CHARACTERISTICS OF FIRMS THAT ISSUE CONCISE FINANCIAL REPORTS IN AUSTRALIA

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Abstract

This study represents quantitative replication research in the area of summarised annual reporting in Australia. It investigates the characteristics of 176 publicly listed Australian firms and through both univariate and multivariate analyses finds that firm size and shareholder dispersion are significant determinants of firms that voluntarily choose to issue Concise Financial Reports (CFRs). Given the nature of summarised reporting the implications of these findings are important for preparers, users, professional and regulatory bodies and academics. If the CFR is the only formal communication between large complex companies (Whittred, 1987) and large numbers of individual shareholders it is essential that relevant information is not merely summarised but represents complete, comparable and effectively communicated financial information.

Key words: concise financial reports, firm characteristics, shareholders.

Category: refereed article

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Introduction

In 1998, as part of the Corporations Law simplification program and in response to overseas initiatives, the Australian government introduced the concept of summarised reporting, which allowed companies to choose to send shareholders a concise financial report (CFR) instead of the full annual report. A concise report contains the financial statements derived from the full financial report however the technical notes to the financial statements are not required to be included in the CFR. Instead, the financial statements are accompanied by a discussion and analysis of the principal factors affecting the financial position and performance of an entity. This type of report was developed, in Australia and overseas, specifically to improve the communication of complex financial information between companies and their shareholders (Nair and Rittenberg, 1990; AARF, 1998; ASB, 2000).

For the past three decades numerous studies have consistently found financial reporting to be overly technical and complex, particularly in relation to users who have little accounting knowledge and are less financially sophisticated (Lee and Tweedie, 1977; 1990; Chenhall and Juchau, 1977; Courtis, 1985; 2000; Anderson and Epstein, 1995; Bartlett and Chandler, 1997.

Nevertheless, managerial discretion over accounting choice and presentation issues are generally made in the context of accounting principles promulgated by the relevant Accounting Standards Board and sanctioned by the legislature (Lee and Morse, 1990; Ward, 1998). For this reason the CFR initiative formulated by the Australian government and supported by the Australian Accounting Standards Board is instrumental in providing
annual report preparers with an opportunity to differentiate between the needs of various stakeholders. Epstein and Pava (1994) suggested that the full annual report is designed to meet the needs of institutional investors and therefore does not and cannot meet the requirements of less sophisticated individual investors, at the same time. Subsequent presentation of the annual report in a manner that responds to the varying degrees of user capacity and ability to understand financial information, will more readily meet the needs of all shareholder groups (Courtis, 1985).

From both a regulatory and managerial perspective, summarised or concise reports represent an opportunity to promote positive relationships with shareholders who would welcome improved communication through a more understandable document and at the same time help to maximise the dissemination of important company information to the general public. The literature also supports arguments that summarised reports can offer cost benefits and administrative advantages for some companies (Ward, 1998; Ernst and Young, 2000).

Despite the emergence of this new form of financial reporting and the enhanced flexibility available to preparers, there have been few academic studies that have examined summarised reports, particularly in Australia. A notable exception is O’Sullivan and Percy (2004) who examined the structure of CFRs and found that concise reports, contrary to what their name suggests, tend to be larger than their full counterparts and in fact appear to be superseding the full annual report (O’Sullivan and Percy, 2004). This evidence begins to highlight the importance of further research into CFRs in the
Australian context especially as most of the prior research in this area has been conducted in the United States (for example: Chandra, 1989; Lee & Morse, 1990; Schroeder & Gibson, 1992; Epstein & Pava, 1994) and more recently in the United Kingdom (Ward, 1998). Notably these studies have generally been descriptive in nature and motivated by the innovative qualities depicted by early adopters. In all jurisdictions it is the company that chooses whether or not to issue a summarised annual report and therefore the study of the characteristics of adopting firms helps to identify companies more likely to utilise the summarised reporting format. Evidence from the U.S. and U.K. suggests that shareholder dispersion, the size of a firm, industry membership (Ward, 1998), listing status, audit firm size and profitability (Chandra, 1989; Lee and Morse, 1990) are characteristics that differentiate companies that voluntarily issue summarised annual reports.

Most commonly accounting researchers select corporate characteristics with reference to agency theory, political cost theory, and theories based on monitoring, signalling and information asymmetry arguments (Ahmed and Courtis, 1999:37). Lee and Morse (1990) however, dismissed ‘contract-based’ reasons when aligning company characteristics to firms that issued summary reports stating that the accounting choice to issue summary annual reports did not change the accounting numbers, it merely reported them in a more aggregate form. Furthermore, Lee and Morse (1990) found that in the composition of summary reports footnotes were generally eliminated and there was a greater tendency to present more narratives, charts and graphs. These findings and the anecdotal evidence collected from initial adopters in the U.S and U.K. confirms that the
motive for issuing summarised annual reports is driven by the theoretical explanation of improving communication with less financially sophisticated stockholders (Schneider, 1988; Chandra, 1989; Cook and Sutton, 1995; Ward, 1998). Clearly, the information needs of unsophisticated individual investors differ from the needs of other users, such as sophisticated institutional. Furthermore, companies have an obligation to communicate useful information to unsophisticated investors as well as the more sophisticated ones (Lee and Morse, 1990; SAC 2), therefore the association between firms that issue CFRs and specific corporate characteristics must clearly be informed by this theoretical argument.

Given that AASB 1039: ‘Concise Financial Reports’ is a non-mandatory accounting standard, the purpose of this study is to investigate any distinguishing corporate attributes that are associated with Australian firms that voluntarily choose to issue concise financial reports (CFRs) compared with firms that choose not to issue CFRs.

It is motivated by the lack of empirical evidence regarding the voluntary adoption of concise financial reporting in Australia. Evidence from the U.S. and the U.K. suggests that the majority of firms are choosing not to use summary reports (Cook and Sutton, 1995; Ward, 1998) which, in itself offers numerous research opportunities to assess the issue of summarised reporting both within Australia and overseas. However, this study focuses on firms that do issue CFRs in Australia. Private shareholders in Australia as well as in the U.S. and U.K. have indicated strong support for simplified reporting (Epstein and Pava, 1994; Anderson and Epstein, 1995; Bartlett and Chandler, 1997).
Furthermore, following a decade of high profile floats and demutualisations that have dominated the Australian share market (ASX, 2000b), the number of Australians that own shares either directly or indirectly has increased from 15% in 1991 to 54% in 2000 (ASX, 2000a). Significantly, 41% of all Australians invest directly in equities which has clearly provided the government with the impetus to promote a more understandable financial reporting document. Notably, the introduction of concise financial reporting in Australia coincided with this dramatic increase in the number of small shareholders to the equities market during the 1990s. This trend is consistent with overseas experiences (ASX, 2000a) and indicates that the percentage of unsophisticated private shareholders has increased dramatically, adding further motivation for research in this area.

The issue of summarised reporting clearly has implications for the preparers of financial reports, for professional and regulatory bodies as well as for academics. This study, therefore contributes to the financial accounting research literature, and specifically to the literature on summarised annual reporting, by addressing current and relevant issues in an area confined by limited empirical evidence. Its contribution to Australian accounting research literature is particularly important.

