

MALAYSIAN ACCOUNTING REVIEW

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Asian Economic Growth and Management
Accounting



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MALAYSIAN ACCOUNTING REVIEW

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PREFACE FROM VICE CHANCELLOR UiTM

It is such a great honour for me to be given the opportunity to preface the inaugural issue of the Malaysian Accounting Review (MAR), the first international refereed accounting journal in this country. I wish to congratulate the Faculty of Accountancy, UiTM and the Malaysian Institute of Accountants (MIA) for their proactive effort in making this journal a reality. In the words of Zig Ziglar, "... if you have a vision for it, you can accomplish it". This marks a new beginning and a significant milestone for the accounting profession: practitioners and academicians at large.

This pioneering smart partnership between MIA and UiTM is timely and highly commendable. Today, we live in an era where information must be properly managed and strategically used as our competitive tool. To best manage and use the information, we must integrate descriptive and prescriptive applications. Whilst professional journals focus on descriptive and "what is" measures, academic refereed journals provide support to the accounting profession by prescribing the "what should" phenomena through research findings and empirical evidence. Both measures must be embedded and should be in tandem with each other; it is the only way for the accounting profession to stay on the cutting edge. It is without doubt that MAR will act as a catalyst to bridge the gap between theory and practice.

The publication of the MAR is part of UiTM and MIA's mission to make Malaysia a renowned and reputable centre of accounting excellence in this region. Whilst the journal provides an excellent avenue for researchers (both local and foreign) to publish their research findings, it should also serve as a platform for intellectual discourse, for others.

In closing, I wish to congratulate the Faculty of Accountancy, UiTM, for its vision in initiating a smart partnership with MIA. To MIA, I am sure that this partnership is an added value to your role as a regulatory body to the accounting profession in Malaysia.

Datuk Professor Dr Ibrahim Abu Shah
Vice Chancellor
Universiti Teknologi MARA (UiTM)
MALAYSIA

UiTM AT A GLANCE

Universiti Teknologi MARA (UiTM) started as a college known as Kolej RIDA in 1956. Incidentally, accounting programs such as LCCI, Australian Society of Accountants (ASA) and Institute of Cost and Work Accountants (ICWA) were among the pioneer programs offered by the then, School of Accountancy. Kolej RIDA continued to expand and in 1967 it was further upgraded and its name was changed to Institute Teknologi MARA (ITM).

As an Institute, ITM continued to add other accounting programs: Diploma in Accountancy (DIA), Malaysian Association of Certified Public Accountants (MACPA), Association of Certified and Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and the Advanced Diploma in Accountancy (ADIA) to its portfolio. What started, as a humble beginning in a small campus in Petaling Jaya was later expanded to other areas throughout the country. In 1996, the ITM Act was amended to allow the institute to offer various programs, viz., first degrees, Masters degrees and PhD programs. To commensurate with the university type of programs that the Institute was offering, ITM was officially conferred the university status in 1999. With effect from 26 August 1999, the Institute was known as Universiti Teknologi MARA or UiTM with 18 faculties and 13 branch campuses to its credit.

Today, being one of the most dynamic faculties in UiTM, the Faculty of Accountancy is also offering other accounting programs such as the Certified Accounting Technicians (CAT-UK), CPA Australia, Institute of Chartered Secretaries and Administration (ICSA-UK), Master of Accountancy and Doctor of Philosophy (PhD Accounting). Within the next year, several new programs such as Accounting Information System (AIS), Taxation, Management Accounting, Internal Auditing, Corporate Governance and Forensic Accounting and the newly known Malaysian Institute of Certified Public Accountants (MICPA) will be offered.

The Faculty's two-tier mission allows it to focus on two important aspects; nurturing of professional accounting graduates as well as becoming a renowned Centre of Excellence in Accounting Research & Consultancy. In tandem with our two-tier mission, the Faculty of Accountancy strives to produce quality graduates and quality research & consultancy.

PRESIDENTIAL MESSAGE

On behalf of the Malaysian Institute of Accountants (MIA), I would like to congratulate Universiti Teknologi Mara (UiTM) for its timely effort in initiating the publication of the 'Malaysian Accounting Review'. The Malaysian Institute of Accountants is indeed pleased to be associated with this publication, which is the first international refereed academic accounting journal in this country. The Malaysian Accounting Review is a vital platform for which various key areas useful to the development of the accountancy profession can be examined, analysed and digested. Indeed, this inaugural publication will serve as a catalyst and act as an important tool for students, researchers, accountants, academicians as well as other relevant parties to enhance their knowledge in these areas.

