

A comparison of non-financial strategy disclosure in the annual reports of South African and Indian listed companies

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ABSTRACT

This study focuses on non-financial strategy disclosure in the annual reports of listed companies in South Africa and India. South Africa and India are both developing nations that face similar socioeconomic conditions, including the threats presented by the HIV/AIDS pandemic and affirmative action policies and regulations. The fact that integrated reporting is fast becoming a necessity for emerging markets to gain entrance to developed economies validates the contribution of this research. This study, which replicated the studies of Santema and Van de Rijt (2001) and Padia and Yasseen (2011), compared the top 40 listed companies in South Africa with the top 40 listed companies in India based on market capitalisation for the year 2012. The results were statistically analysed using principal component analysis and Hotelling's t-square tests. The findings concluded that South African companies divulge more information in terms of their non-financial strategy disclosure than their Indian counterparts. In addition, the Hotelling's t-square test found that there were no significant differences in terms of four of the variables when comparing South African companies with Indian companies. Overall, however, there are vast differences in the levels of non-financial strategy disclosure in both countries, which is attributed to stock exchange regulation in the respective countries.

Key words: affirmative action, annual reports, HIV/AIDS, India, integrated reporting, non-financial disclosure, South Africa, strategy

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Introduction

Annual reports are a key tool used by companies to communicate information to stakeholders (Firth 1979). These reports are prepared in order to meet the needs of stakeholders, and they are required to contain information specified by the relevant companies legislation and stock exchange (Firth 1979; Yuthas, Rogers & Dillard 2002). Stakeholders rely on this information, which consists of a combination of financial data and narrative texts prepared by management (Yuthas et al. 2002). The narrative texts contain non-financial information, that is, qualitative information that is not included in the financial statements but has been identified as being important for investment decision-making that is based upon classifications and discussions in the American Institute of Certified Public Accountants' *Database of Materials on Users Needs for Information* and the United States Jerkins Committee Report entitled *Improving Business Reporting: A Customers Focus* (Clatworthy & Jones 2003; Flöstrand & Ström 2006; Robb & Zarzeski 2001).

In the past, decision-making by the users of financial statements was based on the prepared financial statements that assessed the performance of previous years (Watson & Monterio 2011). As the needs of stakeholders and investors have evolved, it was expected that reporting structures and requirements would evolve in line with these needs. However, the business community has been criticised for not keeping up with the times, as "business reports have been lagging as opposed to leading" (Flöstrand & Ström 2006).

In addition, the narrative communication in annual reports illuminates the relationship between events, such as economic changes, and how these influence management's decision-making (Jameson 2000). For example, the content in the chairman's statement is a source of information for financial analysts and institutional investors, as well as a predictor of insolvency (Clatworthy & Jones 2003). Moreover, accounting information mandated by accounting standard setters played an influential role in the financial crisis of 2008 (Barth & Landsman 2010), and with the challenges faced today being greater than ever, preparers must develop reports that reflect the economic reality of the company as closely as possible (Hutton 2004), as well as being relevant and faithfully represented (IASB 2010).

The disclosure of non-financial information has been at the forefront of international studies since the early 1990s when the Jerkins Committee was commissioned to recommend techniques by which business could be improved (Robb & Zarzeski 2001). The committee concluded that businesses need to disclose more information about their plans, opportunities, risks and other non-financial measures of key business processes, which have become increasingly popular as a result of new dominating industries, tougher competition, developments in IT, the

internet and globalisation (Watson & Monterio 2011; Deloitte 2011; Bukh, Nielsen, Gormsen & Mouritsen 2005; Robb & Zarzeski 2001). An integrated approach to reporting has thus been adopted to better account for a company's performance and show how value is added. Integrated reporting combines a company's financial and non-financial performance in one document (Eccles & Saltzman 2011) and is intended to relate the overall story of the organisation by reporting to stakeholders on the strategy, performance and activities of the organisation, as well as assessing the ability of the organisation to create and sustain value over the short, medium and long term (Deloitte 2011).

In most industrialised nations, "there is a growing need for annual reports to include an objective discussion that analyses and explains the main features underlying the results and financial position" (Clatworthy & Jones 2003) and, although narrative information has become increasingly important, little research has been done on the quality of this information (Clatworthy & Jones 2003; Padia & Yasseen 2011). Stakeholders are nevertheless expected to engage in a high stakes debate on the degree of corporate governance in annual reports (Jensen 2010). The growing need for an objective discussion that analyses and explains the main features underlying the results and financial position of an organisation, together with the reality of the world's resources becoming scarcer, requires that organisations be expected to prepare reports on the economic, environmental and social impact of their operations to their stakeholders (Clatworthy & Jones 2003; Dyllick & Hockerts 2002; Perrini & Tencati 2006). Organisations such as the Global Reporting Initiative (GRI), the International Integrated Reporting Committee and the King III Code on Corporate Governance have thus focused their frameworks on the disclosure of organisations' effects on the environment, the economy and society, based on their operations.

Goldman Sachs speculates that, by 2050, Brazil, Russia, India, China and South Africa – known as the BRICS nations – will be the five most dominant countries. The theme for the fifth BRICS summit, held on 27 March 2013, was 'BRICS and Africa: Partnership for Development, Integration and Industrialisation' (BRICS 2013). Owing to the existence of the King Code on Corporate Governance (IoD 2009; Eccles & Saltzman 2011), South Africa is regarded as a world leader in integrated reporting. Accordingly, an untapped area of research was identified; that is, the extent to which other BRICS nations have followed South Africa's lead with regard to corporate governance disclosure relating to development, integration and industrialisation since South Africa joined the alliance in 2011. In light of the fifth BRICS summit, the researcher decided to investigate and compare at least two of the BRICS nations – India and South Africa – in terms of non-financial strategy disclosure.

The problem statement to be investigated is therefore the extent to which companies in South Africa disclose their non-financial strategy in their annual reports in comparison with the non-financial strategy disclosure of Indian companies. This study is a replication of previous research on non-financial strategy disclosure conducted by Padia and Yasseen (2011), which was based on annual reports produced before King III was adopted to regulate annual reporting.

Prior research on non-financial disclosure internationally has been based on the Jerkins Committee Report, which focuses firstly on the environment around the company, secondly on strategy and management, thirdly on company trends, fourthly on the environment of the company, followed by the production, and finally on customers. This list, which is a compilation of non-financial information desired by stakeholders according to the American Institute of Certified Public Accountants (AICPA), considers the forward-looking information as well as historical non-financial disclosure.