The remainder of this paper is structured as follows. The next section examines prior research in relation to concise financial reporting and more generally the concept of summarised annual reports. Details of the specific corporate characteristics associated with the issuance of CFRs are followed by the discussion of the research method used to
test the propositions developed. An analysis of the data and results of the study precede the conclusion, in which the limitations of this study are discussed and recommendations for future research in this area are offered.

The Usefulness of Corporate Annual Reports

Statement of Accounting Concepts, SAC 2 ‘Objective of General Purpose Financial Reporting’ stipulates that “general purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources” (para. 43). Despite this, research implies that, from the shareholders’ perspective, the corporate annual report falls short of the conceptual framework’s stipulation that information is useful to the users (Epstein and Pava, 1993; Anderson et al, 1994). This is particularly the case for users with limited knowledge of accounting concepts and issues (Anderson and Epstein, 1995; Courtis, 2000).

One argument purports that the usefulness of annual reports is directly related to the degree of narrative complexity (Smith and Taffler, 1992). Studies have measured this complexity in terms of readability and understandability finding that shareholders with little financial experience are disadvantaged (Courtis, 1995; 1998; Jones and Shoemaker, 1994; Clatworthy and Jones, 2001; Stanton and Stanton, 2002; Macintosh and Baker, 2002). Cook and Sutton (1995) argue that it is information overload caused by the voluminous nature of technical information in annual reports that frustrates shareholders and “overwhelms the ability and willingness of many audiences to read and understand [them]” (1995:12).
Schroeder and Gibson (1992) analysed the effectiveness of the summary annual report in improving readability and reducing information load. It was noted that the concept of summarised reporting is suited to addressing concerns about readability and the propensity of full annual reports to create a situation of information overload (Schroeder and Gibson, 1992). Interestingly, the results showed that summary annual reports are shorter, simpler documents, however other than a reduction in the use of passive voice, they showed little of the expected improvement in readability (Schroeder and Gibson, 1992).

Clearly, more descriptive narratives and less technical information does not necessarily equate to a more readable document. In addition, understandability or usefulness of financial information may be influenced not only by factors such as volume, language, or format but also by the characteristics of users or simply that the annual report fails to meet the required informational needs of the user (Parker, 1982; Henderson and Peirson, 2000). Shareholder studies tend not to distinguish between these usefulness issues nevertheless, they consistently find that the needs of unsophisticated individual shareholders differ from the needs of other users, such as institutional investors or financial analysts (Epstein and Pava, 1993; Anderson, Epstein and Harrison, 1994; Anderson and Epstein, 1995; Bartlett and Chandler, 1997). Australian evidence (Anderson and Epstein, 1995) shows for example, that shareholders have most difficulty understanding the statement of financial position, the cash flow statement and the notes to financial statements respectively. Interestingly, these financial statements were ranked
more useful by sophisticated investors, with unsophisticated investors indicating a preference for a summary annual report presented in less technical terms (Anderson and Epstein, 1995).

Significantly, recent evidence of Australian shareholders suggests that the issues of information overload, complexity and understandability of annual reports remains a concern. Walters (2002) reported that a CPA Australia survey found only 18% of shareholders believe they can rely on the information presented in annual reports and only 20% read the report in detail. Furthermore, 68% of shareholders in the surveyed sample acknowledged difficulties understanding the financial statements, indicating that they are too complex to be useful.

The Main Objectives for Issuing Summarised Reports

The main aim of concise or summarised annual reports is to make key information more accessible to average users (Ernst and Young, 2000). Other considerations include cost savings and better public relations (Gambino, 1987; Simone, 1988; Hamilton, 1990). Schneider (1988) agreed that the main issues for the three initial adopters in the U.S. “were cost, readability, credibility, potential shareholder reaction and potential analyst reaction” (1988:21). The summary annual report was seen as a positive concept for achieving these objectives (Lee and Morse, 1990). The Australian Government’s Simplification Task Force similarly highlighted cost savings as the main potential benefit for companies should the practice of issuing concise reports be adopted. At the same
time it was recognised that concise financial reports would be easier to read and understand for shareholders (James, 1995).

Interestingly, the same issues listed as positive aspects of the summary report, as discussed earlier, also prevented many of the largest U.S. manufacturing firms from issuing a summary annual report (Schneider, 1988). It was expected that any cost savings would be offset by expanded SEC requirements, and the perceived readability and credibility would not be achieved using the new format of summarised reporting (Rezaee and Porter, 1988). Furthermore, the most important consideration for non-adopters was the risk of potential adverse shareholder and analyst reactions (Cook and Sutton, 1995). The risk factor extended to some accountants who feared the use of summary reports would also create additional legal liability (Rezaee and Porter, 1988). Schneider (1988) concluded that initial adoption of summarised annual reporting required “a very aggressive attitude toward innovation in financial communication” (1988:24). In fact, voluntary disclosure literature, in general, suggests that companies will balance the benefits against both the direct and perceived indirect costs of providing certain information (Meek, Roberts and Gray, 1995).

**Corporate Characteristics and Summarised Annual Reports**

The association between corporate characteristics and annual report disclosures in general has been the subject of much attention by accounting researchers over many years (Ahmed and Courtis, 1999). In relation to the issuance of summarised annual reports, a number of specific corporate characteristics have been aligned to firms that voluntarily
choose to issue a summary report (Lee and Morse, 1990; Ward, 1998). The theory underlying the introduction of summarised annual reports is that the information needs of unsophisticated individual investors differ from the needs of other users, such as sophisticated institutional investors (Epstein and Pava, 1994). Furthermore, companies not only have an obligation to communicate useful information to unsophisticated investors as well as the more sophisticated ones, they also have an obligation (in varying degrees of importance) to consider issues of cost, profitability, risk, competitiveness, public relations and industry norms and expectations. Within the business environment, the CFR represents an opportunity for companies faced with the difficulty of accommodating different information needs to communicate with less sophisticated members in an appropriate manner. The extent to which that opportunity is embraced is likely to be affected by particular attributes of the firm.

**Shareholder dispersion**

Ward (1998) hypothesised and subsequently found that U.K. firms with a large dispersion of shareholders were more likely to issue summary financial statements. Due to the nature of summarised reporting, it is generally accepted that the main beneficiaries of summary or concise financial reports are individual unsophisticated shareholders (Epstein and Pava, 1994; Ernst and Young, 2000). Furthermore, the statistical evidence from the Australian Stock Exchange supports the literature showing that individual investors are increasingly unsophisticated (ASX, 2000a). Anderson and Epstein (1995) found the majority of shareholders in favour of a summarised report were investors who lacked formal education or job experience in accounting. It follows from this that firms with a
large shareholder dispersion have a greater incentive to employ appropriate means to overcome perceived complexities in their annual report communication. With over half of all Australians owning shares (ASX, 2000a), the sheer magnitude of numbers in this group of investors indicates the importance of companies maintaining good relationships through the effective communication of financial information.

Previous empirical research suggests however that a number of other variables may also be associated with the issuance of CFRs, due mainly to the voluntary nature of this reporting vehicle. The variables examined here include company size, profitability, audit firm size and industry membership.