As the regulatory body for the accountancy profession in this country, MIA recognizes the need to provide continuous support and to be involved in research and development activities relating to the accountancy profession. We believe that this smart partnership between the accounting academicians and the profession will strengthen MIA's position to become a globally recognized and respected business partner committed to nation building. With the continued support and cooperation from all stakeholders and through this publication of the Malaysian Accounting Review, we are confident that the profession will further progress in its commitment towards making the country a center of accounting excellence.

Abdul Samad Haji Alias (Dr)
President
Malaysian Institute of Accountants (MIA)

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Malaysian Institute of Accountants (MIA) is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. The functions of MIA are, inter alia:

- To regulate the practise of the accountancy profession in Malaysia
- To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;
- To determine the qualifications of persons for admission as members; and
- To approve, regulate and supervise the conduct of the Qualifying Examination

Vision of MIA

To be a globally recognised and respected business partner committed to nation-building.

Mission of MIA

To develop, support and monitor quality and expertise, consistent with global best-practises in the accountancy profession in the interests of stakeholders.

MIA regulates its members who are Chartered Accountants in public practice, commerce and industry, the public sector and academia. A qualified person who wishes to hold himself or herself out as a Chartered Accountant or an accountant in Malaysia has to be registered with MIA.

MIA is responsible for promoting and regulating the accountancy profession in Malaysia. The Institute is actively involved in the development and issuance of approved auditing standards and also participates in the development of applicable approved accounting standards by the Malaysian Accounting Standards Board. Additionally, MIA also actively participates in legislative initiatives and developments, spearheaded by the Securities Commission, the Kuala Lumpur Stock Exchange and Bank Negara Malaysia. These initiatives relate to the regulation of the capital and financial markets, corporate governance, and the Companies Commission of Malaysia, in the regulation of companies pursuant to the Companies Act 1965.

MALAYSIAN ACCOUNTANCY RESEARCH AND EDUCATION FOUNDATION

The Malaysian Accountancy Research and Education Foundation (MAREF), a trust for the promotion, encouragement and advancement of accountancy research and education in Malaysia, was set up in 1990 and received its certificate of registration as a corporate body under the Trustees (Incorporation) Act 1952 on 26 July 1993. MAREF is a trust body sponsored by the Malaysian Institute of Accountants (MIA)

The objectives of MAREF inter alia are:

1. To encourage and promote the advancement and development of accountancy in Malaysia.
2. To pay all or part of the fees payable including other expenses incurred and/or incidental to the education, training and/or maintenance in respect of deserving persons who are being educated or wish to be educated or wish to be trained in the accountancy profession in recognised institutions of learning.
3. To carry out such other legally charitable purposes for the advancement of education and training in the accountancy profession.
4. To carry out research in and to promote development of the profession of accountancy in general and in particular the development of accounting and auditing standards.
5. To publish and disseminate literature in advancement of the accountancy profession.

**CONSENSUS BETWEEN USERS AND PREPARERS
ON THE IMPORTANCE OF VOLUNTARY DISCLOSURE
ITEMS IN ANNUAL REPORTS:
AN INDONESIAN STUDY**

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ABSTRACT

This study examines the perception of users (stockbrokers, investment managers and underwriters) and preparers (managers of public-listed companies) in Indonesia regarding the importance of voluntary disclosure items that appear in annual reports of Indonesian public-listed companies. A questionnaire containing 58 voluntary items was sent to both users and preparers. An analysis of the results show that out of the 58 voluntary items, users perceived 24 items as 'important' to 'very-important', while preparers only perceived 12 items to be so. The level of consensus among groups of users is high, while the level of consensus between groups of preparers is considered moderate (65.52%). It is also found that there are 19 voluntary items categorized as 'important' to 'very important' perceived by both users and preparers and the level of consensus between users and preparers is equal to 70.69%. It is thus suggested that these 19 items should be made mandatory and be included as part of the annual reports.

INTRODUCTION

The management of companies provides voluntary disclosure items in their companies' annual reports because they perceived those items are important to be disclosed. Voluntary disclosure is disclosing any information that exceeds the mandated disclosure requirements. The management wants to give information to users through annual reports in such a way that they are capable of meeting and tailoring the various needs of users for decision making. If users feel that their information needs are fulfilled then users can evaluate the performance of management. There are various user groups of annual reports and each group has different perception regarding the voluntary items. One group may perceived item A as more important than item B, but other groups perceived item B as more important than item A. This different perceptions among user groups may be caused by different information needs to fulfill their specific purposes.

