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The level of non- mandatory disclosures in developing countries: a Fijian perspective*

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Keywords *Harmonisation, Non-Mandatory Disclosure, Culture, Developing Economies, International Accounting Standards, Fiji*

Abstract

Purpose

Investigates the influence of society, harmonization and market orientation on the level of non-mandatory disclosures in a developing country context - Fiji.

Design/methodology/approach

Theoretically, this paper uses legitimacy theory. A content analysis of the non- mandatory disclosures of the 15 listed public companies in Fiji was undertaken.

Findings

Findings indicate that outright adoption of International Accounting Standards (IASs) by Fijian public limited companies does not engender in adequate disclosure of information on a non-mandatory basis. This is largely ascribed to the differing cultural values of societies and monopolistic characteristics of markets in Fiji that discourage individuals to exercise judgement. Further, findings suggest that the influence of society, market concentration and harmonisation of accounting standards has not rendered increased disclosure of non-mandatory information than those considered mandatory by the subject listed companies.

Research limitations/implications

While the methods utilised delivered a great deal of useful quantitative data, it must be remembered that the results were based on 15 listed companies in Fiji's Stock Exchange. Further studies using similar variables to this one from other developing countries would provide understanding of the extent to which these results are generalisable across other developing countries and industries.

Practical implications

Results provide a resource for individuals, organisations and policy makers attempting to explicate or understand what induces particular entities to voluntarily disclose non-mandatory information in their annual report.

Original/value of paper

Adds to our understanding of non- mandatory disclosure and therefore represents a substantial addition to, and extension of, the international literature engaged in efforts to interpret the motives for such disclosure.

Introduction

In recent years there has been an increasing pressure on companies to be responsible for their actions to the greater society (see Brown & Deegan, 1998; Neu et al., 1998; Guthrie & Parker, 1989; Cromier & Gordon, 2001; Wilmshurst & Frost, 2000). This engenders businesses to operate in socially and environmentally responsible manner (Spiller, 2000; Brown & Deegan, 1998). The most common vehicle available for companies to communicate social and environment obligation is their annual financial reports (Brown & Deegan, 1998; Zeghal & Ahmed, 1990). However, there is the suggestion that such social and environmental reporting has remained predominantly a voluntary practice (see Wilmshurst & Frost, 2000).

This paper presents the results of a study that investigates three inter- related issues, the influence of society, harmonization, and market orientation, on the level of non-mandatory disclosures. Society concerns may be expected to influence the level of non-mandatory disclosure (Neu et al., 1998). This may also entail the culture of society. Developing countries are perceived to have a slightly different culture than those that persist in the developed world (Hofstede, 1980). Parallel to this, the general public are increasingly becoming aware of environmental disclosures. Harmonisation, for the purpose of this study, refers to the adoption of International Accounting Standards (IASs) as a basis for bringing consistency to financial statements across nations. Within the process of harmonisation, local regulating bodies are increasingly acceding to the international pressure, which they can no longer resist. This research is an attempt to demonstrate that outright adoption of IASs lead to less disclosure of information on a non-mandatory basis using the listed companies on Fiji's Stock Exchange, which almost exclusively use the IASs. The market orientation, on the other hand, is based on the level of market concentration. Market concentration is the market share of the firm in the industry.

Companies are required to disclose mandatory information in their annual reports as per requirements of various regulations (Brown & Deegan, 1998; Neu et al., 1998). It is, however, likely that mandatory reporting will not engender disclosure of all information perceived to be important. Information pertaining to an entity's interaction with environment, employee policies, and land use and waste management programmes is imperative to varied stakeholders. It is, therefore, in the interest of the society that the reporting entities disclose other necessary information on a voluntary basis. Voluntary information is largely required in terms of how an entity interacts with the organisation and society as a whole.

Social and environmental reporting is not compulsory under the Fijian Companies Act, 1983 and the Fiji Accounting Standards (FASs). Paragraph 2 of the FASs 5, however, states that:

> "users cannot make reliable judgements unless the financial statements are clear and understandable. The information needed for these purposes will therefore often extend beyond the minimum necessary to meet the requirements of Companies Act."

Paragraph 6 further states that:

> "all material information should be disclosed that is necessary to make the financial statements clear and understandable."

This demonstrates that the only relevant information is not those that are specifically required under mandated accounting standards and other regulatory and professional requirements. The decision to disclose relevant information is upon the discretion of companies. Companies are likely to consider the costs and benefits of disclosing

information. Information that has the potential to increase company value is likely to be disclosed and information with negative implications would not be disclosed (Gray et. al, 1998; Guthrie and Parker, 1989; Dowling and Pfeffer, 1975 and Lindblom, 1994). This, however, would largely hold true in developed countries with an efficient capital market. Developing Countries' accounting system is deficient in the context that they have a weak capital and financial market (Wallace, 1990). Business elites and institutional shareholders are dominant stakeholders in Fiji's Capital Market and the individuals hardly participate in the stock market. Trading on the stock market in Fiji is limited to three days of a week: Monday, Tuesday and Thursdays, and on some days no trades are executed apparently stemming from weak capital market.

For the purpose of this study, the term disclosure refers to the communication of economic information of a business entity, whether financial or non-financial, qualitative or otherwise. Information is non-mandatory if companies are not obliged under a disclosure-regulating regime to disclose insofar as they are applicable to them. Further, the disclosure of mandated information is in the minimum standard of disclosure that reporting bodies in Fiji expect. Hence, other disclosure is considered as non-mandatory.

Research on non- mandatory disclosures in developing countries is limited. This paper is motivated by this lack of research and focuses on whether legitimacy theory offers an explanation on the three inter- related issues stated above. The study adds to our understanding of non- mandatory disclosure and therefore represents a substantial addition to, and extension of, the international literature engaged in efforts to interpret the motives for such disclosure.

The reminder of this paper is organised as follows. We firstly consider the financial reporting environment in Fiji followed by previous non- mandatory disclosure research. We also describe legitimacy theory that is relied upon within this study. An overview of the research methods is then provided, followed by a discussion of the results. The final section addresses the findings and implications of the study.