Firm Size

Company size has consistently been reported as the most statistically significant variable in studies examining the differences between voluntary reporting practices of firms (McNally et al, 1982; McKinnon and Dalimunthe, 1993; Hossain and Adams, 1995; Meek et al., 1995; Ahmed and Courtis, 1999; Choon, Smith and Taylor, 2000). More specifically, research relating to summarised annual reports provides evidence of a positive relationship between firm size and firms that voluntarily choose to issue summarised reports (Lee and Morse, 1990; Ward, 1998).

One explanation for this size relationship to issuers of summarised reports is political visibility. The nature and style of the CFR makes it an attractive public relations device (Ward, 1998). Furthermore, where regulatory bodies have endorsed specific voluntary
accounting practices, politically sensitive large firms (Watts and Zimmerman, 1986) are more likely to comply (Juan and Chye, 1993).

In addition, large firms tend to have more complex annual reports (Whittred, 1987; Meek et al., 1995). Since the primary objective of summarised reports is to address the problems associated with increased complexities in the full financial report (Epstein and Pava, 1994), the CFR provides an appropriate vehicle for large companies to communicate complex financial information.

An alternative explanation for the size relationship is risk. The adoption of new accounting developments is invariably associated with large companies (Ward, 1998) due to the fact that the risks associated with being an early adopter are high and large firms are more likely to have the resources available to absorb any adverse impact on the firm (Cook and Sutton, 1995; Ward, 1998).

Profitability

Disseminating information in various forms is a costly exercise and the production of annual reports is a multi-billion dollar business (Squiers, 1989), therefore it is understandable that profitability and cost would be major factors in the decision to produce a summarised version of the annual report in addition to the mandated full financial report (Gambino, 1987; Simone, 1988; Schneider, 1988; Hamilton, 1990; Lee and Morse, 1990). In the U.S. (Schneider, 1988) and the U.K. (Ward, 1998) one of the main reasons for companies not issuing summarised reports was the uncertainty
surrounding the cost element of producing summary reports and the perception that there would be no cost advantages.

Courtis’ (1995) demonstrated link between profitability and improved levels of readability in annual reports also supports the argument of a positive relationship existing between profitability and the issuance of CFRs. Courtis (1995) argued that the reports of profitable firms are easier to read due to the availability of dedicated funds to ensure information is communicated effectively.

Audit Firm Size
Although empirical support for a positive relationship between audit firm size and disclosure level is inconclusive (Ahmed and Courtis, 1999), Lee and Morse (1990) in their analysis of 32 U.S. firms that issued summary annual reports, found that the relationship between issuers and ‘Big-Eight’ audit firms was highly significantly correlated. Lee and Morse (1990) cautioned however that their results could be a function of firm size, since larger firms tend to be audited by major audit firms. Another explanation for a positive relationship could be that the ‘top tier’ audit firms are more likely to influence their clients in relation to summary annual reports if they have been instrumental in developing the practice. In the example discussed earlier, Deloitte, Haskins and Sells, the firm responsible for developing the U.S. guidelines, was also the auditor of McKesson’s, the first U.S. company to issue a summary annual report (Rezaee and Porter, 1988). Chandra (1989) also found that ‘Big-Eight’ firms had audited all firms that issued summary annual reports in 1987.
From a different point of view, Rezaee and Porter (1988) highlighted the apprehension that some accountants felt in the U.S., that the introduction of summary reporting could create additional legal liability in the absence of clear-cut guidelines. Larger audit firms, however, are more likely to have access to internal legal support.

Industry

According to Watts and Zimmerman (1986) a firm’s accounting policy choice could be affected by the industry to which the firm belongs, although annual report disclosure studies are inconclusive with regard to the significance of industry membership (Ahmed and Courtis, 1999). In relation to summarised reports, results are also inconsistent. For example, the pioneers of summary annual reporting in the U.S. were from a diverse range of industries (Schneider, 1988). Likewise, the results of Lee and Morse’s (1990) study suggested no strong industry effect in relation to firms that issue summary annual reports, although there was some indication that retail stores and banks may have been over-represented. Ward (1998) hypothesised that in the banking industry familiarity with the public provision of their accounting data would facilitate the adoption of summary financial statements. Contrary to other studies, Ward’s (1998) results supported the industry effect hypothesis. This result could be explained by the fact that consumer-oriented industries are more likely to be concerned with the corporate image portrayed in annual reports (Cowen, Ferreri and Parker, 1987; Stanton, Stanton and Pires, 2004) or alternatively that industries operating in direct proximity to the final consumer with respect to annual report disclosures (Adams et al.1998).
Another explanation for Ward’s (1998) results could be that because the banking and finance sector are generally subject to additional reporting requirements their financial reports are likely to be more complex. Chandra (1989) noted that energy and power firms in the US had taken advantage of the summary report to delete complex financial statistics normally included in their full report. In this study it is argued that the more onerous and complex the reporting requirements, the more likely the firms in that industry are to issue CFRs, to accommodate their unsophisticated members.

Furthermore, given that prior research has shown that industry peculiarities can influence the content of the corporate annual report (Meek et al., 1995; Stanton and Stanton, 2002), it is conceivable that industry norms, expectations, regulations and other distinctive features will influence the decision of whether or not a firm should issue a concise financial report.

Based on the aforementioned arguments the following hypotheses are developed:

**H1**  The issuance of concise financial reports is positively related to the extent ordinary shares in the company are dispersed among individual shareholders.

**H2**  The issuance of concise financial reports is positively related to firm size.

**H3**  The issuance of concise financial reports is positively related to firm economic performance.

**H4**  Companies audited by a Big-5 audit firm are more likely to issue CFRs than
companies audited by non Big-5 firms.

H5 The issuance of concise financial reports is associated with the industry sector in which the firm operates.

Method

Sample

In this study a control group design is used to identify significant differences between the characteristics of CFR firms and non-CFR firms, specifically in relation to shareholder dispersion, firm size, profitability, audit firm size and industry membership. The population of firms that issue CFRs are identified from the ‘Top 500’ firms listed on the Australian Stock Exchange. An equal number of control firms are randomly selected from the same group of ‘Top 500’ firms.

This study examines the characteristics of 176 publicly listed firms and identifies the distinguishing characteristics of those who have chosen to issue a concise financial report. Since AASB 1039: ‘Concise Financial Reports’ is a non-mandatory accounting standard, a control group design is used to compare the characteristics of firms that voluntarily issued CFRs (the treatment group) with firms who had chosen not to issue CFRs (the control group). The control group design is used in this study to ensure that any distinguishing characteristics found in the treatment group and not in the control group are more likely to be the result of the hypothesised relationship rather than as a result of other confounding variables.
A total of 88 ‘Top 500’ firms were identified as issuing a CFR in 2001. This represents 18% of the ‘Top 500’ Australian listed firms. The control group comprised a sample of 88 randomly chosen non-issuing companies taken from the same list of Huntleys’ Shareholder 2001 ‘Top 500’ companies. The population of CFR firms is identified using the ASX DataSNAP database of company announcements. The information supplied by the ASX is cross-referenced and verified using the search function on the Connect4 database and corporate websites where necessary.