The purpose of this study is threefold. Firstly, to identify voluntary disclosure items that are usually presented in the annual reports of Indonesian public-listed companies. Secondly, to determine the importance of voluntary disclosure items from users' and preparers' perspectives. Finally, to determine the level of consensus concerning the importance of voluntary items between users and preparers. The remainder of this paper will be discussing related previous studies, research methodology, data analysis and discussion of the results, and summary and conclusion

RELATED PREVIOUS STUDIES

Previous studies in many countries have examined users' and/or preparers' preference for disclosure items, for example Chandra (1974), Benjamin & Stanga (1977), Belkaoui (1977), Firth (1978), McNally et al. (1982), Tong (1990), Karim (1995), and Rahman (1999). These studies provide evidence on the varying degree of consensus among preparer and user groups regarding the importance of a number of disclosure items in firms' annual reports.

Chandra (1974) sends questionnaires containing 58 items of voluntary information by mail to public accountants (as preparers) and security analysts (as users) to examine whether they have any consensus about the value of information included in corporate annual reports. He divided accountants into two groups, namely as preparers and users of annual reports. He found that there was a low consensus (40%) between accountants (as preparers or users) and financial analysts in valuing the information items. However, there was a high consensus between the two accountant groups (98%), acting a dual role as preparers and users of information. Benjamin and Stanga (1977) examined the perception of two users group of annual reports (commercial bank loan officers and professional financial analysts). By using 79 items, the study found that in making a term loan decision, bankers did not seem to value information in the same way as financial analysts would in making common stock investment decision. The study also found that there was 51 items (64.6 %) that has significant differences regarding the importance. of the items.

An international setting study was conducted by Belkaoui et al. (1977). They examined the differences in the perception of accounting information by four groups of financial analysts in three countries (Canada, USA, and Europe). Using a questionnaire containing 29 items of information, they found that there was a high level of consensus between Canadian and US financial analysts on 23 items (79 %). However there was a lack of consensus between the North American and European financial analysts on 17 items (59 %).

Another study was conducted by Firth (1978) in the UK. Questionnaires containing 75 items of information were sent to two groups of users (represented by financial analysts and loan officers) and two groups of preparers (represented by financial directors and auditors). His study found that: (a) a substantial agreement between finance directors and auditors regarding the importance of 52 items (69%); (b) a substantial agreement between financial analysts and bank loan officers regarding the importance of 61 items (81%); (c) finance directors and financial analysts have significantly differing opinions regarding the importance of 42 items (56%); (d) finance directors and loan officers have significantly differing opinions on the importance of 49 items (65%); and (e) auditors and financial analysts differ in their perception on 46 items (61%).

In New Zealand, McNally et al. (1982) examined the importance of voluntary disclosure items given by two user groups (financial editors and stockbrokers). Using mail questionnaires, they found that out of the 41 voluntary items, 31 items were assigned high scores, indicating a high consensus between the two user groups. McNally study was focused on information classified as voluntary disclosure.

All of the previous studies discussed in the preceding paragraphs were conducted in developed countries. The four studies that will be discussed are conducted in developing countries (such as in Nigeria, Bangladesh, and Malaysia). Wallace (1988) examined the perceived needs of information disclosed in annual reports of six user groups in Nigeria (accountants, financial analysts, civil servants, investors, managers, and other professional users). Using a mail questionnaire containing 102 items of information, the respondents were asked to rate the items according to their perceived importance using a five-point likert scale. The results show that there was a low consensus between accountant user-group and each of the non-accountant user-groups (excluding financial analysts). The degree of agreement between accountant and financial analysts was quite high (84%).

By using a similar approach to Wallace (1988), Karim (1995) studied the importance attached by six user groups (bankers, accountants, stockbrokers, academicians, tax officers, and financial analysts) to 113 information items usually disclosed in annual reports of Bangladesh companies. Respondents were asked to rate each item on a five-point likert scale. The results show that there was a significant difference in the perceived importance among users for 94 out of 113 items. It indicated that all respondents had significantly different perceptions about the importance of 94 items in the annual reports. It also found that bankers and academicians disagreed on the perceived importance of only 11 items (0.097%). A moderate degree on the perceived importance agreement was found between accountants and financial analysts (64%).

In Malaysia, Tong (1990) focused his study on one user group (investment analysts). He asked them to rate each of 25 selected voluntary items on a five-point likert scale based on their views of the importance of each item. He found that the items receiving the first five rankings were future economic outlook of company, future economic outlook of industry, profit forecast for the next year, historical summary of operating data, and schedule for payment of long-term debt. A more recent study in Malaysia was conducted by Rahman (1999) who has examined the perception of one user group (i.e. financial analyst) regarding the importance of selected items of information that appear in annual corporate reports of Malaysian companies. A questionnaire containing 56 items of information (voluntary and mandatory) was developed and distributed to respondents. The analysis of responses indicates that the financial analyst group perceived 52 items (93%) as 'important to very-important'. Only 4 items were regarded as 'less important'. The financial analyst

group also placed greater importance on items of a 'forward looking' nature and information that was beyond the statutory requirement.