The financial reporting environment in Fiji

Fiji is a developing economy with a parliamentary system of Government. It has a free capital market; however the market operates in a blocked shareholding environment. While the proportion of institutional and individual shareholders differ within listed companies, on average, about 80% of the shares on the publicly listed companies are held by institutional shareholders (SPSE, 2004) including the Government. These shares are rarely traded and if any trading does take place it may be between these institutional shareholders. The individual shareholders have a minimal influence on the countries capital market (Patel, 2002). The industry is dominated by the primary sector, majority at a semi-subsistence level. The capital market regulator; the Capital Markets Development Authority (CMDA) was formed in 1996 through the CMDA Act 1996 and facilitates the trading of shares through the South Pacific Stock Exchange (SPSE) (CMDA, 2004).

The CMDA records and releases current trading data on equities and bonds traded during SPSE call market sessions. At present only selected number of securities are issued and traded. These are shares, government and statutory authority bonds, government treasury bills, statutory authority promissory notes, corporate bonds, Reserve Bank of Fiji notes (issued for monetary policy purposes) and tradable term deposits.

The financial reporting framework in Fiji is articulated in the Companies Act (Fiji) 1983. Further requirements are vested in terms of pronouncements by the country's sole professional accounting body - the Fiji Institute of Accountants (FIA). The FIA was established in 1972 through the FIA Act (Fiji Institute of Accountants, 2002). Prior to this,

multinationals primarily reported in accordance with their respective countries' financial reporting framework.

The accounting and auditing standards committee of the FIA has the responsibility of promulgating accounting standards. These standards primarily are the same if not identical to the IASs. The FIA has 30 mandatory accounting standards - IAS 1 to 31 except IAS 12. Further, IAS 12 and IAS 32 to 39 are guidance standards with full adoption date set for 2005. This means, by 2005, Fijian companies would be complying with all the applicable IASs.

The stakeholders' justification for full harmonisation of accounting standards is induced by the trend of globalisation that facilitates comparability across national boundaries and saves the cost of preparing standards (Chand, 2005). The multinational interests are common in Fiji. It is a means of attracting foreign investment and assistance as well. Consultants from the Asian Development Bank (ADB) were also an impetus to the adoption of harmonised standards (Chand, 2005). As such, ADB loans would probably be quickly available if developing countries like Fiji consider adopting IASs. The next section considers the prior studies on non- mandatory disclosure.

Previous research

Non-mandatory reporting largely deals with social and environmental reporting. Environmental reporting was initially studied as part of greater social reporting. Studies in developed countries indicate that non-mandatory reporting in terms of environmental reporting has increased in the last fourteen years (Harte and Owen, 1991; Patten, 1992; Deegan and Gordon, 1996; Guthrie and Parker, 1989; Gamble et. al 1996; Niskala and Pretes 1995; Gray et. al., 1995; Deegan and Rankin, 1996; O'Donovan and Gibson, 2000; Tsang, 1998 and Cormier and Magnan, 2003). Milne and Patten (2002) report that companies were also increasing the provision of more positive environmental information in their financial reports. The additional disclosures were being used by corporations as a tool for increasing their social legitimacy (Milne and Patten, 2002).

Non-mandatory disclosure of information may depend upon the organisation's willingness to communicate that information. Dye (1985) and Verrecchia (1983) argue that managers may withhold information even if, in theory, it is desirable to disclose private information. Cormier and Magnan (2003) study looked at whether non-mandatory environmental information is related to information cost to be incurred by the firm and investors. Their results show that non-mandatory disclosure of environmental information by a firm can be influenced by the potential costs of reporting such information. Li et al.'s (1997) findings are also consistent with those of Cormier and Magnan (2003) when they examine the risk of sanctions following particular environmental incidents. Barth et al. (1997) focus on how firms disclose their environmental debts on a non-mandatory basis. They observe that when several parties are held potentially responsible for a site that is contaminated according to Environmental Protection Agency (EPA), thus increasing external groups; concerns about the extent of withheld information, firms are less likely to voluntarily reveal that their environmental debts are lower than five percent of total debt.[1] Their results support explanations advanced by Dye (1985) and Verrecchia (1983). The above studies adopted an information economics perspective.

Recently several studies explored non-mandatory disclosure of information from a legitimacy theory perspective (Deegan, Rankin and Tobin, 2002; Hogner, 1982; Guthrie and Parker, 1989; Patten, 1991; 1992; Gray et. al., 1995; Deegan and Rankin, 1996; Deegan and Gordon, 1996; Gamble et al.,1996; Lemon and Cahan, 1997; Walden and Schwartz, 1997; Brown and Deegan, 1998; Neu, Warsame and Pedwell, 1998; Savage, Rowlands and Cataldo,

[1] Under Securities and Exchange Commission requirements, firms must disclose environmental information on the 10-K report if they exceed 5% of their total debts.

1999; Cormier and Gordon, 2001; Wilmshurst and Frost, 2000). Legitimacy theory argues that since firms operate in a socio-political context, they legitimise their environmental management and avoid sanctions through voluntary environmental disclosure.

Findings from studies that rely on legitimacy theory, however, are mixed (Hogner, 1982; Guthrie and Parker, 1989; Gray et. al., 1995; Savage, Rowlands and Cataldo, 1999; Wilmshurst and Frost, 2000; Deegan, Rankin and Tobin, 2002). Furthermore, findings from several studies that supposedly provide support for legitimacy theory can be interpreted through information economics lens since the meaning of some explanatory variables is debatable (e.g. Verrecchia, 1983; Dye, 1985). In other words, variables such as firm size, profitability or leverage can serve as proxies for legitimacy as well as for economics concerns. It is the case for studies like Patten (1991, 1992), Deegan and Rankin (1996), Deegan and Gordon (1996), Brown and Deegan (1998), Walden and Schwartz (1997), Cormier and Gordon (2001) and Cormier and Magnan (2003).