While every attempt has been made to ensure the sample selection process captures all firms in the ‘Top 500’ that issued CFRs it may not be exhaustive as there is no comprehensive list available of all companies that issue CFRs.

**Measurement of Variables**

The discrete dependent variable, whether or not a firm issues CFRs, is dichotomously coded 1 for firms issuing CFRs and 0 otherwise.

**Shareholder Dispersion**

Consistent with other Australian disclosure studies (McKinnon and Dalimunthe, 1993; Mitchell et al, 1995; Choon et al, 2000), this study uses the percentage of ordinary shares held other than by top 20 shareholders as a proxy measure of ownership dispersion. This information is required by ASX Listing Rule 4.10.1 and is therefore readily available in the annual reports of all Australian listed entities.
Size

Following Lee and Morse (1990) and Ward (1998) market capitalisation is used as an appropriate measure for firm size. Notably, market capitalisation is the only eligibility requirement used by Australia’s premier market indicator, the ‘All Ordinaries Index’ to identify company size (ASX, 2003) and is used extensively to calculate company rankings by size (Huntleys’ shareholder, 2001; BRW, 2003).

Profitability

Disclosure studies in general have shown a preference for using the accounting based ratios of return on assets (ROA) and return on equity (ROE) in their measure of a firm’s profitability level (McNally et al, 1982; Lang and Lundholm, 1993; Baines et al, 2000). Following this, both ROA and ROE are used in the preliminary test of this study because of the unique abilities of both ratios to counteract possible extraneous conditions particular in relation to comparing firms across industry sectors (ROE) and the potential impact from using ratios with an unstable denominator (ROA). To address the issue of potential multicollinearity between the independent variables in the regression model, only ROE is retained as the proxy for firm profitability. ROE is a critical measure of performance to shareholders because of its impact on potential growth and earnings (Gitman et al 2001). Furthermore, given that a firm’s return on asset figure is embedded in the ROE calculation it is not surprising that these two measures of firm performance (ROE & ROA) are highly correlated. Both parametric and non-parametric correlations conducted between the ROE and ROA data collected showed a highly significant relationship (p<.0005). Moreover, this suggests that the choice of performance measure
would be unlikely to alter the results in this study. ROE is calculated as the net operating profit after tax but before ‘significant items’ divided by ordinary shareholders’ funds (Huntleys’ shareholder, 2001).

*Audit firm size*

Consistent with prior summary report research (Chandra, 1989; Lee and Morse, 1990) this study includes audit firm size as proxied by the binary distinction (1=Big 5; 0=others) between top tier audit firms that make up the ‘Big 5’ in 2001 and others.

*Industry Membership*

Industry membership is assessed using the Australian Stock Exchange classification categories. Seven groups of industries are identified. They are: resources, manufacturing, construction, retail, financial services, services and other. Although such classifications are, to an extent, subjective and ad hoc (Hackston and Milne, 1996; Adams et al, 1998), the categories selected are consistent with prior studies (Baines et al., 2000). This categorisation also allows for scrutiny of industries identified in previous summary report studies (Chandra, 1989; Lee and Morse, 1990). The details of industry classifications are given in Appendix 1. Since industry membership is a categorical variable, industry type is coded 0 to 6. Appendix 2 lists the CFR firms in the seven industry groups.

*Testing Procedures*

Utilising the statistical software package SPSS, univariate, bivariate and multivariate analyses are conducted to test the hypotheses developed in this study.
The statistical significance of the descriptive values are analysed using Chi-square tests for the categorical variables and *t*-tests and Mann-Whitney U-tests for the continuous variables. The use of both parametric (*t*-test) and non-parametric (Mann Whitney U) techniques is justified where part of the data is not normally distributed.

Spearman’s Rank-Order Correlation Coefficient is the non-parametric alternative used in this study to empirically indicate the direction, strength and significance of bivariate relationships (Sekaran, 2000). Furthermore, since the Spearman rank correlation uses the rank order for each observation instead of the recorded value, the computation for this coefficient is not sensitive to asymmetrical distributions or the presence of outliers. In addition, the use of log transformations does not reorder data values, so rank remains the same before and after transformation (SPSS, 1996).

A binary logistic regression model is utilised to examine the combined ability of all variables to explain the issuance of CFRs. Previously, Mitchell et al (1995), Ward (1998) and Baines et al (2000) have used logistic regression to test the corporate characteristics related to various reporting practices.

**Data Analysis and Results**

*Descriptive Analysis of Firm Characteristics*

Table 1 presents the descriptive statistics for firms that issued CFRs and the control group firms that did not issue CFRs. On average, CFR firms are larger (Mcap.
mean=$6002.2m); more profitable (ROE mean=11.05%; ROA mean= 8.65%); and have a greater dispersion of shareholders (mean=42.18%); than non-CFR firms (means: $485.6m; 5.60%; -2.74%; 34.64% respectively). Additionally, the median statistic, which is only affected by the number of observations and not the magnitude of extreme data points, also indicates that the majority of CFR firms are larger and have a higher level of shareholder dispersion (median=$1114.9m; and 40.55% respectively) compared to non-CFR firms (median=$117.9m; 29.94%). These preliminary statistics provide early support for hypotheses one and two. Interestingly, the median statistic for profitability, as measured by Return on Assets, is greater for non-CFR firms (7.80%) than for firms that issued CFRs (6.65%). In contrast, the alternative measure of performance, Return on Equity, shows CFR firms have a marginally higher median result (9.25% compared to non-CFRs 8.25%). The standard deviation statistic helps to explain this result showing that although there is a much greater dispersion of size within CFR firms (SD=$13134.19m) compared to non-CFR firms (SD = $1169.96m), the variation in profitability (both ROE and ROA) and shareholder dispersion is greater for non-CFR firms.

In relation to the categorical variables, industry and audit firm, the frequency distributions reported in Table 1 (Panel B) indicate the number of firms issuing CFRs varies considerably between industry sectors. Most notably, firms from the financial service industry are more likely to issue CFRs (29.5%) than firms in any other industry category and moreover, manufacturing firms are more likely not to issue CFRs (26.1%) than firms in any other industry sector. The incidence of firms using Big-5 auditors
indicates that 93.3% of firms that issue CFRs employ a Big-5 audit firm compared to 81.8% of non-CFR firms.

Assessing Normality

Following the previous discussion which highlights a number of wide dispersions in the data set, it is apparent that the normality of the data should be assessed before proceeding with the statistical analysis. The assumption of normality is a prerequisite for many inferential statistical techniques (Coakes and Steed, 2001). Normality is generally considered to exist if skewness indices are not more than 1.0 away from 0 (Schuyler and Cormier, 1996).

Table 1 (Panel A) clearly shows the skewness statistics for size and profitability are beyond normal parameters. To reduce skewness in the data set for the size variable, market capitalisation, standard practice is followed and the natural log transformation is used. This method of accounting for skewed data is consistent with other studies, particularly in relation to ‘size’ variables (McKinnon and Dalimunthe, 1993; Hossain and Adams, 1995; Ward, 1998; Baines et al, 2000; Choon et al, 2000).