One of the first studies to compare non-financial disclosure across countries was by Gray, Meek and Roberts (1995), which concluded that corporate executives disagree about the costs and benefits of various voluntary disclosure information items in US and UK multinational corporations, but agreed that the financial reports remained the primary orientation of annual reports in their home country.

Further research around non-financial disclosure by Robb and Zarzeski (2001), and Vanstraelen, Zarzeski and Robb (2003) was based on testing whether there are differences in the disclosure of the Jerkins Committee's non-financial categories and explaining such differences through firm size, industry classification, degree of geographic dispersion and cross-listing on foreign exchanges.

In the Robb and Zarzeski (2001) study, Australia, Canada and the United States were compared, as they are very similar in terms of Hofstede's cultural dimensions and accounting rules. Overall, there are significant differences in the disclosure of non-financial information in both the forward-looking information and environment of the company. The study also concluded that the largest firms across the study disclosed more non-financial information in all three countries observed.

The study by Vanstraelen et al. (2003) used the same rating categories based on the Jerkins Committee but compared three European companies – Belgium, Germany and the Netherlands – which all have different legal and institutional settings, financial accounting practices and cultures. The study concluded what the researchers predicted, that there are differences in the disclosure of non-financial information in the annual reports in each of the countries due to differing cultures, accounting practices, and legal and institutional settings. However, it was concluded

that across all three countries, larger organisations disclosed more non-financial information than their smaller counterparts.

Literature review

Introduction

In addition to a company's financial information, performance is measured through the evaluation of its non-financial disclosures such as environmental, social and governance practices (Watson & Monterio 2011). This has been illustrated in the case of petroleum company BP, which witnessed a decline in its share price from £655.40 on 20 April 2010 to an all-time low of £298.00 by 29 June 2010 (*The Telegraph* 2010) after the oil spillage scandal in which it was involved broke on 20 April 2010 (BBC News 2010).

Stakeholder theory describes the corporation as “a constellation of cooperative and competitive interests possessing intrinsic value” (Donaldson & Preston 1995). This approach has been used in disclosing non-financial information to maximise value. Stakeholder theory also maintains that managers should take all stakeholders into account – shareholders, employees, customers, communities and government officials – when making decisions, thereby directing managers to serve many masters (Jensen 2010; Donaldson & Preston 1995; Smith 2003).

Companies cannot report on everything that would form part of or affect non-financial disclosure; therefore a framework for integrated reporting is essential (Watson & Monterio 2011). The GRI (2013) has set out guidelines that offer a measure for assessing how well a company reports and discloses non-financial information in its integrated reports. This allows for comparability among competitors. The International Integrated Reporting Council (IIRC) (2013) has also drafted a framework that underpins and accelerates the evolution of reporting by reflecting developments in financial, governance, management commentary and sustainability reporting. This framework aims to ensure that organisations will achieve clear, concise and comparable reporting (IIRC 2013).

Strategy disclosure in annual reports

Companies' annual reports present their corporate financial statements and accompanying texts (Yuthas et al. 2002). Strategy disclosure, which is found in these accompanying texts, has in recent years gained the interest of stakeholders. Despite

this, the importance of strategy disclosure is still being understated by management (Bowman 1978; Bukh et al. 2005; Clatworthy & Jones 2003; Kohut & Segars 1992).

Most academic research to date has focused on the financial disclosures for assessing a company. It has focused in particular on the financial statements, footnotes, management discussions and analysis, and other regulatory filings. This focus can be attributed mainly to the belief that the accounting standard setters and stock exchanges regulate the reporting choices that management presents in a firm's financial statements (Healy & Palepu 2001).

The AICPA has found that strategy disclosure is a useful tool for assessing the future potential of a company (Santema & Van de Rijt 2001). Stakeholders have moved away from requiring annual reports that "give an account" based on financial information, to requiring managers to "give an ethical, social and environmental account as well as an account on financial information" (Adams 2004). In order to address the criticism of "traditional" annual reports and to enhance both the reporting requirements and the quality of reports, the GRI and King III have released frameworks that offer guidelines on reporting principles and standard disclosures, as well as implementation guides that focus on the non-financial disclosure content and aims, so that both the positive and negative impacts of the organisation on the environment, society and the economy can be shown (IoD 2009; GRI 2013). This concept is known as integrated reporting.

Integrated reporting aims to bring extensive benefits to both the organisation and its stakeholders by helping to hone strategy, drive efficiency, mitigate risk and improve competitiveness (Deloitte 2011). It also aims to meet the ever-changing needs of stakeholders. The difference between integrated reporting and "traditional" annual reporting is that integrated reporting ideally moves away from the bolting together of reports from different departments to focusing on the "collective" in order to show the correlation between the effects of financial information on non-financial information and vice versa (Hanks & Gardiner 2012).

Integrated reporting is still very much a voluntary method of reporting (IoD 2009) but is increasingly being used by European countries as well as South Africa, Brazil and Japan, while countries such as the United States, India and China have been less active in implementing corporate social and environmental reporting (Eccles & Saltzman 2011).

Both India and South Africa have launched initiatives that require companies to provide non-financial disclosures, through the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business 2011 and the Companies Bill 2011 in India (Deva 2012), and the King III Code on Corporate

Governance (IoD 2009) in South Africa. The documents take into account the stakeholder theory approach to annual reporting.

Strategy disclosure refers to key items such as the mission, objectives and goals of an organisation, which distinguish an entity from its competitors (Santema, Hoekert, Van De Rijt & Van Oijen 2005). Although there is currently no mandatory strategy disclosure framework, companies have a choice to either apply the GRI guidelines or the King III Code on Corporate Governance when compiling their integrated reports (GRI 2013; IoD 2009).

There has been much debate surrounding what management is prepared to reveal in terms of strategy disclosure and what is expected by stakeholders (Santema et al. 2005; Padia 2012). While management's aim is to report to stakeholders on the bottom line in the annual report, stakeholders by contrast want to see how management has delivered not only on the bottom line but also on corporate social performance, which encompasses the way in which the firm has contributed to alleviating a variety of social problems (Hillman & Keim 2001). It has been found that non-financial disclosure adds to the quality of annual reports, but there is very little focus on the quality of what has been reported (Padia & Yasseen 2011).