As identified by Pattern (1991, 1992) and Cormier and Gordon (2001), non-mandatory disclosure is related to firms and industry membership. Most of the industries in developing countries operate in a monopolistic environment. Some industries just have one player. It is, however, pertinent to mention that despite the monopolistic environment, firms would be obliged to disclose information on a voluntary basis if subject to political pressure (Watts and Zimmerman, 1978). To counter such pressure, Watts and Zimmerman (1978) suggest that:

> '…corporations employ a number of devices, such as social responsibility campaign in the media, government lobbying and selection of accounting procedures to minimise reported earnings. By avoiding the attention that "high" profits draw because of the public's association of high reported profits and monopoly rents, management can reduce their likelihood of adverse political action and thereby, reduce its expected costs'. [p. 115]

It is their potential abuse of monopoly power that lies in the heart of Watts and Zimmerman's notion of political cost. The need to provide information on a voluntary basis either to legitimise their activities or to avoid political cost depends a lot on the nature of society and political structure of the economy. In developing countries, most of the essential service providers who could be subject to political pressure or who need to legitimise their actions are statutory organisations. The, pressure, therefore does not exist for them to disclose information on a voluntary basis. The same holds for other industries with few players. In addition to this, blocked shareholdings, an inefficient capital market and indirect involvement with the Government of the day does not encourage entities in developing countries to exercise their judgement and disclose any more information than those required on a mandatory basis. As such, the nature of the economy in terms of competition and political structure in developing economies is likely to contribute to low level of disclosure of non-mandatory information.

Culture also influences the business activities of a nation (Zarzeski, 1996). Zarzeski, (1996) specifically revealed that the secretness of a culture underlie disclosure practices of its business enterprises. Studies also show that non-mandatory disclosure pattern is associated with national systems of accounting (Muller, 1967; Redebough, 1975; Belkaoui, 1983). Culture is a central influence affecting a country's accounting environment. The significance of culture in explaining behaviour in social systems has been explored in a wide range of literature. Culture has been defined as "the collective programming of the mind which distinguishes the member of one human group from another" (Hofstede, 1980, p.25). An essential characteristic of social systems is perceived to be the inclusion of a system of societal norms consisting of value systems shared by major groups within a nation (see Choi,

2001). Values have been defined as a "broad tendency to prefer certain states of affairs over others" (Hofstede, 1980, p.19). Values at the collective level as opposed to the individual level represent culture. Culture describes a system of societal or collectively held values (for commentary, see Choi, 2001; Gray, 1988).

In an effort to develop an acceptable and empirically based terminology to describe culture, Hofstede identifies four distinct dimensions, which he considers to be reflective of the cultural orientation of a country. These four dimensions embody individualism versus collectivism, large versus small power distance, strong versus weak uncertainty avoidance and masculinity versus femininity (for detail, see Hofstede, 1980).

Baskerville (2003), however, postulates that critiques of Hofstede have appeared in accounting, but these have not reduced the attractiveness of his indices. Hofstede's survey apparently was based on one organisation and may not be applicable to other contexts. Hofstede utilises equating nation states with cultures. Cultures do not equate with nations (Baskerville, 2003). Baskerville calls researchers to be wary of indices in cross-national studies.

In his response to Baskerville, Hofstede (2003) argues that Baskerville does not realise that there are different paradigms in the social sciences about the meaning of "culture", which engenders varied research approaches. Although Baskerville comments that nations are not the best units for studying cultures, Hofstede (2003) admits that nations are the only kind of units available for comparison. Hofstede questions whether differences between nations are not the areas that accounting and business research are usually concerned with. The micro level is the increasing frequency with which others have used and are continuing to use Hofstede's work. Hofstede notes that if research is competently done and replication fails to concur with his findings, then this may be attributed to the reasons of statistical, methodological or epistemological.

Societal and professional cultural values could also have an impact on the level of disclosure of information on a non-mandatory basis. Culture is a broad concept that affects a wide range of systems. According to Violet (1983), accounting is a socio-technical activity that involved interaction between both human and non-human resources. As such, Violet (1983) claims that accounting cannot be considered culture-free. According to Gray (1988), a methodological framework incorporating culture may be used to explain and predict international differences in accounting systems and patterns of accounting development internationally. Gray (1988) argues that the value systems of accountants will be derived and related to Hofstede's (1980) cultural dimensions. Gray (1988) developed four accounting values (Professionalism verses Statutory Control, Uniformity verses Flexibility, Conservatism verses Optimism and Secrecy verses Transparency), which related to the accounting subculture and linked the accounting values to Hofstede's four societal values.

It is therefore apparent that accounting sub-culture in a particular nation will develop a relevant accounting system for that nation (e.g. Zarzeski, 1996). Whilst it could be argued that there should be some form of association between different societal and professional value systems, there is a serious doubt of the relevance of a one-size-fits-all accounting system. Developing countries have a weak agency relationship. Referring to Hofstede's (1980) cultural dimensions and Gray's (1988) value systems discussed above, developing countries have a large power distance. Stakeholders may not question managers' actions. Managers may only be inclined to report or disclose information required by regulation. In such cases, it is expected that rule based standards would bring about greater transparency and increased level of disclosure.

As mentioned before, many studies on non- mandatory disclosures have relied on legitimacy theory perspective (e.g. Brown & Deegan, 1998). Following previous studies and

given the research issues identified earlier, this study has adopted the legitimacy theory which is discussed next.

Legitimacy theory

Legitimacy theory posits that organisations seek to ensure that they operate within the bounds and norms of their respective societies (Brown and Deegan, 1998; Wilmshurst & Frost, 2000; Guthrie & Parker, 1989; O'Donovan, 2002; O'Dwyer, 2002). These bounds and norms change across time, requiring the organisations to be also responsive. Legitimacy has been defined by Lindblom (1994, p.2) as:

> '... a condition or status which exists when an entity's value system is congruent with the value of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two systems, there is a threat to the entity's legitimacy'.