Interestingly, the distribution of the profitability data (ROE and ROA) reported in Table 1 (Panel A) is more erratic. The data sets show that for the subset of firms that did not issue CFRs, both ROE and ROA are negatively skewed (-4.36 and -4.83) indicating that the mean is greater than the median. In contrast, ROE and ROA for firms that issued CFRs are positively skewed at 1.03 and 3.12 respectively, which suggests an opposite and smaller deviation from normal distribution than that shown for companies that did
not issue CFRs. The impact of non-normal distributions in relation to the ROE and ROA variable, however, will need to be addressed using non-parametric techniques in the statistical analysis (Coakes and Steed, 2001), since the negative values are not compatible with the natural log transformation process. Furthermore, if the skewness of data occurs in different directions for different groups, no transformation can correct this problem (SPSS, 1996). Both ROE and ROA data are skewed in different directions for different groups and both contain negative values.

The skewness statistic for ‘shareholder dispersion’ in both data sets suggests a relatively normal distribution (.19 and .46).

INSERT TABLE 1

Statistical Analysis of Firm Characteristics

The descriptive data provides some evidence to support H1-H5 but these initial results are not generalisable. To determine the statistical significance of the differences between CFR firms and non-CFR firms as described above, and to establish relationships that will allow inferences to be made from the sample data, both parametric and non-parametric techniques are used since part of the population violates the normal population parameter assumption of parametric tests.

To test hypotheses one, two and three (shareholder dispersion, size and profitability), one-tailed independent sample $t$-tests and the non-parametric alternative, Mann-Whitney U tests are conducted between firms that issued CFRs and firms that did not issue CFRs. Clearly there are highly significant differences between the means of CFR firms and non-CFR firms in both the log of market capitalisation measure of firm size ($t = 8.42, p<.01$)
and shareholder dispersion ($t = 2.66, p<.01$). Furthermore, these differences are in the predicted direction, that is, CFR firms are larger in size and have a greater dispersion of shareholders than non-CFR firms, thereby providing support for hypotheses one and two. No significant differences were found in relation to the performance measure of return on equity or return on assets.

INSERT TABLE 2

A chi-square test for independence is conducted on the categorical variables, as shown in Table 3. Table 3 (Panel A) indicates highly significant differences exist between industries in relation to whether or not firms operating in certain industries have issued CFRs ($\chi^2 = 24.735, df 6, p = .000$). This evidence provides support for hypothesis five. With regard to audit firms the result is also significant, where the chi-square test of independence (Table 3, Panel B) reveals significant differences between CFR firms and non-CFR firms in relation to the type of audit firm used ($\chi^2 = 6.543, df 1, p = .011$). The chi square statistic supports H4 and the proposition that companies audited by a Big-5 audit firm are more likely to issue CFRs than companies audited by non Big-5 firms.

INSERT TABLE 3

Correlation

Having established the existence of a number of significant relationships, a correlation matrix is used to further examine whether or not these variables are systematically related. The Spearman Rank correlation coefficient matrix is presented in Table 4.

INSERT TABLE 4

As shown in Table 4, the issuance of CFRs is positively related to firm size in terms of the log transformation of market capitalisation (LogMCAP). This result is highly
significant at the .01 level. Consistent with the *t*-test results (Table 2), hypothesis two is strongly supported and moreover the results provide corroborating evidence for previous summary report research (Ward, 1998). Table 4 also reveals a highly significant positive relationship exists between CFR firms and the dispersion of shareholders, Big-5 audit firms, and the financial service sector. Firms in the construction industry are also significantly correlated with CFR firms, although this result should be interpreted with caution given that the small sample size may not be representative of the target population (Daniel and Terrell, 1986). Overall these findings support earlier results and prior research (Chandra, 1989; Lee and Morse, 1990; Ward, 1998), which suggest large firms; banks and other financial service providers; companies with a high level of shareholder dispersion and those who employ Big-5 auditors; are more likely to use the CFR format to communicate with less financially sophisticated investors.

Given the strength of these relationships, it is conceivable however, that the respective correlations to CFR firms may in fact be a function of firm size (Lee and Morse, 1990; Courtis, 1995), such that firms with Big-5 auditors or firms in the financial services industry are more likely to issue CFRs, simply by virtue of their size. Furthermore, since bivariate correlations control for neither antecedent nor intervening variables (Yaffee, 2003), it is important to be aware that a spurious correlation may arise from the effect of confounding relationships.
Logistic Regression

Given that Spearman’s correlation coefficient matrix (Table 4) indicated numerous significant bivariate relationships, a regression analysis is performed to examine the combined ability of all variables to explain the issuance of CFRs.

The logistic regression model is based on the natural logarithm of the probability of success (the odds ratio) (Berenson et al 2002) and provides an indication of the statistical significance for each independent variable, as well as for the overall model (Mitchell et al, 1995). However, the statistical power of the logistic regression model is susceptible to inadequate sample sizes (SPSS, 1996) (such as in industry groups construction = 11 and retail = 9). Therefore, the seven industry categories, used in previous tests in this study, are collapsed to facilitate more robust logistic regression analysis. Given that the additional reporting requirements imposed on firms in the financial service sector is likely to result in more complex financial statements, and considering the close proximity in which financial services operate in relation to the final consumer (Ward, 1998), financial service firms are theoretically more likely to issue CFRs. Therefore, the industry variable (BANK) in the logistic regression model represents the industry sector most likely to be a predictor of CFRs issued. The remaining industry sectors have been aggregated to represent all industries other than financial services. Furthermore, the number of financial service firms represented in the current sample (39) does not threaten the statistical reliability of the results. Despite previous evidence that retail firms may be more likely to utilise a summarised reporting format (Lee and Morse, 1990), the number of retail firms in this sample (9) is too small to be statistically reliable.
In addition, only the ROE measure of firm performance is retained in the following logistic regression model, thereby avoiding the potential effects of multicollinearity.

Therefore the model in this study takes the form:

\[
\text{Logit}(p) = \beta_0 + \beta_1 \text{SHD} + \beta_2 \text{LOGMCAP} + \beta_3 \text{ROE} + \beta_4 \text{AUD} + \beta_5 \text{BANK} + \varepsilon
\]

Where:

- \( p \) = the probability of issuing a CFR
- \( \text{SHD} \) = Shareholder dispersion (1 - % shares held by Top 20)
- \( \text{LOGMCAP} \) = firm size as measured by the natural logarithm of market capitalisation at 31 October 2001
- \( \text{ROE} \) = the economic performance of a firm as measured by the accounting ratio, return on equity
- \( \text{AUD} \) = type of auditor (1 if Big-5 audit firm; 0 otherwise)
- \( \text{BANK} \) = Financial service firms (1 if bank, trust, investment or insurance firm; 0 otherwise)
- \( \varepsilon \) = a random error term

The results of the logistic regression are presented in Table 5. A test of the overall model was statistically significant (\( \chi^2 = 65.341, p=.000 \)), indicating that the explanatory variables together adequately predict the probability that a firm will issue a CFR. Furthermore, the overall model accounts for 31.0% of the variance (‘pseudo’ \( R^2 = .312 \)).
Table 5 also reports the regression coefficients, Wald statistic and corresponding significance level for each of the five explanatory variables.