In addition to the expectations gap, non-financial disclosure has been criticised for being distorted and often difficult to measure. Moreover, in some instances it is used as a marketing tool, as it gives management an opportunity to report only on the positive aspects of non-financial information (Yuthas et al. 2002; Al-Razeen & Karbhari 2004; Beattie, McInnes & Fearnley 2004).

The King III Report and Code on Governance for South Africa is a framework for integrated reporting in South Africa. It is believed that it has helped to maintain South Africa's leadership in standards and practices. This document bases the philosophy of the integrated report on leadership, sustainability and corporate citizenship (Eccles & Saltzman 2011; IoD 2009). The King III report outlines the importance of integrated reporting in achieving successful reporting in the future by integrating social, environmental and economic issues (IoD 2009). The GRI (2013) G4 framework encompasses the King III report's philosophies, as well as creating the reporting principles and standard disclosures for integrated reporting. This framework also offers an implementation guide to assist the preparers of sustainability reports. The GRI guidelines have therefore been described as a "good start for standard setting" and "the stepping stone for signatories to produce integrated reports" (Eccles & Saltzman 2011). The GRI also offers an international reference for organisations preparing integrated reports. In the current environment of new dominating industries, tougher competition, developments in IT, the internet and globalisation, credibility is enhanced and the gaps left by mandatory reporting

requirements are filled, thereby painting a picture of the future of a company for its stakeholders, which has been gladly welcomed (Hutton 2004).

Annual reporting in India

Indian companies listed on the National Stock Exchange of India Ltd (NSE India) are required by clause 32 of the listing agreement to disclose a full set of financial statements comprising the following:

Consolidated financial statements in addition to the company's financial statements; an audit of consolidated financial statements, as well as the company's financial statements by the statutory auditors (NSE India 2013a).

Family businesses around the world are known to dominate the economic landscape, and India is no exception (Deloitte 2013). As a result of India's growing market share and significant emergence into international markets, focus needed to be shifted from reporting to the families and other dominant groups who have historically owned the companies, to providing all stakeholders with better information and a promise of higher returns (Chakrabarti, Megginson & Yadav 2008).

In addition to the financial information included in annual reports, the non-financial information on which listed companies are required to report includes the company's philosophy on the code of governance, board of directors, audit committee, remuneration committee, shareholders' committee, general body meetings, means of communication, the disclosure of materially significant related party transactions, whistle-blower policies and details of compliance given by the statutory auditors. The aim of clause 49 – Corporate Governance, in the listing agreement of the NSE India, is to provide stakeholders with better information, as highlighted previously. The listing requirements in clause 49 are provided together with a discussion of what should be disclosed; if any of the listing requirements in clause 49 are not complied with, the company must state the reasons for non-compliance (NSE India 2013b).

Annual reporting in South Africa

In South Africa, companies are bound to comply with the listing requirements of the JSE in addition to the requirements of the Companies Act (No. 71 of 2008) (JSE Ltd 2011). The Companies Act requires a company to comply with both the provisions of the Act and with accounting standards (SAICA 2009/2010).

A full set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) consists of the following:

A statement of financial position as at the end of the period, statement of comprehensive income for the period, statement of changes in equity for the period, statement of cash flows for the period, notes comprising of a summary of significant accounting policies and other explanatory information, and a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (SAICA 2009/2010).

In 2010 the JSE made it mandatory for listed companies to adhere to the King III Code on Corporate Governance with respect to reporting. However, in the code it is stated that companies must comply with the corporate governance sections that are compulsory in terms of the JSE listing requirements; in terms of King III, companies can use the “apply or explain” principle, which means that a company must “apply” the recommendations, or alternatively “explain” why they have not been applied, and give reasons (Padia & Yasseen 2011; JSE Limited 2011).

Economic climate

An economy is classified according to its gross national income (GNI) per capita. Accordingly, economies are measured as being low income, lower middle income, upper middle income and high income groups. Low and middle income countries are often referred to as developing/Third World countries, and high income countries are known as developed/First World countries (World Bank 2013).

According to the list of economies published by the World Bank (2013), South Africa lies in the upper middle income group, while India lies in the lower middle income group. Both countries are therefore classified as “developing countries” (World Bank 2013). In developing countries, poverty and HIV/AIDS are rife and need to be addressed (Harris 2003). Stakeholder theory provides insight into the way companies dispense their resources to improve the conditions of the community. This forms part of the triple bottom line and can be seen in the case of a pharmaceutical company, for example, that donates vaccines to the community in which it operates (Jensen 2010; Hillman & Keim 2001; Adelman & Morris 1973).

Socio-economic background

HIV/AIDS in South Africa and India

Across the globe, AIDS continues to be one of the most serious health challenges, with the epidemic being most prevalent in sub-Saharan Africa followed by Asia

(UNAIDS 2012). The United Nations has recorded a decrease in the infection rate among adults aged 15 to 49, which accounts for the majority of the workforce. However, in both South Africa and India in the last decade, the epidemic has continued to spread in certain regions (UNAIDS 2012).

As far as the number of people suffering from AIDS is concerned, South Africa is ranked number 1 globally, with a staggering 5.6 million people (up to 10% of the total population) living with HIV/AIDS (Index Mundi 2012). As a result of the growing epidemic, South African companies have become aware of the threat that HIV/AIDS poses to profitability and productivity and have been forced to factor changes into the way they operate (Du Bruyn 2008). Companies have consequently tried to implement “best practice” policies, which seek to tackle the epidemic and provide a response at the lowest possible cost to the company through guidelines and codes (Whelan, Dickinson & Murray 2008). These guidelines and codes consider the numbers of people in the workforce, the effects of absenteeism caused by AIDS, and its effects on productivity and staff turnover rates (Du Bruyn 2008).

India is currently ranked third in the world, with 2.4 million people living with HIV/AIDS (Index Mundi 2012; Government of India 2012). This has decreased over the last decade, however, unlike South Africa where there has been an increase of around 1.3% in the total population contracting HIV/AIDS (Government of India 2012; Statistics South Africa 2013). India has also developed a framework, the National AIDS Control Programme (NACP), the overall goal of which is to halt and reverse the epidemic (Government of India 2012).