Low legitimacy can have direct consequences for an organisation which may ultimately lend to the forfeiture of the right to operate (e.g. Tilling, 2004). Legitimacy theory relies on the notion of social contract and on the assumption that managers will adopt disclosure strategies that show society that the organisation is attempting to comply with society's expectation (as incorporated within the social contract) (e.g. Deegan et al., 2002; O'Donovan, 2002). The idea of a social contract between business and members of society demonstrates that while the main aim of a business may be to make profits, it also has a moral obligation to act in a socially responsible manner (see O'Donovan, 2002).

Brown and Deegan (1998) further report that if an organisation cannot justify its continued operation, then the community may revoke its "contract" to continue its operations. This may take form such as consumers reducing or eliminating the demand for the business products, factor suppliers eliminating the supply of labour and financial capital to the business or constituents lobby government for increased fines, taxes or laws to prohibit those actions which do not conform to societal expectations (Brown & Deegan, 1998). The business firms therefore needs to disclose sufficient information for society to evaluate whether it is a good corporate citizen (e.g. Guthrie and Parker, 1989).

Non- mandatory reporting may be perceived as reacting to the environment whereby they are employed to legitimise firms' actions. Deegan (2002) postulates that the public disclosure of social and environmental information in media such as annual report is taken for legitimising purposes. The business entity is assumed to be influenced by, and in turn to have influence upon, the society in which it functions (Deegan, 2002). Society, as a collection of individuals, renders corporations with their legal standing and the authority to own and use natural resources and to hire employees. Deegan (2002, p.292) reports, 'organizations draw on community resources and output both goods and services and waste products to the general environment'. He further suggests that in order to allow for the organization's existence, society would expect benefits to exceed costs (Deegan, 2002).

Corporate social disclosure is normally motivated by the corporate need to legitimise their activities (Hogner, 1982). Legitimacy theory espouses that external factors influence corporate management to seek to legitimise their activities. Hence, corporate management would react to community expectations. The stakeholders within a community shape what activities, companies, as members of that community should carry out. These activities should be carried out within the boundaries of what is perceived to be acceptable by that community.

Therefore, if some activities have an adverse impact upon the social environment, management would seek to re-establish their credentials through the disclosure of additional information on a non-mandatory basis (Wilmshurst & Frost, 2000). However, prior studies

have not provided consistent support to these views (see for example, Hogner, 1982; Guthrie and Parker, 1989; Patten, 1992 and Deegan and Rankin 1996).

Non-mandatory reporting can be viewed as a method of responding to the changing perceptions of a corporation's relevant publics (Preston and Post, 1975). According to Dowling and Pfeffer (1975) and Lindblom (1994) organisations may legitimise their activities through the following ways:

- ♦ An organisation can adapt its output, goals and methods of operation to conform to prevailing definitions of legitimacy;
- ♦ Organisation can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organisation's present practice, output and values;
- ♦ Organisation can attempt, through communication, to become identified with symbols, values or institutions that have a strong base of legitimacy;
- ♦ Organisations seek to educate and inform its 'relevant publics' about actual changes in the organisation's performance and activities;
- ♦ Organisations seek to change the perceptions of the relevant publics – but not change its actual behaviour;
- ♦ Organisations seek to manipulate perception by deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols; and
- ♦ Organisations seek to change external expectations of its performance.

These activities, however, would be carried out by entities operating in developed countries with efficient capital markets. This is because the market (stakeholders) would punish parties that do not disclose relevant information.

Legitimacy theory has been in this study utilised to explain the issues of influence of society, harmonisation and market orientation on the level of non- mandatory disclosure by Fijian corporations. The extent and type of non- mandatory disclosure in the annual report is likely to be related to management's perception about the concerns of community, from a legitimacy perspective.

Research methods

Sample

The study consisted of all 15 companies listed on the South Pacific Stock Exchange (SPSE) from 1999 to 2003. An analysis of the non- mandatory disclosures of the public companies in Fiji was undertaken as it was perceived that the accessibility of information for public companies is much easier than those for private companies. As public companies are listed on the Stock Exchange, reasonable information on these companies are available in the public domain (e.g. Lodhia, 2000). The cut-off date was set at 31st March 2003 to ensure that companies were able to supply annual reports for the full 12 months of the 4 years from 1999 to 2003. The industries involved are food and household, beverage, insurance, telecommunications, transport, manufacturing, timber and natural resources. The annual reports of these companies were gathered from the University of the South Pacific (USP) Library and the South Pacific Stock Exchange Library.

The assessment of non-mandatory disclosure by reporting entities in Fiji meant looking at the reports of the executives in the organisation such as the Chairman's Report and the Chief Executive Officers Report. The private companies are excluded from this report, as they are not obliged to disclose financial information to the public. The reporting entities in Fiji entail listed public companies, statutory authorities, public enterprises and multinational corporations. However, stemming from data unavailability, the study restricted the reporting entities to only the public companies listed on the SPSE.

Content analysis

This paper uses content analysis to measure the trend and extent of non-mandatory disclosure of information in annual reports of listed companies in Fiji. To do so, it is important to decide on what documents to analyse and how to measure the disclosures (Guthrie, 2005). A key assumption of this study in using the content analysis is that quantity of disclosure signifies the importance of the item being disclosed (Deegan and Rankin, 1996; Gray et. al., 1995; Krippendorf, 1980 and Neu et. al., 1998; Guthrie, 2005).

Annual reports are regarded as important documents in non-mandatory reporting due to the high degree of credibility they lend to information reported within them (Tilt, 1994). This is ascribed to annual reports being the sole source of certain information and their widespread distribution. Thus, the justification in the literature for extensively using annual reports in content analysis encompasses these factors (Unerman, 2000). Further, with non-annual report data, completeness (Gray et al., 1995) and accessibility (Woodward, 1998) is questionable.