INSERT TABLE 5

Two of the hypothesised effects (H1 and H2) received support in the logistic regression analysis. According to the Wald statistic, firm size [LOGMCAP] and shareholder dispersion [SHD] (\(z = 32.521, p<.01\) and \(z = 4.012, p<.05\) respectively), significantly predicted the issuance of CFRs. This result strongly supports the proposition that larger firms and firms with a higher level of shareholder dispersion are more likely to issue CFRs.

Conclusion

The primary purpose of this study was to investigate the characteristics that differentiate firms that choose to issue CFRs compared to firms that choose not to issue a concise report. The opportunity for companies to specifically tailor an annual report suited to the needs of less financially sophisticated members was introduced in Australia as a result of amendments to Corporations Law in 1998 and coincided with a dramatic increase in the number of individual shareholders to the equities market during the 1990s. Despite shareholder and readability studies consistently finding that traditionally reported financial information is only useful and meaningful to users with some expertise in accounting and/or financial areas (e.g. Courtis, 1982; 1995; Anderson and Epstein, 1995; Bartlett and Chandler, 1997; Smith and Taffler, 1982; 2000), few studies have examined the area of summarised reporting and none have been published in the Australian context.
This study was motivated by the lack of Australian evidence regarding summarised financial reporting and subsequently makes a substantial contribution to the literature in this regard.

The statistical analyses performed in this study indicate that firms who issue CFRs differ from firms that do not issue CFRs. In particular, the results provide strong support for previous research (Lee and Morse, 1990; Ward, 1998) and for two of the hypothesised relationships (H1 and H2), finding that firms that issue CFRs are larger and have a higher level of shareholder dispersion than firms that do not issue CFRs.

In line with previous summary report literature (Chandra, 1989; Lee and Morse, 1990), the tendency of CFR firms to employ a Big-5 audit firm received marginal support. In the same way, the probability that financial service firms would issue a CFR also received marginal support. However, when the explanatory ability of Big-5 audit firms and the industry effect was tested in a logistic regression model, neither was found to be significant in the presence of other predictors. This industry effect result contradicts the significant findings of Ward (1998). One explanation for this result is that audit firms and industry effect may be a function of size (Lee and Morse, 1990). Notably, both Big-5 auditors and financial service firms were systematically and positively correlated to firm size. Alternatively the relationship between Big-5 auditors and firm size could be that the use of a Big-5 audit firm is a function of industry specialisations. Hypotheses four and five are only tentatively supported.
Profitability was not significantly related to CFR firms, although, consistent with Lee and Morse’s (1990) findings, CFR firms are slightly more profitable than non-CFR firms. However, since this relationship is not significant, hypothesis three cannot be accepted.

As in studies such as this, there are limitations that may have also impacted on results. For example, size measures used can be a proxy for omitted variables and industry classifications are subjective. Furthermore, the use of alternative proxy measures may alter results. Another limitation of this study is that it is restricted to a single period. Overseas evidence of companies ceasing to use summary reports (Hamilton, 1990) suggests that companies issuing CFRs in 2001 may not choose to do so in subsequent years or alternatively may not have issued CFRs in the previous 2 years. This limitation could be rectified with a longitudinal study. Future research could examine the issues raised here and extend this research by addressing the limitations described.

*Implications and Future Research*

Since the objective of general purpose financial reports is to provide information that is useful and understandable to the users of those reports (SAC 2 and SAC 3), the implications of these findings are important for preparers, users, professional and regulatory bodies and academics.

Overall, given the voluntary nature of concise financial reporting and its specific focus on less financially sophisticated investors, this study provides a significant contribution to the voluntary disclosure literature. In particular, it highlights for the first time that in
Australia large companies and companies with a wide dispersion of shareholders are utilising the summarised reporting format to tailor their communications to meet the needs of certain stakeholders. The implication for preparers is that they need to be aware that summarised reporting involves presenting relevant information more effectively (Hammill, 1979) not just in an abbreviated or simplified manner. In addition preparers need to mindful of expressing accounting jargon in simpler but universally valid terms (Hammill, 1979). This would be a particularly important aspect for large firms communicating with an international audience.

Conceivably, the CFR may be the only formal communication between a company and their shareholders so it is essential that important information is conveyed appropriately. Nair and Rittenberg (1990) criticised summary reports stating that they are incompatible with the conceptual framework criteria of completeness, comparability and understandability. They argue that while summary reports may be easier to read, they do not and cannot provide adequate information to enable shareholders to make rational investment decisions. Consequently, an implication for the non-professional user is the need to be vigilant with regard to the type of report they receive and the information they require to make fully informed decisions.

The empirical findings of this study also suggest that smaller companies should consider producing a CFR if they wish to be comparable and competitive in a rapidly increasing private shareholder market. Hammill (1979) goes further to suggest that all companies
have an obligation to account and irrespective of size, the quality of information should be the same.

Policymakers also need to consider the significance of private shareholders not only for large firms but for smaller companies as well. Most notably they need to take into account the costs and benefits associated with the issuance of CFRs as well as minimum information required so that the CFR continues to meet reporting standards. Furthermore, legislative changes and the current move to international accounting standards will ensure that there will be a number of policy implications with regard to these findings and the issuance of CFRs. For example, AASB’s ED138: Concise Financial Reports, released in December 2004, expresses the concern that the integrity of CFR disclosures as well as the consistency and comparability to the CFRs of non-listed companies, be preserved (2004:5).

Finally the results of this study have implications for academics and future research. Many accounting researchers collect sample data from the annual reports of Australia’s ‘Top 500’ firms. Given that large firms are likely to issue CFRs, study results may be affected if the distinction is not made between information taken from a full annual report and a CFR.

A valid future research direction for CFR research is in this area of voluntary disclosures. Although improved communication is often cited as the main reason for issuing summary reports, there is a plethora of voluntary disclosure research in the
accounting literature that offers alternative explanations for firms choosing to issue CFRs. Within the realm of voluntary disclosures any one of a number of different perspectives may be taken, for example, contracting theory, signalling theory, political economy, accountability or stakeholder theory, or legitimacy theory.

Clearly, CFR research also fits well within the corporate governance arena as best practice recommendations (ASX 2003) suggest that companies should communicate effectively with their shareholders. Specifically, future research could be undertaken to assess Australian shareholder reactions to the CFR and from a managerial perspective, further research could examine why a company issues a CFR, who decides what should be included, the reasons for not issuing a CFR, and the response of managers to the concept of the CFR. Clearly, this initial study of the characteristics of firms that issue concise financial reports in Australia and the issues raised surrounding summarised reporting in general provide numerous research opportunities for the future.
APPENDIX 1:

