	71	90	17	13	15
42	22	46	53	54.4	59.8	69.1	61	73	87	50	64	79	11	9	8
43	21	6	17	54.7	75.2	82.3	70	112	121	58	87	97	12	25	24
44	51	44	48	45.7	60.3	73.6	48	79	92	41	71	78	7	8	14
45	45	20	35	48.2	69.1	77.9	52	103	120	47	86	107	5	17	13
46	44	31	43	48.5	64.9	75	48	85	102	43	77	91	5	8	11
47	24	38	54	54.2	61.8	67.2	64	81	78	54	67	73	10	14	5
48	13	45	24	58.8	60	81	67	66	102	49	55	80	18	11	22
49	2	49	14	69.3	58.5	82.7	88	86	134	63	77	111	25	9	23
50	35	4	42	51.5	75.8	75.5	53	113	108	43	90	95	10	23	13
51	31	20	15	52.4	69.1	82.5	55	85	113	44	68	95	11	17	18
52	1	9	9	70.6	73.1	84.3	89	98	129	63	76	103	26	22	26
53	53	54	29	44.3	48.3	80.6	35	43	108	33	43	89	2	0	19
54	9	10	8	59.4	72.4	84.5	73	113	136	59	93	110	14	20	26

Appendix 10.3: Components of Disclosure Indices

Co. No.	Balance Sheet			Profit & Loss Statement			Other Financial Statements			Accounting Policy		
	74	84	94	74	84	94	74	84	94	74	84	94
01	18	26	43	13	14	16	4	8	9	1	7	8
02	30	31	34	11	16	16	5	8	9	3	8	8
03	23	28	34	18	13	17	4	7	9	3	10	9
04	21	28	45	14	15	19	5	7	10	4	7	13
05	21	17	37	12	8	14	4	7	11	3	1	10
06	29	41	44	14	19	18	4	8	9	2	9	13
07	20	39	44	10	17	21	4	8	9	0	8	10
08	27	37	37	15	18	18	5	7	10	5	7	8
09	29	32	33	10	14	18	4	8	9	2	6	9
10	21	39	43	12	17	20	4	7	11	4	7	10
11	31	39	37	14	17	19	3	8	11	3	10	8
12	23	32	31	12	13	15	4	8	10	2	9	10
13	25	41	37	12	14	16	4	9	10	2	9	8
14	19	33	30	9	13	12	4	9	9	2	9	9
15	23	31	37	13	13	14	5	8	8	2	5	9
16	38	49	46	15	22	21	5	8	12	7	9	11
17	20	41	40	11	18	17	4	8	9	3	8	9
18	24	36	41	14	16	20	4	8	11	2	9	11
19	16	22	29	10	14	17	4	8	11	0	6	8
20	30	47	40	14	18	18	4	9	9	3	11	10
21	19	37	44	12	14	18	4	7	10	1	8	11
22	30	47	54	17	19	22	4	9	10	6	9	14
23	27	38	40	15	19	19	4	8	9	2	11	9
24	30	40	44	15	17	21	5	7	11	8	8	8
25	32	33	46	15	15	20	4	7	13	3	6	12
26	26	35	38	15	12	18	5	7	11	4	5	10
27	30	41	41	14	19	17	4	7	9	1	11	11
28	15	34	37	13	18	17	4	7	9	2	9	9
29	32	41	48	14	17	20	5	7	9	5	6	9
30	29	44	43	13	19	21	4	8	9	2	11	9
31	18	36	41	10	16	21	4	8	9	2	9	9
32	24	43	41	8	20	18	5	7	10	5	9	10
33	23	24	29	12	14	15	4	7	10	4	8	8
34	30	36	31	14	14	13	4	7	9	4	8	7
35	25	24	47	10	16	17	4	7	10	5	5	11
36	30	34	33	12	13	18	4	7	10	2	10	8
37	25	41	49	10	17	17	4	7	9	2	8	11
38	25	26	33	9	16	19	5	7	10	6	8	8
39	21	23	43	9	12	19	4	7	10	1	5	10
40	22	31	39	9	18	20	4	8	9	2	7	10
41	24	30	34	16	14	17	5	7	10	8	6	8
42	23	25	28	15	12	14	4	8	9	3	7	7
43	31	43	40	15	14	17	4	9	11	2	10	9

Appendix 10.3: Components of Disclosure Indices (Ctd.)