Although South Africa and India have attempted to curb the spread of the virus and have implemented various control methods, middle-class countries are still not able to assume the responsibility of funding their HIV/AIDS response and are increasingly allowing external donors to fund half or more of the HIV/AIDS programmes for key populations at risk (UNAIDS 2012). This has to be factored in by organisations among the external donors operating in both the countries selected for this study.

Affirmative action in South Africa

Prior to the 1994 elections, the apartheid system of government prevailed in South Africa. This system classified individuals according to their race, that is, as white, coloured, Indian or black. This segregation applied to all facets of life of the individuals living within the country, including education, human settlement and the use of public toilets.

With the era of democracy came affirmative action, which sought to address the racial imbalances of the apartheid system and to ensure that previously disadvantaged groups enjoyed certain benefits and opportunities post 1994. This was to be done by structuring and transforming the economy to enable the meaningful participation of the majority of South Africa citizens (Archibong & Adejumo 2013; Rossouw 1997; Tummala 1999; Economic Development Department of the Republic of South Africa 2015). The Department of Trade and Industry (2003) has outlined that a successful Black Economic Empowerment (BEE) strategy be evaluated against, amongst others, the number of black people who have ownership and control of new and existing enterprises, the number of black enterprises, black-empowered enterprises and black-endangered enterprises, as well as the number of black people in executive and senior management roles in enterprises.

South Africa's affirmative action has been described as "nascent but important" (Tummala 1999). The main criticism of affirmative action was its implementation, in that it was in effect direct reverse discrimination. In addressing the imbalances of the past, the Black Economic Empowerment (BEE) Act of 2003 and the BEE Codes of Good Practice of 2007, "the Codes", were promulgated. These have resulted in instances where individuals have been appointed who are not capable of performing the roles to which they were assigned (Tummala 1999; Archibong & Adejumo 2013). This preferential treatment of "non-whites" is a tactic forced on companies by government in order to open up doors in terms of trading with government and other big listed companies.

Affirmative action in India

India's affirmative action transformation, known as "reservation", has been a long process dating back to the 1940s (Tummala 1999; Barai n.d; Ghoshal 2002; Kumar 1992). The reservation system can be compared to affirmative action but is part of a larger policy package that comprises a series of legislation, ameliorative programmes and preferential schemes designed to benefit the weaker sections of society (Barai n.d).

The backward castes and tribal communities were discriminated against under centuries of socioeconomic and cultural deprivation. Their forefathers swept the streets, cleaned toilets and performed other menial tasks, resulting in these individuals being regarded as "untouchables". This label condemned the untouchables to generations of poverty and illiteracy without any hope of betterment. In 1947, when India gained independence, members of the caste of untouchables were given the opportunity to improve their socioeconomic conditions (Ghoshal 2002).

The reservation system is broken up into Scheduled Castes (SCs), Scheduled Tribes (STs) and Other Backward Castes (OBCs). The SCs and STs together form 23% of India's population, while the OBCs account for 52% of the population. However, the Supreme Court of India has ruled that the reservation cannot exceed more than 50% of India's population and has allocated 23% to the SCs and STs and the remaining 27% to OBCs (Kumar 1992). The job reservation system, however, applies mainly to government appointments and organisations that are substantially funded by government, which requires job reservation to be disclosed by organisations within those spheres (Barai n.d).

Santema and Van de Rijt (2001) carried out a study in the Netherlands that analysed strategy disclosure in annual reports. Padia and Yasseen (2011) replicated this study in South Africa but added two additional criteria to relate the study to the South African market. Prior studies comparing non-financial disclosure have been carried out between the United States and United Kingdom; Australia, Canada and the United States; as well as Belgium, Germany and the Netherlands. The studies focused on the recommendations of the Jerkins Committee; none have specifically tested the emerging markets and considered how socio-economic factors such as HIV/AIDS and affirmative action would affect disclosure in the annual reports. This article therefore attempts to expand the ambit of studies such as that by Padia and Yasseen (2011) by comparing South African and Indian listed companies' strategy disclosure in annual reports.

Research methodology

Research methodology

Quantitative research can be described as a research strategy that deals with the collection and analysis of data (Bryman & Bell 2011). According to Marais and Mouton (1988), in a quantitative study a researcher adopts a distanced stance and studies a phenomenon as an outsider. The researcher also imposes a system on the phenomenon. In line with this, the annual reports of the respective South African and Indian companies were collected and the strategy disclosure of each company was analysed using a rating criterion.

Another characteristic of quantitative research is the development of a hypothesis (Marais & Mouton 1988; Cooke & Rousseau 1988). For this study, the following hypothesis was tested – the null hypothesis (H_0): There is no significant difference between the variables – namely the mission statement, the goals and the objectives which fall into category 1; the corporate strategy and the action plans ex-post and

ex-ante which form part of category 2; the consistency, monitoring and business unit goals and strategies of the organisation which form part of category 3; and category 4; which consists of HIV/AIDS and affirmative action (Padia & Yasseen 2011); and the alternate hypothesis (H_1): There is a significant difference between the variables.

There has been much debate on whether content analysis – a data analysis method – is quantitative or qualitative in nature, as it can be used to examine any type of communication by imposing a system against which the communication can be analysed (Prasad 2008; Berg 2004). However, for the purposes of this study, the researcher has chosen to employ the quantitative elements of content analysis. This quantitative aspect will involve analysing the annual reports and generating a score for the disclosure obtained by the researcher. It should be noted that the ratings generated by the researcher are subjective and based on the researcher's analysis of the data.

Research design

A research design is the arrangement of conditions for collecting and analysing data in a manner that aims to combine relevance with the research purpose, while simultaneously being effective and efficient (Sellitz, Jahoda, Deutsch & Cook 1965). This research makes use of content analysis, which is “any technique for making inferences by systematically and objectively identifying special characteristics of messages” (Holsti 1968). Considered to be potentially one of the most important research techniques, content analysis tends to be focused on generalisable findings. In addition, content analysis is known to be an unobstructive research method which studies content with reference to the meanings, contexts and intentions contained in messages (Prasad 2008; Marais & Mouton 1988; Krippendorff 2012).

Like most research methods, content analysis conforms to the three basic principles of scientific method shown in Figure 1.