INDUSTRY CATEGORIES

By ASX Classification Index and ASX Codes

<table>
<thead>
<tr>
<th>Dummy variable</th>
<th>Industry</th>
<th>ASX Classification Index</th>
<th>ASX Code</th>
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<tr>
<td>D1</td>
<td>Resources</td>
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<td>Gold</td>
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<td></td>
<td>Other Metals</td>
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<td></td>
<td>Energy</td>
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<tr>
<td></td>
<td>Infrastructure and Utilities</td>
<td>051, 052, 053, 054, 055</td>
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<tr>
<td>D2</td>
<td>Manufacturing</td>
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<td>Alcohol and Tobacco</td>
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<tr>
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<td>Chemicals</td>
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<td>Paper and Packaging</td>
<td>211, 212, 215</td>
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<tr>
<td></td>
<td>Pharmaceuticals &amp; Biotech.</td>
<td>231, 232, 233, 234, 235</td>
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<td></td>
<td>Diversified Industrials</td>
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<td>D3</td>
<td>Construction</td>
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<td></td>
<td>Developers &amp; Contractors</td>
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<td>Engineering</td>
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<td>D5</td>
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<td>Banking and Finance</td>
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<td>Insurance</td>
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<td>Invest. &amp; Financial Services</td>
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<td>181, 182, 183, 184</td>
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<td>Health/Medical Services</td>
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<td></td>
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<td>241, 242, 243</td>
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<td>D0</td>
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<td>Miscellaneous Industrials</td>
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## APPENDIX 2

*Firms that issued CFRs: Listed by Industry Category*

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<tr>
<th>Financial Services</th>
<th>Resources</th>
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<tbody>
<tr>
<td>Australia and New Zealand Banking Group Ltd</td>
<td>Alintagas Limited</td>
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<tr>
<td>Bank of Western Australia Limited</td>
<td>Australian Gas Light Co.</td>
</tr>
<tr>
<td>Bendigo Bank Limited</td>
<td>Australian Pipeline Trust</td>
</tr>
<tr>
<td>Commonwealth Bank of Australia</td>
<td>BHP Billiton Limited</td>
</tr>
<tr>
<td>Macquarie Bank Limited</td>
<td>Caltex Australia Limited</td>
</tr>
<tr>
<td>National Australia Bank</td>
<td>Consolidated Minerals</td>
</tr>
<tr>
<td>St. George Bank Limited</td>
<td>Delta Gold Limited</td>
</tr>
<tr>
<td>Suncorp-Metway Limited</td>
<td>GRD NI</td>
</tr>
<tr>
<td>Westpac Banking Corporation</td>
<td>Iluka Resources</td>
</tr>
<tr>
<td>AMP Limited</td>
<td>Horizon Energy Invest.</td>
</tr>
<tr>
<td>AXA Asia Pacific</td>
<td>Macquarie Infrastructure</td>
</tr>
<tr>
<td>NRMA Insurance Group</td>
<td>Newscrest Mining Limited</td>
</tr>
<tr>
<td>QBE Insurance Group Ltd</td>
<td>Origin Energy Limited</td>
</tr>
<tr>
<td>Australian Stock Exchange</td>
<td>Ranger Minerals Limited</td>
</tr>
<tr>
<td>Computershare Limited</td>
<td>Renewable Energy Corp.</td>
</tr>
<tr>
<td>Centro Properties Group</td>
<td>Rio Tinto Limited</td>
</tr>
<tr>
<td>General Property Trust</td>
<td>United Energy Limited</td>
</tr>
<tr>
<td>GPT Split Trust</td>
<td></td>
</tr>
<tr>
<td>Homemaker Retail Group</td>
<td></td>
</tr>
<tr>
<td>ING Office Fund</td>
<td></td>
</tr>
<tr>
<td>Investa Property Group</td>
<td></td>
</tr>
<tr>
<td>Mirvac Group</td>
<td></td>
</tr>
<tr>
<td>Prime Retail Group</td>
<td></td>
</tr>
<tr>
<td>Thakral Holdings Ltd</td>
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<td>Westfield America Trust</td>
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<td>Westfield Trust</td>
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</tr>
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<td>Construction</td>
</tr>
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<td>Abigroup</td>
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<tr>
<td>Austral Limited</td>
<td>Ariadne Australia Ltd</td>
</tr>
<tr>
<td>Foster's Group Limited</td>
<td>Boral Limited</td>
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<tr>
<td>Futuris Corporation Limited</td>
<td>Clough Limited</td>
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<td>Henry Walker Eltin Group</td>
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<td>Orica Limited</td>
<td>Lend Lease Corporation</td>
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<td>Westfield Holdings</td>
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<tr>
<td>Peter Lehmann Wines Limited</td>
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</tr>
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<td>Southcorp Limited</td>
<td></td>
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<td>Australian Pharmaceutical Industries Limited</td>
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<td>GroPep Limited</td>
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<tr>
<td>Institute of Drug Technology Australia Limited</td>
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<td>Mayne Nickless Limited</td>
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</tr>
<tr>
<td>Services</td>
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<td>Burswood Limited</td>
<td>Alesco Corp. Ltd</td>
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<td>ERG Group</td>
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<td>John Fairfax Holdings</td>
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<td>News Corporation Ltd</td>
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<td>Publishing&amp; Broadcasting</td>
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<td>Qantas Airways Limited</td>
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</tr>
<tr>
<td>TAB Limited</td>
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</tr>
<tr>
<td>Services (cont)</td>
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<tr>
<td>Tabcorp Holdings Ltd</td>
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<tr>
<td>Telstra Corp. Ltd</td>
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</tr>
<tr>
<td>Ten Network Holdings</td>
<td></td>
</tr>
<tr>
<td>Toll Holdings Limited</td>
<td></td>
</tr>
<tr>
<td>Uecomm Limited</td>
<td></td>
</tr>
<tr>
<td>Village Roadshow Ltd</td>
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</tr>
<tr>
<td>TAB Queensland Limited</td>
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References


Table 1: Characteristics of Sample Firms

Panel A:

<table>
<thead>
<tr>
<th>Split Data Set</th>
<th>Market Capitalisation $m</th>
<th>Return on Equity</th>
<th>Return on Assets</th>
<th>Shareholder Dispersion</th>
<th>Valid N</th>
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</thead>
<tbody>
<tr>
<td>No CFR issued</td>
<td>117.85</td>
<td>8.25</td>
<td>7.80</td>
<td>29.94</td>
<td>88</td>
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<td>CFR Issued</td>
<td>1114.90</td>
<td>9.25</td>
<td>6.65</td>
<td>40.55</td>
<td>88</td>
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<table>
<thead>
<tr>
<th>Statistic</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Skewness</th>
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<tbody>
<tr>
<td>Market Capitalisation $m</td>
<td>117.85</td>
<td>1.93</td>
<td>9230.00</td>
<td>485.62</td>
<td>1169.96</td>
<td>5.49</td>
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<tr>
<td>Return on Equity</td>
<td>8.25</td>
<td>-432.80</td>
<td>213.80</td>
<td>5.60</td>
<td>58.35</td>
<td>-4.36</td>
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<tr>
<td>Return on Assets</td>
<td>7.80</td>
<td>-367.20</td>
<td>296.60</td>
<td>-2.74</td>
<td>91.16</td>
<td>-4.63</td>
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<tr>
<td>Shareholder Dispersion</td>
<td>29.94</td>
<td>.33</td>
<td>77.18</td>
<td>34.64</td>
<td>19.76</td>
<td>.46</td>
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Panel B:

<table>
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<th>Industry</th>
<th>n</th>
<th>%</th>
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<th>CFR Issued</th>
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<tbody>
<tr>
<td>Resources</td>
<td>33</td>
<td>18.8</td>
<td>16 (18.2%)</td>
<td>17 (19.3%)</td>
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<tr>
<td>Manufacturing</td>
<td>38</td>
<td>21.6</td>
<td>23 (26.1%)</td>
<td>15 (17.0%)</td>
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<tr>
<td>Construction</td>
<td>11</td>
<td>6.3</td>
<td>2 (2.3%)</td>
<td>9 (10.2%)</td>
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<td>Retail</td>
<td>9</td>
<td>5.1</td>
<td>4 (4.5%)</td>
<td>5 (5.7%)</td>
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<td>Financial Services</td>
<td>39</td>
<td>22.2</td>
<td>13 (14.8%)</td>
<td>26 (29.5%)</td>
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<td>Services</td>
<td>25</td>
<td>14.2</td>
<td>11 (12.5%)</td>
<td>14 (15.9%)</td>
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<td>Other</td>
<td>21</td>
<td>11.9</td>
<td>19 (21.6%)</td>
<td>2 (2.3%)</td>
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<tr>
<td>Total</td>
<td>176</td>
<td>100.0</td>
<td>88 (50%)</td>
<td>88 (50%)</td>
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χ² (6, n=176) = 24.735i **p < .01**

<table>
<thead>
<tr>
<th>Auditors</th>
<th>Sample</th>
<th>No CFR Issued</th>
<th>CFR Issued</th>
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</thead>
<tbody>
<tr>
<td>Non Big-5</td>
<td>21</td>
<td>11.9</td>
<td>16 (18.2%)</td>
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<tr>
<td>Big 5</td>
<td>155</td>
<td>88.1</td>
<td>72 (81.8)</td>
</tr>
</tbody>
</table>

χ² (1, n=176) = 6.543ii

i 2 cells (14.3%) have expected count less than 5. The minimum expected count is 4.50.

ii 0 cells (0%) have expected count less than 5. The minimum expected count is 10.50.

Table 2: t-Test and Mann-Whitney U Results between Non-CFR and CFR firms on Corporate Characteristics

<table>
<thead>
<tr>
<th>Non-CFR Firms (n=88) mean</th>
<th>CFR Firms (n=88) mean</th>
<th>t</th>
<th>p(1-tailed)</th>
<th>Z</th>
<th>p(1-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size (LogMcap)</td>
<td>5.10 (1.32)</td>
<td>7.14 (1.86)</td>
<td>8.42</td>
<td>0.000**</td>
<td>7.18</td>
</tr>
<tr>
<td>Profitability (ROE)</td>
<td>5.6% (58.4%)</td>
<td>11.1% (10.9%)</td>
<td>0.86</td>
<td>0.196</td>
<td>1.25</td>
</tr>
<tr>
<td>Profitability (ROA)</td>
<td>-2.7% (91.2%)</td>
<td>8.6% (13.0%)</td>
<td>1.16</td>
<td>0.125</td>
<td>0.66</td>
</tr>
<tr>
<td>Shareholder Disp.</td>
<td>34.6% (19.8%)</td>
<td>42.2% (17.9%)</td>
<td>2.66</td>
<td>0.005**</td>
<td>2.79</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are standard deviations.

*p < .05

**p < .01
Table 3: Chi Square Tests for Independence

Panel A: Industry * CFR issued or not

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>24.735</td>
<td>6</td>
<td>.000</td>
</tr>
</tbody>
</table>

N of Valid Cases: 176

a. 2 cells (14.3%) have expected count less than 5. The minimum expected count is 4.50.

Panel B: Big 5 Auditor or not * CFR issued or not

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>6.543</td>
<td>1</td>
<td>.011</td>
</tr>
</tbody>
</table>

N of Valid Cases: 176

b. 0 cells (0%) have expected count less than 5. The minimum expected count is 10.50.

Note: The Accuracy of the Chi-square test is only undermined if more than 20% of cells have an expected frequency of less than 5 (Berenson, Levine and Krehbiel, 2002)

Table 4: Spearman Correlation Coefficients for Dependent and Independent Variables

<table>
<thead>
<tr>
<th>Spearman's rho</th>
<th>CFR issued or not</th>
<th>LOGMCAP</th>
<th>Return on Equity</th>
<th>Return on Assets</th>
<th>% smaller shareholders</th>
<th>Big 5 Auditor or not</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.000</td>
<td>543**</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>CF Issued or not</td>
<td>-0.094</td>
<td>-0.179</td>
<td>1.000</td>
<td>-0.050</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Shareholder Dispersion</td>
<td>-0.211*</td>
<td>-0.140</td>
<td>-0.014</td>
<td>-0.037</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Big 5 Auditor or not</td>
<td>0.193*</td>
<td>-0.240</td>
<td>0.024</td>
<td>-0.063</td>
<td>0.036</td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td>-0.15</td>
<td>-0.036</td>
<td>-0.023</td>
<td>0.001</td>
<td>-0.104</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.110</td>
<td>0.144</td>
<td>0.102</td>
<td>-0.094</td>
<td>0.107</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>0.164</td>
<td>-0.019</td>
<td>0.011</td>
<td>-0.014</td>
<td>-0.026</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>-0.020</td>
<td>-0.022</td>
<td>0.021</td>
<td>-0.022</td>
<td>-0.009</td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>0.178*</td>
<td>0.256</td>
<td>0.110</td>
<td>0.012</td>
<td>0.167</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>-0.049</td>
<td>-0.091</td>
<td>-0.020</td>
<td>0.049</td>
<td>-0.085</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>-0.296*</td>
<td>-0.283</td>
<td>-0.016</td>
<td>-0.045</td>
<td>-0.107</td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the .01 level (1-tailed).
*. Correlation is significant at the .05 level (1-tailed).

Table 5: Logistic Regression Analysis of CFRs Issued as a Function of Firm Characteristics

<table>
<thead>
<tr>
<th>CFR issued or not</th>
<th>Intercept</th>
<th>Std. Error</th>
<th>Wald Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No CFR issued</td>
<td>5.832</td>
<td>.991</td>
<td>34.621</td>
<td>.000</td>
</tr>
<tr>
<td>LOGMCAP</td>
<td>.730</td>
<td>.128</td>
<td>32.521</td>
<td>.000**</td>
</tr>
<tr>
<td>ROE</td>
<td>.001</td>
<td>.005</td>
<td>0.57</td>
<td>.811</td>
</tr>
<tr>
<td>AUD</td>
<td>.714</td>
<td>.664</td>
<td>1.155</td>
<td>.282</td>
</tr>
<tr>
<td>SHD</td>
<td>.020</td>
<td>.010</td>
<td>4.012</td>
<td>.045*</td>
</tr>
<tr>
<td>BANK</td>
<td>.215</td>
<td>.477</td>
<td>204</td>
<td>.652</td>
</tr>
</tbody>
</table>

Intercept-only model: -2 Log Likelihood = 243.988
Full Model: -2 Log Likelihood = 178.487
Model Chi-square: $\chi^2 = 65.501$, df 6, p = .000

Pseudo R-square (Cox and Snell) 31.1%
*p<.05
**p<.01