Co. No.	Balance Sheet			Profit & Loss Statement				Other Financial Statements				Accounting Policy			
	74	84	94		74	84	94		74	84	94		74	84	94
44	21	30	24		8	15	16		4	7	10		1	8	7
45	25	42	43		9	17	18		4	9	10		1	12	11
46	21	35	39		8	14	15		4	8	9		2	6	8
47	30	29	26		13	15	13		4	7	9		2	7	7
48	23	21	29		13	9	14		5	7	9		6	6	6
49	36	33	43		14	17	20		5	7	9		5	9	11
50	23	40	39		8	19	16		4	8	10		3	10	9
51	20	25	33		12	14	16		4	8	11		2	9	10
52	35	32	40		16	15	18		5	8	10		5	7	12
53	12	15	35		6	8	15		5	7	10		2	3	7
54	33	44	43		12	23	17		5	7	11		7	8	9

Appendix 10.3: Components of Disclosure Indices (Ctd.)

Co. No.	Ratios, stats. & others			Directors' Report			Social Reporting			Projection & Budgeting		
	74	84	94	74	84	94	74	84	94	74	84	94
01	7	11	13	7	9	16	0	0	0	2	3	6
02	2	9	18	7	8	16	0	0	1	5	4	6
03	11	14	21	7	8	15	0	0	4	3	8	9
04	7	11	12	7	8	17	0	1	0	5	3	5
05	4	8	16	7	8	17	0	0	2	2	4	10
06	2	11	20	8	9	16	0	0	1	5	6	5
07	2	21	28	7	8	14	0	0	1	3	4	8
08	9	13	14	7	9	16	0	0	0	4	4	7
09	2	7	21	7	8	16	0	4	3	3	0	5
10	4	9	21	7	8	16	0	0	0	2	3	4
11	4	23	22	8	9	16	0	1	3	6	9	11
12	4	5	20	7	8	15	0	0	0	2	3	4
13	11	19	22	7	9	15	1	0	4	5	7	9
14	2	16	18	7	9	14	0	0	1	3	5	5
15	2	6	8	7	8	15	0	0	0	2	2	5
16	5	18	27	7	8	16	0	1	5	5	8	11
17	4	19	14	7	9	15	0	0	0	4	9	6
18	7	16	25	8	8	16	0	1	2	6	6	8
19	3	7	12	7	8	15	0	0	0	1	3	4
20	4	20	19	7	8	15	0	0	2	7	6	8
21	7	12	17	7	8	16	0	0	1	3	4	7
22	9	22	28	8	10	18	0	3	1	3	11	8
23	3	9	16	7	8	16	0	0	0	0	3	8
24	9	19	26	7	12	17	0	0	2	6	8	6
25	2	6	25	8	8	18	1	0	5	5	4	8
26	4	8	16	7	8	15	0	0	0	2	4	3
27	3	10	22	7	7	16	0	0	0	5	5	5
28	4	12	19	7	9	15	0	1	0	3	4	7
29	3	17	23	7	8	16	0	0	2	3	6	9
30	2	8	15	7	8	15	0	0	0	5	4	7
31	3	5	25	3	8	16	0	0	1	4	3	8
32	2	14	22	7	8	16	0	0	0	5	7	8
33	4	10	18	7	8	15	0	0	0	2	3	3
34	4	5	24	7	8	15	2	0	1	4	7	9
35	1	3	22	7	8	16	0	0	1	0	4	8
36	3	7	17	7	8	15	0	0	0	4	2	2
37	4	16	24	7	8	16	1	2	2	6	8	10
38	5	9	15	7	9	16	2	1	0	3	7	2
39	3	7	19	7	8	15	0	3	2	4	0	9
40	4	14	21	7	8	15	0	0	1	4	6	7
41	5	15	17	7	8	15	0	0	0	4	4	4
42	5	9	10	7	8	15	0	0	0	4	4	4
43	7	19	22	7	9	15	0	1	1	4	7	6
44	3	5	11	7	8	15	0	0	1	4	6	8
45	3	10	15	7	8	16	0	0	1	3	5	6

Appendix 10.3: Components of Disclosure Indices (Ctd.)