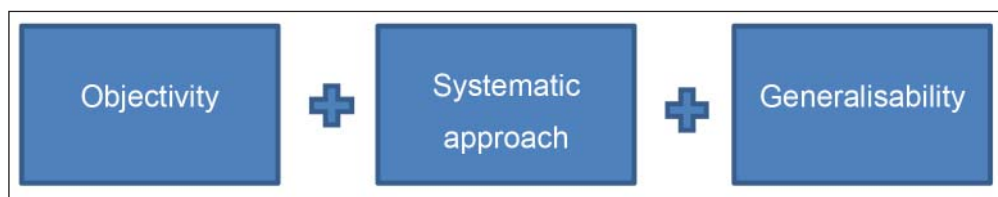


Figure 1: Basic principles of content analysis

Source: Adapted from Prasad (2008)

When applying the three principles to the study, the researcher maintains objectivity by rating each annual report using the same rating measurements found in the

scoring sheet. The predetermined rating criterion is used to eliminate bias. With regard to the generalisability of the results, the researcher is of the opinion that the comparison of South Africa and India and the consequent findings will be generalisable, as this study replicated that of Padia and Yasseen (2011), which was conducted in South Africa, and that of Santema and Van de Rijt (2001), which was conducted in the Netherlands.

Advantages

Content analysis is a relatively inexpensive research method as the annual reports are easily accessible on company websites (Sociological Research Skills 2013). The analysis is human coded, which allows the quantitative assessment to be reliably achieved (Beattie et al. 2004). Furthermore, content analysis allows for cross-sectional assessments and comparisons to be made from the data and can be used as a frame of reference for interpretation, which was useful in this case as data from South Africa and India were compared (Cooke & Rousseau 1988).

Disadvantages

The most applicable disadvantage of this study is that the analysis “can only be as good” as the annual report with which the researcher works (Bryman & Bell 2011; Prasad 2008). Such reports are often considered to be difficult to measure because of the narrative nature of the communication in annual reports (Beattie et al. 2004). Content analysis has been described as a shoestring methodology and is typically labour intensive (Prasad 2008; Sociological Research Skills 2013).

Population and sample

The population comprises the listed companies on the JSE and the NSE India. The selected sample consists of the top 40 listed companies on each stock exchange.

Sample and sampling method

Although good sampling practice is often associated with random or probability sampling (Bryman & Bell 2011), the researcher has chosen to select the top 40 listed companies on each of the stock exchanges based on market capitalisation. This sampling method has also been selected for comparability purposes, as it will be

easier to interpret the results because the focus is on the larger companies within the market (Galphin & Krommenhoek 2013).

Research instrument

The research instrument that will be used is a rating criterion adapted from the study by Padia and Yasseen (2011), which examined strategy disclosure in the annual reports of South African listed companies. This criterion will rate the strategy disclosure in the annual reports with ratings ranging from 0 to 1, using 0.25 increments. A rating of 0 indicates that there is no strategy disclosure, and a maximum rating of 1 is awarded if there is comprehensive strategy disclosure in place. This study will replicate a study by Padia and Yasseen, who in turn replicated a study by Santema and Van de Rijt. The criterion was initially drawn up by Santema and Van de Rijt (2001) and later an additional two criteria were added by Padia and Yasseen (2011) to apply the study to firms operating in the South African context. These criteria are also applicable to firms operating in India, as discussed in the literature review.

Validity and reliability

Validity and reliability refer respectively to whether a set of indicators really measures a concept and whether that measure is consistent (Bryman & Bell 2011). In order to achieve validity and reliability, the data must be observed in a systematic and unbiased manner (Marais & Mouton 1988). Reliability will be achieved by consistently applying the rating criteria for each annual report (Galphin & Krommenhoek 2013). In order to test external validity, all ratings will be audited and guided by Yaesh Yasseen, who is both experienced and has published in this area. With anomalies clarified, any subjectivity bias in the research is removed. Furthermore, this research is exploratory; therefore it does not have to be objective.

Data analysis

A principal component analysis test will be used for India and South Africa to determine the correlation between the variables used when rating the annual reports for each country (Galphin & Krommenhoek 2013), as well as a two-sample Hotelling's t-square test, which will compare strategy disclosure by South African and Indian companies and indicate which of the variables are significantly different (Pennsylvania State University 2004).

Principal component analysis is a multivariate technique used to analyse a data table in which observations are described by several interconnected quantitative dependent variables. Through this, the data are represented in a new set of variables that display a pattern of similarity of the observations and of the variables as points in maps (Abdi & Williams 2010). Prior studies, such as *Citizenship and Involvement in European Democracies: A Comparative Analysis* by Van Deth, Montero and Westholm (2007) and *Financial Accounting Information, Organizational Complexity and Corporate Governance Systems* by Bushman, Chen, Engel and Smith (2004), have made use of principal component analysis. The first study used principal component analysis to test whether responses to questions are interconnected and likely be repeated in all other institutions, and the second study used the multivariate technique to capture a substantial portion of the variance in variables measuring earnings timeliness, inside and outside director incentives as well as executive incentive variables. The principal component analysis will therefore describe several dependent variables that are generally interconnected in a figure that can be analysed for non-financial disclosure in South Africa and India.

Hotelling's t-square tests are used to determine whether groups are distinguishable or indistinguishable, in other words, testing for significant difference (Kong, Pu & Park 2006). A Cronbach's alpha test was also generated for South Africa and India, measuring the internal consistency in the data collected (Galphin & Krommenhoek 2013).

Results

The researcher was able to assess 39 companies in each of the samples of 40; this was due to one South African company having the same annual report for both its publicly listed and privately listed companies. For the Indian listed companies, one company had a telecommunications division and infrastructure division operating in two entities, which were both listed on the stock exchange, yet also used the same annual report. This gave a total of 78 annual reports that were individually inspected and rated for this study. When using the predetermined rating criterion, descriptive statistics were generated to analyse the data in the form of a correlation coefficient graph as well as a Hotelling's t-square test.

The mission statement, goals and objectives fall into category 1. Category 2 consists of the corporate strategy, and the action plans ex-post and ex-ante. Category 3 comprises the consistency, monitoring and business unit goals and strategies of the organisation, and category 4, which is specific to South Africa and India, consists of HIV/AIDS and affirmative action (Padia & Yasseen 2011).

Table 1 and Table 2 summarise the collective scores for companies in South Africa and India. For the Mission category, nine out of 39 companies scored a rating of zero, 3 of the 39 companies scored a rating of 0.25, 6 companies scored a rating of 0.5, 3 scored a rating of 0.75 and 18 companies scored a rating of 1 (Table 1).

