



# **Australian Corporate Social Disclosure: Contemporary Elements and Disclosure Media**

by

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## ABSTRACT

This thesis examines the Corporate Social Disclosure practices of the 200 largest public companies in Australia. Social disclosure is the voluntary provision of information by firms concerning their interaction with the wider society in which they exist. Previous research has examined the amount of disclosure made by firms and the content of the disclosures made in the firm's annual report. From the results of these studies several theoretical alternatives have been suggested as possible predictors and explanators of social disclosure. This study continues the investigation of Australian social disclosure practices.

The largest 200 companies in Australia were asked to provide their annual report to assist the study. A total of 147 reports were received and their content examined using content analysis. After this phase of the study, the firms were then surveyed to identify any other publications they produced containing social disclosure.

Evidence gathered by this study has indicated that many of the findings of previous studies concerning the corporate characteristics of disclosing firms are still valid. Recent research has tended to privilege environmental disclosure over other disclosure themes. The evidence gathered in this study would indicate that this privileging of the environment is only partly reflected in actual social disclosure content. The environment appears to be the major area of concern for mining companies but for most companies the chief area of disclosure relates to human resource concerns. The study identified that many firms make social disclosure in media other than their annual report and that much of the social disclosure contained in these publications was prepared with specific readers in mind.

This study adopted a middle-range approach to theory examination which allows for an initial atheoretical gathering and examination of the data. The evidence provided by the data is then used to see if it provides any indication of the outworking of particular elements of previously constructed theoretical positions outlined in the literature. This study was able to provide amplification of elements contained in stakeholder theory, legitimacy theory and contingency theory.

## **DECLARATION**

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other institution and, to the best of my knowledge and belief, contains no material published or written by another person, except where due reference has been made in the text.

I give my consent to this copy of my thesis, when deposited in the University Library, being made available for loan and photocopying.

Tony McMurtrie

## ACKNOWLEDGMENTS

The production of a thesis like this represents the culmination of a project that has evolved over a long period of time. It would not be possible to undertake such a project without the input and support of many people.

To my wife, Catherine, I extend my heartfelt thanks. She has put up with my moods, my ego, and my petulance as this thesis has drawn towards its conclusion. Without her support this project would not have been completed in the time it has. At last she will cease to be a study widow and the garden can get the attention she thinks it deserves.

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This thesis is dedicated to the memory of my parents, Ralph and Enid, who were robbed of their education by the great depression but still understood the importance of answering the little boy who forever asked "why?".

# **Chapter One**

## **An Introduction**



‘[A]t the end of the decade, increased public concern over issues such as natural resource depletion, unacceptably high levels of pollution, global warming, acid rain and deforestation, amongst others, gave rise serious questioning of the adequacy of private profit as a measure of the impact of economic activity on the “quality of life”

(Harte, Lewis and Owen, 1991, p 227).

## 1.1 INTRODUCTION

In the early hours of the morning of 24 March 1989 the fully laden oil tanker, “The Exxon Valdez” ran aground in Prince William Sound, Canada. As a result, more than 11 million gallons of crude oil were spilt into the sea requiring a clean up effort costing more than \$2 billion. Considerable responsibility for the spill has been laid at the feet of the Exxon Corporation while much of the responsibility for the ensuing damage was apportioned to the Alyeska Pipeline Service Company. Alyeska was a consortium owned by seven oil companies and accepted responsibility for the clean up of spills in Prince William Sound. They were supposed to respond to spills within five hours but it took twelve hours for them to respond to the Exxon Valdez spill (Patten 1992).

Prior to this event Exxon had committed approximately half of one page of its annual report to discussion of environmental issues. In the year following the disaster they spent three and a half pages directly discussing the event and a further two and a half pages discussing environmental issues in general. For the American oil industry in general, the average amount of environmental discussion contained in their annual reports tripled from just over half a page before the spill to almost two pages the year after the spill (Patten, 1992).



Patten's examination of the discussion concerning this disaster has become an integral element of the body of literature that has developed which examines the voluntary communications concerning issues perceived by firms to be of importance to the wider community. That body of literature, in part, examines both the means of communication used by firms and the messages contained in their communications. This study continues the investigation into these communications, (which have been variously labelled Corporate Social Reporting, or Corporate Social Disclosure<sup>1</sup>) made by firms to the wider society. In particular it examines the content of the social disclosures and the methods used by the largest 200 publicly listed Australian companies to communicate their messages to the wider society. The study will analyse the amount of social disclosure, the content of the message disclosed, and the methods used to make these disclosures.

Corporate social disclosure has been described as "the reporting by corporations of:

1. The social impact of corporate activities,
2. The effectiveness of corporate social programs,
3. A corporation's discharging of its social responsibilities, and
4. The stewardship of its social resources."

(Parker, 1986, page 72)

In order to gain an understanding of the way in which a firm communicates its social message a number of areas of specific concern have been identified by researchers. These areas include,

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<sup>1</sup> These terms are used interchangeably in the literature. This study will use the term 'social disclosure' to describe this communication.

the environment<sup>2</sup>, energy issues, human resource issues, product related issues, and general community involvement.

## **1.2 STUDY MOTIVATION**

An examination of the literature discussed later in this study has identified several issues that warrant further consideration. The literature examined for this study covered investigations of social disclosures over an extended period of time (1967 - 1997). The subject of disclosures made has changed over the period examined perhaps indicating that the concerns of society and the firms' reaction to these concerns has also changed overtime. Early studies into social disclosure showed that the firms examined provided information about a diverse group of topics including firms dealings with South Africa during the period of apartheid, affirmative action and equal opportunity issues, and energy consumption. Many of the recent studies examined have concentrated to a greater or lesser degree on environmental disclosures without clearly indicating whether other areas of social concern are being reported or not. This recent concentration on environmental issues appears to have limited our understanding of the social disclosures made in other areas of concern. It is recognised that while society is deeply concerned with environmental issues it is also concerned with these other social issues (Mathews 1997). This study therefore examines disclosures made in all thematic categories identified, not just the environment.

Research into firms' communication with the wider society has also concentrated on communications contained in the annual report. With the exception of Zeghal and Ahmed's study (1990) little research has been identified that studies other methods firms may use to communicate with society. This appears to be a significant

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<sup>2</sup> In this sense the term 'environment' is used in its ecological context.

gap in the understanding of corporate social disclosure. So in addition to investigating contemporary disclosure contained in annual reports, this study attempts to begin to fill this perceived gap through the use of an exploratory survey to gain an initial understanding of any alternative media that may be used by firms to communicate with society.

### **1.3 AIMS OF STUDY**

The principal aim of this study is to contribute to the current understanding of social disclosure practices in two ways. First, evidence has been gathered that expands upon the current understanding of the nature and content of social disclosure and will help determine whether the results of previous studies are still valid. In addition to providing support to previous knowledge, this study aims to expand the current understanding of social disclosure on two frontiers. As part of the examination of contemporary disclosure particular attention is paid to environmental disclosure to determine whether the increased levels of discussion surrounding the environment in the literature are reflective of actual disclosure practices. Second, the study aims to provide preliminary evidence that will help determine whether future social disclosure research will need to consider disclosures made in media other than the firm's annual reports.

In order to meet the principal aim of this study, three distinct research objectives were identified. For each objective, specific research questions were developed that would allow this study to meet each of its overall objectives.

Some of the questions posed required the development of statistical tests in order to make meaningful observations. For these questions, appropriate decision rules have been identified in the methodology and data presentation sections of this thesis. Other

research questions were designed to provide a description of the population's characteristics without identifying particular relationships between those characteristics. For these questions the appropriate descriptive statistics were used.

### **1.3.1 Objective One: Contemporary Practice**

The first objective of this study is to provide a comprehensive understanding of the contemporary social disclosure practices of Australian firms, with a particular focus on the levels, types<sup>3</sup> and themes of the disclosure.

The need for continued empirical research into corporate social disclosure has been highlighted by Mathews (1997) who suggests that:

“[t]his work . . . is valuable as a record of the current state of organisational disclosure and therefore, of the distance that remains to be travelled along the path to full accountability by economic actors.”

(Mathews 1997, p 504)

This study continues the tradition of empirical examination into the social disclosures made by Australian firms.

As will be identified in Chapter Two, this study has been unable to identify any recent Australian studies that provide an understanding of contemporary disclosure practices in thematic areas other than the environment. To meet this objective, the relationships between the amount, type, and theme of a firm's social disclosure and characteristics of the firm are examined. Also any relationship between the type of disclosure and the amount and content of that disclosure are identified. The results of this study

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<sup>3</sup> Type of disclosure refers to whether the particular disclosure is just a simple narrative statement or contains more complex numeric and monetary information as well. A full explanation of this concept is provided in Chapter 4 of this thesis.

are also compared to results of previous studies to indicate if changes in social disclosure practices have occurred over the years.

### **1.3.1.1 Research Questions: Objective One**

In order to meet this study objective the following groups of research questions are posed.

The first group of questions identify the relationship between the amount of disclosure and the size, financial performance, and industry group of the disclosing firm. The addressing of these questions responds to Mathews' (1997) call for an examination of the current state of organisational disclosure.

- 1.1 Is the level of disclosure made by Australian firms related to the size of the disclosing firm?
- 1.2 Is the level of disclosure made by Australian firms related to the financial performance of the disclosing firm?
- 1.3 Is the level of disclosure made by Australian firms related to the industry in which the disclosing firm operates?

While not fully exploring the issue, evidence from Cowen, Ferreri and Parker (1987) pointed towards a view that firms in the mining industry may have made more environmental disclosure than firms in other industries. Question 1.4 seeks further understanding of this relationship by asking:

- 1.4 Is there a relationship between the social themes disclosed and the industry in which the disclosing firm operates?

Some of the more contemporary studies identified in Chapter Two have examined the relationships between the amount and thematic

content of the disclosure and the types of disclosure made, and between the types of disclosure and the corporate characteristics identified above. This study continues this analysis by asking the following group of questions.

- 1.5 Is there a relationship between the type of disclosure made and the theme of the disclosure?
- 1.6 Is there a relationship between the type of disclosure made and the level of disclosure made?
- 1.7 Is there a relationship between the type of disclosure made and the organisational characteristics outlined in questions 1.1-1.3?

Finally to determine whether any changes have occurred in social disclosure practices over time, the data collected to meet the first objective of this study will be compared with previous studies by asking:

- 1.8 Is there a difference between the results of these questions and previous similar studies conducted in Australia?

### **1.3.2 Objective Two: Green Disclosure**

The second objective of this study is to determine whether the identified recent privileging of environmental disclosure over the other disclosure themes in the academic literature is reflective of the actual disclosure practices of Australian firms.

The recent lack of research into the wider social accounting issues has been recognised as a shortcoming in contemporary research (Gray 1995; Mathews 1997). While the amount, type, and thematic

category of all social disclosures is of interest to this study, in recognition of the focus placed on environmental disclosure research by recent literature, this study will particularly highlight the data relating to environmental disclosure. This will allow judgements to be made as to whether the current research is reflective of the social attitudes of the firms as demonstrated through their social disclosure practices.

### **1.3.2.1 Research Questions: Objective Two**

To allow this study to meet this particular objective, a number of research questions were posed. In order to be able to make judgements about any shift in the amount of environmental disclosure contained in firms' annual reports, it necessary to know the current level of disclosure. So this study asks:

2.1 What is the current level of environmental disclosure being made by Australian firms?

Once the current level of disclosure has been determined it is then possible to use the information to answer the question that allows the study to address the second identified objective. That question is:

2.2 Has the level of environmental disclosure being made by Australian firms changed from previous studies?

In direct response to the observation by Cowen et al (1987) that there was a relationship between the level of environmental disclosure and firms operating in the mining industry, this study will add further insight to that observation by asking:

2.3 Is the level of environmental disclosure related to the industry in which the disclosing firm operates?

### **1.3.3 Objective Three: Other Media**

The final objective of this study is to provide some preliminary evidence to help answer the wider question of whether the use of the annual report is a authoritative source of information for social disclosure research.

To expand the understanding of current disclosure practices this study will identify printed media, other than the corporate annual report, used by firms for social disclosure purposes. Contemporary disclosure research has concentrated almost exclusively on disclosures contained in the corporate annual report. Tilt (1994) found that the users of information disclosed in corporate annual reports ranked the corporate annual report as the first choice as a source of social information but at the same time questioned the accuracy of the information contained in those reports.

#### **1.3.3.1 Research Questions: Objective Three**

Zeghal and Ahmed (1990) examined the social disclosure made in brochures produced by some Canadian banks and oil companies. As their study was a first tentative step to understanding the issue, little inference could be made about how general was the use of publications other than the annual report to present firms' social communications. In order to start to gain an understanding of how common the use of publications other than the annual report are, this study asks:

- 3.1 How many firms present social disclosure in publications other than their annual report?

A greater understanding of the use of these alternative publications will be gained by knowing how often they are produced. To address this aspect the next question is:



3.2 How often do firms produce any other publications containing social disclosure?

Kelly (1981) suggested a relationship between environmental disclosure and the report recipients. If firms are aware of this they may produce disclosure directed towards specific recipients. Implicit in the use of advertising brochures by the companies identified by Zeghal et al (1990) to transmit their social message is the assumption that the intended readers of this disclosure were the firms' customers and intended customers. This study will gather further evidence to provide greater illumination of this assumption by asking:

3.3 Are the other publications produced intended for any particular group of recipients?

## 1.4 SCOPE AND LIMITATIONS

The population chosen for this study is the largest 200 companies listed on the Australian stock exchange. Trotman (1979) adopted the largest 100 companies as the population for his study. Kelly (1981) used the top 50 companies. Other studies have drawn samples from the top 500. The results of the studies by Trotman and Kelly indicate that larger companies are more likely to publish social disclosure than smaller companies. In order to be able provide an indication as to whether this relationship is valid beyond the largest 100 companies this study has examined the largest 200 companies in Australia.

Previous studies by Gray, et al (1995a&b), Guthrie and Parker (1990), and Adams, Hill and Roberts (1998) examined social disclosure across diverse geographical regions and have shown that the type and nature of disclosure made differs between

geographical regions. As it is not the intention of this study to make any observations concerning differing disclosure practices across regions, only Australian companies have been included in the population examined.

The principal source of data for the studies examining social disclosure identified in Chapter Two has been the company's annual report. The restricting of the data source to the annual report is seen as a potential limitation on this research. However, as the successful achievement of the first two objectives of this study are largely dependant on being able to compare the results gained from this investigation with those gathered by previous studies, the annual reports of the companies making up the population will also be used by this study as the source of the social disclosure examined. Under certain conditions, the Australian Corporations Law exempts private companies from having to publish their annual report. Therefore to ensure that an annual report was available, only public companies have been included in the population.

The identification of other sources of social disclosure other than the annual report has been limited to printed media. Zeghal et al (1990) examined disclosure contained in printed brochures. While it is probable that firms produce social disclosure in media forms other than printed publications, (for example promotional videos) as a first exploratory step this study is limited to the identification only of printed media<sup>4</sup>. As with the annual report, the printed publications identified will have been produced directly by the firm. Externally produced media that contain social disclosures have not been considered because such disclosures are either the view of

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<sup>4</sup> A non exhaustive list was provided to respondents to help them identify publications containing social disclosure. This list included in house magazines, special purpose reports, community information publications, employee newsletters etc.

someone outside the firm or the secondary re-presentation of information that has been produced by the firm.

Information concerning the social disclosures contained in publications other than the annual report was provided by the firm itself. This has meant that information concerning the thematic category of disclosure contained in these publications has been provided by people within the firm. While every attempt was made to provide an acceptable understanding of the rules used to identify the thematic category of the disclosure, it is possible that the interpretation of both the categorising rules and the disclosures themselves may have differed between firms and, between firms' respondents and the analysis made by this study. As the questionnaire replies were confidential and in many cases, the individual respondent within the organisation was unidentified, it was not possible to confirm with the respondents through direct interview how they placed the publications into thematic groups.

The use of mailed questionnaires instead of personal interviews restricts the complexity of the information that can be gathered. In order to maintain enough simplicity within the questionnaire, respondents were only asked to identify a single thematic category for each publication. This study has therefore been unable to identify which, if any of the publications identified, contain social disclosures in more than one thematic category.

This study has adopted the thematic categories that define social disclosure used in previous studies. No attempt has been made to test their applicability in defining contemporary disclosure. While these thematic categories appear on the surface to be exhaustive, there is no evidence to confirm that they capture all contemporary social concerns.

As with all research studies there are methodological limitations that will impact on the findings of this study. Data gathered through content analysis is by nature secondary as it relies on the researcher's interpretation of the message being transmitted. In addition the use of mailed questionnaires may also impact on the validity of the study as respondents may provide answers they feel the researcher is looking for or they may provide answers that they feel gratify their personal agenda. The limitations of the methods adopted and their impact on this study are further discussed in Chapter Four of this thesis.

## **1.5 OUTLINE OF THESIS**

The thesis resulting from this study presents its findings in the following manner.

Chapter Two contains a review of the prior literature examining the findings of early studies that investigated the organisational determinants of social disclosure. Studies investigating the content of the messages contained in the disclosures have been examined. This examination has allowed the study to identify and trace a shift in message content over time. Recent disclosure research appears to have moved away from investigating disclosure of the wider social issues and concentrated on investigating disclosures made by firms concerning the environment. This concentration on the environment in disclosure research has been recognised and, several papers calling for research that includes the environment but also recognises the wider social concerns have been identified. This chapter will also identify some of the methodological approaches that have been adopted by previous studies.

Chapter Three will discuss the theoretical approach to be adopted by this study. This study is informed and guided by the "middle range" approach as identified by Laughlin (1995). Within this

approach the use and influence of prior theory is kept to a minimum. Data is therefore gathered in an atheoretical research environment. Once the data has been gathered and analysed, the empirical results may then be used to provide evidence of the outworkings of any elements of a particular theory that may be of interest. Chapter Three identifies three different theories that will each be considered later in the thesis.

Chapter Four has identified the research methods used to gather the data required to meet the objectives of this study. The methods discussed are content analysis and survey through the use of a mailed questionnaire. The methodological issues and limitations for both methods employed are discussed in detail as well as an identification of the population to be studied and the variables considered to be of importance in this study. The chapter concludes with a brief description of the effectiveness of the collection methods used.

The data gathered using the techniques described in Chapter Four will be presented in Chapter Five. Each of the primary research objectives of this study are addressed and the data gathered to answer each of the research questions identified. This data is then presented as it directly relates to the relevant research questions set out in Chapter One.

Chapter Six of this study reflects on the data gathered to meet the objectives this study. Within this section comparisons are made between the findings of this study and the results of previous studies that have examined the determinants of social disclosure in firms. Within Chapter Six each of the objectives of the study is further analysed in light of the data collected and recognition of the strength with which the empirical data allows the study to meet its stated research objectives is made. Consistent with the middle

range approach, the data in this study was gathered and analysed without reference to any particular theoretical position. Within Chapter Six the empirical results of the study are reconsidered in the light of the theoretical positions identified in Chapter Three with the view to determining which, if any, of the elements of the theories are evidenced and can be amplified by the results of this study.

Finally, Chapter Seven acts as a capstone to the study. Those results which are considered to be of significant consequence will be revisited. As with many research projects this study has identified many areas where it is clear that a full understanding of all the issues is not yet available. The implications of this study to the future investigation of social disclosure is discussed and those areas where it is felt that a lack of understanding exists will be signposted.

# **Chapter Two**

## **Research Trends in Social Disclosure**

## **2.1. INTRODUCTION**

This chapter is an examination of the literature and prior social disclosure research that has influenced this study. Research examining the social disclosure practices of business appears to have divided itself into two distinct periods which can be roughly divided chronologically. Early social disclosure research tried to examine the firm's reaction to many of the social issues which faced it. Later research mainly tended to examine particular social issues that were facing firms with, by far, the most predominant issue being the environment.

The first section of this chapter will examine the early research that has formed the underpinning for most social disclosure research that has taken place over the years. This research tended to be used to determine those characteristics of organisations that may help predict their reported response to social issues and implicitly assumed that coupled with the reporting of that response there would be actual programs or activities designed to meet a society's concerns. Organisational characteristics that have been examined by previous studies include 'physical' characteristics, (size, industry etc) as well as financial characteristics (market risk, profitability etc.)

Following a discussion of the wider disclosure issues, this chapter will identify the shift to the more specific disclosures made around particular issues, concentrating, as the research does, on the environment in particular. It might be suggested that the advent of the environmental disclosure research represents the first maturing of the social disclosure research paradigm. It is within the environmental sphere that the more normative and prescriptive issues of how and why to disclose are being addressed. During the environmental disclosure discussion this chapter identifies a group



of studies that have attempted to more closely define the characteristics of disclosing firms. Once again issues including corporate size, industry and stakeholder perceptions are addressed. Environmental disclosure research appears to have attempted to shift out of the economically based paradigms that have guided much of the early disclosure research and move towards more interpretive paradigms. This chapter will identify some of the theories used to help explain social disclosure. Finally, before recognising the call for research to shift back towards the wider view of social disclosure this chapter will report on some studies that have suggested how environmental disclosures may provide some benefit to both disclosing firms and to society.

Finally, this section will examine some of the methodological issues that face social disclosure researchers. These issues include methods needed to recognise disclosures, ways of measuring the quantity of disclosure and methods for determining the level of importance placed on the disclosure by the author.

## **2.2. DETERMINANTS OF DISCLOSURE**

Early Corporate Social Disclosure research appears to have its genesis in paradigms that were primarily economic in nature. That is, they employed traditional economic methods of research along with the epistemological and ontological underpinnings that had supported the research being conducted at the time. The object of such research was to investigate and establish whether any association could be established between the level of social disclosure observed in firms annual reports and the firm's financial performance (Belkoui and Karpik, 1989).

Ironically the first major attempts at the examination of the relationship between social disclosure and financial performance was carried out by a firm of financial accountants. A comprehensive

study of the development of social disclosure by Mathews (1997) identifies a series of studies conducted by the chartered accounting firm, Ernst and Ernst between 1972 and 1978. Over its lifetime this research grew from a simple present/not present analysis to lay the foundation for disclosure measurement using measures such as words, lines, paragraphs, and area of disclosure (Mathews 1997).

Freedman and Jaggi (1982) suggested that the reason firms disclosed was a resource allocation issue and provided the supporting argument for early social disclosure research when they suggested that:

“[a]rguements in favour of .. disclosures are based on the grounds that any information affecting corporate earnings should be disclosed to enable investors to make informed judgement, so that the optimal allocation of resources takes place.”

(Freedman et al, 1982, p407)

This view was supported by Trotman (1979). With the view of providing as much information as possible surrounding issues relating to financial performance many early studies examined social disclosure in relation to various financial measures and corporate characteristics.

### **2.2.1 Size**

Studies were conducted comparing various financial and market performance measures with social disclosure levels. Trotman (1979) Trotman and Bradley (1981), Cowen, Ferreri and Parker (1987), Belkaoui and Karpik (1989) Patten (1991), Roberts (1992), Adams (1995), Kent, Kwong and Marshall (1997) and Adams, Hill and Roberts, (1998) examined disclosure practices in relation to the size of the disclosing organisation. With the exception of Cowen et al (1987) and Roberts (1992), the findings of this group of studies consistently found a direct relationship between the size of an

organisation and the level of disclosure it published. The study by Cowen et al (1987) was unique in that it attempted to link the independent variables tested with each of the individual disclosure themes. The study concluded that there was an association between organisational size and the amount of environmental, energy, business practice and community involvement disclosure but could not find any association between organisational size and human resource or product related disclosures. Roberts (1992) was unable to find any significance ( $p=.3$ ) between organisational size and disclosure. In a unique study Patten (1992) suggests that the amount of disclosures made by North American oil companies in response to the Exxon Valdez disaster was directly related to the size of the disclosing company.

A common method used to determine size was a measure of the firms capital backing. This was either obtained directly from the relevant stock exchange, (eg Trotman 1979) or indirectly through commercially published list such as the Fortune 500 list, (eg Cowen et al, 1987). Other measures that have been used as a proxy for organisational size are; asset backing (Trotman et al, 1981), sales (Trotman et al, 1981; Roberts, 1992; Adams, Hill and Roberts, 1998), and the log of sales (Belkaoui et al 1989, and Patten 1991, 1992). The log of sales is used in preference to absolute sales because of the normalising effect the log can have on the distribution.

These studies have shown that in almost all instances there has been demonstrated a strong positive relationship between organisational size and the level of disclosure being made.

### **2.2.2 Industry**

Another corporate feature that was considered as a possible determinant of disclosure levels was industry. Zeghal and Ahmed

(1990) compared disclosure practices of Canadian Oil companies and Canadian banks and concluded that the medium chosen for disclosure could be dependant on the industry in which the firm operates. Their study indicated that while the banks produced more disclosure than oil companies the bank's disclosure was concentrated in media that was directed predominantly at their customers where as oil companies produced comparatively more disclosure in medium directed to the wider community as a whole (Annual Reports and Advertising).