Most of the previous studies examined disclosures of information without classifying those items as mandatory or voluntary. Only two of the previous studies focused on voluntary items (McNally et al., 1982; and Tong, 1990) and only two studies were conducted in the South East Asian countries (Tong, 1990 and Rahman (1999). Thus, this call for a study to be conducted in the Indonesian context as none has been conducted here. As such, this study will obtain perceptions of both preparers (management of companies) and users (stockbrokers, investment managers, and underwriters) in Indonesia regarding the importance of voluntary disclosure items. The objective is to determine the level of consensus regarding the importance of voluntary disclosure items between users and preparers.

RESEARCH METHODOLOGY

Determining The Voluntary Disclosure Items

A comparative analysis was used to obtain voluntary disclosure items. Through this analysis, the annual reports of public-listed companies are analyzed. The voluntary disclosure items were identified by using several steps :

- a. Initially, the number of voluntary disclosure items is gathered through previous studies (Choi, 1973; Buzby, 1975; Firth, 1979; McNally et.al. 1982; Chow and Wong-Boren, 1987; Cooke, 1989, 1991; Gray et. el. 1992; and Hossain et. al., 1994; and Meek and Roberts, 1995). A preliminary list of 99 discretionary disclosure items was derived.
- b. Next, to identify the voluntary items, items classified as mandatory were eliminated by referring to the disclosure requirements of the Indonesian Accounting Standards 1994 and the BAPEPAM's regulations 1996. In order to avoid biasness and to provide a comprehensive list of voluntary disclosure items, the items to be selected must meet two criteria: (1) the item is covered in the previous studies, and (2) the item is not mandated or regulated by the Indonesian Accounting Standard (1994) and the BAPEPAM's regulation (1996). From 99 preliminary items, 21 items were eliminated that were either mandatory disclosures or irrelevant in the Indonesian context.
- c. Discussion with two managing partners of Certified Public Accountants (CPA) firms, three accounting academicians, and two official of the Jakarta Stock Exchange were held to verify the list of voluntary disclosure items. From this discussion, 18 items were eliminated since these items have been mandated by additional BAPEPAM's regulation (1998). Their feedback was used to compile or refine a final list of 60 items.

Construction and Administration of the Questionnaire

A set of questionnaire was sent to both users and preparers of companies' annual reports requesting their perceptions about the importance of voluntary disclosure items. Financial analysts were chosen as representative of users of the annual reports for several reasons. Financial analysts are professional people who have the expertise in analyzing the annual reports (Rahman, 1999). The effective use of means of a communication such as the annual reports requires a certain level of decoding skill which investment officers or financial analysts. In other words, the ordinary investors who do not have an accounting background would

seek their advice for the purpose of making an investment decision, for example whether to buy or to sell shares of a particular company. Thus, responses of financial analysts would represent the views of the users.

A sample of financial analysts was taken from three groups namely stockbrokers, investment managers, and underwriters that were listed as members of the Jakarta Stock Exchange. Although they are all financial analysts, they have different emphasis when analyzing the voluntary disclosure items due to the specific needs. The list of financial analysts of each firm was obtained from the JSX Fact Book 1999 published by The Jakarta Stock Exchange. Questionnaires were mailed to 197 financial analysts working for stockbrokers, investment managers, and underwriters' institution. While preparers of annual reports in this study were financial directors of all companies listed in the Jakarta Stock Exchange as at December 1999. A total number of 246 questionnaires were mailed. From these number, 32 questionnaires were returned due to a change of address (18 firms) and closure of business (14 firms). A total of questionnaires that was actually received by the respondents was 214. Respondents were requested to indicate the degree of importance they attach to each item of voluntary information based on a 5-point Likert scale (Rahman, 1999, and Firth, 1979). A score of '5' meant the item was very important, the score of 4 meant the item was important, the score of 3 meant the item was neutral, the score of 2 meant the item was unimportant, and the score of 1 meant the item was very unimportant or useless (Firth, 79). Table 1 shows the profile of users and preparers as respondents of the study.

Table 1 shows a total number of 197 questionnaire were mailed to users and 214 to preparers was 214. A total of 78 questionnaires sent back by users representing 39.59% of total users, while 58 questionnaires were sent back by preparers representing 27.10% of total preparers.