Quantification of non-mandatory information

Measurement of information in annual reports has been discussed in many studies (Gray et. al., 1995; Hackston and Milne, 1996 and Milne and Adler, 1998). There has, however, been no uniform method of measurement. Quantification takes the form of either, the number of documents containing a particular category of disclosure and/or the number of characters, words, sentences, pages or proportion of pages devoted to different categories (or themes) of social disclosure to total disclosure (Unerman, 2000; Brown & Deegan, 1998).

The use of words has been used by studies to measure the volume and maintaining that the volume of disclosure can therefore be recorded in greater detail (Deegan and Gordon, 1996 Zeghal and Ahmed, 1990). Measurement of words, however, ignores non-narrative disclosures (e.g. Graphs, charts and photographs), which are highly effective method of communication (Beattie and Jones, 1994 and Preston & Post, 1975).

One of the main assumptions behind the use of quantitative content analysis as an empirical research tool is that volume of disclosure signifies the importance of disclosure (Deegan and Rankin, 1996; Gray et. al. 1995; Krippendorff, 1980 and Neu et. al., 1998; Guthrie, 2005). It would, therefore, seem to be strange to omit counting the volume of disclosure allocating to anything other than words and numbers (Unerman, 2000). This research, therefore, includes the strategy of counting words as a measurement of the extent and trend of disclosure of non-mandatory information by listed companies in Fiji. This would avoid inconsistencies in calculating the quantity of disclosure (Zeghal and Ahmed, 1990) as words is the smallest unit of measurement for analysis.

Measurement of market concentration

In order to determine whether the monopolistic nature of the industries have an impact on the level of non-mandatory disclosure, some test of market concentration is necessary. This study uses Herfindahl Index (HHI) to measure market concentration. The Herfindahl Index is a simple, yet sophisticated way of measuring industry concentration. The Herfindahl Index is obtained by squaring the market-share of the various players, and then summing those squares. For example, consider an industry with two players. Here, the index would be 5,000 -- the sum of two squares of 50. For a pure monopoly, the index would be 10,000 -- the square of 100.

HHI = s1^2 + s2^2 + s3^2 + ... + sn^2 (where sn is the market share of the ith firm)

The Herfindahl Index, for example, helps differentiate between one industry in which four players have equal shares and another where one player has 70 per cent share and three others 10 per cent each. The former, which is more competitive, would have a lower

Herfindahl Index. In an extremely competitive market, say, with ten players having 10 per cent share each, the index would be 1,000. A 1,000-2,000 value generally indicates intense competition. The US Anti-Trust Department uses the changes in the Herfindahl Index to decide if a merger is anti-competitive or not (Krishnamurthy, 2000). The Department takes the increase in Index value by 100 or any increase in the overall value to over 1,000 seriously.

Measurement of company size
Past studies have used a number of indicators to measure company size. This study uses total assets as a proxy for company size.

Measurement of financial performance
This study uses accounting based proxy to measure financial performance. Return on Assets is the most popular accounting performance indicator and is frequently used in other studies. This study, therefore, uses this proxy. Return on Assets relates to the owner's investment in the company.

Results
The results presented in this section show that most of the listed companies take advantage of annual report as a tool for communicating information. Most of the listed companies in Fiji have some form of non-mandatory disclosure in their annual reports. There is, however, an apparent concern as to the relevance of this information to the respective users. This concern is in terms of a firm's need to legitimise, the competitive nature of the industries and the values of the society to whom such information is disclosed.

It is interesting to note from the results presented in Figure 1 that there was two increasing trend of non- mandatory disclosure among the 15 companies studied. The increases, however, were not that significant. This is consistent, to some extent, with the results of Brown and Deegan (1998). Other companies showed that non- mandatory disclosure increased and decreased between period to period with no clear trend being visible. One company did not make any non- mandatory disclosure. This is supported by the fact that, according to Gray et. al. (1995) and O'Donnovan and Gibson (2000), reporting percentage of such information is comparatively low compared to companies in developed countries such as Australia and the United Kingdom. As such, this evidence provides somewhat inconclusive support for legitimacy theory explanation of non- mandatory disclosure.

INSERT FIGURE 1 ABOUT HERE

In considering the trends in the disclosure of non- mandatory information we also found that this disclosure ranged from 0 to 14,884 words between 1999- 2003. This is depicted in figure 1. For the annual report, there is both increasing and decreasing non-mandatory disclosure over the period under study with no clear trend being visible. This seems to imply that companies under study report only additional information if they think that they are necessary. This is in line with Gray et al. (1998) argument that information that has the potential to increase company value is likely to be disclosed and those with negative implications would not be disclosed.

Table 1 provides location of certain information under different sections in annual reports. The majority of the non-mandatory information is provided in the Chairman's Report followed by the Chief Executive Officer's Report. There is, however, some degree of duplication of information in these two reports. For all industries, the extent of non-

mandatory disclosure mostly appears in the Chairman's section of annual report as depicted in Table 1.

INSERT TABLE 1 ABOUT HERE

Reviewing figure 1, we find the number of words in annual report on non- mandatory disclosure decreased for 7 out of 15 companies in 2002/ 2003 period, although the disclosure fluctuated in between the 4 year period. One company showed no non- mandatory disclosure between the 4 year periods. The non- mandatory disclosures tended to increase and decrease from period to period with no discernable trends of growth or otherwise being visible. It would be difficult to predict the factors that influenced increase or decrease in non-mandatory reporting. Nevertheless, we presume the collective nature of societies in developing countries would indicate that one would not want to disclose information that may have negative implications on others. Whilst figure 1 aggregates various non-mandatory disclosures, it shows no clear increasing or decreasing trends on such disclosures which have remained voluntary within Fiji. However, for 2 companies some increases have been noted but have not been that significant. Therefore, a legitimacy theory explanation of non- mandatory disclosure seems not to be supported.

The results also reveal that there is minimal non-mandatory disclosure of information about employees even though they are major stakeholders in developing countries[2]. Listed companies also do not provide information on the use of land. The results indicate that virtually no information is provided to this important stakeholder. Substantial amount of industries' operations are located on Native Land, which is within the jurisdiction of the traditional landowners. These native landowners are influential in the strategic issues relating to the country (Lloyd, 1982). Hence, they become one of the most important stakeholders in developing societies like Fiji.