Cowen et al (1987) compared disclosure levels with industry type with the view to determining whether "the general public's concern with social programs would be more likely to be reflected in large numbers of social responsibility disclosures by companies selling in mass markets" (p114). Their results suggest that the consumer orientation of the industry was not a factor in determining the amount of disclosure a firm may make.

Hackston and Milne (1996) followed the examples of earlier studies (Dierkes and Preston 1977, Patten 1991, and Roberts 1992) by classifying industries dichotomously into high or low profile groups. Industries that have been considered to be high profile include; petroleum, chemical, forest and paper, (Patten 1991) extractive industries, (Dierkes et al, 1977) automotive, airlines, (Roberts 1992) agriculture, liquor and tobacco (Hackston et al 1996). Classifying industries in this manner has consistently found a positive association between disclosure levels and the industry group in which an organisation belongs.

A variation of the high/low profile dichotomy used by the previously discussed studies was used by Kelly (1981) where the comparison was made by grouping Primary with Secondary industries, and comparing them to Tertiary industries. The findings of this study

indicate that Primary and Secondary industries are more likely to disclose than Tertiary industries. Adams, Hill and Roberts (1998) also dichotomised their sample but categorised the firms by considering “the extent by which their companies are likely to impact on society” (page 7).

Results of industry based studies would suggest that the industry in which a firm participates is not only an indicator of disclosure levels but also an indicator of the media chosen to disclose.

### **2.2.3 External Pressure**

Abbott and Monson (1979) suggested that social disclosure may be made in response to external pressures that the organisation may perceive are impacting upon it. Studies that have examined the effect of external pressure on disclosure include Trotman et al (1981), Belkaoui et al (1989) and Roberts (1992).

Trotman et al (1981) used the results of a previous survey that had asked corporate managers to identify and quantify on five point scale the amount of social pressure they faced. Their study showed a positive association between social disclosure and the amount of social pressure the managers felt they faced. Belkaoui et al (1989) used organisational size and systematic risk<sup>5</sup> as proxies for external pressure arguing that large firms are more politically sensitive than small firms and that larger firms are faced with differential incentives in their choice of accounting procedures that will impact upon their preference to defer income reporting. They found significant positive associations between these variables and disclosure. Roberts (1992) used the number of staff employed in a public affairs role to gain an understanding of a firms reaction to

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<sup>5</sup> Systematic Risk is the portion of variations in investment returns that cannot be eliminated through investor diversification. (Martin, Petty, Keown and Scott, 1991 p 939)f

external pressure. The study suggests a positive correlation between the variables concerned.

#### **2.2.4 Profit**

Studies that have attempted to establish a relationship between social disclosure and profit have not been able to provide consistent results. Trotman (1979) suggested a positive relationship between profit and disclosure. Patten (1991) used several different measures of profit when studying the relationship between profit and disclosure. Positive associations were found between disclosure and short term measures of profit but when a five year average for return on investment was analysed, the association was in the negative. Studies by Abbott et al (1979), Cowen et al (1987) Freedman et al (1988), Belkaoui et al (1989) and Hackston et al (1996) find it difficult to support a hypothesis that argues a relationship between disclosure and current period profits. Roberts (1992) offers some support to a relationship between disclosure and lagged profits while Cowen et al (1987) and Hackston et al (1996) were unable to support the same conclusion.

Many studies have examined the relationship between disclosure and profit but as can be seen the results are, to a degree, contradictory. This might be explained by the different profit measures that have been used and the differing time frames of the examination.

#### **2.2.5 Risk**

Maximising the return to shareholders has been considered a major goal of organisations and systematic market risk has been considered an important consideration for investors in their investment decisions. Accordingly studies have considered systematic risk when investigating social disclosure determinants.

Roberts (1992) found a significant negative relationship between risk and disclosure. These results contrast with Belkaoui et al (1989) who used risk as a proxy for political pressure and reported a positive relationship. Trotman et al (1981) suggested that there was a positive association between the systematic risk and a firm's propensity to disclose but no association between risk and the amount of disclosure made by the disclosing firm.

As with profit based measures the relationship between disclosure and systematic risk is not clear. The disparity in the results obtained have not yet been explained in a manner that provides guidance to the role risk plays in social disclosure practices.

#### **2.2.6 Other Determinants**

The comprehensive study by Roberts (1992) considered several other factors that may impact upon the level of disclosure made by an organisation. Significant positive relationships were found between disclosure and whether the organisation sponsored a philanthropic foundation, the annual change in return on equity, and the organisation's age. No relationship could be established between disclosure and; management ownership share, political contributions, or the organisation's debt/equity ratio. This finding relating to return on investment confirms an earlier finding by Abbott et al (1979).

Management decision horizons were considered a determinant of disclosure by Trotman et al (1981) with companies that place an emphasis on long term decision making more likely to disclose than those with a shorter decision making horizon. Kelly (1981) also suggested there was a "positive relationship between the level of environmental disclosure and report recipients" (p104).

Studies have been carried out examining disclosure in an international context. Andrew, Gul, Guthrie and Teoh (1989)

examined disclosure patterns in Malaysia and Singapore and suggest that while size was still a significant factor in these areas 'social disclosures in developing countries were not as extensive as in industrialised countries (p 375). This lower level of disclosure was also observed in Hong Kong by Lynn (1992). Guthrie and Parker (1990) examined social disclosure in three different developed countries (Australia, Great Britain, USA) and determined there were considerable differences in disclosure patterns in the different regions with respect to themes reported but the amount of disclosure did not appear to differ significantly. Adams, Hill and Roberts (1998) showed that "there are significant differences in both the type and the amount of information disclosed by companies from different countries, and these differences cannot be explained by differences in either the size or industry composition of the sample" (page 16).

Cochran and Wood (1984) attempted to refine the understanding of any relationship between disclosure levels and financial indicators that may have been present. Many of their results were inconclusive but they did suggest an association between disclosure levels and the age and turnover rate of the firm's assets.

Adams (1995) study examined insurance companies and found several different characteristics unique to the insurance industry were associated positively and negatively to disclosure levels.

### **2.2.7 Disclosure Rationale**

Several theoretical frameworks that may provide an understanding as to why organisations disclose have been suggested in the disclosure literature. These include traditional positive economic theories (Belkaoui et al 1989, and Ness and Mirza, 1991), decision usefulness (Gray Owen and Maunders 1991), legitimacy (Abbott and Monson 1979; Guthrie and Parker 1989; Patten 1992; Tilt



1994; Deegan and Rankin 1996; Deegan and Gordon 1996), political economy (Guthrie and Parker 1990) stakeholder theory (McGuire Sundgren and Schneeweis 1987; Roberts 1992) social contract (Tilt 1994; Deegan and Gordon 1996). In addition to the provision of broader theoretical frameworks that may help to analyse social disclosure, some studies have offered factors that they have considered may be specific driving forces that can help understand the motivations behind the production of social disclosure.

Freedman et al (1984) initially suggested that there was an economic rationale that was driving pollution disclosure but in the end were unable to support this conclusion when considered from an investors perception point of view, however they still conclude their study by suggesting other (unidentified) measures of the firm's economic performance could be the imperative leading to the production of disclosures.

Tilt (1997) suggests that the major persuasive force driving the publication of Corporate Environmental Policies is the legal framework surrounding the development of environmental policies and practices. Ironically the same study suggests that the existence of defenses against breaches of the legal framework that have been enshrined in legislation appear to have far less influence in the environmental reporting practices of firms. As Tilt suggests the stick appears to be more powerful than the carrot.

Patten (1992) also suggests that with reference to the particular issue of the Exxon Valdez, ownership in the Alyeska pipeline was a significant factor in the amount of disclosure published by the relevant oil companies.

### **2.2.8 Determinants in Review**

Many studies have been conducted with the view to determining the major corporate characteristics of firms that disclose

information relating to their interaction with the wider society in which they operate. The most commonly reviewed determinant appears to be organisational size. With the exception of one study (Roberts 1992), all studies examined were able to report that there was a positive relationship between organisational size and the level of social disclosure.

The number of different industries in which subject firms operate is numerous. This means that it is difficult to obtain a meaningful understanding of the behaviour patterns within particular industries. To overcome this, some studies have dichotomised industry groups using perceived public profile as the distinguishing characteristic. Those studies reported in this chapter that used a high profile/low profile dichotomy unanimously reported a positive relationship between industry profile and disclosure. Cowen et al (1987) examined the industry's proximity to the consumer market with results that indicated that consumer proximity was not a significant factor in disclosure.

The other determinant that appears to be consistently related to disclosure is external pressure. External pressure was measured using management perception (Trotman et al 1981), size and systematic risk (Belkaoui et al 1989) and public affairs staff numbers (Roberts 1992).

Inconsistent results have been identified where disclosure practices were compared to the market risk that firms face and different measures of profit. Roberts (1992) found a positive association between disclosure and risk while Belkaoui et al (1989) reported a negative one. The results of profit studies have been even more confusing with some studies providing some support for a hypothesis suggesting profit as a determining factor for disclosure while other would suggest no support. Even allowing for the follow-

on effect of profit to impact on the organisation by lagging the time frames there were equally confusing results.

The results of these studies would tend to suggest larger firms are more likely to disclose than smaller ones, high profile are more likely to disclose than lower profile firms. Firms facing greater public pressure will disclose more than firms facing less public pressure. A comprehensive review of the social disclosure literature can be found in Gray, Kouhy, and Lavers (1995a & b) and Mathews (1997).

### **2.3 CONTENT AND DIRECTIONS OF DISCLOSURE**

Two of the principal aims of this study directly relate to the quantity and content of social disclosure being made in the Corporate Annual report of the firms being examined. In order to gain the necessary information to identify any relationships that may exist a content analysis of the Corporate Annual reports will need to be undertaken. Other studies that investigated the content Corporate annual reports have also used content analysis as their principal data gathering technique. This technique examines the content of the report and analyses the message being transmitted by the authors. This section will examine those studies that have used content analysis to gather data specifically the content of the disclosure examined and the particular focus adopted by each of the studies examined.

Trotman (1979) undertook one of the first studies of social disclosure in Australian firms when he performed an analysis of the 100 largest companies in Australia. The purpose of the study was to determine what disclosures were being made in each of the social responsibility areas. With the exception of products, where disclosure levels remained virtually static, Trotman showed that the number of companies making disclosures and the number of

disclosures they made in each area had increased between 1967 and 1977. Trotman focussed his study on the themes used in making disclosure and the level of quantification contained in the disclosures. Comparisons were identified between firms who provided quantitative support to their disclosure and those firms who only expressed in disclosure in qualitative forms. Quantified disclosure was separated into sub-categories which further separated those firms that disclosed using a monetary based quantification system and those firms that disclosed using non-monetary based quantification. A final category was established for those firms making quantified disclosure using both monetary and non-monetary based disclosures. The results of this study are set out in Tables 2-1, 2-2, and 2-3.

	1977	1972	1967
Companies that made some disclosure	69	48	26
Companies that made no disclosure	31	52	74

**Table 2- 1  
Number of Firms making Disclosures**

	1977	1972	1967
Environment	35	18	6
Energy	10	0	1
Human Resources	43	30	17
Products	4	3	3
Community	23	19	5
Other	34	13	5

**Table 2- 2  
Disclosure by Category**

	1977	1972	1967
Both Monetary and non-monetary quantification	11	3	1
Monetary quantification	2	5	0
Non-monetary quantification	20	11	12
No quantification	36	29	13
Total	69	48	26

**Table 2- 3**  
**Disclosure by Quantification**

(Trotman, 1979, p 25)

These results were supportive of Abbott and Monsen (1979) who found similar increases in their study of companies in the United States. Abbott et al (1979) employed similar disclosure categories to those used by Trotman (1979) but excluded energy but included an equal opportunity category which may have been reflective of the social issues of the time. While Abbott et al (1979) identified the number of disclosures made in each category the major impact of their study appears to be the identification of the change in disclosure levels between the two periods examined, 1973 and 1974. The results of there studies are summarised in Table 2-4 from Abbott et al (1977, p 510). With respect to environmental disclosure Deegan and Gordon (1996) support the findings of Abbott and Monson (1977) and in addition show a substantial increase in the level of environmental disclosure between 1985 and 1991.

Content Theme	Percents		
	1973	1974	Change
Environment	37.0	50.4	13.4
Equal Opportunity	24.5	32.2	7.7
Personnel	20.2	29.4	9.2
Community Involvement	21.1	25.5	4.4
Products	4.7	10.5	5.8
Other	9.5	8.3	-1.2

**Table 2- 4**  
**Changes in Disclosure Levels**

Kelly (1981) also confirmed the results of Trotman with respect to the increase in disclosure levels but also suggested that industry classification may be a contributory factor to the amount of disclosure a firm makes. Kelly examined 50 companies and compared the disclosure levels of those companies classified as being engaged in either primary or secondary industries with those companies involved in tertiary industries. Although Kelly admits there is insufficient elements in his sample to make statistically significant assertions from his findings there is a strong indication that firms engaged in primary or secondary industries are more likely to disclose than those engaged in tertiary industries. Table 2-5 from Kelly (1981 p 104) summarises these indications showing the mean level of disclosure for firms in each industry group.

Industry	Number	Mean
Primary and Secondary	35	0.46
Tertiary	15	0.13

**Table 2- 5**  
**Disclosure by Industry Group**

As identified previously many studies have investigated the association between social disclosure levels and corporate characteristics. Studies focusing on corporate characteristics of disclosing firms that have adopted content analysis as the method to determine social disclosure levels include Trotman and Bradley (1981), Cowen, Ferreri and Parker (1987) and Hackston and Milne (1996). The results of these studies has been set out in the previous section of this chapter.

Some studies have examined disclosure practises with a view to developing support for theories that have been used as explanators of social disclosure. Patten (1991) performed a content analysis of the annual reports of a large sample of companies and made a comparison of the results of this analysis with financial and political variables to offer support for legitimacy theory. This position was later supported by Patten (1992) when examining the Alyeska companies but could not be supported by Guthrie and Parker (1989) examining the disclosures made by BHP.

The differences between cultures and business practices has been the focus of several studies using content analysis. Guthrie and Parker (1990) conducted an international study examining the disclosure practices of firms in Australia, The United Kingdom, and The United States. Their study suggests differences in the reporting practices between the different countries and this could suggest that social disclosure may be contextually bound with

respect to country. Andrew et al (1989) examined disclosure practices in Malaysia and Singapore and Lynn (1992) examined disclosure practices in Hong Kong, but no comparison between these results and results from other countries was offered. A full review of content analysis based studies examining British companies is available in Gray et al (1995 a & b).

While the majority of studies that have used content analysis to gain an understanding of a firm's position have analysed the Corporate annual report, Zeghal and Ahmed (1990) applied the technique to make a comparison between the disclosures contained in annual reports, Paid Advertising, and Company Brochures. This study will continue the examination of alternate disclosure methods as investigated by Zeghal et al (1990).

Deegan and Gordon (1996) continued the use of content analysis when investigating social disclosure issues but expanded the methodology by combining the use of a questionnaire to retrieve supporting information that was not readily available using content analysis alone. The use of these multiple data gathering techniques as demonstrated by Deegan and Gordon (1996) is being adopted by this study to allow the data necessary to meet the aims of this study to be gathered. The application of this approach will be discussed further in Chapter Four.

Each of the studies discussed in this chapter has used content analysis as a data gathering method. Content analysis will be discussed more fully in the following chapter but an important procedure during the application of content analysis is the identification and application of content themes or identifiers. Table 2-6 sets out the themes employed in each of the studies discussed.



**Table 2- 6**  
**Disclosure Themes Adopted by Previous Studies**

Study/ Theme	Abbott et al 1979	Trotman et al 1981	Kelly 1981	Cowen et al 1987	Andrew et al 1989	Guthrie et al 1989	Guthrie et al 1990	Zeghal et al 1990	Patten 1991	Patten 1992	Hackston et al 1996	Deegan et al 1996
Enviro	X	X	X	X	X	X	X	X	X	X	X	X
EO	X											
Product	X	X	X	X	X	X	X	X	X		X <sup>6</sup>	
Comm	X	X	X	X	X	X	X	X	X			
Pers/HR	X		X	X	X	X	X	X	X		X <sup>7</sup>	
Other <sup>8</sup>	X	X	X	X		X	X	X	X			
Energy		X	X	X		X	X	X	X		X	
Fair Bus				X				X	X			
General											X	

<sup>6</sup> Also included consumer  
<sup>7</sup> Separated Health and Safety from other

<sup>8</sup> While the "Other" category was used in these studies not all studies found disclosures that fitted into this particular category, eg Guthrie et al 1989.

It has been recognised that content analysis cannot be considered wholly adequate as a measure of social responsiveness but at the present no better measures appear available (Cochran and Wood 1984, p 44).

## **2.4 THE SHIFT TO ENVIRONMENTAL DISCLOSURE RESEARCH**

An examination of Table 2-6 shows that the only theme used in all the reported disclosure research is the environment. A review of the contemporary literature has shown that the environment has developed as a major research theme independent of other social research themes. The expansion of the environment as a singular research area requires that the literature related to this single area of social disclosure is identified. This section will provide an overview of some of the environmental specific literature that has been published.

In 1981 Kelly observed “that the level of environmental disclosure has increased over the period 1969 to 1978” (p 104). A review of the literature might suggest that there has been a corresponding shift in social disclosure research towards exclusive examinations of environmental disclosure as well. Mathews (1997) observed that in the period “1981-1990 the attention given to environmental matters increased dramatically” and goes on to point out that “[t]he developments of the period 1991-1995 were a continuation of the later years of the previous decade”. (p 500) Parker (1995) also suggests that the environment has emerged as a the major theme of social disclosure research. While the environment has not been the only social theme to receive exclusive attention (for example see Lewis, Parker and Sutcliffe, 1984; Parker 1988; and Adams and Harte 1998) the body of literature surrounding the role the environment plays in organisational behaviour has been considerable.

Early environmental accounting research still concentrated on disclosures made in Corporate annual reports, eg Wiseman (1982). During the early 1990s the focus of environmental research appears to have focused onto two additional issues. There has continued to be an ongoing examination of disclosures being made (Wiseman 1982, Patten 1992, Roberts 1992, Frost, Wilmshurst and Deegan 1995, Tilt 1994, 1997, Deegan and Gordon 1996). In addition to the disclosure studies two additional groups of studies have been identified. Prescriptive studies have tried to suggest how environmental information should be disclosed and a group of normative papers have suggested why organisations need to make such disclosures.

#### **2.4.1 Normative and Prescriptive Studies**

In addition to the descriptive studies outlined here, a group of studies best described as prescriptive research has appeared. Milne (1991), The Australian Manufacturing Council (1993), Bansal (1993) and Schoemaker and Schoemaker (1995) have suggested frameworks or methods that may be used to produce environmental accounting information. As well as the 'how to' research there has also been a body of literature offering differing reasons as to why organisations should produce environmental accounting information. The reasons proffered range from the ecological (Gray 1992) through to the economic (Ness and Mirza, 1991; Weinstock 1992). Other 'why' studies include Bansal (1995), Raar and Hone (1995), and Ranganthan and Ditz (1996). These studies provide a wealth of information and identify major research that needs to be conducted but as this study is primarily concerned with the methods organisations use to transmit their message (and not the broader "why they should transmit it" question), this group of studies is considered to be outside the scope of this current study and will therefore will not be further considered.

### **2.4.2 Environmental Disclosure Studies**

Wiseman (1982) identified the influence external factors were having on organisations as they attempted to meet societies' requirement for a cleaner environment. In addition Wiseman identified a demand from society for "measurement and reporting system to account for corporate environmental performance" (p 53). Wiseman bemoans the fact that no such system exists. A review of the current literature would indicate that if the need for such a system does exist then that need has remained, largely unfilled.

While many studies have continued to identify determining corporate factors that may help describe and define disclosing organisations, environmental disclosure studies have appeared in the main to extend the determinants discussion by identifying other issues surrounding the disclosure of environmental information. These issues include; the identification of the need for, and the use of, an environmental accounting/audit system, the needs and desires of the information recipients, the reasons why organisations have chosen to disclose, and the use of environmental disclosures in management decision making.

### **2.4.3 Environmental Disclosure Characteristics**

Studies have examined the link between environmental disclosure and environmental performance. Wiseman (1982) developed a disclosure index based on the amount and type of disclosures made by firms in different industries. This study was unable to report a correlation between disclosure and actual environmental performance measured as a ranking by the Council on Economic Priorities. Wiseman suggests that much of the environmental disclosure made by organisations is incomplete and vague (p 55). The concept that there existed a relationship between disclosure and actual performance was also challenged by Freedman and Jaggi (1984) who suggested that they could find "no significant

correlation between pollution disclosures and pollution performance of firms” (p411). Kent, Kwong and Marshall (1997) adopted the disclosure index developed by Wiseman (1982) and too suggested that “[t]he usefulness of such environmental reportings ... is questionable” (p33). Similarly to Wiseman (1982) Freedman et al (1984) argue that problems that exist in the interpretation of information are not caused by the subject matter of the disclosure but rather by the form of the disclosure which they suggest “renders pollution disclosure information useless’ (p411). In contrast Goodwin, Goodwin and Konieczny (1996) concluded that there was no difference between the of level positive information sought by investors and the level of environmental disclosure organisations were prepared to make. The same could not be said about negative disclosure where the information desires of investors were greater than the disclosures the organisations were prepared to make.

Tilt (1997) examined environmental disclosure through the use of Corporate Environmental Policies (CEP) and extended the examination to include several corporate characteristics. Her findings with respect to size suggest that consistent with general social disclosure practices, larger organisations are more likely to reveal environmental information through the use of a CEP than smaller ones (although this study would question the use of employee numbers as an acceptable generic size measure). Deegan and Gordon (1996) followed the earlier practice of using sales as a proxy for size (eg: Trotman et al, 1981; Roberts, 1992) and supported the assertion that larger firms disclose more than smaller ones although they limited this conclusion to firms in environmentally sensitive industries. Freedman et all (1984) reported an earlier study they had made which suggested that larger companies experiencing poorer economic performance were most likely to disclose. As discussed previously Patten (1992)

indicated that more disclosures were made by larger oil companies than smaller companies after the Exxon Valdez incident.

While making no comment surrounding the number of disclosures made by, or the reporting practices of different industries, Wiseman (1982) did report that mining and oil company disclosures were consistently shorter and less complete when compared to the disclosures of firms in other industries. Tilt (1995) also categorised her sample by industry. While the high/low public profile dichotomy was not applied, the use of five distinct industry categories has provided a similar outcome. The study reports that 70% of respondents that had been classified as mining and chemical companies made use of CEPs while only 17.6% responding financial services companies made use of them. Deegan and Gordon (1996) classified firms as environmentally sensitive or not and reported that environmentally sensitive firms disclosed more than less environmentally sensitive firms. Environmental sensitivity was measured using the perceptions of office bearers within the subject firms.

Deegan and Rankin (1996) examined the environmental disclosure of firms that had been successfully prosecuted under Environmental Protection Legislation. They examined the disclosure in terms of a positive/negative disclosure dichotomy and determined that firms were more likely to disclose positive rather than negative information and that firms that had been prosecuted provided more disclosures than firms free of prosecution. In addition it was found that firms in industries that appeared subject to a greater number of prosecutions provided greater disclosure than those firms less liable to prosecution. The concept of positive and negative disclosure was continued by Deegan and Gordon (1996) who reported that environmental disclosures were “typically self laudatory” with virtually no negative disclosures being made by

the firms examined in their study. In their study of the chemical industry Kent, Kwong and Marshall (1997) suggested that the chemical industry favoured "positive" disclosures presenting themselves in a favourable light.

#### **2.4.4 Other Uses of Environmental Information**

A body of literature has developed that examines the possible usefulness of environmental information. These studies have not always relied on published environmental disclosures as their principal data source so they are, in the main, outside the purview of this study. However, as this appears to be becoming a strong body of literature in its own right it is incumbent on this study to make mention of it. Studies have suggested several possible ways that environmental disclosures may provide a positive contribution to the disclosing firm.

Frost, et al (1995) made some preliminary incursions into the information system that produces environmental disclosure. Their study suggested that much more work needs to be undertaken as the role of the accountant and the accounting information system in environmental disclosure publication are largely undefined at this stage. The need for additional understanding of the information system that produces environmental disclosure was highlighted by Tilt (1994) who showed that the information produced in the form of disclosure in the annual report was not meeting the needs of one of the major information customer groups. O'Donovan (1996) made an exploratory study of the processes involved in producing disclosure. An important conclusion of this study was that the Corporate Affairs department in an organisation was, in the main, primarily responsible for the production of environmental disclosure.

Included in the identification of the need for a greater understanding of the Accounting Information System that produces

environmental information is the concurrent identification of the need to be able to confirm the information provided is valid, that is, there is a need to audit such information. Mathews, Tozer and Mathews (1995) investigated the unique influences that could impact on the staffing of an environmental audit.