TABLE 1
Profile of Respondents of the study

Respondents	Number of questionnaire mailed	Number of questionnaire returned	%
Users of annual reports:		214	
- Stockbrokers	89	30	
- Investment managers	66	24	
- Underwriters	42	24	
-			
	197	78	39.59
Preparers of annual reports:	143	35	
- Manufacturing	71	23	
- Non-manufacturing			
	214	58	27.10
Total :	411	136	33.09

ANALYSIS AND DISCUSSION

Factor Analysis

One of the important steps in data analysis is to understand the underlying dimensions or proposed dimensionality of variables in a proposed model or relationships in empirical research (Hair et al., 1998). In other words, factor analysis addresses the problem of analyzing the structure of correlation among a large number of variables (questionnaire responses in this study) by defining a set of common underlying dimensions, called as factors. In this study, the cut off points chosen for significant loading is .40 and above which is referred to Hair, et al. (1995: 384) who argued that factor loadings greater than .40 considered as important. In this context, the 60 voluntary disclosure items were examined to reduce the 60 items (variables) to a smaller set or group of voluntary disclosure items. By using the SPSS 9.0 version, extraction method principal component analysis and rotation method quartimax with Kaiser normalization was used. Table 2 summarizes the 10 factor loadings after quartimax with Kaiser normalization rotation, the eigenvalue > 1, the items loadings > .40 on each factor, and the percentage of variance explained by each factor.

TABLE 2
Factor Loadings of Voluntary Disclosure Items

Factor	Title of Items' Group	No. of Items	Loadings range	% of Variance
1	Employee Information	12	.454 - .786	31.667
2	Social Responsibility Information	8	.574 - .915	10.704
3	Financial and Past Operations Overview	8	.518 - .817	5.473
4	Product and Service Improvement	5	.708 - .817	5.065
5	Research and Development (R & D)	5	.521 - .828	4.424
6	General Corporate Information	7	.452 - .713	4.241
7	Review of Future Prospects	5	.519 - .808	3.332
8	Information About Directors	5	.485 - .749	2.767
9	Environmental Information	3	.680 - .811	2.364
10	Other Information	2	.520 - .636	2.027

Test of Reliability

To test the internal consistency of the measurement instruments, reliability analysis was conducted on the factors extracted using the recommendation of Nunnally (1987, 1978). For the purpose of this study, a minimum reliability (i.e. Cronbach's Alpha) of .70 was set. This is in line with Nunnally's guideline. Cronbach's Alpha was calculated for each group or factor of voluntary disclosure items by using SPSS 9.0 version. Table 3 represents the result of reliability test for each group of voluntary disclosure items.

TABLE 3
Test of Reliability of Data

No.	Voluntary Items Group	Number of Items	Number of Items Deleted	Cronbach's Alpha
1	Employee information	12	0	.922
2	Social responsibility information	8	0	.927
3	Financial and past operations overview	8	0	.890
4	Product and service improvement	5	0	.918
5	Research and development	5	0	.906
6	General corporate information	7	0	.823
7	Review of future prospects	5	0	.917
8	Information about directors	5	0	.839
9	Environmental information	3	0	.917
10	Other information	2	2	.518

Reviewing the results of reliability coefficient in table 3, Nunnally (1967, 1978) suggested that if the Cronbach's alpha is equal to .70 or more, the data was reliable and it demonstrates a satisfactory level. The cronbach's alpha of the test of reliability in this study ranges from .518 to .922. Factor 1 to 9 fulfilled the minimum level of reliability, but factor 10 failed. Therefore for further analysis, factor 10 is not included because of low reliability (factor 10, cronbach's alpha = .518).

THE PERCEIVED IMPORTANCE OF VOLUNTARY DISCLOSURE ITEMS FROM USERS' PERSPECTIVES

Test for Non-Response Bias

Profile of users as respondents of this study was shown in Table 1 in the previous section. Although the response rate is reasonably high (39.59%) when compared to other studies, for example Firth (38.30%), it is possible that some response bias have occurred. Response bias occurs when the results from those responding may not be truly representative of the whole population. To examine whether there was any significant response bias present, a test suggested by Oppenheim (1992) was employed. Oppenheim (1992) suggested that if one assumes that late respondents represent non-respondents, it is possible to detect whether there is any non-response bias in a sample. This can be done by comparing one or more variables of interest for the number of respondents of the latest weeks with those of a

random sample of same number of respondents taken from the earlier weeks to examine if there is any significant difference between the two sets. Since the number of respondents replied to follow-up mailing is 14 (classified as late respondents) and by using the similar manner to carry out the test done by Firth (1979) and Rahman (1999), 14 respondents were chosen from the early reply sample and from the late reply sample respectively. The result of test of non-response bias by using Mann-Whitney U test, indicates there was no significant difference between the response of early and late respondents. The result indicates that there was no response bias.