The companies studied represented fourteen industries. Out of the fourteen industries, 5 industries have a Herfindahl Index of 10,000. The activities of these industries, however, have huge implications on society. Further, six other industries had the Herfindahl Index ranging from 5000 to 8000 with an average Herfindahl Index of 6800. Only 3 industries had Herfindahl Index ranging from 1000 to 5000 with an average of Herfindahl Index of 3100. These three industries activities, however, have implications on environment and society in general.

The U.S. Department of Justice Horizontal Guidelines Merger indicates an industry with a HHI of 1000 or less to be unconcentrated, an industry with a HHI between 1000 and 1800 to be moderately concentrated and an industry with a HHI of above 1800 to be highly concentrated. (Krishnamurthry , 2000).

Based on this guideline, our results suggest that most industries represented by the listed companies are highly concentrated operating in monopoly or near monopoly environment. As discussed earlier, political pressure would ensure that firms disclose information on a non-mandatory basis to legitimise their activities despite the fact they operate in a monopolistic environment. The lack of competition in market and relation that entities in developing countries have with the Government of the day, however, means that there is no pressure to disclose more information than required on a mandatory basis. Thus legitimacy theory explanation is not supported because of the monopolised markets Fiji is exposed to. However, in such situations, strict rule based standards could ensure greater transparency in terms of an entities interaction with society.

[2] In most developing countries, there are more employees than shareholders. More disclosure is, therefore, expected about employees in companies' annual reports.

Our results indicate that non-mandatory disclosures are made as companies could afford to do this. There seems to be no incentive to legitimise for any activities whether this constitutes good or bad news. This, however, does not mean that companies in developing countries do not need to legitimise their actions through disclosure of information in addition to what is required on a mandatory basis.

The results also indicate that it is very difficult to tie a particular non-mandatory disclosure by a listed company to mandated information as a support tool to better understand the information by stakeholders. Spearman rank- order correlation tests are applied to each of the company selected for the study in order to measure the degree of association between size of company and the average firm's non- mandatory disclosure. The results are provided in Figure 2.

INSERT FIGURE 2 ABOUT HERE

Figure 2 shows the increasing trend in the proportion of asset ownership by the 7 of the 15 companies in these years. Two companies showed a decreasing trend of asset ownership while 6 other companies had recorded increases and decreases in asset ownership with no clear trend being visible. Despite the increase in assets of the 7 companies, there has been no discernable increasing or decreasing trend of non- mandatory disclosures by the listed companies. In a competitive market, however, increasing operational activities may result in companies subject to public attention, whether for good or bad. Firms are expected to disclose more information on a non-mandatory basis in order to legitimise such changes in operational activities. This is not the case with the listed companies in Fiji, thus providing further evidence of lack of support for legitimacy theory.

Table 2 provides correlation analysis - coefficient of correlation (r) and coefficient of determination (r^2) for the four years under study. The results indicate positive correlation between the level of non-mandatory disclosure and the size of the reporting entity. In all cases the correlation coefficient is in at least in the magnitude of +0.5. Only 35% of the disclosure on average could be explained as a result of the size of the entity. This supports the view that companies in developing economies that largely operate in a monopolistic environment do not have the desire to report additional information to better understand the mandated information or to legitimise their operations (Patel, 2002). Even though some bigger companies have provided more non-mandatory information, this could largely be attributed to their ability to do so and not as a greater need to legitimise their activities and to avoid being under unnecessary political pressure. Companies report information on a non-mandatory basis on an ad hoc basis.

INSERT TABLE 2 ABOUT HERE

INSERT FIGURE 3 ABOUT HERE

Figure 3 shows that the return on assets has remained relatively stable over the period of 1999- 2003 for most companies with some significant increases for 2 firms only. This has, however, not led to any discernable change in trend of disclosures of non- mandatory information. Table 3 provides the results of the relationship between the level of non-mandatory disclosure and performance of the reporting entity. The above table presents the results of tests for correlation across each of the four years. It reaps a correlation coefficient of -0.14218 with $p<0.05$. This shows that there is almost no relationship between the return on investment and the non- mandatory disclosures. Legitimacy theory, thus, seems to be not supported. The evidence examined in this study has failed to conform legitimacy theory as an explanation of non- mandatory disclosure by the Fijian companies.

INSERT TABLE 3 ABOUT HERE

Discussion

This study examines three inter-related issues of the influences of society, harmonisation and market orientation on the level of non- mandatory disclosures to determine if the relationship can be explicated within a legitimacy theory framework. Annual reports on non- mandatory disclosures are collected for a four year period between 1999 and 2003.

Legitimacy theory, used within the context of the study, posits that corporate management reacts by increasing the level of non- mandatory disclosure if they believe that the legitimacy of their organisation/industry is threatened stemming from public concern over the environmental implications of the organisation/ industry (see Brown and Deegan, 1998). Prior studies (Patten, 1992; Deegan and Rankin, 1996; Deegan et. al., 2002) provide empirical evidence supporting legitimacy theory in terms of a corporate reaction to an event influencing a firm's perceived social responsibility. This study, however, does not support these prior studies. The reason for this is ascribed to the different social and cultural environment within which the profession and the entities operate in developing countries (e.g. Chow et al., 1999). Further as the results indicate, entities in Fiji operate in a predominantly monopolistic environment and do not perceive the need to adhere to 'social contracts'. As such, there is a lack of incentive for listed companies to disclose information on a non-mandatory basis especially when required to exercise professional judgement. A legitimacy theory explanation of non- mandatory disclosure could therefore not be supported. Majority of the listed companies operate in a monopolistic environment, that is, they are the sole supplier of the products and services.