Co. No.	Ratios, stats. & others			Directors' Report				Social Reporting				Projection & Budgeting			
	74	84	94		74	84	94		74	84	94		74	84	94
46	3	5	10		7	12	15		0	0	1		3	5	5
47	3	13	6		7	8	15		0	0	0		5	2	2
48	9	14	19		7	6	15		0	0	4		4	3	6
49	10	6	23		7	8	16		4	1	1		7	5	11
50	5	21	14		7	8	14		0	1	0		3	6	6
51	7	16	22		7	9	16		0	0	0		3	4	5
52	11	19	23		7	8	15		1	4	3		9	5	8
53	2	2	20		8	8	15		0	0	1		0	0	5
54	5	17	25		7	8	17		0	0	4		4	6	10

Appendix 10.4: Item-wise Disclosure by Companies

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
01	Gross value of fixed assets	1	1	0	53	53	54	0	0	0	100	100	100
02	Net Value of fixed assets	2	1	0	52	53	54	0	0	0	100	100	100
03	Accumulated depreciation on fixed assets	2	1	0	52	53	54	0	0	0	100	100	100
04	Disaggregation into land and building, plant and machinery	4	1	0	49	53	54	1	0	0	98	100	100
05	More detailed breakdown than 4	20	12	3	33	41	51	1	1	0	97	98	100
06	Schedule of movement in fixed assets	14	12	43	7	22	5	33	20	6	18	52	45
07	Proportion of fixed assets leased	18	10	4	34	44	50	2	0	0	94	100	100
08	Proportion of fixed assets pledged	50	48	35	4	5	13	0	1	6	100	83	68
09	Total amount of fixed assets	0	0	0	36	12	12	18	42	42	67	22	22
10	Restriction to title of fixed assets	54	53	45	na	1	9	na	0	0	na	100	100
11	Assets acquired on installment basis	54	53	36	na	1	18	na	0	0	na	100	100
12	Assets retired from active use	53	54	51	1	na	3	0	na	0	100	na	100
13	Investments in subsidiaries and associates	27	8	3	27	46	50	0	0	1	100	100	98
14	List of subsidiaries and associates	19	6	2	34	48	51	1	0	1	97	100	98
15	Degree of control in subsidiaries	22	13	4	28	40	50	4	1	0	88	98	100
16	Percentage of holdings in associates and affiliates	42	8	13	9	46	41	3	0	0	75	100	100
17	Domestic and foreign breakdown of investments	41	34	26	11	19	26	2	1	2	85	95	93
18	Total current assets	0	0	0	53	54	54	1	0	0	98	100	100
19	Cost: Marketable Securities (M.S.)	53	51	46	1	3	8	0	0	0	100	100	100
20	Market value: (M.S.)	53	53	46	1	1	7	0	0	1	100	100	88