A major body of work is developing that will utilise the additional information provided by an enhanced information system and use it to determine a value for the impact a firm's environmental activity causes. Methods for placing a valuation on a firm's environmental resources and impacts have been suggested by many including Milne (1991), AMC (1993), Mathews (1993), Gray, Bebbington and Walters (1993), ASCPA (1994), Burritt and Salamanca (1995), Raar and Hone (1995), White and Savage (1995), and Lewis, Mangos and Parker (1996).

#### **2.4.5 The Need for a Shift Back to Social Disclosure**

The predominance of environmental disclosure research of the wider social disclosure research has left the understanding of recent issues in social disclosure lacking. This void in the current understanding has been recognised by authors including Gray et al (1995 a & b) and Mathews (1997) who argues that “[t]his is an undesirable situation since social accounting has such a powerful agenda, much of which remains unfilled” (p 503). He goes on to suggest that “[c]ontinuing with the tradition of empirical research aimed at documenting and analysing what is disclosed in the areas of *social and* environmental accounting should be one of the future directions for SEAL<sup>9</sup>” (Mathews 1997, p504, emphasis added). The growth into environmental disclosures appears to have happened at the expense of the continued research into other areas of social concern. Mathews 1997 suggest that “[t]he concerns of employees,

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<sup>9</sup> Social and Environmental Accounting Literature.



information about products and instances of community involvement may be in annual reports, but there do not appear to be many accounting researchers who now report on these matters," (p 496). This study will attempt to meet this call for an examination of the wider social issues including the environment.

## **2.5 CONCLUSION**

As this chapter demonstrates the study of the social disclosures made by firms has developed a major body of literature offering insight into many issues. Early disclosure studies attempted to understand which firms were more likely to disclose. In the main the literature suggests that large firms are more likely to disclose than smaller ones. Firms competing in high profile industries are more likely to disclose than firm with a lower industry profile and firms facing greater external pressure were more likely to disclose than firms perceiving themselves as being under less external pressure. Similar statements could not be made about firms when attempts were made associate profit (with some allowance for lagged profits) and market risk with the amount of disclosure made by firms.

Similar findings were present when looking at the literature discussing environmental disclosures. Size, industry, and the existence of a high public profile were all seen as being associated with the level of environmental disclosure. In addition to the environmental disclosure determinants the literature identified several theoretical arguments that may help show why disclosures were being made. These include social contract, legitimacy and stakeholder theory. Finally the environmental disclosure literature has matured to the point that authors are recognising and suggesting how the information being disclosed may be used. These suggestions include being able to redefine the role of the accounting

information system to better meet the needs of the information customers and developing enhanced information systems that may allow for the production of information related to the costs and benefits of environmental and other social activities.

Content analysis has been a primary data collection method in many of the studies. In conjunction with content analysis other data collection methods have been employed to meet the specific needs of the relevant studies. This study too, will employ multiple data gather tools.

The next chapter of this thesis will identify the research framework that informs this study and identify and discuss the theoretical perspectives that will be considered within the identified framework.

# **Chapter Three**

## **Theoretical Perspectives**

### **3.1 INTRODUCTION**

It is not the role of this study to test any particular aspect of any theories that have been used in the previous literature to explain disclosure. Rather, this study will adopt the middle-range approach as suggested by Laughlin (1995) to guide the identification of theoretical dimensions that show evidence of being outworked via the empirical data.

This chapter will provide a comprehensive overview of the middle-range approach, recognising that in depth prior theorisation is not required as a guide to the progress of the study. However as part of the post data analytical and theoretical reflection this approach, adopts this study will make an examination of several theoretical positions that have been proposed as social disclosure explanators. Within the concept of political economy, stakeholder and legitimacy theories will be discussed. In addition contingency theory will also be identified as a theory possibly offering an explanation for the practice of social disclosure.

### **3.2 MIDDLE RANGE APPROACH**

In relation to theory discussion, the term “middle range” refers to the assumptions concerning the role of prior theorisation in research. An important ontological<sup>10</sup> belief that is pivotal to the middle-range approach and has been adopted by this study, suggests that prior theory can never be a full explanator for social phenomena. Rather;

“[t]heory will always be ‘skeletal’ requiring the insights of empirical insights (‘flesh’) to complement and complete our understanding of any situation”

(Broadbent, Jacobs, and Laughlin 1997, p4).

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<sup>10</sup> Ontology refers to our assumptions concerning the nature of reality or being.

Laughlin (1995) suggests that the role of prior theory in empirical research will be dependant upon the ontological assumptions being used to inform the particular research. At one end of the spectrum is the view often described as positivist. It posits that reality exists independently of the research and the researcher. In this context each research project 'becomes little more than an additional incremental study in the great general theoretical design which has been unfolding over maybe centuries of time' (Laughlin, 1995, p66). Laughlin describes this approach as having a high level of prior theorisation. The opposite end of the spectrum suggests that reality is a product of an individual's consciousness and that the product of any research will be dependant upon, and unique to, the individual researcher. As the outcome of any research conducted is dependant on the interpretation of the researcher, and as outcomes are often unique, the role of prior theory in this instance is much reduced.

The role of prior theory in the research project will have implications for the research method used in an individual study. The high reliance on prior theory dictates the use of a highly structured research method that allows for replication and will provide quantitative data that allows for concise statistical interrogation. This approach allows for tight logical conclusion. Little room is left by this approach for judgement. In contrast, research that places a low reliance on prior theories requires a different methodological approach. As the outcome is a product of the researcher's individual understanding, it is unlikely that replications of a study will provide results that are completely consistent with the outcomes of the original study. This acceptance of the inability to replicate a study allows for the use of less structured methods of research that may be dynamic and changed and adapted to meet the requirements of the particular case under investigation. The results of these studies will generally be

qualitative and often provide outcomes, which while on one hand provide a rich source of detailed description of the phenomena being investigated do not provide conclusions that easily lend themselves to generalisation or offer direct support to an *a priori* theoretical position.

The role of theory in effecting change within an organisation is often suggested as a distinguishing feature of research paradigms adopted. Implicit in the view adopted by a positivist paradigm is the belief in the existence of an underlying unitary reality that exists independent of the research and therefore cannot be effected by the research or the researcher. Paradigms that allow for a researcher's interpretation of the outcome will suggest that the act of research will impact upon the subject of that research and will, in some degree, lead to change within the subject. Some researchers rooted in the more critical paradigms in fact argue that one of the roles of research can be to drive change within an organisation or research subject (Tinker and Neimark, 1987, and Tinker, Lehman, and Neimark, 1991).

The high theorisation and low theorisation positions and their accompanying methodological and change implications should not be described as exclusive and part of a bipolar existence, rather they should be seen as the extreme ends of a continuum (Laughlin 1995). The middle range approach articulates the view that knowledge and the quest for knowledge is not an either/or decision. It recognises that research and the underlying ontological and epistemological<sup>11</sup> assumptions allow for the researcher to draw on the structure of the positive approach while still acknowledging

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<sup>11</sup> Epistemology refers to our assumptions concerning the nature of knowledge and how it is acquired.

that the individual views and prejudices of the researcher will impact on how the results are interpreted and finally presented.

Laughlin's explanation of the middle range approach allows for the view that may incorporate a general theory but also allows for interpretation and an individual understanding of the circumstance by the observer. This approach allows for generalisation but at the level Laughlin (1995) describes as skeletal. In this context the role of empirical research is not, as the positive researchers would have, to provide support for an existing complete theory, but rather to provide flesh to the general skeleton of understanding that the theory represents:

“Just as the skeleton remains unchanging yet incomplete to encapsulate the nature of human beings, so a “skeletal” theory may also be similarly unchanging (being the extreme of legitimate generality) and always require the diverse empirical flesh to arrive at meaningful “whole beings”.

(Laughlin 1995, p81)

In contrast to research based in high prior theorisation position the middle range view recognises that the presence and understanding of the researcher will effect the nature of the information gathered during the project. The acknowledgment of the existence of a basic theoretical position, however requires the use of definable if not defined methods of inquiry. Results from such inquiries may contain quantifiable outcomes but the interpretation of these outcomes will be subject to the individual views and prejudices of the researcher. Similarly with change, the middle range view recognises that while the research may not be attempting to influence or change the circumstance under investigation the mere act of the research may influence the research subject. Researchers must be aware of this possibility and so accept that change may be an outcome of the research, intended or not.

This middle range approach allows theory to play a role in research. It recognises that the theory may not always provide a universal truth in the same manner as theories in the realm of the physical sciences might, but can provide a basic tool for explanation that may help provide some insight into the phenomena being studied. This explanation still allows for the individual interpretation of the researcher. In this context theories are not seen as primary to the research but rather are subsidiary to the investigation being introduced and evaluated against the particular circumstances observed after all the relevant observations have been made. This allows for the observation of events or situations without the methodological restrictions and biases associated with research that is strongly informed by prior research.

It is within this middle range framework that this study is conducted and at the end of the project the results will overlain with the separate theories identified as possibly being useful as explanators of social disclosure. The theories that are to be examined are legitimacy, stakeholder and contingency theory. legitimacy theory has been suggested as helping to explain disclosure by many researchers including Abbott and Monson (1979), Guthrie and Parker (1989), Patten (1992), Tilt (1994), Deegan and Rankin (1996), and Deegan and Gordon (1996). The second theory to be evaluated by this study, stakeholder theory has been employed by Cornell and Shapiro (1987) and McGuire, Sundgren and Schneeweis, (1988). The findings of these previous studies have not always been conclusive and an alternate position has been offered in contingency theory which has been suggested as a theory that may help explain variations in organisational structure and behaviour (Thomas 1991).



### **3.3 THEORY**

Kerlinger (1964) defines theory as 'a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relationships among variables with the purpose of explaining and predicting the phenomena' (Kerlinger, 1964, p11). According to Chambers (1972, p138) '[t]he function of a theory is to explain how things and events are connected'. From these statements it may be suggested that theories can help to identify and explain relationships between differing characteristics of the phenomena being examined. This section will identify and discuss several alternatives that may identify and help to explain social disclosure variables.

#### **3.3.1 Political Economy**

One framework that has been suggested as helping to explain social disclosure is political economy.

"The Political Economy approach is concerned with exploring and assessing the ways various protagonists use accounting information and corporate reporting to mediate, suppress, and transfer social conflict."

(Tinker and Neimark 1987, p 71)

The proponents of political economy view of disclosure would argue that disclosure would be used as a means of controlling the actions of others or reacting to attempts by others to control the actions of the disclosing firm. The reaction may be in the form of compliance and communication of that compliance with external demands or it may be an attempt to resist external pressure the firm is experiencing.

The broader concept of political economy as described by Guthrie and Parker (1990) and Arnold (1990). Guthrie and Parker suggest

that a political economy framework would see disclosure as a proactive behaviour attempting to influence the political forces acting on the disclosing organisation. They investigated the disclosure made by BHP over 100 years and suggested that much of the disclosure was made reactively rather on a proactive basis thus discounting political economy as an explanator of disclosure in this case. Arnold (1990) questioned Guthrie and Parker's 'straight jacketing' of political economy with a proactive categorisation and suggests political economy appears inadequate to explain the role regulation has in disclosure practice. Gray et al (1995a) suggest that PE in itself is not a explanatory theory, but rather a framework housing different theories that each provide some explanation to the phenomena being investigated. Gray et al (1995a) has suggested that legitimacy theory and stakeholder theory could each be viewed as part of the wider political economy framework, legitimacy and stakeholder are theories that have been used in social disclosure discussions (Gray et al 1995a). Within the terms of social disclosure these two theoretical perspectives differ from each other when consideration is given to the intended audience of the communications made. Supporters of legitimacy theory would suggest that the role of disclosure is to inform the wide society of the firms actions in an endeavour to be accepted, while stakeholder theory would argue that disclosure is intended to be read by those people and organisations that have a stake in the disclosing firm.

This section will now provide a brief examination of the concepts of legitimacy and stakeholder theories.

### 3.3.1.1 Legitimacy

Legitimacy theory has been used as a social disclosure explainer in research conducted by several authors. Mathews (1993, p350) provides a precise overview of organisational legitimacy from Dowling and Pfeffer.

“Organisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system in which they are a part. In so far as these two value systems are congruent we can speak of organisational legitimacy. When an actual or potential disparity exists between the two value systems, there will exist a threat to organisational legitimacy.”

The pivotal concept within organisational legitimacy is the concept of societal norms. In order to be considered legitimate organisations will attempt to demonstrate that their behaviour and the conduct of their business conforms with the accepted norms of society. Legitimacy cannot be purchased from society nor is it solely reliant on the observance of legal constraints and requirements. Conversely the failure of an organisation to contribute to the financial well being of its society or the failure of the organisation to observe the legal rules and dictums of its society may lead to the firm no longer being viewed as a legitimate member of society (Gray, Owen and Maunders, 1988). One of the major implications facing firms seeking organisational legitimacy is their ability to communicate with society. Organisations will wish to inform society of the legitimating actions they have taken, the goals they share with society, and the reasons why they should be considered a legitimate member of society (Guthrie and Parker 1989).

The concept of legitimacy is not static. As the goals and norms of society change so must the organisational goals and activities be

modified to redefine the firm's legitimate place in society. In this way the realignment of goals and legitimating activities is a dynamic but reactive process always seeking to maintain the organisation's legitimacy (Guthrie and Parker 1989). Organisational legitimacy is not universal and the requirements for legitimate acceptance differ between organisations and are dependant upon the way society defines its norms and acceptable behaviour and how the organisation interprets those societal views. It follows, therefore, that the communication techniques used to inform society of the organisation's legitimacy is in itself an ongoing and organisationally unique process.

Abbott et al (1979) examined the social disclosure of Fortune 500 companies and questioned the reason disclosure was made in the annual report. They argued that if disclosure was related to social involvement the reporting of social activities could indicate that firms were engaging in activities that may not be conducive to the maximising of returns to shareholders. They suggested that on the other hand shareholders had an interest in the longer term stability and legitimacy of the firm. Abbott et al suggest that disclosure is a means that directors can use to inform shareholders of the actions that have been taken to maintain the firms long term legitimate place in the community.

Guthrie and Parker (1989) examined the concept of corporate legitimacy through a longitudinal study of BHP<sup>12</sup>. An examination was made of the disclosures made by BHP in their annual report over a hundred year period and these disclosures were compared to major external events which could have been thought to have an impact on BHP's legitimacy. Analysis was made in each of the identified social disclosure areas (environment, energy, product,

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<sup>12</sup> The Broken Hill Proprietary (BHP) is a large Australian mining company.

employee, community involvement, and other disclosures). The proposition was that if a relationship could be shown between the content and timing of disclosures made by BHP and external events that might impact upon BHP, then legitimacy may be posited as a possible explainer of BHP's disclosure. With the exception of the environmental category the study by Guthrie and Parker (1989) revealed no discernible relationship between BHP's disclosure and external events for each of the individual themes examined and was therefore unable to offer overall support to the concept of organisational legitimacy. The evidence provided 'somewhat marginal and inconclusive' support for legitimacy as a means of explaining environmental disclosure (Guthrie and Parker 1989, p349).

Patten (1992) examined legitimacy, not in the wider context, but as an explainer of an organisation's reaction to a unique catastrophic event. Disclosures made by the companies involved in the Alyeska<sup>13</sup> accident in Prince William Sound, March 1989. The level of disclosure made by Exxon in the Annual Report produced immediately after the tragedy contained 3.5 pages of disclosure relating directly to the clean up of Prince William sound and an additional 2.5 pages of non Valdez related environmental disclosure. This was in contrast to the 0.6 pages of environmental disclosure contained in the annual report immediately preceding the disaster. Patten postulated that this case provided some support to legitimacy theory because, he argues, with at least environmental disclosure 'threats to a firm's legitimacy do entice the firm to include more social responsibility information in its annual report' (Patten, 1992, p475).

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<sup>13</sup> See Chapter 1 for a description of Alyeska and the Exxon Valdez tragedy.

Deegan and Rankin (1996) studied the environmental disclosures of firms that had been successfully prosecuted by the Environmental Protection Agency and showed that the companies that had been successfully prosecuted made significantly more positive disclosures when compared to those not subject to prosecution. The authors argue that this reaction to the prosecution and the ensuing loss of reputation by the firm in the eyes of the wider community offers support to the concept of organisational legitimacy.

Other studies, (Tilt 1994, and Deegan and Gordon 1996) have identified legitimacy as a possible disclosure explainer in their work but have failed to offer comment on the validity of the theory when analysing and discussing their results.

The seeking of organisational legitimacy has been offered as a reason that might explain social disclosure in firms. Firms seeking to be considered legitimate members of a society will inform that society of the reasons that entitle them to that consideration. Studies using the concept of legitimacy to explain social disclosure have presented mixed results. Support cannot be provided for overall acceptance of legitimacy as a disclosure explainer, but in specific instances studies have indicated some support for legitimacy as an explainer of environmental disclosure.

### **3.3.1.2 Stakeholder**

The concept of stakeholders grew out the recognition of the shift from private to public corporate ownership. As business structures changed and business became less focused on the individual proprietor, the need to account to corporate stockholders was identified. These non-participating owners were recognised as having a genuine stake in the organisation and the recognition of their 'stake' led to the first use of the term 'stakeholders'. The

usage and understanding of the term stakeholder was broadened to "those groups without whose support the organisation would cease to exist" (Freeman, 1984, p 31).

The extension of the stakeholder view beyond the concept of direct ownership to one that recognised that other parties that may share concerns over the management and actions of the organisation led to the classification of stakeholder power within the firm. Cornell and Shapiro (1987) categorised stakeholders by the nature of the relationship they had with the firm. Explicit stakeholders held a formal or contractual relationship with the firm which enabled them to exercise power whereas implicit stakeholders held no such relationship and relied on alternate methods to influence the firm. Carroll (1989) divided stakeholders into primary and secondary groups. Primary stakeholders aligned with the explicit stakes identified by Cornell and Shapiro (1987) and secondary stakeholders were external to the organisation holding implicit stakes.

The stakeholder view suggests that management would identify those groups whose continual support is required to ensure that the firm continues to exist. Management of this relationship would include providing information supporting the firm's right to exist and meeting any challenges there may be to the firm's survival. Individual stakeholder groups who may exert differing pressures on the organisation. The firm would need to recognise this and one possible method of counteracting the pressures would be to provide social disclosures that uniquely target the diverse groups and address their individual concerns.

If a political economy concept through either a legitimacy theory or a stakeholder theory approach is unable to fully explain social

disclosure while offering some explanation to the reasons firms make environmental disclosure, an alternate theoretical approach may be warranted. One possible approach is contingency theory. The next section of this chapter will identify and discuss the contingency concept.

### **3.3.2 Contingency**

“Contingency theory postulates that the effectiveness of an organisation in coping with the demands of its environment is contingent upon the elements of (its) various subsystems ... being designed with the demands of the environment with which they interact”

(Burrell and Morgan, in Thomas 1991, p 40).

As such contingency theory has been proffered as a means of explaining organisational structure.

“Contingency theory is based on the premise that there is no universally appropriate accounting system which applies equally to all circumstances; instead, the optimal management control system depends on the specific elements of an organisation’s environment”

(Rayburn and Rayburn, 1991, p57).

Contingency theory is based on the behaviour of an organisation rather than the behaviour of the individuals that make up the organisation. In this sense contingency can be seen as a truly organisational theory. It “suggests that organisational design is contingent on environmental uncertainty, technology and size” (Rayburn and Rayburn, 1991, p56).

As Hopwood (1978) identified, studies that had attempted to gain an understanding of the way businesses operate had viewed many of the systems within the organisation as static structures that had not been seen as dynamic in any way. Hopwood (1978) and Sathe



(1978) suggest that this may be a result of the majority of the studies emanating from the United States being rooted in the organisational psychology approach more prevalent in there. These studies concentrated on the role of the individual within the organisation. Hopwood (1978) identified that there was a pressure for change in the study of organisational practice coming from several sources. First, the general advances in knowledge had identified a deficiency in understanding. Second, there were broader changes in the area of social science inquiry, and finally, pressure from the client community both inside the corporate community and in the needs of legitimate information users in the wider society. In conjunction with this recognition of the need for a change in research direction, or perhaps coupled to it, was the recognition of the fact that organisations themselves were in a state of constant change in terms of their rapid growth and ever increasing complexity. In this context of constant organisational change contingency theory was seen both as a means of explaining corporate reaction to change and also as a management tool helping organisations to identify and react to changes that impact on them. (Sathe, 1978)

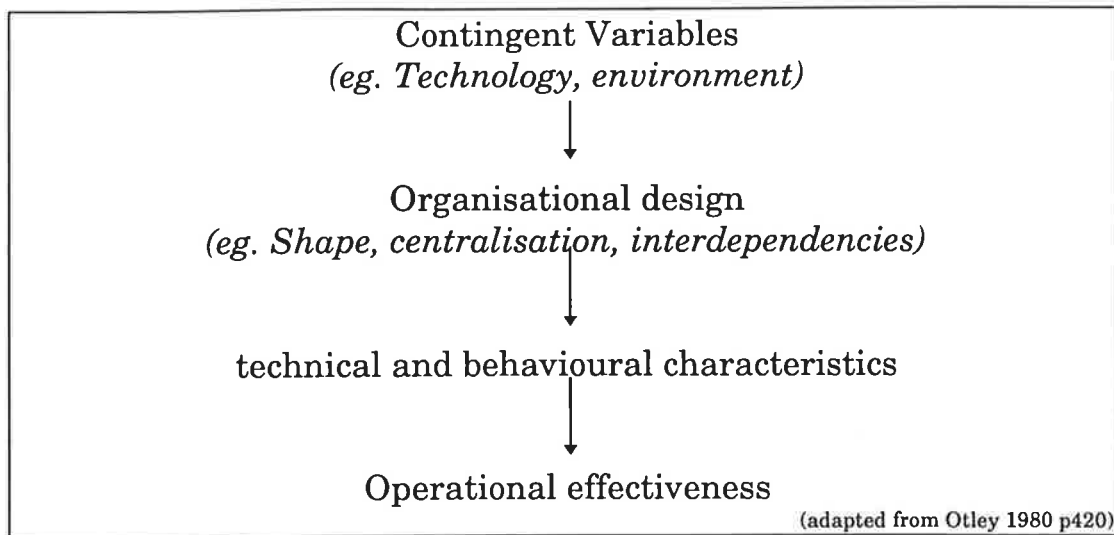
In order to understand and manage the effects of change on an organisation it is necessary to be able identify the variables that drive the change and impact on the organisation. Otley (1980) identifies three variables that may affect or be affected by change: technology, organisational structure, and the environment.

Technology changes could be seen to impact on the firm in different ways. In order to allow a precise understanding of the model presented, Otley (1980) provided an explanation of the variables identified. Technology refers to the production technology employed by the organisation in its production process.

Organisational structure is an understanding of the rigidity of the organisation's internal structure. An earlier study, (Hopwood, 1973), had indicated that rigid management styles, in the form of budget processes, were associated with organisations that exhibited higher degrees of job-related tension, poor interpersonal relationships, and other forms of dysfunctional behaviour. A follow up study failed to find the same associations and in fact suggested that rigid organisation were better performing than more flexible ones. The organisations studied in both cases were based on responsibility centres, in one case they were costs centres very interdependent on each other whereas in the other case they were profit centres with very little interdependency. This difference led researchers to surmise that appropriate budget structures were contingent upon the degree of interdependency between the elements of the organisation (Otley 1980).

Within the context of Otley's discussion, environmental factors refer to the external influences acting on the firm. Of particular concern was the manner in which firms reacted to differing levels of competition. The studies showed that the way managers used budgetary information with respect to performance appraisal was contingent upon the effect competition had on the ability to generate profits.

The identification of these variables has led Otley (1980) to identify a model that might help to explain the interrelationship between the different sets of variables identified. The model is shown as Figure 3.1.



**Figure 3- 1**  
**Otley's Contingency Model**

In their effort to provide a wider organisational explanation to the design of an accounting information system Gordon and Miller (1976) examined the relationship between three distinct sets of attributes.

The first attribute discussed was the environment in which the firm operated. They specified the environmental context in three dimensions. First, suggesting that the content, nature, and frequency of reporting will be dependent upon how dynamic the environment the firm operated in was. The next environmental attribute was the heterogeneity of the market the firm faced in terms of inputs, products and consumers. Third, the hostility of the market in terms of competitors, government intervention, labour market problems and finance problems.

The second attribute discussed was the organisation itself, mainly in terms of its internal structure, the level centralisation or decentralisation, The degree of sub-unit differentiation and the methods and levels of the sub-units integration.

Finally the decision making style was examined in terms of the analysis required, complexity, time horizon, the degree of

proactivity required, and the decision makers knowledge of the firm's strategic direction. Gordon et al (1976) then used these attributes to identify common organisational types and their information system requirements. They suggested that the design of the information system was not only contingent on the various combinations of attributes discussed but they also suggested that the organisational structure and decision making style may be contingent on the information system design.