Level of non-financial disclosure

Scores for companies

From the scores for the sample companies, it can be seen that South African companies disclose more non-financial strategy information than their Indian counterparts for all 12 variables (Tables 1 and 2, Figures 2 and 3). Forty-one per cent of the South African companies scored a maximum of 1 in category 1, for example, a prominent brewery scored the maximum for all variables in this category by having a well-defined mission, identifying goals in each division as well as providing concrete quantitative goals for each of its operations, while only 30% of the Indian companies scored a maximum of 1. The bulk of the companies (40%) scored 0 for category 1, which consists of the mission statement, goals and objectives.

Table 1: Scores for the sample of South African companies

Category	0	0.25	0.5	0.75	1
Mission	9	3	6	3	18
Goal	11	4	5	2	17
Objective	8	2	6	10	13
Corporate strategy	0	5	4	5	25
Consistency	1	2	10	16	10
Monitoring	1	5	8	14	11
Business unit goals	1	9	7	12	10
Business unit strategies	1	8	9	12	9
Action plans (ex-post)	1	4	17	12	5
Action plans (ex-ante)	1	1	16	10	11
HIV/AIDS	12	5	2	5	15
BEE	7	3	9	7	13

Non-financial strategy disclosure in the annual reports of SA and Indian listed companies

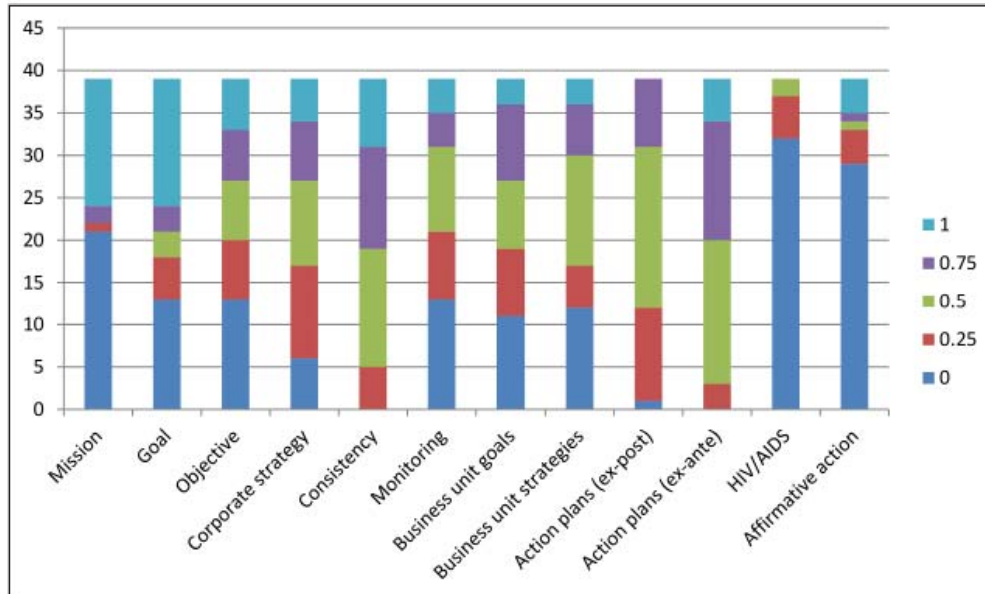


Figure 2: Graphical representation of the scores for South African companies

Table 2: Scores for the sample of Indian companies

Category	0	0.25	0.5	0.75	1
Mission	21	1	0	2	15
Goal	13	5	3	3	15
Objective	13	7	7	6	6
Corporate strategy	6	11	10	7	5
Consistency	0	5	14	12	8
Monitoring	13	8	10	4	4
Business unit goals	11	8	8	9	3
Business unit strategies	12	5	13	6	3
Action plans (ex-post)	1	11	19	8	0
Action plans (ex-ante)	0	3	17	14	5
HIV/AIDS	32	5	2	0	0
Affirmative action	29	4	1	1	4

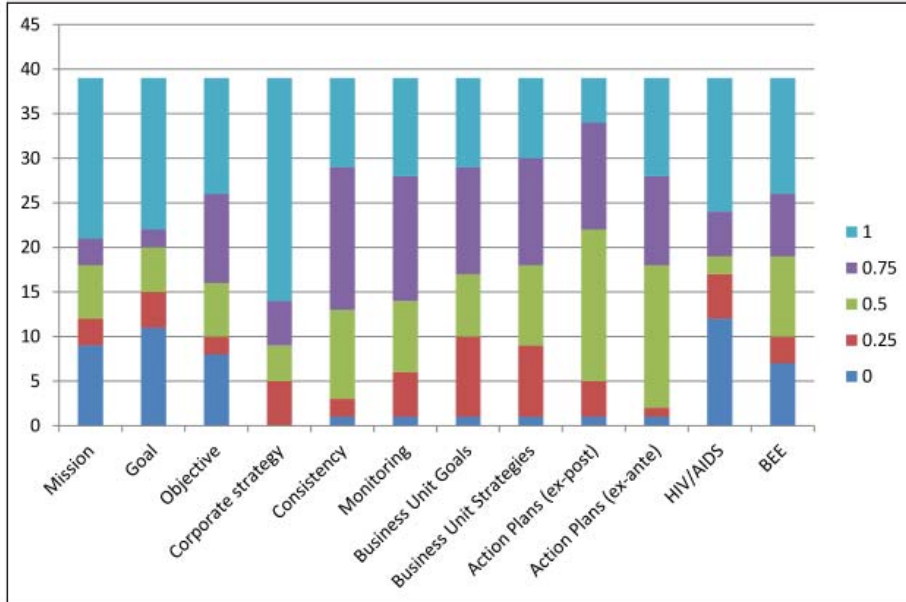


Figure 3: Graphical representation of the scores for Indian companies

Table 3: Summary of scores by category for South Africa

	Score				
	0	0.25	0.5	0.75	1
	Percentage				
Category 1	24	8	15	13	41
Category 2	2	9	32	23	35
Category 3	3	15	22	35	25
Category 4	24	10	14	15	36

Table 4: Summary of scores by category for India

	Score				
	0	0.25	0.5	0.75	1
	Percentage				
Category 1	40	11	9	9	31
Category 2	6	21	39	25	9
Category 3	23	17	29	20	12
Category 4	78	12	4	1	5

Non-financial strategy disclosure in the annual reports of SA and Indian listed companies

When considering category 2, 35% of South African companies scored a maximum of 1 and 2% of companies had no disclosure in terms of the corporate strategy, and ex-post and ex-ante action plans (Table 3). South Africa's counterpart, India, showed very different results for category 2. Only 9% of Indian companies scored a maximum of 1, with the bulk of the companies (39%) obtaining a score of 0.5 (Table 4).