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
21	List of M.S.	53	51	47	0	1	6	1	2	1	0	33	86
22	Domestic/Foreign breakdown: (M.S.)	53	52	47	0	1	4	1	1	3	0	50	57
23	Inventory: total value	6	5	2	48	48	52	0	1	0	100	98	100
24	Inventory breakdown	11	6	6	19	44	47	24	4	1	44	92	98
25	Movement in equity during the year	14	14	0	28	39	48	12	1	6	70	98	89
26	Trade debts (Amount)	0	0	0	54	54	54	0	0	0	100	100	100
27	Corporate mission/objective	0	0	0	1	1	11	53	53	43	2	2	20
28	Distinguished bet. depreciable non-depreciable assets	23	10	3	12	40	47	19	4	4	39	91	92
29	Allowance for doubtful debts	29	12	3	19	29	36	6	13	15	76	69	71
30	Prepaid company tax	52	54	54	2	na	na	0	na	na	100	na	na
31	Cash and bank balances	0	0	0	54	54	54	0	0	0	100	100	100
32	Details of intangible assets	33	33	31	17	19	23	4	2	0	81	90	100
33	Goodwill recognised on each acquisition	42	36	37	12	18	17	0	0	0	100	100	100
34	Amount of intangibles amortised to date	49	48	37	3	2	13	2	4	4	60	33	76
35	Total current liabilities	0	0	0	53	54	54	1	0	0	98	100	100
36	Trade creditors	0	0	0	54	54	54	0	0	0	100	100	100
37	Bank loans and overdraft	13	11	12	41	43	42	0	0	0	100	100	100
38	Breakdown into secured and unsecured liabilities	12	11	12	39	42	42	3	1	0	93	98	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
39	Proposed dividend	16	7	11	38	47	43	0	0	0	100	100	100
40	Amount outstanding for long term debt	26	14	10	28	40	44	0	0	0	100	100	100
41	Component breakdown	32	20	11	18	33	42	4	1	1	82	97	98
42	Principal terms of indebtedness	33	25	15	4	23	32	17	6	7	19	79	82
43	Maturity and debt repayment schedule	33	25	15	9	17	18	12	12	21	43	59	46
44	Amount of deferred corporate taxes	51	19	9	3	35	45	0	0	0	100	100	100
45	Disaggregation into different causes	51	20	9	3	25	29	0	9	16	100	74	64
46	Tax payable outside Malaysia	53	29	40	1	25	14	0	0	0	100	100	100
47	Number and amount of authorised share capital	0	0	0	54	54	54	0	0	0	100	100	100
48	Component breakdown of authorised capital	53	51	48	1	3	6	0	0	0	100	100	100
49	Amount of preference shares	54	54	53	na	na	1	na	na	0	na	na	100
50	Breakdown by type (dividend/interest)	54	54	53	na	na	1	na	na	0	na	na	100
51	Information about redemption of each type	54	54	53	na	na	1	na	na	0	na	na	100
52	Arrears of dividend on preference shares	54	54	54	na	na	na	na	na	na	na	na	na
53	Number and amount of ordinary shares/debentures issued	0	0	0	54	54	54	0	0	0	100	100	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
54	Purpose and terms of share/debenture issue	47	26	27	7	27	26	0	1	1	100	96	96
55	Breakdown into voting classes	3	2	3	0	13	29	51	39	22	0	25	57
56	Breakdown into paid and unpaid portions	0	0	0	52	54	53	2	0	1	96	100	98
57	Percentage of equity owned by management	5	4	39	3	1	1	46	49	14	6	2	7
58	Minority interests in equity	37	28	18	17	26	36	0	0	0	100	100	100
59	Information on future dilution of equity	54	54	53	na	na	1	na	na	0	na	na	100
60	Amount of reserves	8	3	1	46	51	53	0	0	0	100	100	100
61	Breakdown into distributable and non-distributable categories	8	6	1	1	16	46	45	32	7	2	33	87
62	Amount/Estimate of contingent liabilities	25	19	18	29	35	36	0	0	0	100	100	100
63	Breakdown by types/nature	25	24	18	28	30	36	1	0	0	97	100	100
64	Description of retirement benefit plan	48	25	27	1	28	20	5	1	7	17	97	74
65	Employee group covered by each plan	48	27	28	0	6	6	6	21	20	0	22	23
66	Funding policy	48	27	28	0	7	14	6	20	12	0	26	54
67	Amount of expenditure carried forward	42	38	36	12	15	18	0	1	0	100	94	100
68	Breakdown by categories	42	39	36	11	11	15	1	4	3	92	73	83