The attributes suggested by Gordon and Miller (1976) correspond with the three dimensional model proposed and tested by Hayes (1977). Hayes identified external environmental impacts and internal factors and interdependencies as the major contingencies that might impact on managerial performance. Internal factors are those that relate to the factors impacting within an individual sub-unit while interdependency issues are those concerned with how sub-units relate to each other. Hayes concluded his study by suggesting that the study suggested a:

“major reorientation from the narrow examination of surrogates to the evaluation of the underlying causal variables. This implies not only employing methods and techniques which are not necessarily universally applicable but also having a major reorientation in the approach to assessment”

(Hayes 1977, p 38).

This conclusion aligns with the middle-range approach discussed earlier that recognises that there may not always be one generalisable approach and that the approach to management and research taken will be dependant (in Haye's case) on the sub-unit type, sub-unit inter-relationships, and environmental influences.

Waterhouse and Tiessen (1978) differentiated between and discussed the internal and external environmental factors that may impact on a firm. These factors were considered in terms of their predicability and how internal and external factors may affect the firm in terms of the uncertainty it faces. Different approaches have been used in an attempt to identify those firms that face environmental uncertainty. This uncertainty takes into account external factors impacting on the firm and has been considered in terms of environmental dynamism, heterogeneity, (Gordon and Miller 1976), and social and enterprise factors as exhibited in share price fluctuations, systematic risk and market competition (Thomas 1991). Environmental uncertainty is not always exhibited through changes in factors identified as contingent to organisational success, but may be a perception that management have concerning their situation. This perception itself may be considered a contingent variable and require identification and management Rayburn and Rayburn (1991).

The concept of technology was identified as an external environmental factor by Jones (1986) but has also been considered as an internal contingent variable. Technology was considered in terms of 'the routineness, or non-routineness of the manufacturing process (Waterhouse and Tiessen, 1978), and by comparing capital intensive means of production with labour intensive activities, (Thomas, 1986 and 1991). Other organisational characteristics have also been considered by studies investigating contingency issues. These include size and organisational structure (Jones 1995, Thomas 1986 and 1991), the nature of ownership control and power (Waterhouse and Tiessen 1978, Jones 1985, Thomas 1991 and Chapman 1997).

The role of the various stakeholders within and organisation can also have an effect on the management of the organisation. Managers would need to identify the 'contingent' stakeholders and ensure that the organisation is putting measures into place that will either satisfy or protect against the demands of the stakeholder groups. The role of the stakeholder was considered by Jones (1985).

Other factors that have been considered contingent to the successful management of the firm include organisational strategy (Waterhouse and Tiessen 1978, Jones 1985, and Chapman 1997), management philosophy and culture (Jones 1985 ), information costs (Jones 1985), and gearing (Thomas 1991). A summary of the internal variables considered is contained in Table 3.1.

Study/ Variable	Waterhouse et al 1978	Jones 1985	Thomas 1986	Thomas 1991	Rayburn et al 1991	Chapman 1997
Capital Intensity				X		
Culture		X				
Gearing				X		
Information Cost		X				
Mgt Philosophy		X				
Org Structure		X		X	X	
Ownership	X			X	X	X
Power		X				
Size		X	X	X		
Stakeholder Influence		X				
Strategy	X	X				X
Technology	X		X			

**Table 3- 1**

**Summary of Contingent Variables used in Prior Research**

Each of the studies considered above has found partial support for contingency theory with no study being able to offer unconditional support.

This inability to fully support contingency theory has been the subject of several papers. Early criticisms of contingency theory recognised by Wood (1979, p338) were that 'contingency theory remains abstract and scholastic and, in effect, views organisation change as essentially an intellectual and technocratic exercise

(Wood 1979 p 338). Waterhouse and Tiessen (1978) and Schoonhoven (1981) accuse contingency theory of lacking clarity and Schoonhoven also suggests that contingency ignores the interactions between variables being used to predict another variable. It appears that these criticisms are rooted in contingency theory's inability to provide the one generalisable outcome that these writers seem to be seeking. This impression is supported by Schoonhoven's criticism that decries the contingent studies for not being able to provide a mathematical function that describes the interaction between the variables identified. Thomas (1986 and 1991) identifies some of the criticisms that have been levelled at contingency theory. These problems are of a conceptual and methodological nature (Thomas 1986). The problems identified are;

1. conflicting results from different studies,
2. problems with operationalising contingent variables,
3. a lack of appropriate explanation of contingent variables,
4. and tentative links with organisational effectiveness.

The shortcomings are all symptomatic of the failures of studies based in scientific paradigms. Contingency is based in the premise that there is no one solution to a problem, but rather solutions are contingent upon the circumstances faced so by its very nature contingency does not lend itself to scientific based paradigms but well may find a home in the more middle-range thinking discussed earlier.

Contingency theory has provided a tool which highlights the need to focus on only those factors which can impact on the success of the organisation. This identification not only provides a guide to research but also can assist management of an organisation in

identifying those factors which warrant the greatest concentration of resources and effort. Within this contingency view corporate social disclosure may be seen as a means of managing the effect of individual stakeholder groups.

In order to meet the objectives of this study and to determine if the data collected offers any support to the theories just reviewed information concerning the social disclosure practises of the companies being studied will need to be gathered. To meet objectives 1 and 2 content analysis will be used to gather the relevant data. To meet the final objective the public relations officers of the companies will be surveyed. The next section of this chapter will discuss the data collection methods that are to be used.



# **Chapter Four**

## **Methodologies Employed**

## **4.1 INTRODUCTION**

In order to meet the first two aims of the study and answer the research questions set out in Chapter 1, it was necessary to analyse the content of the annual reports of the organisations being studied. The use of a survey was required to meet the data requirements of the third aim of the study. The application of these data gathering tools and the subsequent analysis of the data gathered required that this study clearly identified the population being investigated. The study also needed to clearly identify those characteristics of the population whose variation from one case to the next is of interest.

This chapter will examine the data gathering tools that have been used in this research and will identify and define the population, the variables of interest to this study, and the means of determining any variation that occurs in those variables.

## **4.2 CONTENT ANALYSIS**

The first two objectives of this study require an analysis of the corporate annual reports of the companies involved in this study. To meet these objectives it was necessary to gather data that provided an indication of the current level of disclosure being made and the balance between the different areas of disclosure. The method chosen to gather the data required to make these observations was content analysis. Content analysis is not a complete methodology bounded by restrictions of a particular paradigm, rather it is a data gathering tool that may be employed in different paradigms. Holsti (1969) identifies that content analysis is a suitable method of inquiry for the application of scientific methods that follow precise methodological rules. Content analysis also has a place in qualitative/interpretive research where the researcher is attempting to gain an understanding of communications and may apply more subjective analysis techniques to the data gathered.

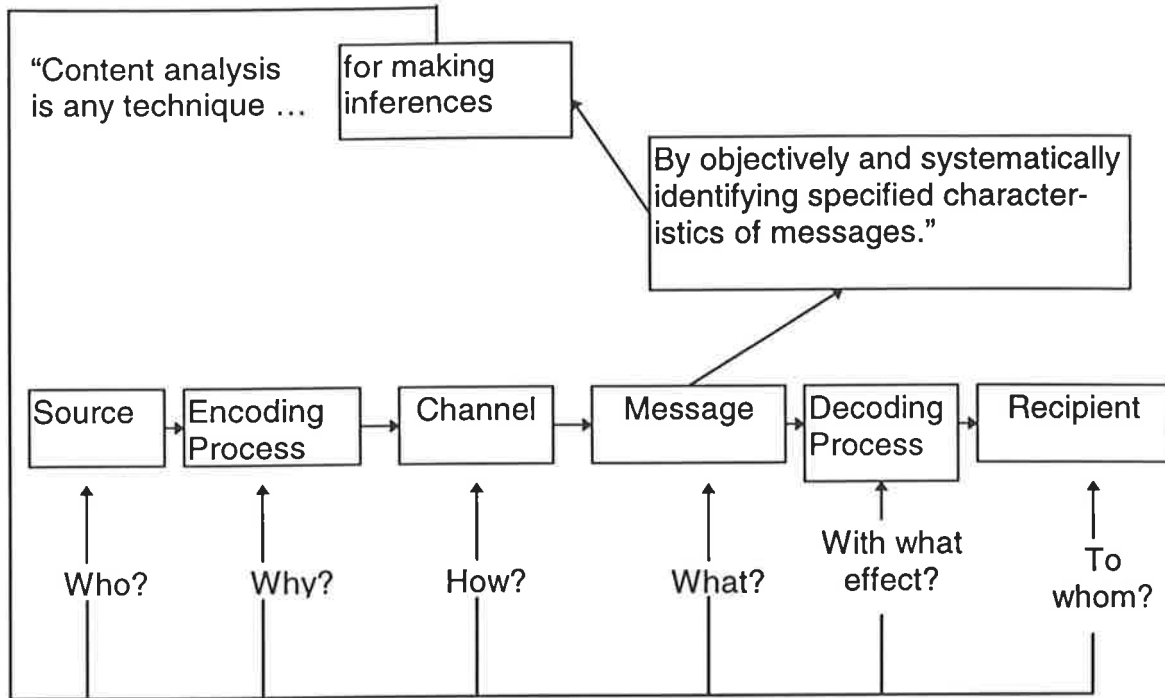
### 4.2.1 What is Content Analysis?

Content analysis is a data identifying technique that allows for the quantitative or qualitative analysis of themes and messages contained in various communication media. This is achieved through the identification and coding of the messages contained in that communication. The messages are coded in a manner that will allow an outside observer make some observations or comments concerning the communication.

"Content analysis is a phase of information processing in which communication content is transformed, through objective and systematic application of categorisation rules, into data that can be summarised and compared."

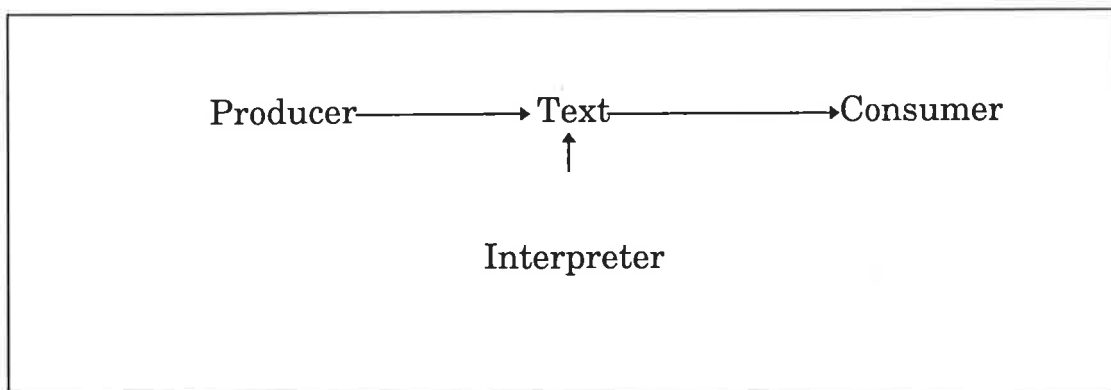
(Holsti, 1969, p3)

Figure 4-1 shows an overview of the complete communication process, commencing with message source and identifying the processes the message goes through before it is received and interpreted by the recipient. Holsti identifies that content analysis can be used to gain some understanding of any of the phases of the communication process. Content analysis was used in this study to make observations about what was being said in the annual reports.



**Figure 4- 1**  
**The Communication Process**

(Adapted from Holsti 1979, p 25)



**Figure 4- 2**  
**The Researcher in The Communication Process**

(Adapted from Lindkvist, 1981, p 42)

Figure 4-2 identifies that the observer is external to the communication process. This can lead to problems with interpretation and understanding of the intended message. It is

important that these problems of interpretation are identified and their effect on this study will be discussed latter.

Holsti's (1979) definition requires that objective and systematic rules of analysis be established to identify the data relevant to the study. Rules of objectivity will help ensure that the effects of any bias of the observer will be kept to a minimum throughout the analysis of the communication. The systematic rules applied to analysis are to ensure that all relevant communication is identified and categorised in the appropriate manner. The use of a systematic set of rules will ensure that there is a consistency maintained between researchers.

#### **4.2.2 Content Analysis Application**

There are many reasons as to why someone may wish to analyse the communications of another person or organisation. The analysis of communication will provide help in the understanding of the messages contained in the communication, the factors that may have led to its creation and the effect it has had on the readers, intentional or otherwise.

Content analysis can assist in providing evidence for many different research questions. Research questions can be designed to make judgements about:

1. what is being said,
2. how the communication is being made, and
3. to whom the communication is directed towards.

Evidence can also be gathered concerning:

1. why the communication was made,

2. the party making the communication, and
3. the effect the communication might have.

Research design and the role content analysis can play in gathering evidence will to a degree, be dependant upon the inferences the researcher may wish to make. These inferences can be categorised in accordance with the questions concerning the communication identified in Figure 4-1.

### **4.2.3 Research Inferences**

#### **4.2.3.1 Characteristics of Communication**

Content analysis can draw inferences from the communication that may assist in describing the characteristics of the communication being examined. The characteristics examined would include questions concerning 'what' was being said, 'how' it was being said and to 'whom' was it directed. 'What' questions would be used when the objective of the study was to describe the content of the communication, to compare the known characteristics of the sources to the messages produced or to examine communication against pre-determined standards. 'How' questions would examine arguments being used for persuasion and the style of communication employed, and 'to whom' questions would compare characteristics of the intended recipients with the messages being communicated. This study will provide information concerning each of the identification characteristics described.

#### **4.2.3.2 Causes of Communication**

Content analysis may be used to find evidence as to what caused the communication to be produced. These questions would include comparisons being made between the communication and known

characteristics of the author in order to gain an understanding of the author's values and attitudes etc. Evidence may be used to gain an understanding of the author's position on a particular issue, to track changes in the authors position, or to form some opinion of the concerning characteristics of the author. The evidence may also, in some cases, provide an insight into the identity of a particular author, particularly in the case of anonymous communications or communications contained in a generic document such as an annual report. Evidence gathered in this study to satisfy objectives 1 and 2 will give an indication to the position being taken by the sample organisations on the areas of social disclosure being examined.

The final question that may be addressed through a content analysis of communication is "What effect did the communication have on the recipient?" Examinations of this type might consider how the behaviour of the audience changed once the message had been received. This type of examination of communication is outside the scope of this study.

## **4.3 DOCUMENTARY ANALYSIS**

### **4.3.1 Documentary Sources**

The content analysis of text or documents may be generally classified into two distinct groups. These groups are delineated by the number of sources providing the documents. Documents may originate from either a single source or from multiple sources. Research may also consider the number of documents from each source. This research project analysed the data contained in the annual reports of the companies involved in the study. Each annual report only provided evidence in relation to the company producing it so can therefore be considered as a document from a single source and each company only provided a single document for

examination. In addition the study identified similarities and differences in the content between the annual reports obtained from the firms participating in the study. This phase of the investigation was therefore examining singles documents from multiple sources.

Documents from a single source may be analysed to investigate communication trends over a period of time (Trend Analysis). Information gained from this type of investigation may give insights into changing attitudes to particular items being investigated. An example of this is the increase in the amount of corporate disclosure concerning environmental issues that has occurred over the last decade (Gray, Kouhy and Lavers, 1995a). One option when viewing documents from a single source is to consider any relationships identified between two or more variables within the same document or set of documents.

Content analysis may be used to compare messages from multiple sources. This may be to determine the emphasis that different authors may put on the same subject. The use by this study of content analysis to compare the social disclosures made by a number of firms in the top 200 companies is an example of analysing reports from multiple sources.

Holsti (1969) identifies three differing scenarios that may be encountered when analysing documentary evidence that would indicate the use of structured content analysis as an appropriate data collection method.

1. When the researcher has limited access to the primary data;
2. When large volumes of material need to be examined and multiple researchers are used, and



3. When the subject of the research is the communication itself.

In the final scenario identified it is not the underlying actions that are being researched but rather the message that the author is trying to communicate. This use of content analysis can be applied to several different scenarios. It is often used in psychological and psychiatric research as a means of evaluating patients after interviews. The study of literature is a form of content analysis where the investigator is often searching for the meaning and understanding the author has written into the text. The examination of the communication contained in the annual reports is the focus of this study.

#### **4.3.2 Application in Business Research**

Content analysis of this nature is often used in business research to help uncover many characteristics of the communicating firm. It may be used to determine what the position of a firm is on a particular matter or to reconcile the message being transmitted to the wider community with the actions of the firm. Information may be gathered concerning the social and political concerns the firm has. The strategic direction of the firm may also be revealed through a content analysis of relevant documents. Documents to be examined may be produced and published by parties external to the organisation, eg: newspaper and other media reports that purport to contain the views and thoughts of members of the firm. Documents may also produced within the organisation, eg: memos, minutes of meetings, and the 'in house' newsletters and other publications a firm may produce (Lewis, Parker and Sutcliffe 1984; Zeghal and Ahmed 1990). A common source of information that is available for research are those documents that are published by the firm for distribution to parties outside the organisation.

Examples of these would be statutory reports such as Environmental Impact Statements, letters and other forms of communication between the firm and other parties, and documents published for distribution to a wider largely anonymous audience such as shareholders and the general public through publications like prospectuses and annual reports.

Studies that have examined the social disclosure of firms have traditionally used the annual report produced by the firm as the primary source of disclosure data. As Guthrie and Parker (1989) argue "it can be argued that the annual report is the one communication medium to outside parties over which corporate management has complete editorial control" (p 344). This 'complete editorial control' has been challenged by O'Donovan (1996) who documented the role the Corporate Affairs department plays in the production of the annual report. However the corporate annual report remains the most widely accepted data source for the examination of social disclosure practices. This study is, in part, an examination of the information contained in annual reports. The study gathered evidence that can help determine the role the annual report plays in the disclosure practices of Australian firms.

#### **4.4 CODING**

Content analysis of documentary sources requires the establishment of an objective and systematic coding system.

"Coding is the process whereby raw data are systematically transformed into units which permit precise description of relevant content characteristics".

(Holsti, 1969, p 94)

The objective systematic coding rules that need to be established will be affected by the nature of the inquiry and the nature and

number of sources providing the documents to be analysed. In some instances well regarded and established coding rules and systems will already be in place and the nature of the research may necessitate their adoption. The use of content analysis to replicate a previous study or to provide added support to a field of investigation may allow for the use of a previously designed content analysis coding system that will require little or no modification to meet the requirements of the current project. The coding rules applied to this study will follow closely the methods used in previous studies.

#### **4.4.1 Key Coding Decisions**

In the design of the coding system three sets of decisions need to be made:

1. Firstly it must be decided how the research problem is to be defined in terms of categories,
2. What unit of content is to be classified? and
3. How will the content be counted or enumerated? (Holsti 1969, p94).

These questions of coding design are not mutually exclusive and are often so interrelated that an answer provided to one design question will provide an absolute answer to another question or even negate the need to consider the other issue. This is particularly relevant to the relationship between the unit of content identified and the method of counting. For example if the unit of content is words then in most cases the research will require that the enumeration be a simple count.

## 4.4.2 Categories

“Content analysis stands or falls by its categories. Particular studies have been productive to the extent that the categories were clearly formulated and well adapted to the content”

(Berelson, 1952, p147).

Content analysis is a data collection method that has been used in research projects in many different areas of inquiry. The broad use of content analysis has seen the development of many different category systems that reflect the needs of the many different research areas concerned. While many different types of categories have been used Berelson (1952) suggests that all categories can be grouped into two basic groups. Berelson identifies two different forms categories can take. Categories can describe ‘what’ is being said and a ‘how’ it is being said.

### 4.4.2.1 What is being Said

The first group of categories identified by Berelson (1952) is the ‘what is being said’ form where the subject matter under discussion is the key purpose of the analysis. The basic subject matter may be analysed in several different ways. The analysis of the subject matter take the form of different questions depending upon the goals of the research. The question may be as simple as - what is the basic subject matter? It may be of interest to gain an understanding of the position of the author in a particular argument. Are they supportive or opposed, or is the text expressed in a neutral manner? Content analysis examining the ‘what’ question of content may be interested in whether the author may be using the text to achieve goals and the methods adopted to do this. This study made an analysis of the content of disclosures made by companies through the use of ‘what is being said’ categories.

#### **4.4.2.2 How It is Being Said**

The second group of categories identified by Berelson are described as the 'how it is said' group. The basic 'how' question identifies the communication type. Communication could be verbal, visual, as well as fiction or non-fiction. The content analysis of annual reports can be within itself the use of this form of categorisation. The 'how' might also examine the form of the statement. Is it presented as fact, as some sort of normative view, or as a sign post or identification of the author or subject matter? Other 'how' categories relate to the language, how intense is the use of emotion and sentiment etc, and what linguistic devices is the author using to make the point, eg; the use of rhetoric, metaphors. As well as determining what is being said this study also examines the form the message takes. The form of message will be discussed in terms of the disclosure type as described by The American Accounting Association Committee on Measurement of Social Costs, (AAA, 1975). This disclosure categorisation will be discussed later in the chapter.

#### **4.4.2.3 Category Criteria**

Holsti (1969) identifies three criteria that must be applied if a set of categories is to be effective. Categories must be;

1. exhaustive,
2. mutually exclusive,
3. independent, and
4. be derived from a single classification principle.

Exhaustive categories will ensure that all messages will be identified. By being using mutually exclusive categories the system

will ensure that each message is only counted once. The use of independent categories will ensure that the way the message is treated in one set of categories will not impact upon the way it is treated in another set. The use of a single classification system will allow the researcher to approach the content analysis with a series of yes/no questions, (Holsti 1969; Hackston and Milne 1995).

This study has adopted two sets of categories, one indicating what is being said and other identifying how it was said.

#### **4.4.2.4 The 'What' categories**

The 'what' categories employed by this study have been utilised in previous research and define social disclosure in terms of the subject of the disclosure. They are:

1. The environment,
2. Energy issues,
3. Human Resource Issues,
4. Product related issues, and
5. Community issues.

Over time other identifiers have been adopted in particular studies or during particular time periods in an effort to reflect the social phenomena of the relevant time (Trotman 1979). Other themes that have an occasion been used include Equal Opportunity (Abbott and Monson 1979), Fair Business Practices (Patten 1991), and a catch-all group of 'others' (Abbott and Monson 1979; Trotman 1979; Trotman et al 1981; Guthrie and Parker 1990; Zeghal and Ahmed 1990). The catch-all theme of others has not been adopted because this study contends that with the development of precisely defined themes the five themes identified capture those disclosures

previously incorporated in the 'others' theme and can therefore be safely incorporated in the remaining themes.

#### **4.4.2.5 The 'How' categories**

The format of any disclosures made has also been considered an indicator of the importance placed on a disclosure by an organisation. This was recognised by the American Accounting Association who took the lead in formally taking steps to define the format of non-financial disclosures. "The American Accounting Association Committee on Measurement of Social Costs" proposed a three level disclosure model (AAA 1974, 1975). These levels related to the degree of sophistication used in the measurement of the activity. The least complex level of measurement was a simple acknowledgment or description of the activity. This was followed by a non-monetary quantification of the activity and the final level expanded to include placing a monetary value on the activity or measuring the monetary effect of the activity. AAA (1975) recognised that the inputs required for the numeric and monetary disclosure are more costly and difficult to gather than the data required for the more simple declarative disclosure. As a consequence of the greater input required to present numeric and monetary disclosure this study suggests that firms place greater importance on the information they are prepared to commit a greater amount of resources.

An alternative extension of the AAA model has been to introduce a fourth category of disclosure that recognises disclosures that contain quantitative information of both a monetary and non-monetary nature. This study has adopted the four disclosure types (declarative, numeric, monetary, and a combined monetary and numeric disclosure) as used by Trotman (1979) and Guthrie and Parker (1990).

#### 4.4.2.6 Recording Units

In conjunction with the identification of a system of categories a method of identifying the units to be coded is required. The initial unit to be considered is the recording unit; 'the specific segment of content that is characterised by placing it in a given category' (Holsti, 1969, p116). Holsti identifies five separate recording units that have been used in almost all content analysis based studies:

1. The single word or symbol is the smallest recording unit used.
2. The most commonly used recording unit is the "theme".
3. The next recording unit identified is the character.
4. The least used recording unit appears to be grammatical structures such as the sentences and paragraphs.
5. The final recording unit is the item.

The use of words as recording units leads to large amounts of data to be analysed. The theme can provide an understanding of the values or beliefs of the author or simply be a method of recording the particular message being analysed. A problem with the use of themes can be defining the boundary between two separate areas. The character refers to the identification of a particular person or group of people and studies the communication made by, or concerning them. The problem with using grammatical structures is the reverse of the problem facing the use of themes. A sentence or paragraph may contain more than one subject and which satisfy the requirements of several categories. The item is the largest unit of all and classifies the whole item being examined into a single category. The item could be used as a unit when classifying books



as fiction or non fiction, comedies or tragedies etc. In business the examination of documents and classifying them as contracts, or quotes or appraisals etc may be an example of the item as a recording unit. This study has adopted the previously identified themes as the recording units.