In category 3, which is made up of the monitoring, consistency, business unit strategies and business unit goals, 25% of South African companies scored a maximum of 1 (Table 3), whereas only 12% of Indian companies scored a maximum of 1 (Table 4). In terms of category 3, the majority of South African companies scored a 0.75 rating score, while the majority of their Indian counterparts fell into the 0.5 group.

In category 4, which measures the disclosure of information on affirmative action and HIV/AIDS, there were significantly different scores for the two countries. Thirty-six per cent of South African companies scored a maximum of 1 (Table 3), while only 5% of Indian companies scored a maximum of 1 (Table 4) and not a single company scored a maximum of 1 in terms of HIV/AIDS disclosure. Even companies that rely on an unskilled labour workforce, such as prominent oil and drilling companies and mining and mineral companies, scored zero across the board for category 4. On the whole, 78% of Indian companies had a minimum score of 0 for category 4, whereas only 24% of South African companies had a minimum score of 0.

When looking at individual companies, three South African companies all scored a maximum rating of 1 for eight or more of the 12 variables, whereas the opposite was observed for three of the Indian counterpart companies, which scored zero for between seven and ten of the 12 variables.

Principal component analysis

Principal component analysis represents data in a normalised expression. Component one and component two represent 57.25% of the variation between the data and expressed the correlation between the 12 variables analysed in the study. In scrutinising the principal component analysis for South Africa (Figure 4), a correlation is observed between the variables grouped in category 1. The mission, goals and objectives are therefore closely correlated, indicating that a company that has a mission statement also discloses its goals and objectives. When looking at the other categories, category 2 is not closely correlated, as corporate strategy disclosure is not correlated with ex-post and ex-ante action plans. The business unit goals and business unit strategies are closely correlated, but not correlated with monitoring

and consistency in the annual reports; therefore variables in category 3 are not correlated in terms of reporting. Variables in category 4, HIV/AIDS and BEE, lie in the same quadrant as in the principal component analysis but are not closely correlated.

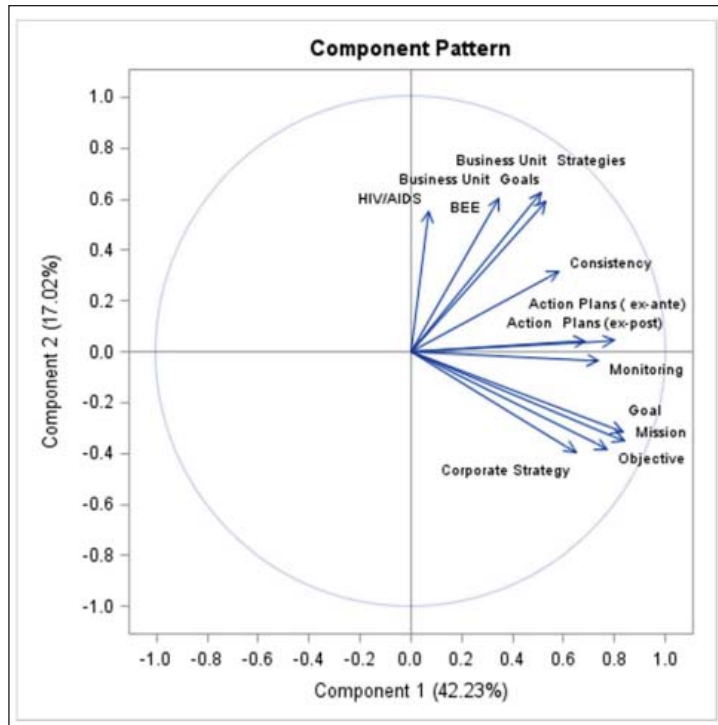


Figure 4: Principal component analysis for South African companies

When looking at the correlation between the variables of the Indian companies (Figure 5), it is observed that the correlation between variables in category 1 – mission, goals and objectives – is not nearly as close as that of South African companies. There is a correlation between the mission and objectives, but no correlation is observed with the goals of Indian companies. Once again, it is observed that the business unit goals and business unit strategies are closely correlated, as is the case with the South African companies. Here, it is seen that the corporate strategy and monitoring are closely correlated, as well as the HIV/AIDS and affirmative action variables, which is not the case with the South African companies. In the principal component analysis conducted on the Indian companies, the only close correlation between variables grouped into a category is in terms of category 4; these are the variables HIV/AIDS and affirmative action.

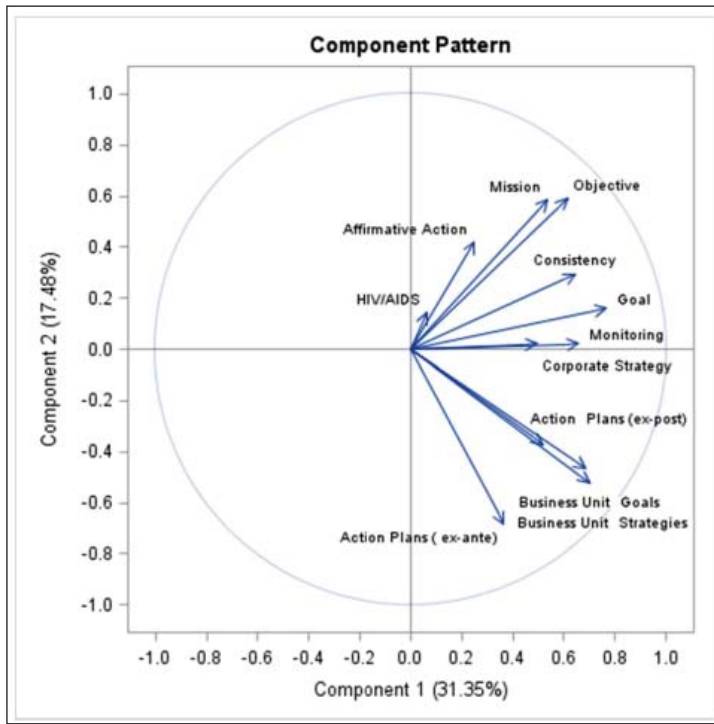


Figure 5: Principal component analysis for Indian companies

An overall analysis reveals that there are varying degrees of correlation between the category variables. In South African companies there is a close correlation between variables in category 1, which also presents the highest percentage in terms of maximum scores across the tables. When looking at the Indian companies, it is observed that the closest correlation is between the variables in category 4 – HIV/AIDS and affirmative action. However, for the Indian companies, this category scored lowest across all levels, with 78% of companies having no disclosure in this category.