On the disclosure of good vs. bad news, studies in developed countries on disclosure of good vs. bad news have revealed that companies that perform well are eager to report good news (Gray et al., 1998; Guthrie & Parker, 1989). The results in this study, however, do not support those revelations. The average r of -0.14218 shows very weak correlation and an average r^2 of 0.036367 show very weak determination. Entities in developing economies are not pressured into disclosing more information on a non-mandatory basis by the stakeholders hence the lack of need to legitimise their activities. Blocked shareholding, societal and professional values are major factors leading to this. In addition, imposed rules and guidelines originating from differing societal and professional values do not improve on the situation. For developing economies, it is important that companies that perform well disclose more information. This is not just to inform the major stakeholders, but also to share ideas in true spirit of national development. For development to prosper this is essential, even if it has to be through rigid rules in terms of rule based accounting standards

From a cultural perspective, IASs are developed with the expectation that society would call for transparency in financial reporting and due to the small power distance in developed countries, managers would be obliged to do so. This is, however, not the case in developing countries. In some societies within the developing countries, broad accountability is inappropriate as it would be considered as making an attempt to question the elite's position in societies. In such circumstances, judgement/principle based accounting standards would bring about ambiguity in financial reporting. Further, societies within developing countries are generally uncertainty avoiders (Hofstede, 1980; Chow et al., 1999). These societies are governed by rules and not expectations that individuals will act appropriately by personal initiative and sound judgement. Such societies also live in a collective nature and are perceived to be objective (Chow et al., 1999). Management would, therefore, be discouraged to exercise sound professional judgement. This is also supported by William (1999), who believed that the low level of non-mandatory disclosure is ascribed to the high level of uncertainty avoidance attitude of companies in developing countries. Disclosure is conceived

to invite conflicts and uncertainties of competition and may also jeopardise the financial security of companies (William, 1999), as secrecy is an important component of the business culture in developing countries. It could, however, also be argued that collectivism should result in disclosure of more information on a non-mandatory basis. This is so as the society is perceived to care for everyone and thus has the need to inform others. This could only be possible if this disclosure is not at a disadvantage of a "closer" group. The "closer" group entails individuals who inevitably form close links with the providers of the information, purely through the need to care in a collectivist society.

Moreover, developing countries generally have feminist societies, where one does not prefer to be a "hero" and come into picture unnecessarily (Hofstede, 1980, 1983, 1987). Disclosure of information on a non-mandatory basis, therefore, means doing more than required and hence, trying to be an "outsider" and non-co-operative. The results in this study showing low level of disclosure of information on a non-mandatory basis are an indication of this. As a result, in the case of principal based accounting standards, limited disclosure on a voluntary basis is expected, as the exercise of professional judgement is consistent with individualism and subjectivity values present within societies in developed economies.

Hence, the results of this study question the outright adoption of International Accounting Standards (IASs) by developing countries. There is a need to localise the standards to ensure more disclosure of information on a voluntary basis to important stakeholders such as landowners and employees. The level of expertise within the profession, societal and professional cultural values does not seem to fare well with the principle based accounting standards of the International Accounting Standards Board (IASB). The findings of this study support the assertion that standards developed in one part of the world is not likely to have universal applicability. Principle based accounting standards (like IASs) would provide avenues for managers to disclose as little information as possible by exercising their judgement considering the fact that the need to legitimise ones existence is weak.

Conclusion

In conclusion, important non-mandatory information is not well reported in annual reports of listed companies in Fiji that has almost outright adoption of IASs. The non- mandatory disclosure tended to increase and decrease from period to period with no discernable trends of growth or otherwise being visible. More accurate, objective and complete information is vital for growth in developing countries. Outright adoption of IASs is not a move in a totally correct direction even though the benefits of it to the multinationals are greatly acknowledged. The analysis failed to confirm legitimacy theory as the primary explanation for non- mandatory disclosure by the Fijian companies.

The sheer importance of an entity and management in developing countries has a lot of impact on what needs to be disclosed. The low to very low level of disclosure on a non-mandatory basis in developing countries is attributed to this. Prominent entities are treated with respect in developing countries emanating from the level of dependence society has on them. These entities posses power themselves and one who associates with these entities, to some extent, inherits these powers. The large power distance that is established, therefore does not demand disclosure of any more information than necessary, thus, the low level of disclosure. In such situations, only strict rules can bring about greater transparency in terms of sharing of information.

The size of the reporting entity also plays an important role in the level of disclosure. In developing countries, due to small entities and a small capital market, low level of disclosure may initially be justified. There are, however, moral and ethical arguments for greater accountability. The common users for financial reports are well documented in conceptual frameworks.

The results provide a resource for individuals/ organisations attempting to explicate or understand what induces particular entities to voluntarily disclose non- mandatory information in their annual report. Influences of society, market concentration and harmonisation of accounting standards have not rendered more disclosure of non- mandatory information than that those perceived necessary by the listed companies. The study adds to our understanding of non- mandatory disclosure and represents an extension of international literature engaged in efforts to interpret the motives for such disclosure. The results do not lend support to legitimating motives for company's social disclosure. Managers do not disclose more information than those considered necessary.

From a theoretical perspective, it needs to be noted that concentrating on legitimacy theory, as an explanation for increased environmental disclosures does not suggest that other social theories have less explanatory power (see O'Donovon, 2002). The imprecise distinction between legitimacy, stakeholder and political economy theories need to be continued to be examined and explicated (ibid, 2002). Care needs to be also exercised in generalising too much from the results of this study. In this study while the methods utilised delivered a great deal of useful quantitative data, it must be remembered that the results were based on 15 listed companies in Fiji's Stock Exchange.

Further studies using similar variables to this one from other developing countries would provide understanding of the extent to which these results are generalisable across other developing countries and industries. In this investigation, the annual report was identified as the prime way corporations disseminate social and environmental information to various stakeholders. One may use the methods adopted in this study to identify how other means of communication are utilised in managing legitimacy (e.g. O'Donovan, 2002). O'Donovan (2002), for example, identifies the effect that the publication of stand alone environmental reports and use of the World Wide Web has on the quantity and quality of annual reports disclosure and choice of legitimating tactics in an area which appears timely to research further.