#### **4.4.2.7 Context Units**

In conjunction with the recording unit it may be necessary to identify context units. These refer to the context in which the recording unit occurred. The context unit is used to gain a wider understanding of the message the author is trying to get across. The use of words as a recording unit will give no indication of the author's attitude. By identifying the base recording unit and then examining the context in which it appears, a greater understanding of the attitudes may be gained. An example of the use of context units in conjunction with recording units is available in Deegan and Rankin (1996) who studied Australian business to determine if there was any difference in the way firms reported positive and negative environmental events.

#### **4.4.3 Enumeration System**

The final decision faced in designing the content analysis system is deciding upon the system of enumeration to be used, or how will the number of recording units allocated to each theme be counted. As with the other stages of developing the coding system, the counting method will depend on the research question being asked and the rules of the paradigm in which the research is taking place. The most common form of enumeration is a simple count. The count may take the form of how many times a particular word is used or the number of times a particular theme is mentioned. A variation of the simple absolute count is to measure the intensity of the

message by counting the number of words devoted to the particular theme or measuring the amount of space devoted to the theme in the document either as an absolute measurement or as percentage of the total space available in the document. As an alternative to a simple count studies may wish to assess attitudes and in order to make some statistical inference concerning the attitude may apply a Likert scale or other method of assigning a numeric value to qualitative factors in an attempt to classifying the message in a statistically meaningful way. This study is reporting on the amount of disclosure being made and has therefore adopted a simple count as the enumeration method used.

#### **4.4.3.1 Measures used in Previous Research**

The purpose of much of the research that has examined social disclosure and environmental disclosure has been to establish whether the presence of, and/or the number of disclosures made has in any way been reflective of other characteristics that have helped identify the organisation and define its position in the society in which it operates. There has been much debate taking place in the literature as to what is an appropriate measure that will provide an accurate account of the amount of disclosure an organisation makes.

Measures that have been used to indicate the quantity of disclosure range from a simple count of the number of messages through to complex normalising models that have taken such factors as page size and type size used into consideration.

A study of prior literature that reveals that the mostly commonly adopted measure has been the measurement of area devoted to disclosure. The usual practice in this instance is to

measure and record disclosure as the number of pages devoted to social disclosure.

Other methods of determining the amount of disclosure have been; measuring social disclosure as a percentage of total discussion (Trotman and Bradley 1981), a count of the number of individual messages contained in the annual report, (Kelly 1979; Cowan et al 1987; McMurtrie 1994; Deegan and Gordon 1996), the number of sentences the disclosure contains: Wiseman (1982), paragraph numbers (McMurtrie 1994), and the number of words used to make the disclosure: (McMurtrie 1994; Zeghal et al 1990).

Hackston and Milne's (1996) comprehensive study of New Zealand disclosure practices measured the amount of disclosure using measured pages, sentences and derived pages. The derived page was an attempt to standardise the disclosure measure by compensating for the amount of information contained on each page. Examination of their results indicates a very strong correlation between each of the measures used to quantify the amount of disclosure. This is consistent with McMurtrie (1994). This study will use the number of different messages contained in the communication as the means to measure the amount of disclosure made. The strong correlation between the different measurement methods used would suggest that this method will provide sufficiently accurate data to allow the study to meet its objectives.

This study has employed a coding system that identifies 'what is said' in the annual report and recognises 'how' it is said through the adoption of a set of categories that identify the complexity of the message. In order to make these observations the study has employed the individual theme as the recording unit and will use

the a simple count to record the number of individual messages identified.

#### **4.4.4 Application of Coding System**

The establishment of a coding system in a manner previously described will help ensure objectivity during the process. The systematic application of the coding system requires the establishment of further guidelines on how the coding system will be applied.

A common approach to content analysis application appears in studies examined to be the creation of a matrix table with the 'what is being disclosed' categories on one axis and the 'how it is being disclosed' categories on the other axis. In line with that approach a content analysis matrix has been created using the themes identified in Appendix I and assessing the nature of disclosure in terms similar to Guthrie and Parker (1990). The matrix developed is attached as Appendix II. Each of the annual reports to be analysed was carefully read and each message that related to a relevant theme recorded in to the appropriate cell in the matrix. The mere presence of the theme was the counting unit and the number of times the theme appeared was recorded according to the form the disclosure took.

#### **4.5 LIMITATIONS OF CONTENT ANALYSIS**

As with all research techniques content analysis suffers from limitations. The biggest problem facing content analysis based research is the hermeneutic problem of interpreting the author's message. Content analysis is generally performed because data is not available from any primary source. The communication process has involved the formulation and coding of the message by the author, the transmission of the message and the decoding and

understanding of the message by the audience. This coding and decoding process may in itself lead to a misinterpretation of the original intent of the message. During a content analysis based research project the researcher is generally outside this process and may interpret the message in a manner that different from the that intended by the sender which may differ again from the interpretation placed on the message by the receiver. This problem can exacerbated with the use of multiple coders who may each place different meanings on the communication. Research has shown however that the use of a rigid well constructed coding system will alleviate this problem. Berelson (1959) labels this interpretation problem as the problem of inference.

Content analysis based research projects that are using statistical techniques to establish their conclusions will suffer the problems that all statistical projects need to face. Problems of validity and reliability will need to be addressed in the development of the coding system. It is essential that the coding system remove as much subjectivity as possible and ensure that the result is as objective as it can be.

#### **4.6 SURVEY**

The third objective of this study is to determine the number publications, other than the Corporate Annual report, containing Social Disclosure produced by the top 200 Australian firms. To meet this objective it was necessary to gather data from each of the firm concerning the publications they produce. The sources of this data were widely scattered geographically which necessitated the use of a mailed survey to gather the data required (Young 1966; Balsley and Clover 1988).

Simon (1969, p228) defines a surveys as 'methods of getting knowledge about the relationships between (or among) variables'. The survey method adopted will be dependant upon the nature of the research project being undertaken. Surveys gather data through asking questions of appropriate respondents. The questioning can either be verbal through the use of a pre-prepared interview or written by utilising a printed questionnaire. Ghauri, Grønhaug and Kistianslund (1995) categorise surveys as either analytical or descriptive. Analytical surveys are 'used to test theory by taking logic into the field' (Ghauri et al 1995 p 59). Analytical surveys identify and control for dependent, independent and extraneous variables through the application of appropriate statistical techniques. 'Descriptive surveys are concerned with identifying the phenomena whose variance we wish to describe' (Ghauri et al 1995 p 60). In this way those characteristics of the research subject that are of interest can be identified and any variations that are identified can be highlighted. The third objective of this study is aimed at identifying the characteristics of firms with respect to the media used in addition to the annual report to make social disclosure. In that sense the survey undertaken in this study will help describe the relationships that may exist between variables and help provide a basis for future explanation of those relationships.

#### **4.6.1 Questionnaire Design**

A review of the previous research was not been able to identify a previously applied questionnaire that met the requirements of this study. To meet the third objective of this study it was necessary to design a questionnaire that would provide the information required. Young (1966) identifies two types of questionnaires. Unstructured questionnaires, while seeking precision concerning a definite

subject matter allow the questioner to arrange the form and timing of the inquiries to suit the needs of the situation. Structured questionnaires 'pose definite, concrete and preordained questions, that is, they are prepared in advance and not constructed on the spot during the questioning period' (Young 1966 p 190). The key issues in designing a questionnaire are deciding what information the questionnaire is required to provide and whether the questionnaire will be administered by mail (Balsley and Clover 1988).

The use of the mail system to administer the survey will impact upon the type of questions the questionnaire will contain. Zikmund (1988) dichotomises the types of questions that can be asked in a questionnaire by response. Responses can either be opened ended or require a fixed alternative response. Open ended questions require the respondent to answer the question in their own words. This form of question and response have several advantages. Open ended questions encourage free expression, the response is not biased by alternative answers provided in closed question questionnaires, questions can be used to arouse interest in the subject and they can lead to more in depth follow up interviews (Balsely and Clover 1988).

Open ended questions do have some flaws. Balsley and Clover (1988) suggest that open ended questions may not elicit the complete answer from respondents who are faced with general discussion type answers. When open ended questions lead to further questions, the answers to follow up questions may be biased by the questioner guiding the direction of the questioning. Surveys using open ended questions require experienced researchers to administer them properly as open ended questions can lack the

clarity of questions allowing for dichotomous answers and can tend to be more complex.

The alternative to opened questions are fixed choice questions where the respondent is asked to nominate a response from alternatives provided by the researcher. Balsley and Clover (1988) categorises fixed choice questions as simple dichotomous questions which require the respondent to choose between two alternatives and multiple choice questions which provide more than two alternatives from which the respondent may choose. Zikmund (1988) identifies several forms the multiple choice question may take.

1. Questions may be determinant choice questions where the respondent is asked to choose from several alternatives.
2. The responses may be in the form of a rating scale where the respondent is asked to choose a rating from a rating scale provided.
3. The questionnaire may contain frequency determination questions that ask the respondent to select the frequency of an event from a range of alternatives, or checklists which allow respondents to provide multiple responses to a single question.

Fixed choice questions have several advantages over open ended questions. The time taken to complete the questionnaire can be shorter by limiting the choices, the questions can become more clear and specific and the respondent may answer more accurately when provided with an ample checklist (Balsley and Clover, 1988). Questionnaires that are based predominantly on fixed choice



questions require less input from the researcher/interviewer and therefore lend themselves to use in mailed out surveys more than surveys employing predominantly open ended questions.

The use of fixed choice questions also poses some problems to the investigator. The alternatives offered may bias the survey as the respondents may feel that the alternatives provided do not accurately reflect their true feelings. Respondents may be more likely to respond by selecting a choice that portrays them in a better light socially or place themselves in what they perceive as a more prestigious alternative (Zikmund 1988). Balsley and Clover (1988) indicates that well constructed questions and alternatives will help overcome these problems. Well constructed alternatives contain the following characteristics.

1. The alternatives must be exhaustive.
2. Alternatives should not overlap.
3. Choices should only fit into one response.
4. Lists of choices should not consist of similar alternatives couched in different terms or be alternative expressions used to describe the phenomenon being examined.

Balsley and Clover (1988) also identifies types of questions that need to be avoided in the preparation of a survey questionnaire. These include:

1. leading questions,
2. misleading questions that are a deliberate attempt to guide the respondent in the chosen direction,

3. ambiguous questions that will reduce the effectiveness of any survey being conducted, and finally,
4. uninformative questions couched in subjective terms that ask for the respondent to pass judgement over their own knowledge.

The questionnaire that was used in this study was designed with the limitations and guidelines identified previously in mind.

#### **4.6.2 Mail Administered Questionnaires**

Zikmund (1988 p 706) defines self administered questionnaires as questionnaires that are ‘... filled in by the respondent rather than the interviewer.’ One form of self administered questionnaire is the mail administered questionnaire. There are several reasons that would indicate the benefit of using the mail system to administer a questionnaire. Mailed questionnaires add geographical flexibility to a study. The questionnaire can be administered to widely dispersed respondents simultaneously. Zikmund (1988) suggests that the costs of mailing surveys can be less than the travel involved in administering them personally at the respondents location or the time and expense involved administering each one as a telephone interview. The self administered questionnaire allows the respondent to complete the questionnaire at their own convenience allowing respondents sufficient time to collect any desired information and give more thoughtful answers to the questions (Zikmund 1988).

The absence of the researcher while the respondent is completing the questionnaire can have both positive and negative effects. The respondent may feel less pressured while completing the questionnaire and be willing to reveal more sensitive information.

On the other hand the researcher is not available to provide clarification. The use of a mail administered questionnaire requires a highly structured format. The questions must be simple and self explanatory and structured in a manner that requires a minimum of interpretation by the respondent.

A disadvantage of mail administered questionnaires is the time taken to receive the responses after the questionnaire has been mailed to the potential respondents. Responses may take several weeks or even months to be returned and this period is extended by the use of follow up letters to raise the response rate. In order to raise the response rate to an acceptable level several techniques can be employed. The use of a covering letter explaining the purpose and importance of the research can be of benefit. Sending a reminder or follow up request will also increase the response rate. Zikmund (1988) suggests the use of monetary incentives as a means of increasing response rates but the ethical issues this may raise will preclude its use in many circumstances.

Many questionnaires rely on anonymity to ensure that the respondents will participate in the study. This leads to difficulty in identifying respondents makes the use of follow up letters difficult. One method employed to overcome this is to key the questionnaire. Keying involves the use of an identification code or number on the return envelope or the questionnaire to allow for the identification of the respondent by the researcher. The use of this technique is considered unethical if used for purposes other than the identification of respondents for follow up action. In order to meet the third objective of this study is essential to be able to match the responses gathered from the questionnaire to the data gathered through the content analysis of the annual reports. This meant that the study had to be able to identify the firm providing the

information contained in the questionnaire. It was felt that keying the questionnaire would not be appropriate ethically, so the respondents were asked to identify their firm without providing any personal identification. If the respondents felt that the survey may compromise them or their firm in anyway it was made clear to them that they were under no obligation to complete the questionnaire.

This study needed to gather data from a geographically wide range of respondents. This has necessitated the use of a self administered questionnaire to gather the data required. In order to gather this data a highly structured questionnaire was prepared that asked several open questions that were intended to identify characteristics of the responding firm and a series of fixed choice questions that were used to identify the media used to disseminate social disclosure and the recipients of the disclosures made. The fixed choice questions used provided dichotomous choice responses, frequency determination responses and check lists. The checklist response questions were designed to establish the content of social disclosure media published and the intended audience of those publications. In order to ensure that the possible responses were exhaustive the use of an 'others' choice was included with the respondent asked to identify any choices included in the others response. The questionnaire prepared with the considerations discussed in the preceding sections and used in this study is attached as Appendix III.

Having identified the methods employed to gather the data needed for this study the remainder of this chapter will identify and discuss the population of the study and the variables used to identify differences between the elements of the population examined.

## 4.7 POPULATION

Zikmund (1988 p 334) describes the population as the 'complete group of people, companies . . . or the like that share some set of characteristics'. The extension of a population is a universe with the differentiation being based on whether the group is finite (population) or infinite (universe), (Zikmund, 1988). This study has adopted a finite population.

Previous studies that have examined corporate social disclosure practices have examined, various sized populations ranging from single element case studies, (Guthrie and Parker's 1989) through to large scale studies drawing samples from the complete list of publicly listed companies in the relevant geographical region. Table 4-1 summarises the populations that have been studied previously and highlights any samples that have been drawn from those populations.

Author	Date	Population	Sample	Env only
Abbott et al	1979	US Fortune 500		No
Trotman	1979	Aust top 100		No
Trotman et al	1981	Aust top 600	207 Willing participants	No
Kelly	1981	Aust Publicly Listed Companies	50 selected companies	No
Wiseman	1982	US Steel, Oil, & Pulp & Paper Co	26 Largest	Yes
Cowen et al	1987	US Fortune 500		No
Belkaoui	1989	Ernst 1973 Survey	Firms with disclosure info avail	No
Guthrie et al	1989	1 Company		No
Andrew et al	1989	Listed Malaysian	English CAR <sup>14</sup>	No
Guthrie et al	1990	Top 50 Co, Aust, IIS IJK		No
Zeghal et al	1990	Canadian Banks & Oil Companies		No
Patten	1991	US Fortune 500		No
Patten	1992	Alyeska		Yes
Roberts	1992	US Fortune 500		No
Adams	1995	NZ Insurance Companies	12 Convenient Companies	No
Frost et al	1995	Aust Chem, Manf, mining, oil & petroleum Ind	Stratified sample of 61	Yes
Goodwin et al	1996	Publicly Listed NZ Companies	132 Companies <sup>15</sup>	Yes
Hackston et al	1996	NZ Top 50 Companies		No <sup>16</sup>
Deegan & Rankin	1996	Companies prosecuted by		Yes
Deegan & Gordon	1996	Aust Top 500	Random sample of 197	Yes
Kent et al	1997	Aust Chemical Co	Rep sample	No <sup>16</sup>
Tilt	1997	Aust Top 500		Yes

**Table 4- 1  
Populations used in previous studies**

<sup>14</sup> CAR: Corporate Annual Report

<sup>15</sup> No information was given as to how the sample was selected

<sup>16</sup> While the study covers many social disclosure areas the environment is specifically mentioned in the title

A number of the studies highlighted have investigated particular events or phenomena that relate to a particular firm or group of firms having a unique attribute, for example, belonging to a particular industry group, (Zeghal and Ahmed 1990; Frost et al 1995), or having faced a unique situation, (Patten 1992; Deegan and Rankin 1996). Other studies have attempted to gain insights into which firms are most likely to make some social disclosure and the type and content of the disclosures they make. These studies have tended to use a larger population made up of the large firms in the contextual areas being examined.

Trotman (1979), Trotman and Bradley (1981), Guthrie and Parker (1990), Deegan and Gordon (1996), and Tilt (1997) have all examined disclosure by Australian companies. Guthrie and Parker (1990) examined disclosure by the top 50 Australian companies, Trotman (1979) used the Top 100, Deegan and Gordon (1996), and Tilt (1997) gathered information concerning the Top 500 companies. As in this study, the studies by Trotman (1979) and Guthrie and Parker (1990) used content analysis of the annual reports of the whole population as a data gathering tool whereas the larger studies were either based on data gathered through survey (Tilt 1997) or selected a sample from which the appropriate data was gathered. In order to be able to make meaningful and comparable observations about the level and nature of the disclosures being made by Australian companies this study has adopted the 200 companies with the largest market capitalisation listed on the Australian Stock Exchange as its population.

#### **4.8 VARIABLES**

Variables can either be qualitative or quantitative and can be further classified according to the type of data they identify.

Qualitative variables can either be dichotomous variables or multinominal variables. Dichotomous variables provide only two choices with which distinguish companies, while multinominal variables provide more than two choices. This study has not identified any dichotomous qualitative variables but has employed several multinominal variables.

Quantitative variables are those characteristics of the companies that can be expressed numerically and can either be discrete or continuous. Discrete variables assume values at specific points on a scale, whereas continuous variables can assume values at any point on a scale. The quantitative variables used in this study are all discrete as each of the measurements can only assume whole number values. The distinction between types of variables is important as it can impact on the type of data collected and the statistical tools that can be used to analyse the data.

#### **4.8.1 Multinominal Qualitative Variables**

Several multinominal variables have been used in this study. They have been used to identify the industry in which the individual firms operate, the themes contained in the disclosures they make, and the types of disclosures made.

##### **4.8.1.1 Industry**

One of the organisational characteristics that is of interest to this study is the industry in which the firms operate. Initially, industry was identified using the classifications of the Australian Stock Exchange (1996a). This classification identified 32 separate industry groups into which the companies being examined could be classified. In order to provide a comparison with previous studies these groups were aggregated based on the classification drawn



from the schemata proposed by Tilt (1997) with one exception. Chemical companies were grouped with industrial companies rather than mining companies. This grouping provided 5 available classifications for industry; Mining, Food and Household, Industrial and Chemical, Trade and Services, and Financial Services.

#### **4.8.1.2 Disclosure Theme**

Objectives 1 and 2 of this study are seeking an understanding of the different themes used in the social disclosures examined. In order to identify the disclosure theme, 5 separate disclosure categories have been identified. These are Environment, Energy, Product, Human Resource, and Community Issues. This classification is consistent with Trotman (1979) and Guthrie and Parker (1989). Contrary to these studies though, this study has not adopted an "Others" category. This is because of the limited amount of disclosure that previous studies have classified as "Other". This study contends that with a broadly constructed identification system, the 5 themes identified encompass all areas of social concern. The identifiers used to assist in the identification of the theme into which the disclosure is to be categorised is contained in Appendix I.

#### **4.8.1.3 Disclosure Type**

This study has adopted the same four category model as Trotman (1979) and Guthrie and Parker (1990) for classifying the type of disclosure. These categories are an extension of the AAA (1975) model that classified disclosure type in terms of the numerical complexity in which the disclosure was presented. Disclosure can be a simple narrative or description of the subject, it may be presented

in numerical terms, monetary terms, or finally, a combination of numerical and monetary terms.<sup>17</sup>

## **4.8.2 Discrete Quantitative Variables**

### **4.8.2.1 Organisational Size**

The measure used to categorise the companies according to their size is their market capitalisation. This was assessed on their share price at the close of trade on the last trading day of 1995. The information needed to identify the companies that made up the population and the size of each of the companies was available from the Australian Stock Exchange (ASX 1996a).

### **4.8.2.2 Financial Performance**

Some studies have suggested market based explanations for social disclosure. In order to examine this concept, this study has developed a variable that indicates the change in the market's perception of each firm over time. Financial performance, in this instance, has been measured by determining the difference in value of a \$1,000 share investment in the firm held for five years compared to the same investment held for one year. Investments that have appreciated over the period would indicate market demand for the company while a depreciated investment would indicate market dissatisfaction with the company.

### **4.8.2.3 Disclosure Level**

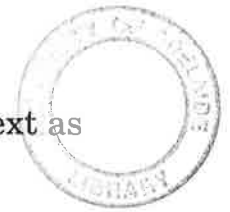
As discussed earlier disclosure has been measured by various different means. Consistent with Kelly (1979), Cowan et al (1987), and Deegan and Gordon (1996) this study has adopted a simple

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<sup>17</sup>

As an example, A descriptive disclosure would report that the Exxon Valdez spilt crude oil in Prince William Sound, Numeric disclosure would indicate that there was 11 million gallons spilt, monetary disclosure; the clean up cost was \$2 billion while a numeric and monetary disclosure would explain that 11 million gallons were spilt and that it cost \$2 billion to clean it up.

count of the number of individual messages contained in the text as the measurement of the level of social disclosure.



### **4.8.3 Decision Rules**

In order to provide answers to the research questions identified statistical tests will be used to determine if any relationship exists between the variables of interest in each question. The statistical tests are used to determine the probability of any relationships that exists occurring through chance. In order to do this a significance level is set for the hypothesis test. This is the probability that the relationship that exists did occur by chance. A commonly adopted significance level in social science research is 0.05 which indicates 5 chances in 100 of the relationship occurring randomly (Sproull 1995). This level has been used in previous social disclosure research (Trotman and Bradley 1981, Cowen et al 1987, and Tilt 1994) and was also adopted by this study.

## **4.9 DATA COLLECTION PROCESS**

Data was collected for this study in two phases. In the first phase the data necessary to meet objectives 1 & 2 was collected. To do this the Top 200 companies identified from information available from the Australian Stock Exchange (ASX 1996a). The current address for each company was obtained, where possible, from Jobson's Yearbooks (Dunn and Bradstreet, 1995a & b). Where addresses were not available from this source efforts were made to obtain the address using relevant telephone directories and the internet. Addresses could not be obtained for 7 companies who were therefore eliminated from the study. A further 6 companies were eliminated because their address indicated that they were headquartered outside Australia and this study is limited to Australian companies. In addition 3 other companies were recognised as having been

taken over by other companies and were therefore also eliminated. This left 184 companies remaining in the study.

The remaining companies were contacted by mail with a request for a copy of their annual report. To ensure that the information being examined was all referring to the same period, the companies were asked to provide the report that contained their 1995 financial statements. The letter requesting this information is attached as Appendix IV. From the 184 requests mailed out 147 annual reports were received.

Initial industry classification was made with companies being classified in accordance with the classifications provided by the Australian Stock Exchange (ASX 1996b). This resulted in 32 separate classifications which would not allow for meaningful interrogation of the data. The firms were then reclassified into 5 industry groups according to the classification system explained earlier. The number of companies in each industry group who provided annual reports is shown in Table 4-2.

Industry	Responses
Mining	43
Food and Household	18
Industrial and Chemical	24
Trade and Services	39
Financial Service	23
Total	147

**Table 4- 2 Corporate Annual Reports received from each Industry Sector**

The content of each of the annual reports was analysed was analysed using the content analysis instrument developed and attached as Appendix II.

In order to be able to gather the data necessary to meet objective 3 of the study the questionnaire was mailed to all the companies who had provided their annual reports. Objective 3 required a comparison between the disclosure contained in the annual report and the number of publications that the companies produced. For this reason the companies who had not provided their annual reports were eliminated from the study at this point. Accompanying the questionnaire was a letter explaining the purpose and significance of this study. This letter is attached as Appendix V.

Thirty six respondents returned completed questionnaires after the initial mail out and a further 10 companies replied indicating that they did not want to continue to be involved in the study. A follow up letter was sent to the companies who had not responded to the initial approach. This letter was accompanied by a second copy of the questionnaire and also contained a request, asking companies who did not wish to fill in the questionnaire to indicate the reasons why. Completed questionnaires were received from an additional 16 companies and a further 42 companies indicated for various reasons that they no longer wanted to be part of the study. In all 52 useable responses were received and 52 companies indicated that they would not be completing the questionnaire. This meant that useful responses were received from 35% of the companies surveyed. A full analysis of the response rates is contained in Table 4-3.