Determining Users' Degree of Importance

Based on the data from the questionnaire, the mean score was calculated for each item to see how users perceived the importance of its inclusion in the annual reports. The ranking of the 24 most important items, based on the mean scores 4 and above is presented in Appendix A in column users' perspectives. Mean score of 4 and above is assumed to indicate that the item is perceived as important in this study. Further results show that 22 items have mean score between 3.00 and 4.00, and the remaining 12 items have mean scores between 2.00 and 3.00. This indicates that the respondents (users) consider none of the items 'very unimportant'. Items having scores between 4.00 and 5.00 are perceived to be important to very important to the users.

It can be seen that all items in group 3 (financial and past operations overview), group 7 (review of future prospects) and in group 4 (product and service improvement) dominate the importance of voluntary items from users' perspectives. This implies that respondents placed a great interest on forward-looking information (i.e. items in group 7 and 4) which could affect future companies' performance. For example, the high ranking of 'sales forecast' and 'profit forecast' by respondents mean that these information is more important to them because they presumably would like to know how the company is managing and planning its resources. The high rank of importance is also placed on past-performance evaluation items that represent the development information. Appendix A also indicates that users need detailed information about breakdown information since they give a high mean score for items 'description of core activities'; 'breakdown of borrowings'; 'breakdown of receivables'. These indicate that companies should therefore seriously consider having breakdown of these items in their annual reports.

In relation to consensus concerning the importance of voluntary disclosure items among users' group, a test of differences among user groups by using Kruskal-Wallis test was conducted. The purpose of the test is to establish whether there were any significant differences in mean scores between stockbrokers, investment managers, and underwriters. The results show all of the 58 voluntary disclosure items are not statistically different. This result indicates that a high consensus exists among users groups with regard to the importance of voluntary disclosure items. Perhaps this is because all respondents have the same background as financial analyst. Although there is no significant difference in all items amongst three user's group, it does not mean that they have the same perceptions in each item. It indicated by the mean score of importance for each item is different. The results support the findings of studies by Firth (1979) and McNally et al. (1982). However, the results contradicted the findings of the Benjamin and Stanga study (1977). Firth (1979) found that two user groups (financial analysts and bank loan officers) were in substantial agreement (for 61 of 75 voluntary items or 81 %) with regards to the importance of voluntary disclosure items. McNally et al. (1982) also found a high level of consensus between financial editors and stockbrokers. While Benjamin and Stanga (1977) found that there is less

consensus between users. They found that out of 79 items, significant differences existed for 51 items (64.6%) between financial analysts and bank loan officers, therefore the level of consensus is 35.40%.

THE PERCEIVED IMPORTANCE OF VOLUNTARY DISCLOSURE ITEMS FROM PREPARERS' PERSPECTIVES

Initially, this study will divide preparers into 9 groups of industry based on the Jakarta Stock Exchange classification, but the number of questionnaire returned is not enough to do that. It means that usable responses do not represent responses of preparers from each group of industry. For this study therefore, preparers are categorized into manufacturing and non-manufacturing industry. The reason for grouping preparers into two industry types was because more than 55% of companies listed on the Jakarta Stock Exchange are manufacturing firms. Profile of preparers as respondents of this study is depicted in Table 1 in the previous section.

Test for Non-Response Bias

The number of preparers' respondents replied to follow-up mailing is 22 (classified as late respondents) and by using a similar manner to carry out the test done by Firth (1979) and Rahman (1999), 22 respondents were chosen from the early reply sample and from the late reply sample respectively. The result of test of non-response bias by using Mann-Whitney U test for non-response bias, indicates that for each group of voluntary disclosure items there was no significant difference between early and late respondents. The result indicates that there was no response bias between early and late respondents for preparers' category.

Determining the Preparers' Degree of Importance

The same method was used to collect data from preparers. Preparers were requested to indicate the degree of importance they attach to each of the 58 voluntary disclosure items based on a 5-point Likert scale. The ranking of each item based on the mean score is presented in Appendix B column preparers' perspectives. Results reveals that out of the 58 voluntary items, there are 12 items with a score between 4.00 and 5.00; 35 items between 3.00 and 4.00, and the remaining 11 items between 2.00 and 3.00. This indicates that preparers consider most of the items as important. Items having scores between 4.00 and 5.00 are perceived to be very important to the preparers. Again, mean score of 4 and above is assumed to indicate that the item is perceived as important in this study (as is applied for user's category)