Research that investigates the impact of various forms of media on corporate social disclosure would also be a contribution to the literature (see Deegan et al., 2002). Media have also emphasised greatly to specific environmental issues like depletion of ozone activities with specific types of corporate environmental disclosures. Future research may also like to consider the usage of media articles in driving environmental disclosures, and possibly the association between them.

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Table 1: Average Location of Non-mandatory Disclosures in Listed Companies Annual Reports from 1999 – 2002.

Location of Non-mandatory Disclosure	*1999-2000*	*2000-2001*	*2001-2002*	*2002- 2003*
General	12%	8%	11%	9%
Chairman's	63%	65%	62%	65%
Chief Executive's	25%	27%	27%	26%

Figure 1: Level of disclosure over the four years

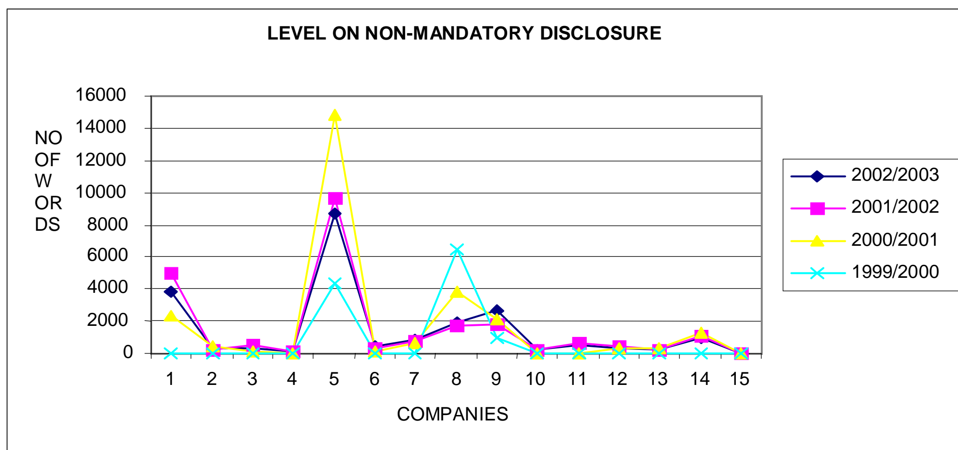

Figure 2: Total Assets over the four years

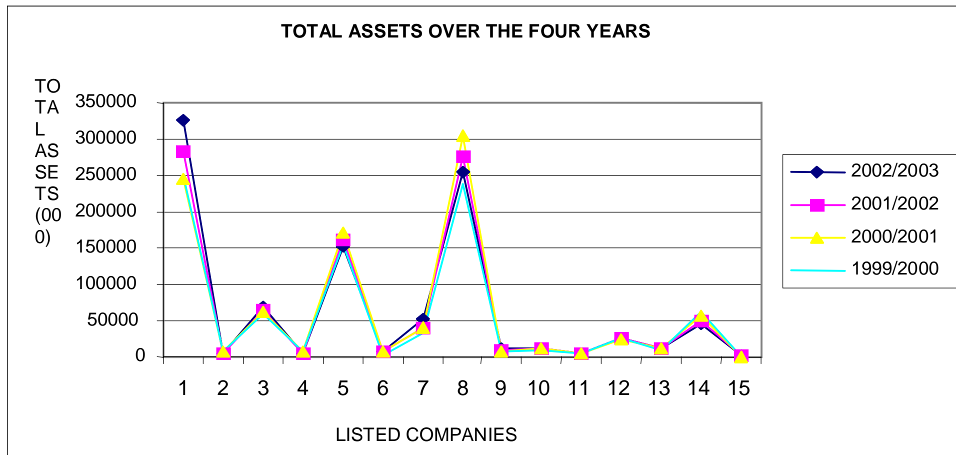

Table 2: Spearman Correlations between level of non-mandatory disclosure and the firm size.

YEAR	R	r^2
2002-2003	0.569137	0.323917
2001-2002	0.618926	0.383069
2000-2001	0.535786	0.287067
1999-2000	0.666892	0.444745
AVERAGE	**0.597685**	**0.3597**

Figure 3: Return on Assets over the four years

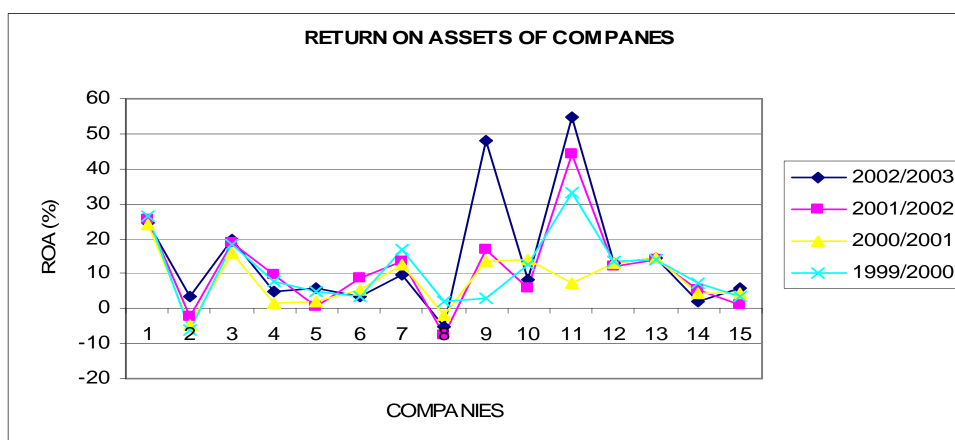

Table 3: Spearman Correlations between level of non-mandatory disclosure and firm performance

YEAR	r	r^2
2002-2003	0.02851	0.000813
2001-2002	-0.07486	0.005604
2000-2001	-0.22509	0.050666
1999-2000	-0.2973	0.088386
AVERAGE	**-0.14218**	**0.036367**

****End of Paper****