Comparison between South African and Indian companies

The Hotelling's t-square test was run using SAS 5.1 Enterprise. The level of significance is the cut-off point that is used to determine whether the variables are significant or not (Galpin & Krommenhoek 2013). For this study, the level of significance was 0.05. If the p-value is less than 0.05, it is concluded that there is a

difference between the variables measured, and if the p-value is greater than 0.05, then there is no significant difference between the variables.

Table 5: Results of Hotelling's t-square test

Hotelling t-test results	Pr > F
Mission	0.0739
Goal	0.6082
Objective	0.0149
Corporate strategy	<.0001
Consistency	0.2957
Monitoring	<.0001
Business unit goals	0.0018
Business unit strategies	0.0010
Action plans (ex-post)	0.0069
Action plans (ex-ante)	0.3234
HIV/AIDS	<.0001
Affirmative action	<.0001

From the results (Table 5) it can be concluded that the mission statement, goals of the company, consistency with previous annual reports and action plans to be executed in the next financial year in terms of the strategy are not significantly different, as the p-values are 0.0739, 0.6082, 0.2957 and 0.3234 respectively, which are thus all greater than the 0.05 level of significance. This indicates that the level of disclosure between the companies in South Africa and India is similar and comparable. The four variables indicating non-significance are from three of the groups of variables, again indicating trends in the data analysed.

In comparison, the objectives of the company ($p = 0.0149$), corporate strategy ($p = < 0.0001$), monitoring of goals and objectives ($p = < 0.001$), business unit goals ($p = 0.0018$), business unit strategies ($p = 0.0010$), action plans executed in the past year in terms of strategy ($p = 0.0069$), as well as HIV/AIDS and affirmative action strategy disclosure (both less than 0.0001), all have p-values less than 0.05. With respect to the Hotelling's t-tests, categories 2 and 4 are significantly different on each of the dimensions used. However, with respect to category 1, two of the components are insignificant, and the consistency component is insignificant in category 3. Ignoring the four categories, four of the 12 variables are insignificant. Therefore, the null hypothesis is rejected in favour of the alternate hypothesis as

there are significant differences between the South African and Indian companies in eight of the 12 variables measured, indicating that there are significant differences in the overall non-financial disclosure. Of the 12 variables measured in the rating criteria, only a quarter were consistent between India and South Africa.

Internal reliability

Internal consistency is measured using Cronbach’s alpha. The acceptable level of internal validity is considered to be 0.8 (Bryman & Bell 2011), but prior research used 0.7 as the rule of thumb, as it is “considered to be efficient” (Schutte, Toppinnen, Kalimo & Schaufeli 2000). With reference to the results, South Africa has a standardised Cronbach’s alpha of 0.86 (Table 6) and India has a standardised Cronbach’s alpha of 0.77 (Table 7). Both of these results are considered to be efficient measures of internal validity. The Cronbach’s alpha tests indicate that the results are above 0.7; therefore there is internal consistency among the variables (Padia & Yasseen 2011). Each of the variables has an alpha greater than 0.7, which indicates correlation between the variables, as well as reliability among the scores for both South Africa and India.

Table 6: Standardised Cronbach’s alpha result for South Africa

Cronbach’s alpha coefficient	
Variables	Alpha
Raw	0.839679
Standardised	0.857893

Table 7: Standardised Cronbach’s alpha result for India

Cronbach’s alpha coefficient	
Variables	Alpha
Raw	0.780755
Standardised	0.770080

Conclusion

When analysing the results, it is observed that the disclosure of the four categories, namely, goals, action plans, business units, and the South Africa- and India-specific variables related to HIV/AIDS and affirmative action, varied significantly between

the two countries. Thirty-three per cent of South African companies scored a maximum of 1, which is more than double that of their Indian counterparts. When considering the principal component analysis, it was observed that the variables in the four categories are closely correlated to one other. According to the findings of the study, it was ascertained that South African companies disclose more information on their non-financial strategies than Indian companies. These results on the disclosure of South African companies are generally consistent with previous research conducted by Padia and Yasseen (2011), who found that South African companies disclose considerable information in their annual reports. This could be attributed to the strong stance taken by the listing regulators, which requires all companies to apply the King III Code of Corporate Governance as well as the requirements of the Companies Act of 2008 (Eccles & Saltzman 2011; KPMG 2013). However, the results for the Indian companies sampled tended to be more consistent with the findings of the initial study conducted by Santema and Van de Rijt (2001), which concluded that Dutch companies generally do not disclose a lot of information in their annual reports.

In summary, the comparison highlighted certain points of difference and similarity between South African and Indian companies: there were no significant differences for four of the 12 variables measured, whereas significant differences were measured for the remaining eight variables. Once again, this can be attributed to the levels of disclosure regulated by the respective stock exchanges and the strong stance taken by South African regulators in terms of corporate governance disclosure.

These findings are confirmed by the results of the scores for both countries. Thirty-three per cent of South African companies scored a maximum disclosure of 1; by comparison, 32% of Indian companies had no disclosure in their annual reports. In total, only six Indian companies had a maximum disclosure of 1 out of the 39 companies sampled. This was half the number of the South African companies sampled, again reiterating that South African companies disclose more in terms of non-financial strategy information than their Indian counterparts.

Recommendations for further research

As highlighted previously, in the section on the significance of this study, an area for future research would be to compare the non-financial strategy disclosure across the five BRICS countries. By expanding the study, research findings could be gathered on the importance of integrated reporting frameworks. This could serve to explain why South African listed companies disclose more information on their

strategies than listed companies in India, as concluded in this study, or listed Dutch companies, as concluded by Padia and Yasseen (2011).

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