From Appendix A it can be seen that all items in group 4 (product and service improvement) dominate the importance of voluntary items from preparers' perspectives. Three items in group 6 and 3 respectively have the high rank of importance. This implies that respondents placed a great interest on detailed corporate information about vision and mission, past operation and service improvement, which could affect companies' performance. For example, the high ranking of 'vision and mission statement' and 'evaluation of past performance'; 'product quality assurance', 'product safety', and also 'research toward quality improvement' by respondents means that these information are most important to preparers because they presumably would like to inform users how the company operates and manages its resources. In relation to the consensus between groups of preparers, by using Mann-Whitney U Test, the result reveals that out of the 58 voluntary items, 38 items (65.51%) have no significant difference in importance perceived by both group of preparers.

COMPARISON BETWEEN USER'S AND PREPARER'S PERSPECTIVE OF IMPORTANCE

There are two objectives of making comparison about the importance of voluntary items between users and preparers. Firstly is to determine which items were highly ranked by both users and preparers, and secondly, to determine whether there is any consensus regarding the importance given by users and preparers on 58 voluntary disclosure items. The results reveals that out of the 58 voluntary items, there are 19 items with mean score between 4.00 and 5.00; 27 items between 3.00 and 4.00, and the remaining 12 items have mean scores between 2.00 and 3.00. Items having scores between 4.00 and 5.00 are perceived to be very important to the users and preparers. The ranking of the 19 most important items, based on the mean scores 4.00 and above, is presented in Table 4. Mean score greater than or equal to 4 is assumed to be important in this study.

TABLE 4

**Mean Score of The Nineteen Most Important
Voluntary Disclosure Items
(From Users' and Preparers' Perspectives)**

Rank	Item Code	Name of item	Mean	Std. Deviation
1	3h	Evaluation of past performance	4.37	.83
2	6f	Description of core activities/products	4.36	.84
3	3f	Market share development	4.36	.78
4	6b	Vision and mission statements	4.35	.85
5	6a	Statement of financial objectives	4.29	.80
6	4a	Product quality assurance	4.27	.84
7	3g	Business strategy/policy	4.26	.86
8	7c	Profit forecast	4.19	.90
9	4e	Responsiveness to customer complaints	4.19	.95
10	7a	Sales forecast	4.18	.93
11	8d	Executives director's business experience	4.18	.94
12	7e	Information on planned capital expenditure	4.14	.84
13	3e	Discussion of past industry trend	4.12	.86
14	3a	Breakdown of borrowing	4.09	.91
15	4d	Computerization and automation to service customers	4.07	.92
16	3c	Overall financing costs	4.06	.86
17	4c	Product safety	4.06	.96
18	4b	Research toward quality improvement	4.05	.94
19	6c	Statement of marketing objectives	4.03	.89

Based on the mean score in table 4 it can be seen that all items in group 4 (product and service improvement), 6 items in group 3 (review of financial and past operations), 4 items in group 6 (general corporate information), and 3 items in group 7 (review of future prospects) dominate the importance of voluntary disclosure items from users' and preparers' perspectives. The result indicates the nineteen items which are categorized as important to very important perceived by both users and preparers (indicated by the mean score of all items between 4.00 to 5.00). This provides a valuable input for Indonesian regulatory bodies, hence those 19 items should be included in company's annual reports and can be recommended as mandatory items.

In relation to consensus users and preparers concerning the importance of voluntary disclosure items, a test using Mann-Whitney U test was conducted. The purpose is to determine the level of agreement between users and preparers. Table 5 summaries the result of Mann-Whitney U test (at the level of significant = 0.05).

As can be seen in table 5 there are 17 items that are statistically different at the level of significance of 0.05. This means that there is 70.69% (17 divided by 58) degree of consensus concerning the importance of voluntary disclosure items between users and preparers.

Based on comparisons between users' and preparers' perspectives on the importance of voluntary items above, it can be summarized that only 17 from 58 items (29.31%) are statistically different at 5% significance level. It means that 41 items (70.69%) are not statistically different and it indicates that the level of consensus between users and preparers is equal to 70.69%. If the result of this study concerning the level of agreement is compared to those in the previous study by Chandra (1974) and Chandra and Greenball (1977), they are contradicting since Chandra found that there is no consensus between users (security analysts) and preparers (financial managers). The level of consensus in their study was 40% and 27% respectively. It also contradicts with the results of Firth (1978) in which preparers and users have disagreed significantly on 49 items of 75 items (65%).

TABLE 5
Summary of the Result of Mann-Whitney U Test
Between Users and Preparers.