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
69	Amount/Estimate of post balance sheet events	54	35	30	na	19	24	na	0	0	na	100	100
70	Nature of the event	54	34	29	na	20	25	na	0	0	na	100	100
71	Amount of sales/revenue	30	2	0	22	52	54	2	0	0	92	100	100
72	Sources of sales/revenue	30	2	0	15	50	54	9	2	0	63	96	100
73	Income or gain carried forward	5	8	13	49	46	41	0	0	0	100	100	100
74	Prior period items (charges or credit due to errors)	32	40	50	20	12	4	2	2	0	91	86	100
75	Net amount of profit/loss after tax	3	0	0	48	54	54	3	0	0	94	100	100
76	Operating income before extra-ordinary items	29	19	16	25	35	38	0	0	0	100	100	100
77	Provision for pension or retirement benefits	48	29	33	6	19	21	0	6	0	100	76	100
78	Disaggregated income by subsidiaries	50	34	13	4	20	41	0	0	0	100	100	100
79	Other investment income	31	23	13	23	31	41	0	0	0	100	100	100
80	Receipts (rental income) from long-term leases	50	38	24	4	16	30	0	0	0	100	100	100
81	Gains from foreign currencies translation/conversion	44	46	39	9	8	15	1	0	0	90	100	100
82	Extra-ordinary gains and losses	34	22	14	20	31	40	0	1	0	100	97	100
83	Amount of operating expenses	0	0	0	54	54	54	0	0	0	100	100	100
84	Breakdown of operating expenses	0	0	0	54	54	54	0	0	0	100	100	100
85	Expenses on research and development	52	52	48	1	0	5	1	2	1	50	0	83

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
86	Expenses on advertising and publicity	54	52	53	na	1	1	na	1	0	na	50	100
87	Expenses on human resources	53	51	49	0	0	2	1	3	3	0	0	40
88	Depreciation expense	4	2	0	49	52	54	1	0	0	98	100	100
89	Corporate taxes	4	1	0	49	53	54	1	0	0	98	100	100
90	Amortisation of goodwill and other intangibles	49	46	32	4	7	21	1	1	1	80	88	95
91	Allowance for doubtful debts in the year	38	14	6	7	23	28	9	17	20	44	58	58
92	Dividends paid	14	12	12	40	42	42	0	0	0	100	100	100
93	Interest expenses (various sources)	20	8	4	33	46	50	1	0	0	97	100	100
94	Rental expenses (various sources)	13	12	8	41	42	46	0	0	0	100	100	100
95	Statement of sources and application of funds	54	0	0	na	54	54	na	0	0	na	100	100
96	Changes in working capital components	54	0	0	na	54	54	na	0	0	na	100	100
97	Derivation of value added	54	26	27	na	6	4	na	22	23	na	21	15
98	Application of value added	54	26	27	na	6	4	na	22	23	na	21	15
99	Breakdown of bought in components into domestic and foreign	54	40	30	na	0	0	na	14	24	na	0	0
100	Disclosure of accounting policies	0	0	0	16	54	54	38	0	0	30	100	100
101	Notes to financial statements	0	0	0	54	54	54	0	0	0	100	100	100
102	Reference to international accounting standards	54	31	41	na	21	13	na	2	0	na	91	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
103	Date of establishment of audit committee	54	54	0	na	na	24	na	na	30	na	na	44
104	Terms of reference	54	54	0	na	na	53	na	na	1	na	na	98
105	Other details given	54	54	0	na	na	54	na	na	0	na	na	100
106	Revenue recognition	27	1	0	7	44	49	20	9	5	26	83	91
107	Basis of valuation of inventories	5	5	2	44	48	52	5	1	0	90	98	100
108	Method of determining cost of inventories	8	4	2	3	39	50	43	11	2	7	78	96
109	Policy for determining the carrying amount of long-term investment	19	10	6	8	24	44	27	20	4	23	55	92
110	Disclosure of methods and rates of depreciation	4	1	0	19	53	54	31	0	0	38	100	100
111	Depreciation method used based on historical cost	4	1	0	18	53	54	32	0	0	36	100	100
112	Research and development costs	52	52	48	0	0	2	2	2	4	0	0	33
113	Accounting method for business combination	54	19	16	na	2	8	na	33	30	na	6	21
114	Accounting method for advertising and publicity	54	53	52	na	1	2	na	0	0	na	100	100
115	Disclosure of long-term leases	20	12	9	9	39	26	25	3	19	26	93	58
116	Translation of accounts of foreign subsidieries	6	2	5	47	52	49	1	0	0	98	100	100
117	Change in accounting methods and policies	50	45	52	4	9	2	0	0	0	100	100	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
118	Disclosure of method for treating deferred taxation	52	12	2	2	36	50	0	6	2	100	86	96
119	Disclosure of method for treating deferred expenditure	38	39	33	5	11	20	11	4	1	31	73	95
120	Accounting method for borrowing cost	54	51	35	na	3	19	na	0	0	na	100	100
121	Accounting method for investment in associates	42	21	11	3	10	25	9	23	18	25	30	58
122	Earnings per share (EPS)	54	3	0	na	31	54	na	20	0	na	61	100
123	Basis of arriving at EPS	54	3	0	na	27	53	na	24	1	na	53	98
124	Segmental information (SI): Domestic/Export segmentation	54	42	46	na	0	6	na	12	2	na	0	75
125	Sales/revenue (SI)	54	27	16	na	2	35	na	25	3	na	7	92
126	Assets employed (SI)	54	27	16	na	0	35	na	27	3	na	0	92
127	Terms of long-term lease by property type	21	13	9	0	0	25	33	41	20	0	0	56
128	Changes in the nature of firm's activities	54	0	0	na	4	52	na	50	2	na	7	96
129	Productive capacity and capacity utilized	14	16	22	20	23	21	20	15	11	50	61	66
130	Related party disclosure (RPD): Purchase or sales of goods/property	52	43	43	1	11	11	1	0	0	50	100	100
131	Rendering or receiving of services (RPD)	54	49	40	na	5	14	na	0	0	na	100	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
132	Manufacturing, licensing and technical agreement (RPD)	53	52	41	1	2	13	0	0	0	100	100	100
133	Dividends per share	13	10	11	40	44	43	1	0	0	98	100	100
134	Details of restriction on dividend payment	14	6	9	1	42	41	39	6	4	3	88	91
135	Market share of major products	23	20	36	0	0	5	31	34	13	0	0	28
136	Distribution of share ownership: number of owners	0	0	0	0	41	54	54	13	0	0	76	100
137	Number of owners within size and value groups	0	0	0	0	41	54	54	13	0	0	76	100
138	Number of owners holding 5% or more shares	0	0	0	0	36	54	54	18	0	0	67	100
139	Classification of owners/shareholders	0	0	0	0	5	7	54	49	47	0	9	13
140	Information in directors' report: List of directors	0	0	0	54	54	54	0	0	0	100	100	100
141	List of top management and positions	0	0	0	1	8	11	53	46	43	2	15	20
142	Directors' remuneration	0	0	0	52	54	54	2	0	0	96	100	100
143	Terms of stock option plans	0	2	3	2	2	16	52	50	35	4	4	31
144	Directors' shareholdings	0	2	0	53	52	53	1	0	1	98	100	98
145	Directors' benefit in contracts	0	0	0	0	7	53	54	47	1	0	13	98
146	Arrangement for directors to acquire shares	0	0	0	0	3	53	54	51	1	0	6	98