	Number
Initial identified population	200
Eliminated because of lack of address or o/seas based	16
Valid Cases for CAR request	184
Annual Reports Received and surveys mailed	147
First round responses	36
First round withdrawals	10
Follow ups sent	101
Second round responses	16
Second round withdrawals	42
Total useable responses	52
Total withdrawals	52
Total Response Rate	35%
Response Rate after withdrawals	55% <sup>18</sup>

**Table 4- 3 Response Rates**

#### 4.10 CONCLUSION

In order to gather data to be able to make comment on the disclosure practices of the firms and the relevance of the identified theories it is necessary to gather the relevant data. To gather the data to meet the study objectives relating to disclosures in the annual reports of the firms the study has employed content analysis as the major data gathering tool. To identify the other publications used to make social disclosure a self administered questionnaire was mailed to the identified potential respondents.

<sup>18</sup> Response rate after withdrawals, 52 completed questionnaires / (147 - 52 withdrawals) = 54.7%

This chapter has identified the data identification and collection methods that have been employed by this study in order to gather the data necessary to meet the objectives of the study. The next chapter will present the data that has been gathered and identify the relevant relationships between the variables identified.

# **Chapter 5**

## **Disclosure Practice: The Evidence**



## 5.1 INTRODUCTION

This chapter will highlight the relevant relationships and associations that have been identified in the data collected. Each of the research objectives of this study has been supported by a series of research questions and this chapter will therefore identify the relationships and associations that assist this study to meet its objectives. Relationships between many of the variables were identified using a chi square ( $\chi^2$ ) test. The  $\chi^2$  is an appropriate test to use when the data gathered is ordinal or interval data<sup>19</sup> (Kohler 1985). Much of the data gathered for this study is of a nominal (Industry) or interval (Publication frequency) nature. The  $\chi^2$  compares the actual distribution of observed results and the distribution that would have been expected to occur if the observations had occurred on a totally random basis. In order to be able to apply this statistic it is essential that sufficient number of observations at any given level are obtained. In this study this was not always possible. The large distribution of organisational size over relatively few observations made comparisons between some variables impossible. This required some of the data being recoded (or contracted into less, larger groups) to allow meaningful examination between the variables. The variables that were redefined are set out in Table 5-1.

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<sup>19</sup> Nominal data are numbers that "label differences in kind,... classifying mutually exclusive observations about qualitative variables" eg 0 and 1 to indicate whether a research subject is either Female or Male. Ordinal data are numbers "that rank observations on the basis of importance, while the intervals between the numbers are meaningless" eg Small, Medium and Large may be ranked as 1, 2 and 3 indicating an increasing relationship with quantifying the size of the increase. Ratio data are "numbers that by their size rank observations in order of importance and between which intervals as well as ratios are meaningful" eg, 10 disclosures is twice as many as 5. (Kohler, 1985, pp 12-13)

Original Variable	New Variable	Definition
Fin Performance	Perform2	Population divided into 4 equal size groups based on Fin Perform.
Industry	Ind2	Population recoded into a single variable recognising the 5 industry groups as described in Chapter 4
Size	Size2	Population divided into 4 equal size groups based on size
Total Disclosure	Disclosure	Population divided into disclosing and non disclosing firms
Total Disclosure	Totdisc2	Population divided into 4 groups: 0 disclosures, 1- 4, disclosures, 5-10 disclosures, & 11+ disclosures.

**Table 5- 1 Variables redefined for testing**

## **5.2 CONTEMPORARY PRACTICE**

The review of the literature has revealed that much of the recent research being undertaken has concentrated on environmental disclosure at the expense of other social issues. This has left a gap in the understanding of contemporary disclosure. The first objective of this study was to help fill that gap by providing an up to date view of disclosure practice including a confirmation of the previous studies of disclosure determinants that have been undertaken. The following questions were posed of the data and the results are set out as follows.

### **5.2.1 Determinants**

#### **5.2.1.1 Question 1.1 (Size)**

Is the level of disclosure made by Australian firms related to the size of the disclosing firm?

In order to answer this question a Pearson Correlation was used to identify any relationship between organisational size and the level of social disclosure. Overall a positive relationship was shown. 147 annual reports had been analysed and the test showed a correlation value of 0.248 which is significant to the 0.002 level, well inside the 0.05 level set as a benchmark for the study.

Mining companies made up a large proportion of the population (29.25%) being examined so the data was examined to determine if the large number of mining companies biased the results in any way. There were 104 non mining companies in the population and these companies produced a correlation value of 0.220 which was significant at 0.025. This was slightly less significant than the overall result indicating that the mining companies did have some effect overall. This was confirmed by a  $\chi^2$  test examining the variable “disclosure” between mining and non mining companies. The results showed a  $\chi^2$  value of 21.293 at a 0.000 significance level. Mining companies disclosed a lot more than expected.

A  $\chi^2$  test was also used to determine if there was any particular relationship between the size of the firms (as defined in the variable size2) and the theme of disclosure made. The results of this test is set out in Table 5-2

Theme	$\chi^2$	sig
Com	<b>29.267</b>	<b>.000</b>
Eng	7.308	.063
Env	<b>8.200</b>	<b>.042</b>
HRM	<b>10.753</b>	<b>.013</b>
Prod	3.483	.323

**Table 5- 2  $\chi^2$  result, The effect of size on levels of disclosure in each theme**

In all significant results (community, environment, and HRM), larger firms disclosed more than would be expected through a random distribution.

#### **5.2.1.2 Question 1.2 (Financial Performance)**

Is the level of disclosure made by Australian firms related to the financial performance of the disclosing firm?

Overall no significant relationship could be shown to exist between the level of financial performance and the level of social disclosure made. A correlation value of -0.036 was established with a significance level 0.694 well outside the acceptable level for this study. This result was confirmed by a  $\chi^2$  test that compared “totdisc2” and “perform2”. This test produced a  $\chi^2$  value 3.536 at a significance level of 0.173, once again failing the 0.05 requirement.

Similar results were obtained when the tests were restricted to disclosing firms only, and to non mining firms only.

#### **5.2.1.3 Question 1.3 (Industry)**

Is the level of disclosure made by Australian firms related to the industry in which the disclosing firm operates?

A  $\chi^2$  test relating the industry the firm operated in with the level of social disclosure (totdisc2) produced a very significant result. Overall a  $\chi^2$  value of 46.980 was observed with a significance level of 0.000.

When the data was filtered for non disclosing firms a less significant result was obtained. This produced a  $\chi^2$  value of 16.849 which has a significance level of 0.032. This indicated that firms in some industries a would appear to disclose at a higher level than

firms in other industries. To confirm this, a  $\chi^2$  test was used to examine the disclosure levels of the firms within each individual industry group.

Industry	$\chi^2$	sig
<b>Mining</b>	<b>35.883</b>	<b>0.000</b>
Fin serv	5.223	0.156
Industrial	1.976	0.577
Food & H/Hold	1.928	0.587
<b>Trade and Services</b>	<b>18.841</b>	<b>0.000</b>

**Table 5- 3,  $\chi^2$  for disclosure levels by industry**

This test revealed that there was a significant association between the level of disclosure and the likelihood of a firm being in either the mining or trade and services industries. Mining companies made more disclosures than statistically expected, while trade and services companies made less than expected. Companies in the other three industry groups disclosed at the level that would be expected if the results were distributed randomly.

Table 5-4 shows the number and percentage of firms disclosure in each industry grouping and the maximum and average disclosures made by firms in those industry groups.

	Number of Firms	Disc Firms	% of Firms	Non Disc Firms	Max Disc	Ave disc per firm
Mining	43	42	97.7	1	114	15
Food and Household	18	11	61.1	7	28	5
Industrial	24	19	79.1	5	19	7
Trade and Service	39	18	46.2	21	18	3
Financial Services	23	14	60.9	9	14	4
Total	147	104		43		

**Table 5- 4 Levels of disclosure by industry**

Ninety eight percent of all companies in the mining industry that were analysed made some disclosure, averaging 15 disclosures

each. This is contrasted with the trade and services group where only 46% of companies made an average of 3 disclosures.

## 5.2.2 Disclosure Theme

### 5.2.2.1 Question 1.4, Theme and Industry

Is there a relationship between the social themes disclosed and the industry in which the disclosing firm operates?

Cowan et al (1987) indicated an association between environmental disclosure and the mining industry. This relationship is confirmed by this study. In addition, relationships have been observed between the financial services industry and community and environmental disclosure, industrial firms and product related disclosure, the mining industry and product disclosure, and trade and services firms and HRM disclosure. No relationship was observed between any theme and the food and household sectors.

Theme	Food & Household		Financial Services		Industrial		Mining		Trade and Services	
	$\chi^2$	sig	$\chi^2$	sig	$\chi^2$	sig	$\chi^2$	sig	$\chi^2$	sig
Com	0.007	.931	<b>5.881*</b>	<b>.015</b>	3.376	.066	0.403	.526	1.132	.287
Eng	1.309	.253	1.721	.190	0.022	.882	1.768	.184	0.056	.813
Env	2.956	.086	<b>16.385*</b>	<b>.000</b>	1.155	.282	<b>16.038*</b>	<b>0.000</b>	0.99	.341
HRM	1.073	.300	0.458	.499	1.574	.210	0.187	.665	<b>10.860*</b>	<b>.001</b>
Prod	.141	.707	0.643	.423	<b>5.543*</b>	<b>.019</b>	<b>11.874*</b>	<b>.001</b>	1.073	.300

Table 5- 5  $\chi^2$  results for industry by theme

\* = sig at .05

Environmental disclosure was made at a lower level than would be expected in the food and household sector. Financial services firms produced more community related disclosure but less

environmental disclosure, the mining industry more environmental and less product (no disclosures at all), industrial firms more product, and the trade and service sector made less HRM disclosure than expected (see Table 5-5). Table 5-6 highlights the total number of disclosures made in each theme by firms in each industry sector. The industry making the most number of disclosures was the mining industry and the most disclosed theme was the environment. However for all industry groups except trade and services more firms made HRM disclosure than made environmental disclosure. Overall the theme disclosed by the largest number of firms was HRM.

	Mining		Food & House		Industrial		Trade & Services		Financial Services		Total Disc
	No*	Firm*	No	Firm	No	Firm	No	Firm	No	Firm	
Com	119	25	38	6	18	7	19	8	42	12	236
Eng	11	6	0	0	6	2	2	2	0	0	19
Env	313	38	12	5	55	11	53	14	6	3	439
HRM	200	34	34	10	77	17	33	9	31	12	375
Prod	0	0	3	2	15	6	5	4	5	3	28
Tot	643		87		171		112		84		1097

**Table 5- 6 Disclosures made in each theme, separated for industry**

\* No is the total number of disclosures made by all firms in that theme and Firm is the number of firms making those disclosures.

## 5.2.3 Disclosure Type

### 5.2.3.1 Question 1.5 (Type and Theme)

Is there a relationship between the type of disclosure (eg Declarative, Numeric etc) made and the theme of the disclosure?

An examination of the data revealed relationships between some of the disclosure themes identified and the type of disclosure made. Both HRM ( $\chi^2 = 8.759$ , sig = 0.033) and community ( $\chi^2 = 18.829$

sig = 0.000) disclosure were more complex<sup>20</sup> than expected. The energy theme also showed a significant result but there were insufficient observations to make justifiable assertions. While all firms who made environmental disclosure made some of that disclosure in the declarative form and the environment was the only theme where all four types of disclosure were used, more firms made Declarative and Numeric disclosures in the HRM theme than any other theme. Unfortunately, overall the number of observations made of firms making Monetary, and combined Numeric and Monetary disclosures were insufficient to allow statistical relationships to be identified.

	Total No of Disclosing Firms	Dec No	Num No	Mon No	Num & Mon No
Com	58	54	14	17	0
Eng	10	9	1	0	0
Env	71	71	20	11	2
HRM	82	79	41	0	1
Prod	15	15	1	0	0
Total <sup>21</sup>	104	103	53	21	3

**Table 5- 7 Disclosure type by theme filtered for disclosing firms**

### 5.3.3.2 Question 1.6 (Type and Amount of disclosure)

Is there a relationship between the type of disclosure made and the level of disclosure made?

A  $\chi^2$  test was used to establish if there was any relationship between the type of disclosure made and the number of messages

<sup>20</sup> Disclosure complexity relates to the level of information provided, declarative disclosure is the least complex and Monetary -Numeric disclosure the most complex.

<sup>21</sup> Most firms made disclosures in more than one theme and used more than one type of disclosure when making them, therefore the total is not the sum of the values in the column.



(totdisc2) published in the annual reports of the disclosing firms. The results of the tests are shown in Table 5-8.

	$\chi^2$	Sig
Declarative	1.991	.370
Numeric	<b>22.728</b>	<b>.000</b>
Monetary	<b>13.513</b>	<b>.001</b>
Monetary & Numeric	6.95	.031 <sup>22</sup>

**Table 5- 8  $\chi^2$  for disclosure type in relation to amount of disclosure**

A significant relationship was shown to exist between the level of disclosure and a firms propensity to use Numeric or Monetary disclosures. The distribution of disclosure indicates that firms who make more disclosures are also likely to make more numeric and monetary disclosures than expected. Declarative disclosure were made at the level to be expected through a random distribution.

#### **5.2.3.3 Question 1.7 (Type and Determinants)**

Is there a relationship between the type of disclosure made and the organisational characteristics outlined in questions 1.1-1.3?

##### 5.2.3.3.1 Size

In order to determine if any relationships existed between the type of disclosure made and the size of the disclosing organisation, a series of  $\chi^2$  tests were made matching the various disclosure types with the variable "size2". Table 5-9 shows the results of these test. Significant relationships were shown to exist between organisational size and the use of Numeric and Monetary disclosure. In both cases larger firms showed a greater propensity to use the relative disclosure type when compared to smaller firms.

	$\chi^2$	Sig
Declarative	2.172	.537
Numeric	<b>10.041</b>	<b>.018</b>
Monetary	<b>12.736</b>	<b>.005</b>
Monetary & Numeric	6.646	.084 <sup>23</sup>

**Table 5- 9,  $\chi^2$  result disclosure type by firm size**

Declarative disclosure was observed at the level that would be expected if the results had occurred randomly.

#### 5.2.3.3.2 Industry

A  $\chi^2$  value was obtained for the distribution of disclosure type in each industry group by matching the disclosure types with the collapsed industry variable (Ind2). The results of these test are shown in Table 5-10. No significant relationships were identified between any of the disclosure types and the industry in which the firm operates.

	$\chi^2$	Sig
Declarative	6.491	.165
Numeric	3.922	.417
Monetary	7.668	.105
Monetary & Numeric	2.989	.560 <sup>24</sup>

**Table 5- 10,  $\chi^2$  for disclosure type in industry groups.**

<sup>22</sup> There was insufficient data to enable reliance on this result but all 3 firms using Monetary & Numeric disclosures were in the highest disclosing group (11+)

<sup>23</sup> There was insufficient data to enable reliance on this result but all 3 firms using Monetary & Numeric disclosures were the fourth quartile of the population, ranked by size.

<sup>24</sup> There was insufficient data to enable reliance on this result. The three firms making Numeric & Monetary disclosure were from mining, food and household, and trade and services.

### 5.2.3.3.3 Financial Performance

An examination of the disclosure type and the financial performance (perf2) of the firms only revealed a relationship between the use of monetary disclosure and the financial performance of the firms. In this instance firms that had performed in the worst 25% and the best 25% of the population used less monetary disclosure than expected while the middle 50% of the population used more than expected. No other significant relationships were identified (see Table 5-11).

	$\chi^2$	Sig
Declarative	2.360	.501
Numeric	2.426	.489
Monetary	<b>9.306</b>	<b>.025</b>
Monetary & Numeric	3.443	.328 <sup>25</sup>

**Table 5- 11,  $\chi^2$  for Disclosure type selected for financial performance**

### 5.2.4 Question 1.8 (Comparison with Previous studies)

Is there a difference between the results of these questions and previous studies conducted in Australia?

Table 5-12 compares the percentage of firms making disclosure identified in this study with the percentage of disclosing firms identified in two previous studies. The results suggest that there has been an overall increase in the number of firms making some form of disclosure and comparative increase in the three themes that account for the majority of all disclosures made.

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<sup>25</sup> There was insufficient data to enable reliance on this result. Two firms were in the worst performing quartile and one was in the third quartile.

	Overall	Com	Eng	Env	HRM	Prod	Other
Trotman 1967	26	5	1	6	17	3	5
1972	48	19	0	18	30	3	13
1977	69	23	10	35	43	4	34
G & P 1990	56	16	2	12	52	0	10
This Study	71	39	7	48	56	10	NC

**Table 5- 12 Percentage of firms making disclosure**

Previous studies have also examined the type of disclosures made. The results of this study are similar to one early study examined (Trotman 1979), but do not support a later study (Guthrie and Parker, 1990). This apparent conflict of results will be further discussed in Chapter 6 of this study. Table 5-13 categorises firms by the most complex disclosure made and shows the disclosure complexity used in each theme.

	Dec	Num	Mon	Num & Mon
Trotman 1967	50	46	0	4
1972	60	23	10	6
1977	25	14	1	8
G & P 1990	18	46	4	32
This Study	45	34	18	3

**Table 5- 13 Percentage of disclosing firms and most complex disclosure type**

In order to allow this study to meet its first objective, data has been gathered that provides information concerning relationships between some corporate characteristics, the level of disclosure made, the theme of disclosure, and the type of disclosure. The data identifies relationships between the industry a firm operates in and the amount of disclosure and the disclosure theme. No relationship was identified between industry and disclosure type. Relationships were identified between firm size, the level of disclosure and the type of disclosure made. In addition a relationship between the type

of disclosure the theme of the disclosure was observed. Some of these results can be compared with previous studies which show some increase in the number of disclosing firms but mixed results as far as disclosure type is concerned.

### **5.3 ENVIRONMENTAL DISCLOSURE**

The purpose of the second objective of this study was to further the understanding researchers have of the level of environmental disclosure being made, and providing some indication as to whether the perceived shift in disclosure research towards the environment, identified in Chapter 2, is reflective of the levels actual disclosure being made. As with Objective 1 a series of research questions have been established to help this study meet Objective 2 and appropriate tests have been employed to identify relative relationships.

#### **5.3.1 Question 2.1 (Levels of Environmental Disclosure)**

What is the level of environmental disclosure being made by Australian firms?

147 Australian firms provided their annual report to be analysed. 71 (48%) of the analysed firms made some environmental disclosure. Only HRM issues were disclosed by more firms (82 firms). The other themes were disclosed by far fewer firms (community 58, energy 10, & product 15). (See Table 5-7)

An examination of Table 5-6 shows, that while more firms disclosed HRM issues, the environment was the subject of more individual disclosures than any other theme: 439 environmental disclosures were identified compared with 375 HRM, 236 community, 28 product, and 19 energy.

### **5.3.2 Question 2.2 (Changes in Environmental Disclosure Levels)**

Has the level of environmental disclosure being made by Australian firms changed from previous studies (Trotman 1979, and Guthrie and Parker 1990)?

The study by Guthrie and Parker (1990) suggested that 14% of the companies investigated made some form of environmental disclosure in their annual reports. This level of disclosure is far lower than other studies identified. This difference may have been a result of the sample adopted. Guthrie and Parker's (1990) was confined to the top 50 companies in Australia, the USA, and the UK. Trotman (1979) suggested that 35% of the companies examined made environmental disclosure. This is very similar to the 36% identified by Deegan and Gordon (1996). Trotman indicated that the level of environmental disclosure had increased from 6% in 1966 to 18% in 1972 and finally to the identified 35% in 1977. This study identified environmental disclosure in 71 companies which is 48% of the population studied.

### **5.3.3 Question 2.3 Industry effect**

Is the level of environmental disclosure related to the industry in which the disclosing firm operates?

Table 5-5 highlights an association between environmental disclosure and firms that are identified as mining and financial service firms. Table 5-14 shows the level of environmental disclosure made for each industry sector.

Of the 1047 disclosures identified 439 (42%) were environmental. Of these disclosures 71% were made by the mining industry. The mining industry was the only industrial group to make environmental disclosure at a level greater than the study average.

	No in Pop	No Making Env Disc	%	No of Disc	Ave Env Disc for all firms	Ave Env Disc for disc firms
Mining	43	38	88	313	7	8.2
Food and Household	18	5	18	12	0.6	2.4
Industrial	24	11	46	55	2.3	5
Trade & Services	39	14	36	53	1.4	3.8
Fin Serv	23	3	13	6	.25	2
Total	147	71	48	439	3	6.2

**Table 5- 14 Levels of Environmental Disclosure for each industry group**

## 5.4 OTHER DISCLOSURE MEDIA

The final objective of this study was to provide an initial understanding of the printed media, other than the annual report, used by firms to disseminate their social message. The questionnaire administered was designed to identify the frequency of publication, the themes published, and the intended recipients of those publications.

### 5.4.1 Question 3.1 (Number of publishing firms)

How many firms present social disclosure in publications other than their annual report?

Completed questionnaires were received from 52 companies, of which 32 (62%) publish other social disclosure containing documents.

	Total Respondents	No producing other pubs	No producing no other pubs
Mining	20	11	9
Food & House	4	4	0
Industrial	11	9	2
Trade & Serv	8	3	5
Fin services	9	5	4

**Table 5- 15 Companies producing other social disclosure media**

A  $\chi^2$  test was performed to determine if there was a relationship between a firm's likelihood to disclose in its annual report and the likelihood that it would also produce other disclosure publications. This showed that there is a relationship between the propensity to disclose and to produce other publications with disclosing firms more likely to produce than non disclosing firms. ( $\chi^2 = 5.243$  sig = 0.022) There is also a relationship between level of disclosure and production of other publications. The higher the level of disclosure the more likely the firm is to produce other publications.  $\chi^2 = 17.164$  sig = 0.001

There was also a significant relationship between the production of other social disclosing publications and the propensity of firms to make annual report disclosures in the following themes; community ( $\chi^2 = 13.898$ , sig =0.000) and HRM ( $\chi^2 = 13.257$ , sig =0.000). In both instances firms produced more publications than would be expected. As well as the overall relationship, there were relationships between the following themes disclosed by companies in their annual reports and the publication of other documents in



the same theme; community ( $\chi^2 = 6.555$ , sig =0.010), energy, ( $\chi^2 = 3.886$ , sig =0.049) and environment ( $\chi^2 = 6.149$ , sig =0.013).

In addition to the relationships between annual report disclosure in a theme and the production of other publications containing social disclosure in the same theme, an association was seen to exist between specific disclosure themes in the annual reports and the publications of documents containing disclosure in different seemingly unrelated themes. There was a relationship between community related publications and environmental disclosure, ( $\chi^2 = 5.236$ , sig =0.022) and HRM disclosure ( $\chi^2 = 13.037$ , sig =0.000) contained in annual reports. There was also a relationship between publications containing energy disclosures and environmental disclosure ( $\chi^2 = 4.571$ , sig =0.033) in annual reports. Interestingly the opposite relationships were not identified. For example, a relationship was seen between energy related publications and environmental disclosure in the annual report, but not environmental publications and energy disclosure.

Of the 32 respondents who produced other publications only 4 made no disclosure in their annual report. Two of these firms were industrial firms and there was one each from the trade and service, and the financial sectors.

On average, firms in the mining industry produced more publications containing social disclosure than firms in other industries. The mining industry was followed by industrial firms, food and household, Financial services, and finally trade and services. This is similar to the average number of disclosures contained in the annual reports of each industry with only trade

and services, and financial services swapping places. (See Table 5-16)

There were more publications produced containing HRM disclosure than any other theme. Also more firms produced specific HRM publications than publications in any other area. While the mining industry still produced the majority of all publications identified, the emphasis of content differs from the emphasis identified in the annual report. In the annual report the environment dominated the disclosure by the mining industry, however, the industry produced more HRM publications than environmental, and with the exception of industrial firms more firms in each industry group produced community related publications than produced environmental ones. Within the annual report HRM was discussed by more firms than any other theme but the environment was ranked second, (see Table 5-17).