Group of VD Items	No. of items	Items that are statistically different	Findings		
			Users' Mean rank	Preparers' Mean rank	Sig.
1 Employee Information	12	1. Breakdown of employee by line of department.	76.64	57.55	.004
		2. Number of employee trained	74.62	60.28	.029
		3. Discussion of employee welfare	83.90	47.79	.000
2 Social Responsibility Information.	8	None			
3 Review of Financial and Past Operation	8	1. Breakdown of borrowings	79.13	54.21	.000
		2. Breakdown of receivables	77.46	56.45	.001
		3. Effect of interest rates on current results.	76.69	57.49	.003
		4. Discussion of past industry trend	78.27	55.36	.000
		5. Market share development	75.18	59.52	.011
		6. Business strategy/policy.	78.37	55.23	.000
4 Product & Service Improvement	5	None			
5 Research & Development	5	1. New product development.	75.34	59.30	.014
		2. Company's policy on R&D	74.38	60.59	.033
6 General Corporate information	7	None			
7 Review of future prospects	5	1. Sales forecast.	80.79	51.97	.000
		2. Cash flow projections for the next 1-5 years.	80.13	52.85	.000
		3. Profit forecast	78.67	54.83	.000
		4. Forecast assumptions.	79.63	53.53	.000
		5. Information on planned capital expenditure	79.58	53.60	.000
8. Inform. About Directors	5	1. Director's affiliation with other organization	77.52	56.37	.001
9. Environmental information	3	None			

SUMMARY AND CONCLUSIONS

This study set out to identify the voluntary disclosure items in the annual reports of Indonesian public-listed companies. A list of 60 items can be classified as voluntary disclosure items that are often presented in the annual reports of public-listed companies was resulted. A primary survey was undertaken to determine the importance of voluntary disclosure items perceived by users and preparers of annual reports.

This study provides an insight into the perception of users of the annual reports. By using financial analysts as respondents, the results show that out of the 58 voluntary items, users

perceived 24 items as 'important' to 'very-important' category (mean score between 4.00 and 5.00), 22 items between 3.00 and 4.00, and the remaining 12 items have mean scores between 2.00 and 3.00. This indicates that the respondents (users) consider none of the items 'very unimportant or useless'. Mean scores between 4.00 and 5.00 are perceived to be important to very important to the users. An analysis of the results indicates that the respondents placed a great interest on forward-looking information, which could affect companies' performance such as 'market share development', 'information on planned capital expenditure', 'development of corporate operations', 'forecast assumptions', and 'cash-flow projection for the next 1-5 years'. The implication of development information items for companies is that if companies want to be more user oriented, these items should be disclosed in their annual reports.

score between 4.00 and 5.00; 35 items between 3.00 and 4.00, and the remaining (11 items) have mean scores between 2.00 and 3.00. This indicates that preparers consider most of the items as important. An analysis of the result implies that the respondents placed a great interest on product and service improvement, general corporate information, and review of financial and past operation which could affect companies' performance. These information are most important to preparers because they presumably would like to inform users with respect to how the company is operating and managing its resources.

This study also determines which items were highly ranked from both users' and preparers' perspectives. Based on the mean scores given by both users and preparers, the result shows that there are 19 items categorized as important to very important perceived by both users and preparers. This result becomes a valuable input for Indonesian regulatory bodies, therefore, those 19 items should be included in company's annual reports and can be recommended as mandatory items. In relation to the level of consensus between users and preparers, an analysis of the result shows that only 17 from 58 items (29.31%) are statistically different at 5% level of significant.. It means that there is consensus between users and preparers with regards to the balance of 41 items (70.69%).

Finally, similar to any other research, this study also has its limitations. The voluntary disclosure items included in this study may not have been exhaustive. However it is exhaustive up to the date of research. Future researchers should update the number of voluntary disclosure items because there are sound to be change due to some renewal or additional regulations from the Indonesian Capital Market Agency and Accounting Standards concerning the items that should be disclosed in firm's annual reports.

Although the response rate of respondents concerning the importance of voluntary disclosure items is relatively high (39.58%) if compared to other studies using mail questionnaires in Indonesia that have an average response rate of 10 – 20%, the number of respondents (especially preparers) was relatively small. Further research with increased number of respondents of both users and preparers would be better, so that more analysis can be conducted.

This study is able to suggest important voluntary disclosure items that should be mandated, but does not look into how the voluntary disclosure items should be presented. A recommendation that voluntary disclosure should be mandated was based solely on users' and preparers' perceptions of importance of the item without undertaking further analysis. For example cost and benefits analysis was not done. Further research focusing solely on this topic could be done. Issues such as information overload and whether or not currently information is sufficient to make decisions can be examined further.

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