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
147	Statements regarding: Circumstances that could render amounts in account to be misleading	0	0	0	0	1	54	54	53	0	0	2	100
148	bad debts provision	0	0	0	1	1	54	53	53	0	2	2	100
149	ascertainment of current assets	0	0	0	0	1	54	54	53	0	0	2	100
150	valuation method of assets and liabilities	0	0	0	53	54	54	1	0	0	98	100	100
151	assets charged to secure liabilities	0	0	0	0	1	54	54	53	0	0	2	100
152	contingent liabilities	0	0	0	53	54	54	1	0	0	98	100	100
153	any unusual events that could affect the results of operations	0	0	0	53	54	54	1	0	0	98	100	100
154	the truthfulness and fairness of accounts	0	0	0	54	53	53	0	1	1	100	98	98
155	the principal activities of firms	0	0	0	3	54	54	51	0	0	6	100	100
156	material transfers to and from reserves/provisions	0	0	0	0	1	52	54	53	2	0	2	96
157	related party transactions	54	46	43	na	2	6	na	6	5	na	25	55
158	post balance sheet events	54	40	33	na	3	16	na	11	5	na	21	76
159	Statutory declaration as to the correctness of accounts	0	0	0	54	53	54	0	1	0	100	98	100
160	Details on employees	0	0	0	3	8	10	51	46	44	6	15	19
161	Description and proportion of interest in joint venture arrangement	45	45	32	5	4	19	4	5	3	6	44	86
162	Discussion of new product development	52	46	43	1	8	11	1	0	0	50	100	100