Theme		Mining	Food & House	Industrial	Trade & Service	Financial Services	Total
Com	Firms	10	3	3	2	4	22
	Number*	46	11	17	3	14	91
	Ave	4.6	3.7	5.7	1.5	3.5	4.1
Eng	Firms	5	1	1	0	0	7
	Number	14	2	3	0	0	19
	Ave	2.8	2	3	0	0	2.7
Env	Firms	9	2	5	1	0	17
	Number	29	3	15	1	0	48
	Ave	3.2	1.5	3	1	0	2.8
HRM	Firms	9	3	7	2	4	25
	Number	47	9	23	3	13	95
	Ave	5.2	3	3.3	1.5	3.2	3.8
Prod	Firms	7	3	6	1	4	21
	Number	43	19	42	2	11	117
	Ave	6.1	6.3	7	2	2.75	5.6
Total	Firms	11	4	9	3	5	32
	Number	179	44	100	9	38	370
	Ave	16.6	11	11.1	3	7.6	11.6

**Table 5- 16 Number of Publications other than the Annual Report identifying the disclosure theme and industry**

\* Number is the total number of documents produced by firms in the nominated industry containing disclosures in the identified theme.

	Firms with other publications*	% of Sample	Rank	Firms with Disc in CAR	% of Sample	Rank
Com	22	42.3	2	58	39.5	3
Eng	7	13.5	5	10	6.8	5
Env	17	32.6	4	71	48.3	2
HRM	25	48	1	82	55.8	1
Prod	21	40	3	15	10.2	4

**Table 5- 17 Themes ranked by Firms producing publications and CAR content**

\* The total number of “Firms with other Publications” is greater than the number of respondents because some firms published in more than one theme. No indication was received from the responding firms identifying whether the publications contained disclosures in themes other than the one identified in the survey.

#### **5.4.2 Question 3.2 Publication Frequency**

How often do firms produce any other publications containing social disclosure?

Table 5-18 shows the frequency with which publications containing social disclosure were produced. It shows that the majority of publications containing social disclosure produced by the surveyed firms were produced on an ad hoc or as required basis. In both absolute and proportional terms the most frequently produced disclosures related to HRM and community issues. Over half the HRM publications were produced at least quarterly compared with 37% of community disclosure, 20% energy, 22% environment, and 24% of product disclosing publications. Over 40% of all product and energy disclosing publications were produced on an ad hoc basis compared to less than 30% of community and HRM disclosing publication.

	Weekly	Fortnightly	Monthly	Quarterly	Twice Yearly	Yearly	Ad Hoc	Other
Com	0	2	25	6	0	14	26	16
Eng	0	1	1	1	0	6	6	0
Env	0	1	6	3	0	13	16	6
HRM	6	3	27	11	1	7	25	13
Prod	2	4	7	14	8	24	45	7

**Table 5- 18 Publication Frequency for Publications other than the Annual Report that contain Social Disclosure<sup>26</sup>**

#### 5.4.3 Question 3.3 Intended publication recipients

Are the other publications produced intended for any particular group of recipients?

Firms responding to the questionnaire identified many intended recipients for the publications they produced (see Table 5-19). With the exception of publications containing product related disclosures the most commonly identified intended recipients of the information were the companies' own employees. Customers were the most commonly identified recipient of product information. The second most identified recipients differed for each disclosure theme. Local community and action groups ranked second for community issues, the government for energy, local community and environmental lobby groups for environmental issues, employer and employee groups for HRM, and employees for product issues. The least commonly identified recipient was the firm's competitors, only being recognised as a secondary recipient of product information. Shareholders were identified as recipients of information in all themes in addition to the information that they receive via the annual report. In all themes the individual recipients were recognised more often than the formal group representing their interests.

<sup>26</sup> The total number of publications in Table 5-18 differs from the total in Table 5-16 because not all respondents provided complete details for all publications.

	Com		Eng		Env		HRM		Prod	
	Prim*	Sec*	Prim	Sec	Prim	Sec	Prim	Se	Prim	Sec
Shareholders	9	3	2	2	5	4	7	3	12	2
Bankers	1	4	1	1	1	4	0	3	4	4
Trade Creditors	0	2	0	1	0	2	0	1	0	4
Other Finance	0	4	0	1	0	2	1	2	3	4
Customers	7	3	1	2	4	2	3	2	14	3
Suppliers	4	1	2	2	2	2	2	3	6	2
Consumer Groups	2	3	3	0	3	1	1	2	3	1
Management	7	6	3	2	9	1	13	0	5	7
Non Management	15	3	3	3	12	1	20	0	10	6
Trade Unions	1	3	1	2	4	0	6	4	1	3
Employer and Industry	1	5	1	2	3	5	8	1	3	8
Competitors	0	2	0	1	1	1	0	1	0	7
State and Federal Govt	4	8	5	0	7	2	2	7	2	8
Local Govt	5	3	3	0	6	2	2	3	1	4
Local Community	6	5	1	0	2	4	2	1	1	0
Local Residents	8	1	0	2	6	1	1	4	1	2
Environmental Groups	2	5	4	1	7	3	1	3	2	2
Others	2	0	0	0	0	0	0	0	1	0

**Table 5- 19 Intended recipients of socially disclosing publications**

\*Prim (Primary) recipients are those identified as intended readers of the publications, whereas Sec (Secondary) recipients are those who may have requested the publication or may have received it without deliberate action by the publishing company.

## 5.5 CONCLUSION

This chapter has identified the results of the study undertaken. Statistical analysis of the data has revealed relationships between the likelihood of a firm disclosing and various corporate characteristics. Relationships were also identified between the level of disclosure and those characteristics. The theme of the disclosures made was also found to relate to the industry in which the firm operated. Some relationships between corporate characteristics and the type of disclosure made was also identified.

Environmental disclosure was found to be dominated by the mining industry. The theme disclosed by the largest number of firms was HRM, but the theme with the greatest number of individual disclosures was the environment. This study has identified that the number of firms making disclosure has been steadily increasing with the increase occurring in the areas of community, environmental and HRM disclosure.

Social disclosure was also found to be published in documents other than the annual report by 62% of the firms that returned the questionnaire used in this study. In most cases the most intended receivers of these documents were the firm's own employees followed by the group that could be described as the relevant stakeholder to the particular theme. In the case of the product related disclosures this order was reversed. The documents containing HRM information were found to published most often and most frequently.

Chapter 3 of this study identified three theoretical perspectives that may be supported by the data identified in this study. The following chapter will therefore discuss how the identified

relationships are best expanded through each of the theoretical perspectives.



# **Chapter 6**

## **Reflections**

The evidence gathered to help this study meet its objectives has been presented in Chapter 5. This chapter will discuss the implications of the evidence gathered. First, the evidence gathered will be compared to the findings of studies previously undertaken in the field. Where the findings of this study differ from those of previous studies, factors that appear to be potential explanators of the difference will be identified and any implications of the findings discussed. Second, this study will use the evidence gathered to examine the theoretical perspectives identified in Chapter 3. Consistent with the 'middle-range' approach to theory examination, this study will not use the evidence gathered to judge the theories considered against each other. Rather, the evidence will be considered in the light of each theoretical perspective to determine whether particular dimensions of any of those perspectives are represented or amplified by the findings of this study. Finally, the research objectives of this study will be reviewed in light of the findings outlined in Chapter 5.

## **6.1 DETERMINANT REFLECTION**

Previous studies identified in Chapter 2 of this study have examined the characteristics of firms and compared these characteristics with the level of disclosure made by those companies. This study has continued this course of research and the following section highlights the corporate characteristics with which this study identified a significant relationship to social disclosure.

### **6.1.1 Size**

The most commonly considered corporate characteristic seen to be associated with the nature and quantity of social disclosure in the prior research has been size. With the exceptions of Cowen, Ferreri

and Parker (1987) and Roberts (1992), the studies identified (Trotman 1979; Trotman and Bradley 1981; Belkaoui and Karpik 1989; Patten 1991; Adams 1995; and Kent, Kwong and Marshall 1997) have consistently found a positive association between corporate size and the level of social disclosure made. This study also found a positive relationship between corporate size and the level of disclosure made.

Cowen et al (1987) considered the relationship between corporate size and the level of disclosure made in each of the identified disclosure themes. They found a relationship between size and the amount of disclosure made in the environmental, energy, business practice and community themes but no relationship between size and disclosure amounts in the HRM or product themes. This study similarly compared disclosure in each theme with corporate size. The findings of this study identify a similar relationship to Cowen et al (1987) with respect to the environment, product and community disclosure but could not find support for their findings for the other themes. In contrast to Cowen et al (1987) this study identified a relationship between size and HRM disclosure but no relationship between size and energy disclosure.

The consistent identification of a relationship between size and overall disclosure levels suggests that size is a valid determinant for the level at which a firm will disclose social information. However, this study has demonstrated that the relationship between size and the amount of social disclosure made by a firm may not be as simple to understand as previous studies have suggested. The findings of both this study and Cowen et al (1987) indicate a possible association between a firm's size and the thematic content of the disclosure. This observation should however

be tempered because of the lack of consistency between their specific findings. Therefore at this stage these findings do not allow for judgement to be made concerning the validity of using corporate size as an indicator of a firms likelihood to disclose in any specific thematic category.

The results of this, and previous studies indicate that larger firms are more likely to make social disclosures than small firms. This study suggests that large firms may be more inclined to disclose for two reasons. First, the cost of putting social programs and procedures in place will impact less significantly on the available resources of larger firms meaning that more programs may be in place that may be the subject of any disclosure made. Second, the information systems of larger firms may be more developed, thereby allowing easier identification and reporting of the information to be included in any social disclosure made. The latter suggestion is supported by an examination of the types of disclosure made. Trotman (1979) and Guthrie and Parker (1990) identified the types of disclosures made in terms of their numerical complexity (declarative, numeric, monetary, and combined monetary and numeric)<sup>27</sup>. This study compared the type of disclosure made with the size of the disclosing firm and found some evidence to suggest just such a relationship. This relationship indicates that larger firms may be more likely to disclose in a more complex manner than smaller firms which therefore may indicate an information system more capable of providing the more complex data required.

### **6.1.2 Industry**

Previous research, (Dierkes and Preston 1977; Kelly 1981; Cowen et al 1987; Zeghal and Ahmed 1990; Patten 1991; Roberts 1992; and

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<sup>27</sup> Full descriptions of each of the disclosure types was made in Chapter 4

Hackston and Milne 1996) has indicated that the industry in which a firm operates may have some effect on any social disclosure a firm makes. The relationship between industry category and social disclosure can be seen in two different contexts. Studies have shown that firms in high profile industries are more likely to disclose than other firms. This study also identified an overall significant relationship between a firm's industry and its level of disclosure. As a response to Cowen et al (1987) this study investigated the relationship between individual industry groups and level of overall disclosure. The results showed that firms in the mining industry disclosed at a greater level than firms in other industries while firms identified as being part of the trade and services category made fewer disclosures than expected. Firms in the other industry groups disclosed at a level consistent with the overall population.

Cowen et al (1987) also suggested that industry may indicate in which thematic category a firm was more likely to disclose, so the relationship between individual industry groups and disclosure was investigated further in this study. An analysis was performed to determine if firms were more likely to disclose in any one particular theme when compared to other themes. Results of this investigation are contained in Chapter 5 (Table 5-5). No significant relationship between social disclosure in any single thematic category and firms identified as belonging to the Food and Household was identified but relationships were identified between disclosure in particular thematic categories and individual industry classifications for all other industry groups. Firms in some industry groups have disclosed at a level significantly above the level that would be expected under a random statistical distribution and firms in other industry groups disclosed at significantly lower than expected levels.

These results indicate that there is not necessarily a clear cut relationship between the industry groups and social disclosure levels, rather that the relationship exists between the industry group and the level of disclosure in individual disclosure themes.

### **6.1.3 Financial Performance**

Previous studies that have compared the level of social disclosure contained in annual reports and the profit the firm has generated, (Trotman 1979; Abbott et al 1979; Cowen et al 1987; Freedman et al 1988; Belkaoui et al 1989; Roberts 1992; and Hackston et al 1996). The results of these studies have been seen to be inconclusive and no relationship between the level of profit generated by a firm and the amount or content of social disclosure published by the firm can be fully supported.

Other studies (Trotman et al 1981, Belkaoui et al 1989, and Roberts 1992) examined the firm's financial performance in respect to the market's assessment of the risk associated with investing in the firm. Once again the results of these studies were contradictory and no clear relationship between risk and social disclosure could be seen.

As with previous studies this study was also unable to demonstrate any significant relationship between the firm's financial performance and the amount or content of any social disclosure published.

### **6.1.4 Summary**

This study gathered evidence to examine whether the organisational determinants of social disclosure that had been identified in previous studies were still appropriate for use as determinants of disclosure. Three determinants were examined

during this study, organisational size, industry, and financial performance. Size and industry were found to have some relationship with the level of social disclosure made, the type of disclosure made, and the theme of that disclosure. No relationship was identified in this study between disclosure and financial performance.

## **6.2 OBJECTIVES IN REVIEW**

This study has attempted to meet three basic research objectives. These objectives were outlined in Chapter 1 and address issues identified during the literature examination. The following section will identify how the evidence gathered has helped provide an insight into the areas of concern that have been identified in the course of this study.

### **6.2.1 Current Disclosure Levels**

This study was able to identify the level of disclosure made by Australian firms at two levels. First the number of firms making social disclosure in each thematic category was identified. The classifying of the firms into industry groups allowed for the identification of those industry groups that made the most disclosure. The findings of this study indicate that the majority (71%) of publicly listed Australian companies make some social disclosure in their annual report. The industry with the highest level of disclosure was the mining industry where 97% of the firms examined made some disclosure and the lowest level of disclosure was in the trade and services sector where only 46% of companies examined made some disclosure.

The area of concern in which the most companies made disclosure was the HRM area with 56% of all companies making some

disclosure. The area with the lowest number of companies disclosing was energy with only 7% of companies making disclosures. This lack of use of the energy theme may reflect a possible lesser social concern with energy consumption than when the disclosure themes were developed in the 1970s.

Second, this study has provided a count of the number of individual disclosures made by the firms in the population. By combining this information with the industry classifications and thematic content of the disclosure messages, observations can be made about the level and content of the disclosure made by firms in each industry group. In all disclosure themes except product related disclosure, the mining industry made more individual disclosures than any other industry. The strong predisposition for disclosure amongst mining companies may indicate that research examining social disclosure needs to be aware of the distorting influence mining may have on the overall results of any study undertaken. The mining industry represented less than 30% of the population (43 out of 147 firms) in this study yet they published almost 60% of all the disclosure messages identified in annual reports (643 out of 1097 individual messages). This observation should indicate that caution may be required when making assertions about disclosure practices. The results would suggest that mining companies may influence the results to the point that assertions that have been made concerning diverse populations may in fact only hold true for the mining companies in the study.

The disclosure theme containing the greatest number of individual disclosures (439 out of 1097) was the environment. This outcome relates to the second objective of this study and will be discussed further in the next section of this chapter. At the other end of the



scale there were only 19 (1.7%) energy related disclosures made in total and 28 (2.5%) product related disclosures. These levels of disclosure are significantly lower than the next lowest theme which is community (236 disclosures). The low level of disclosure for these particular themes may indicate that disclosing firms no longer see them as issues and perceive no need to disclose information about them.

The type of disclosure made (declarative, numeric etc) did not appear to be influenced by the industry of the disclosing firm or the theme of the disclosure being made. The type of disclosure was identified as being related to the size of the firm. As identified earlier this could be as a result of more advanced information systems in the larger firms allowing for the more complex disclosure to be produced.

### **6.2.2 Environmental Disclosure Levels**

As identified in the previous section more firms made disclosure in HRM than in any other theme. However, more individual disclosures identified were placed in the environmental category than in any other category. In total, 1097 different disclosures were identified in the annual reports of the population. Of the 1,097 disclosures identified, 439 or 40% were environmental. Of the 439 environmental disclosures made, 313 (71%) were made by the mining industry. The environment was also the subject of most of the disclosures made by firms in the trade and service group.

This study identified in Chapter 2 a shift in the primary focus of social disclosure research from the wider social themes to a more concentrated examination of environmental disclosure (see Mathews 1997). Comparing the results of this study with previous studies shows that the level of environmental disclosure had

increased over a period of twenty eight years. It should be recognised that this upward trend in disclosure levels over the time is not unique to environmental disclosure, with significant rises occurring in the HRM and community areas (see Table 6-1). The number of firms making product disclosure has doubled but the absolute level of disclosure is still significantly lower than the previously discussed themes, with only 10% of firms being identified by this study as having made some product related disclosure. The level of energy disclosures has not appeared to increase in the last twenty years. The change in emphasis in research has captured the change in environmental disclosure levels but has not been reflective of the parallel increase in HRM and community disclosure research.

	1995	1977	1972	1967
Environment	48	35	18	6
Community	39	23	19	5
Human Resources	56	43	30	17
Product	10	4	3	3
Energy	7	10	0	1

**Table 6- 1 % of firms making disclosure in each thematic category (Source 1967-1977: Trotman 1979<sup>28</sup>)**

The concentration in the literature on environmental disclosure may indicate that recent disclosure research has failed to capture the wider picture, by focussing too closely on the environment. On the other hand it may be that disclosing firms disclosing in areas

<sup>28</sup> The data contained in this table for the years 1967, 1972 and 1977 are all reported in Trotman (1979) which examined the largest 100 companies. The data reported for 1995 was obtained by this study while examining the largest 200 companies.

they feel are important but this sense of importance is not being shared by others.

### **6.2.3 Alternative Disclosure Media**

The final objective of this study was to gather information concerning other means firms employed to transmit their social messages to the wider community. Specifically this study gathered evidence that provided an insight into the printed media firms published to transmit their messages.

The firms that formed the population were surveyed and this showed that 62% of them published some social disclosure in publications other than their annual report. Of the 371 publications identified by as being produced by firms responding to this study, 117 were identified by the firm as being product related. This is in stark contrast to the level of disclosure identified in annual reports (29 disclosures out of a total of 1097 disclosures). The large disparity between the different disclosure media would appear to indicate that disclosing firms do not perceive their annual report as an appropriate method of broadcasting product related disclosure and future research into this subject matter needs to gather social disclosure data from a wider range of sources in order to penetrate and better evaluate product related disclosures.

The number of identified publications other than the annual report pertaining to energy disclosures was only 19. As with the disclosure levels in the annual reports, this was substantially less than the number of publications identified by the responding firms fitting into the other thematic categories. This lack of disclosure would support the view previously discussed that suggests that energy issues are no longer seen as relevant by the firms disclosing to the wider community.

As with annual report disclosure, there was a high incidence of HRM disclosure in other publications. More firms produced HRM related publications than any of the other themes. More individual publications were produced containing HRM disclosure than for all themes except products. This again would indicate that firms consider human resource issues to be of considerable significance.

As identified earlier, the most commonly identified primary recipient of publications other than the annual report containing social disclosure were the management and other employees of the disclosing firm. This observation is consistent with many of the other findings of this study that have identified that communications with employees and disclosure of employee related information play a significant role in the disclosure practices of Australian firms.

### **6.3 THEORETICAL REFLECTIONS**

This study has employed a middle-range approach when applying the possible theoretical perspectives to the results of the study. This approach does not focus on the testing or examination of a particular theory, but rather allows for the data to be gathered and examined in an atheoretical environment. Within the middle-range approach, data can be used not to prove or disprove theory, but to critique and elaborate theory by identifying aspects in the data that appear to demonstrate or indicate the outworkings of particular dimensions of a theory or theories. This study has identified three theories that have been suggested as possible explanators of social disclosure and this section will identify areas in which it is argued that this study's empirics offer additional substance to the theoretical frameworks identified.

### 6.3.1 Legitimacy

The concept of organisational legitimacy is underpinned by the premise that firms wish to be accepted as legitimate members of the wider community. In order to gain this wider community acceptance, firms need to have an understanding of the accepted norms of the host society and to communicate to the host society how the firm is conforming to the expectations of the wider community. As the norms and expectations of society change, then firms need to modify their behaviour accordingly and communicate these modifications to the host society. Proponents of organisational legitimacy suggest that the social disclosure produced by firms is one method used to communicate legitimising behaviour to the wider community.

Evidence of legitimacy theory elements at work in social disclosures would most likely take the form of a shift in emphasis of the disclosures made by firms over a period of time that matched the shifting concerns of a society. A comparison between this study and Trotman (1979) show a marked increase in the number of companies making disclosures in the environmental, human resource, and community themes. One distinction between this study and Trotman (1979) was Trotman's use of an "Other" theme to capture some of the disclosures identified. Trotman describes the identifiers used to categorise disclosure as "Other". Many of these identifiers fit into the identifiers used in the "Community" theme of this and other more recent studies. As such this could help explain the increase in the level of Community related disclosure.

Trotman (1979) reports that in 1972 the number of companies making environmental disclosures was 18% of the population and 30% of the population were making HRM related disclosures. This

had increased to 35 % of companies making environmental disclosure and 43% making HRM disclosure in 1977. This study shows that by 1995, the number of companies making disclosure in these themes had increased to 48% making environmental disclosure and 56% making HRM disclosure. At this point it is important to remember that Trotman (1977) used the largest 100 Australian companies to provide evidence for his study, this study has used the largest 200 companies. For the purposes of making a direct comparison, the data relating to the largest 100 members of the population of this study was analysed. In 1995, 57% of the largest 100 Australian companies made environmental disclosure in their Annual report and 68% made HRM disclosure (1972: 18% and 30% respectively). This would indicate that firm size may be a bigger influencing factor on environmental disclosure levels than first suggested. While no evidence can be offered to help understand the shift in HRM disclosure, Harte, Lewis and Owen (1991) and Rockness and Williams (1988) argue that concern for the environment is becoming more important to society when making investment decisions. The evidence gathered that shows an increase in environmental disclosure further amplifies the elements of the organisational legitimacy perspective that suggest that firms will react to a society's concerns.

Organisational legitimacy proffers the view that firm's seeking to be considered legitimate members of society will use social disclosure to communicate to the local community about how they are meeting the local society's concerns. Amplification of organisational legitimacy would be provided through a demonstration of a firm's intention to communicate information revealing their actions and policies in all areas of concern to the local society. This study was only able to supply evidence of firms'

intention to communicate to society in the area of community activity. This lack of an identified intention to communicate information concerning the complete range of issues therefore is unable to further amplify this element of the organisational legitimacy concept.

The evidence gathered by this study has been able to provide further understanding of organisational legitimacy by showing how the content of social disclosure has changed over time. This is in line with the organisational legitimacy tenet that firms will react to the changing concerns of society. Evidence gathered for this study was unable to provide any other insights into the concept of legitimacy.

### **6.3.2 Stakeholder**

The stakeholder concept suggests that management will identify those groups internal and external to the firm that have the ability to impact on the firm's survival. Organisations will endeavour to inform the various stakeholder groups of the actions they are taking to meet the needs of the stakeholders so as to ensure the continued survival of the firm. Different stakeholder groups have different concerns with respect to the firm and the actions it takes. Information concerning the firm's actions will be directed at the stakeholder group the firm believes will be most likely to react to that action.

This study has identified the groups that firms considered when preparing social disclosure for publication in media other than the annual report. For all disclosure themes the most commonly identified primary recipient was the firm's own management and employees. The second most frequently identified primary recipient for each theme was the group that whose interest could be said to

be most closely aligned with the subject of the particular disclosure. For the community theme the identified stakeholder group was the local community and action groups, for energy, environmental groups; for the environment, environmental groups again, and for product related disclosure the identified group were the firm's customers. With respect to HRM disclosure, employees were identified as the relevant stakeholder group and in this case the trade unions were identified as the second most commonly considered recipients.

A stakeholder framework would suggest that firms will direct their social disclosure towards those stakeholder groups who they consider have an interest in the subject matter of the particular disclosure. The findings of this study add further illumination to this facet of the stakeholder framework.

Carroll (1989) classified stakeholders as primary and secondary stakeholders. The primary stakeholder groups included Owners, Suppliers, Customers, and Employees. The suggestion was that managers will "see to it that the firm's primary stakeholders achieve their objectives while other stakeholders are also satisfied" (Carroll 1989, p 61). The data gathered for this study indicates that firms surveyed privileged their employees at the expense of other stakeholder groups. In exhibiting this particularistic focus, these results are suggestive of a very strong focus on only one stakeholder group in the Australian context. Accordingly the dimensions of stakeholder theory that might have been anticipated are not exhibited in this Australian context.

### **6.3.3 Contingency**

Underlying the concept of contingency is the notion that managers will identify those factors that will most significantly impact on



their firm's ability to survive and will concentrate their management efforts in those identified areas of concern. In contrast to the theoretical perspectives identified previously, the contingency perspective should not be considered as a universal view that is applicable to all firms within a population. Rather contingency recognises that individual firms will identify those specific factors that are likely to impact on them and manage accordingly. A firm's reaction to the identified contingent impacts will be dependant on the perception the firm has of the effect the factor may have on its continued survival. As well as factors totally unique to a firm there may be more generic impacts that will be recognised as being important to a wider group of firms. These factors could include geographical location, the industry in which a firm operates, and the general visibility of the firm in the wider community.

As discussed in Chapter 3, Gordon and Miller (1976) and Hayes (1977) identified three distinct sets of factors that may under certain circumstances impact on management. These factors have been categorised as 'external environmental'<sup>29</sup> impacts, 'internal' factors, and 'interdependency' issues concerned with the relationships between organisational sub-units.

This study has not gathered any evidence that may be used to examine the veracity of any claims made with respect to either of the second two areas of impact. Evidence has been gathered that may indicate the effect various factors in a firm's external environment may have on the decisions made by management. These factors allow those firms that display similar characteristics to be grouped according to those characteristics and any similarities in their actions identified. The corporate characteristics that may

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<sup>29</sup> Environment in this case refers to the situational environment of the firm rather the wider ecological environment that the disclosure content analysed considered.

be relevant have been identified earlier as disclosure determinants in this chapter.

A contingent view of social disclosure would suggest that disclosure could be used by managers as a means of informing concerned parties of actions taken and values held in order to control the influence the concerned parties may have. Firms operating in differing external environments will be facing potential influence from different groups. One of the external factors that may affect the firm is the industry in which it operates. This study has demonstrated differences in the disclosure practices of firms in different industry groups but has shown a strong similarity of disclosure content between firms within individual industry groups. This observation suggests an industry specific contingency strategy of social disclosure practice.

This study has found that firms have made very limited disclosure in the thematic category of energy. The thematic categories used were developed during the 1970s and 1980s when the cost and use of energy were of major concern to the general public. The lack of attention to the energy theme may indicate that disclosing firms no longer feel that energy enjoys the same concern with the general public as it did when the categories were established. On the other hand the abundance of environmental disclosures might suggest a recognition by the firms of the importance now attributed to the environment by the general public. These observations could be seen as further outworkings of the contingency theory element that suggest firms will attempt to manage their external environment (refer to footnote:29).

Belkaoui and Karpik (1989) suggested that size was an acceptable proxy for the amount of external pressure a firm faced. This would

suggest that the external pressure that firms faced would be as a result of the higher public profile large firms have. The extra external pressure faced by higher profile firms may be an area of concern for management and social disclosure may be used to influence or moderate the impact the external pressure firms face. This observation would offer some rationale for the findings of the prior studies that found high profile firms disclosing more than low profile firms. This may suggest that the level of social disclosure is therefore contingent on the public profile of the disclosing firm. On the other hand the observation by this study that the primary intended recipients of disclosure published outside the annual report are employees would mitigate this suggestion somewhat.

Almost half the publications other than the annual report identified as containing social disclosure were published on an ad hoc basis. The publication of this additional social disclosure could be as the result of management perceiving the need to respond to particular pressures developed at a particular point in time. If social disclosure is used in this way it would be indicative of the element of contingency theory that suggest managers will identify individual pressures and react to them.

#### **6.3.4 Theoretical Summary**

Consistent with the research approach adopted by this study, no one theoretical framework has emerged as providing the dominant explanation for the observed social disclosures. Three different theories have been discussed in this study and some elements of each can be detected in the empirical data analysed. In addition, the empirical data has also revealed areas where each of the theories discussed fail to provide any particular or improved understanding of the issues identified.

Overall this study is able to offer some amplification for each of the theoretical perspectives considered. The shifting patterns of disclosure add to the understanding of the legitimacy perspective, the identification of individual recipient groups partly reflects the stakeholder perspective, and the identification of different disclosure patterns between industries, thematic categories and firms with differing public profiles enhances our understanding of contingency theory.

#### **6.4 SUMMARY OF SIGNIFICANT FINDINGS**

This study has investigated several different concerns identified with social disclosure in Australia. The level of social disclosure appears to have increased over the period between previous comprehensive studies and this study. This increase has been reasonably consistent across all disclosure themes with the exception of energy in which no significant increase in disclosure was identified. This may indicate that energy is no longer a major concern for disclosing companies and the themes of disclosure used in research need to be updated to reflect any more contemporary issues that may be identified.

Significantly, this study identified a relationship between industry groups and disclosure themes that had previously been largely unexplored. Previous research has, on the whole, considered social disclosure as a distinct and unique phenomenon, using the findings of disclosure studies to make assertions about firms based on their total disclosure practices. This study has demonstrated that the relationship between the content and level of disclosure made by a firm may be contingent on the industry in which the disclosing firm operates.

HRM and environmental disclosure tend to dominate all the areas investigated by this study. The environment was the subject of more disclosures than any other theme, while more companies made HRM disclosure than any other theme.<sup>30</sup>

The study identified that publications containing social disclosure other than the annual reports were produced with the view that they are primarily intended to be read by the firm's own employees irrespective of the thematic content of the publication. Employees and employee related matters appear to be of major concern to Australian firms.

Many areas of ambiguity and questions that warrant further investigation have been identified in this study. The final chapter of this study will highlight these areas and provide an indication as to the direction this further research might take. In addition the next chapter will provide a final synopsis of the study identifying the key issues that have been discussed and providing a brief overview of the ramifications of this study's findings.

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<sup>30</sup> Human resource disclosures were made by 56% of all firms investigated, the environment was the subject of 439 of the 1097 (40%) individual disclosure messages identified.

# **Chapter 7**

## **Conclusion and Implications**

Following the detailing in Chapters 5 and 6 of the results of this examination of the social disclosure practices of public companies in Australia, this chapter will provide a final brief reflection on the key findings of the study. The implications of this study for future research into the communication by firms to the wider society will be outlined and finally, the implications of the findings of this study for society's understanding of the actions of the firms who live within it will be addressed.

## **7.1 DISCLOSURE LEVELS**

The level of social disclosure has been shown, by this and many other studies, to be associated with the size of the disclosing firm. This study has also shown that the type of disclosure made is also associated with the size of the firm. Larger firms are more likely to make numeric or monetary disclosures while small firms are more likely to make declarative disclosures. If the reason for this association is, as this study suggests is possible, the likelihood that larger firms have more advanced information systems capable of producing more complex information, then there may be implications for social disclosure research. Messages that are of a more complex nature (monetary and numeric) may in fact be the results of a more advanced information system, not the result of a greater commitment to the subject of the disclosure as suggested by the AAA (1975).

## **7.2 DISCLOSURE THEMES**

The findings of this study support the findings of other studies where it has been shown that firms in some industry groups will disclose at a greater level than firms in other industry groups. This study extended that observation by examining the thematic category of disclosure in comparison to the industry of the disclosing firm. The evidence suggested that firms that are

members of a particular industry group are more likely to disclose in a specific thematic category than firms in other industry groups. If this result can be further supported by future research it may provide greater insight into which issues firms feel are of major importance to them and their interaction with the wider society.

### **7.3 ENVIRONMENTAL DISCLOSURE**

The privileged position that environmental disclosure has received in the research literature may be coloured by the high proportion of mining companies present in the population of the largest Australian companies that have been examined in many of the social disclosure studies discussed. Evidence from this study has shown that high levels of environmental disclosure are closely associated with mining firms. This point would seem to indicate that for firms in other industry categories, the environment may not be considered to be of the same importance as some of the other thematic categories covered.

### **7.4 HRM DISCLOSURE**

While environmental disclosures were dominated by the mining industry, HRM issues were prominent across all industry groups. HRM disclosures were made by more firms than disclosures in any other thematic category. This finding may point to the conclusion that while individual areas of social concern may be of importance to particular industry groups, (eg: the environment for mining companies) employee concerns are of importance to all firms.

The observation that employees are considered of great importance by firms when considering their social disclosure communications is further borne out by the findings relating to the third objective of this study. Once again, when considering publications other than the annual report, more firms produced publications containing HRM disclosures than disclosures in any other thematic category. It



is important to remember that the thematic content of these publications was identified by the respondents and only one theme was identified for each publication, but 48% of respondent firms identified that they produced HRM related publications compared to; 42% community, 40% product and 32% environment. In addition there was strong evidence to suggest that when the disclosures are being prepared, the producers of social disclosure publications have their own employees in mind more often than any other potential readership group.

## **7.5 ADDITIONAL DISCLOSURE PUBLICATIONS**

This study provided evidence that suggests that many firms publish social disclosure in publications other than their Annual Report. While the content of these publications was not analysed in this study, their existence may have impacts upon the findings of other studies that have concentrated on disclosures contained in the annual report. Evidence from this study has shown that firms have different readership groups in mind when preparing publications other than the annual report that contain social disclosure. If the firms also have particular readership groups in mind when preparing their annual report then it may be argued that the disclosures contained in the annual report are prepared with that particular readership group in mind, not the wider community as would be the implicit assumption of annual report based disclosure research that purports to investigate firms' communication with the general society. The question of intended readership of social disclosure is just one of many issues that this study has identified that demand further investigation if our understanding of social disclosure is going to continue to mature.

## **7.6 IMPLICATIONS OF THEORETICAL REFLECTION**

This study used the data gathered to reflect on three different theoretical perspectives within in a middle range framework. These perspectives were legitimacy theory, stakeholder theory, and contingency theory. Within the middle range approach, it is not the role of the research to test any particular theory or any particular element within a theoretical perspective, rather, evidence that is gathered is used to determine if any particular elements of a perspective are amplified. While evidence from this study has provided support for individual elements within each of the frameworks considered no one individual framework was found to be a superior explainer or potential predictor of social disclosure.

## **7.7 FUTURE RESEARCH ISSUES**

One of the significant findings of this study was that there appears to be an association between the thematic content of the disclosures published and the industry in which the disclosing firm operates. This finding could be important in that it indicates that social disclosure research that does not consider this relationship may not provide a fully accurate understanding of social disclosure. The identification of social issues that are of particular concern to organisations will allow outsiders dealing with firms or attempting to influence firms' behaviour to understand those areas the firms consider important. Additional research into this area will assist in understanding this issue.

This study adopted the thematic categories that have been employed by prior studies. No evidence was gathered that would indicate whether these categories are still reflective of contemporary social concerns and therefore appropriate identifiers of all social disclosure produced by firms. Evidence gathered in this and other studies has shown that some disclosure themes no longer

appear to be relevant. On the other hand there is no evidence that indicates whether other areas of social concern have become prominent in the concerns of society and therefore warrant closer investigation. Further research should investigate which thematic categories are relevant for research in the future.

This study, as with most of the other research examined, has accepted the disclosures contained in the annual report without considering the underlying factors that have led to the disclosure or the processes that have led to its publication. This has meant that the only disclosure examined has been that disclosure that the firm has been prepared to release to the public domain. Research that provides evidence indicating why certain events and activities are disclosed as part of the disclosure in the annual report and importantly whether any events or actions are excluded from the disclosure will add to the overall understanding of the social disclosure process.

The exploratory investigation of publications other than the annual report that firms produce that contain social disclosure has highlighted several areas that warrant further investigation. The identification of social disclosure within these publications and the categorisation of the theme of the disclosure was made by the survey respondents within the firm. More in depth research is required to determine whether the messages contained in the disclosures presented in these publications is consistent with the messages contained in the annual report.

Unlike the annual report, where the timing of the production is mandated, the timing of the publication of other forms of disclosure is at the discretion of the management of the disclosing firm. The publication interval for social disclosure published outside the annual report was identified by this study as ranging from a very

short period, weekly or fortnightly, through to a long as one year. Many of the publications identified were produced on an ad hoc basis. No indication was given as to what triggers the publication of these ad hoc publications or what determines the publication cycle of those publications that are produced on a regular basis. Research that helps answer these questions would also add further to the overall understanding of social disclosure patterns.

Each of the additional publications identified was categorised as containing disclosure in only one thematic category. Evidence needs to be gathered to determine whether these publications actually contain disclosure in more than one category as well as the type of disclosure used in these publications. If it can be shown that the thematic categorisation of disclosure and the types of disclosures made in these publications are reflective of the previously examined disclosure in annual reports, then the annual report can truly be considered as an appropriate source of data for social disclosure research. If not, research needs to establish where the variations occur and the reasons for these variations. An understanding of these issues will, too, provide a more comprehensive view of social disclosure and the motivations behind its publication.

Employees of the firm were the intended primary recipients for more publications containing social disclosure in all thematic areas than any other identified recipient group. Employees and employee related matters appear to be of major concern to Australian firms. Future research into this identified concern could be used to determine the reasons for this perceived influence.

This study has identified that firms directly publish printed social disclosure in publications other than their annual report. No evidence has been gathered that can indicate whether firms have social disclosure published in any indirect ways, eg; through the use

of the press release and the public media. Also no evidence has been gathered which would indicate whether firms produce social disclosure in forms other than the printed media. The use of promotional videos, paid commercials, and the internet may all be means firms use to publish their social disclosure. To help gain a complete understanding of the social disclosure of firms these alternative forms of production need to be investigated.

## **7.8 IMPLICATIONS FOR THE WAY FORWARD**

This study has provided important insights into the social disclosure practices of Australian firms. The evidence presented indicates that firms may have multiple agendas when preparing their social disclosures. Fundamentally, disclosure appears to have been used in a manner that may be interpreted as trying to meet the specific needs of the firm through the disclosure of information that is unique to that firm or at least the industry group in which it operates. In a wider context, disclosure that relates to human resource issues was seen to be prevalent in the disclosures of firms from all industry groups. This duality of disclosure was evident in all disclosure media examined.

The recognition of a firm's employees as primary recipients of social disclosure may have far reaching ramifications for the future. Policy development and implementation that draws on the social disclosures published by firm will need to be aware that these disclosures may have been prepared with the needs of that particular readership group in mind.

The definition of corporate social disclosure provided in Chapter 1 of this thesis identified that social disclosure was firms' method of reporting to the community about their interaction with that community. Incorporated in this definition was recognition of the communication firms make about the discharge of their social

responsibility and their stewardship of social resources. Research examining social disclosure provides some insight into how socially responsible firms are, and how they are maintaining the social resources entrusted to them. The continued expanding of our understanding of social disclosure will help society realise how the responsibilities that society places on its member firms are being discharged.

# Appendices

## **Appendix I: Content Analysis Identifiers**

### **Environmental**

Improvements to made to manufacturing process etc

Recycling of waste

Pollution control

Water conservation

Waste reduction

The existence of an Environmental Committee

Environmental Prosecutions, litigation and contingent

### **liabilities**

Environmental damage

Recognition of requirements under environmental

### **regulation**

Corporate Environmental Policies

Environmental Programs

Rehabilitation and reforestation

Environmental concerns related to products

Community based environmental program involvement

Environmental Awards and honours

General Environmental concern and awareness

Other

### **Energy**

Usage

Efficiency

Other

### **Product**

Safety

Pollution

Other

### **Human Resource Management**

Affirmative Action Programs

Occupational Health and Safety

Training

Other

### **Community**

Philanthropic endeavours

Community Sponsorships etc

Other



# Appendix 11

Company Name: Case No: Public Profile:	Form of Disclosure			
	Both Monetary & Non- monetary	Monetary Quantificatio n	Non-Monetary Quantification	Descriptiv e
Industry:				
<b>Environmental</b>				
Improvements to Manf, process etc				
Recycling				
Pollution control				
Water conservation				
Waste reduction				
Enviro Committee				
Enviro Prosecutions, litigation and contingent liabs				
Enviro damage				
Regulation requirements				
CEPs				
Environmental Programs				
Rehabilitation and reforestation				
Product related concerns				
Community based environmental program involvement				
Environmental Awards and honours				
General Environmental concern and awareness				
Other				
<b>Energy</b>				
Usage				
Efficiency				
Other				
<b>Product</b>				
Safety				
Pollution				
Other				
<b>Human Resource Management</b>				
Affirmative Action Programs				
Occ Health and Safety				
Training				
Other				
<b>Community</b>				
Philanthropic endeavours				
Community Sponsorships etc				
Other				
<b>Mission Statement/Objectives</b>				

## APPENDIX 111

Thank you for taking part in this study. The aim of this questionnaire is to help gain an understanding of the methods Australian companies use to communicate social disclosure to the stakeholders in their organisation. It is expected that this questionnaire should take no longer than 15 minutes to complete.

**SOCIAL DISCLOSURE** is the voluntary provision of information dealing with the organisation's interaction with the wider community. It may include disclosure of information concerning an organisations interaction with; its employees, the community in which it operates, and the physical environment in which it exists. Disclosure may include descriptive information, and numeric or financial information included in addition to the information contained in the financial statements presented in the Annual Report.

This questionnaire is divided into three sections. The first section is designed to provide information about the organisation for comparative purposes. The second section provides information surrounding the nature and timing of disclosures and the final section identifies the intended recipients of the disclosure.

**All information provided in this questionnaire  
will remain strictly confidential.**

## Social Disclosure

In order to help identify whether disclosures made by your organisation are relevant to this study the following themes have been identified as being the major subjects of social disclosures made by firms. Included with these themes are concepts that are used to help identify the disclosure themes.

### Environmental

- Improvements to made to manufacturing process etc

- Recycling of waste

- Pollution control

- Water conservation

- Waste reduction

- The existence of an Environmental Committee

- Environmental Prosecutions, litigation and contingent

### liabilities

- Environmental damage

- Recognition of requirements under environmental

### regulation

- Corporate Environmental Policies

- Environmental Programs

- Rehabilitation and reforestation

- Environmental concerns related to products

- Community based environmental program involvement

- Environmental Awards and honours

- General Environmental concern and awareness

- Other

### Energy

- Usage

- Efficiency

- Other

### Product

- Safety

- Pollution

- Other

### Human Resource Management

- Affirmative Action Programs

- Occupational Health and Safety

- Training

- Other

### Community

- Philanthropic endeavours

- Community Sponsorships etc

- Other

It should be noted that this list is in no way all inclusive and there may be other themes that you identify in your organisations publications. If so please identify these in question 13. If you need any clarification with respect to social disclosure or any other issue of the study please feel free to contact the researcher.

The following questions relate to your organisation and are for comparison purposes only.

1. What is your organisation's name?

\_\_\_\_\_

\_\_\_\_\_

(for internal identification purposes only)

2. What is the principal activity of your organisation? (eg Banking, Mining, Manufacturing etc)

\_\_\_\_\_

\_\_\_\_\_

3. Approximately how many people are employed by your organisation?

\_\_\_\_\_

4. What is your role within the organisation?

\_\_\_\_\_

\_\_\_\_\_

5. Does your organisation make printed social disclosures in any publications other than the Annual Report? (These publications may include, in house magazines, special purpose reports, community information publications, employee newsletters etc).

Yes

No

If Yes please continue the questionnaire on the next page, if No please return this questionnaire in the reply paid envelope provided to:

Tony McMurtrie  
School of Commerce  
University of Adelaide  
SOUTH AUSTRALIA 5005

These questions relate to the number items produced and the timing of the production of your organisation's publications containing social disclosure.

6. With reference to disclosures made in publications other than your organisation's Annual Report, does your organisation make disclosures in any of the following categories?

Please indicate Yes with a ✓, and please indicate approximately how many different publications contain the disclosures for each disclosure category.

	Yes (✓)	No of Publications
<b>Example</b>	✓	5
<b>Environmental Disclosures</b>		
<b>Energy Disclosures</b>		
<b>Product Related Disclosures</b>		
<b>Employee Related Disclosures</b>		
<b>Community Related Disclosure</b>		
<b>Any Other Disclosure Themes*</b>		

\* Please specify \_\_\_\_\_

\_\_\_\_\_

7. For each group of publications please indicate in the table below how frequently the individual items are published.

	Total Publications (from Q X)	Frequency of Publication							
		Weekly	Fort-nightly	Monthly	Quarterly	Twice Yearly	Yearly	Ad-Hoc	Other
<b>Example</b>	5	1		2			1	1	
<b>Community Related Disclosures</b>									
<b>Employee Related Disclosures</b>									
<b>Energy Disclosures</b>									
<b>Environmental Disclosures</b>									
<b>Product Related Disclosures</b>									
<b>Any Other Disclosures</b>									

The following questions are intended to identify who were the **target audience** of the information contained in the disclosure at **the time of publication**.

**The Primary target audience** are those recipients who were the main intended receiver of the information at the time of publication. The information may have been published due to legal requirements, as a result of requests for information from the recipients or as a result of a perceived need, by the company, to keep the recipients informed of specific details.

**The Secondary target audience** are those recipients who, in addition to the primary audience may have received or requested the publication containing the disclosure.

Note: It is envisaged that each disclosure group would have **one primary target audience** but may have multiple secondary information recipients.

Please continue over the page



8. With respect to **Community Related Disclosure**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<u>Intended Audience</u>	<u>Primary Audience</u>	<u>Secondary Audience</u>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

9. With respect to **Employee Related Disclosure**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<u>Intended Audience</u>	<u>Primary Audience</u>	<u>Secondary Audience</u>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

10. With respect to **Energy Related Disclosure**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<b><u>Intended Audience</u></b>	<b><u>Primary Audience</u></b>	<b><u>Secondary Audience</u></b>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

11. With respect to **Environmental Related Disclosure**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<u>Intended Audience</u>	<u>Primary Audience</u>	<u>Secondary Audience</u>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

12. With respect to **Product Related Disclosure**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<u>Intended Audience</u>	<u>Primary Audience</u>	<u>Secondary Audience</u>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

13. With respect to **Any other disclosures identified in question 6**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<b><u>Intended Audience</u></b>	<b><u>Primary Audience</u></b>	<b><u>Secondary Audience</u></b>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify \_\_\_\_\_

\_\_\_\_\_

14. With respect to **your Company's Annual Report**, please indicate in the table below with a ✓, in your opinion, which of the following group are the intended audience of the information contained in the disclosure?

<u>Intended Audience</u>	<u>Primary Audience</u>	<u>Secondary Audience</u>
Shareholders		
Bankers		
Trade Creditors		
Other Finance Providers		
Customers		
Suppliers		
Consumer Groups		
Management		
Other Employees		
Trade Unions		
Employer and Industry Groups		
Competitors		
State and Federal Govt		
Local Govt		
Local Community Action Groups *		
Local Residents		
Environmental Groups		
Others*		

\*Please specify

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Thank you for completing this questionnaire. If you would like to receive a summary of the results of this study please tick the box.

Please put the completed questionnaire in the reply paid envelope and return to:

Tony McMurtrie  
 School of Commerce  
 University of Adelaide  
 SOUTH AUSTRALIA 5005



THE FLINDERS UNIVERSITY  
OF SOUTH AUSTRALIA

*Faculty of Social Sciences*  
School of Commerce

GPO Box 2100  
Adelaide 5001  
Australia

Telephone: (08) 201 2226  
Fax: (08) 201 2644

July 9 1996

The Public Relations Officer

«Company»

«Address1»

«Address2»

«City»

Dear Sir/Madam

I am a lecturer at the Flinders University of South Australia and I am currently conducting research into the Social Disclosure practises of firms listed on the Australian Stock Exchange. This research will identify trends that are occurring in voluntary reporting practises and will contribute to a greater understanding of the relationship between business and society.

This project is limited to the disclosure contained in the corporate annual reports of companies. It would assist the project greatly if your could provide a copy of the annual report that contains your 1995 financial statements. As this project is concerned with an overview of current practise confidentiality of firms is guaranteed.

If you could assist with this project by providing an annual report I would appreciate it if you could forward it to:

Tony McMurtrie  
School of Commerce  
Flinders University of South Australia  
GPO BOX 2100  
ADELAIDE South Australia 5001

If you would be interested in a copy of the findings of this project I will be only too happy to provide them to you once the project is complete.

Yours faithfully

Tony McMurtrie



## Appendix V

8-Sep-97

The Public Relations Officer

«Company»

«Address 1»

«Address 2»

«City» «State»

Dear Sir/Madam

I am lecturer in the School of Commerce at the University of Adelaide and I am also currently a post graduate student in the School of Commerce in the Faculty of Social Science at The Flinders University of South Australia.

I am undertaking research on the social disclosure practices of Australia 200 largest companies. The aim of this study is to test the assumption underpinning current Corporate Social Disclosure research which implies that the Corporate Annual Report is a valid proxy for all disclosure when determining the quantity and nature of disclosure made by firms.

In order to test this assumption the level of disclosure in annual reports is being determined through a content analysis of the reports. Recently your company assisted in this project by providing a copy of your Annual Report.

The second part of the research requires the application of the attached questionnaire. I would be most grateful if you could spare the time to assist in this project by completing the questionnaire. It is anticipated that the questionnaire should take no longer than 15 minutes to complete. The questionnaire does not ask you to identify yourself in any manner although you are asked to identify your organisation in order to match the results from the content analysis with the results of this questionnaire.

Any information provided will be treated in the strictest confidence and none of the participants will be individually identifiable in the resulting thesis. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

If you feel you are not the correct person within your organisation to complete this questionnaire I would be grateful if you could hand it on to the person you consider the most appropriate within your organisation. Once you have completed the questionnaire could you please return it to me using the reply paid envelope provided.

Any enquires you have relating to this project can be directed to me (phone 08 8303 4515) or my supervisor (Mr Neil Lewis) at the address above or by telephone on 08 8201 2479.

This study has been approved by the Social and Behavioural Ethics Committee. The secretary of this committee can be contacted on 08 8201 2160.

Please accept in advance my thanks for your assistance.

Yours sincerely,

Tony McMURTRIE  
Masters Candidate  
School of Commerce

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