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
163	Planned expenditure on research and development	54	54	50	na	na	0	na	na	4	na	na	0
164	Capital expenditure on commitments (CEC): contracted for but not provided for in the accounts	26	17	12	28	37	42	0	0	0	100	100	100
165	CEC: authorised but not contracted for	49	38	21	5	16	33	0	0	0	100	100	100
166	Planned advertising and publicity expenditure	54	54	54	na	na	na	na	na	na	na	na	na
167	Cash flow projections for the next 2-5 years	0	0	0	0	0	0	54	54	54	0	0	0
168	Discussion on political factor	50	54	50	3	na	2	1	na	2	75	na	50
169	Discussion on technological factor	51	45	31	2	9	22	1	0	1	67	100	96
170	Discussion on economic factor	0	0	0	31	25	40	23	29	14	57	46	74
171	Discussion on contractual factor	47	39	23	7	14	30	0	1	1	100	93	97
172	Discussion of industry trends	0	0	0	46	46	45	8	8	9	85	85	83
173	Discussion of competitive position	16	1	0	15	27	28	23	26	26	39	51	52
174	Share price movement	0	0	0	0	7	10	54	47	44	0	13	19
175	Operating policies	0	0	0	42	46	49	12	8	5	78	85	91
176	Financial policies	0	0	0	23	31	44	31	23	10	43	57	81
177	Biographical details of directors	0	0	0	0	0	1	54	54	53	0	0	2
178	Employee training, health and safety	0	0	0	6	5	10	48	49	44	11	9	19
179	Productivity indicator	0	0	0	0	1	2	54	53	52	0	2	4

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
180	Proportion of production raw materials and components from local sources	25	30	36	0	0	0	29	24	18	0	0	0
181	Community care programmes	0	0	0	0	3	14	54	51	40	0	6	26
182	Environmental care programmes	0	0	0	0	0	4	54	54	50	0	0	7
183	Product safety or service quality	0	0	0	3	6	22	51	48	32	6	11	41
184	Equal opportunity for employment	0	0	0	2	2	1	52	52	53	4	4	2
185	Appropriation of current profits	11	8	5	35	38	44	8	8	5	81	83	90
186	Financial highlights (FH) as to: Turnover	0	0	0	5	21	36	49	33	18	9	39	67
187	FH: Profit	0	0	0	11	28	37	43	26	17	20	52	69
188	FH: Earnings per share	54	0	0	na	23	34	na	31	20	na	43	63
189	FH: Dividend	0	0	0	10	27	28	44	27	26	19	50	52
190	FH: Net asset	0	0	0	4	22	34	50	32	20	7	41	63
191	Location of auditor's report	0	0	0	54	54	54	0	0	0	100	100	100
192	Form of auditor's report	0	0	0	54	54	54	0	0	0	100	100	100
193	Expression of opinion in auditor's report	0	0	0	53	54	54	1	0	0	98	100	100
194	Comparative income statement	0	0	0	4	11	12	50	43	42	7	20	22
195	Comparative balance sheet	0	0	0	4	13	12	50	41	42	7	24	22
196	Summary of other important statistics	0	0	0	19	13	34	35	41	20	35	24	63
197	Date of incorporation	0	0	0	2	31	6	52	23	48	4	57	11
198	Brief history of firm	0	0	0	2	2	6	52	52	48	4	4	11
199	Structure of firm	0	0	0	3	5	19	51	49	35	6	9	35

Appendix 10.4: Item-wise Disclosure by Companies (Ctd.)

Item No.	Item of Information	Not Applicable			Disclose			Not Disclose			% Disclose		
		74	84	94	74	84	94	74	84	94	74	84	94
200	Graphic/photographic information	0	0	0	13	22	39	41	32	15	24	41	72
201	Amount for balance sheet items for the previous year	0	0	0	52	53	54	2	1	0	96	98	100
202	Amount for profit and loss items for the previous year	0	0	0	52	53	54	2	1	0	96	98	100