SIGNALLING EXTERNAL CAPITAL DISCLOSURE IN ANNUAL REPORTS

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Abstract

Much of the discussion of voluntary disclosure of external capital in annual reports entails only limited examination as signals for capital accumulation. Using the method of content analysis, this paper examines the signalling of external capital disclosure practices, the most disclosed category of intellectual capital, in annual reports of a sample of listed firms in Sri Lanka, a developing nation. Eleven case study interviews from the sample firms explore the role of signal for capital accumulation. Findings reveal that signals differ between industry sectors in convincing stakeholders to advance capital accumulation.

Keywords: Capital Accumulation, Content Analysis, External Capital, Signalling Theory, Sri Lanka

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1. Introduction

This study is concerned with the reasons behind the external capital disclosure signals of listed firms. External capital is a category of intellectual capital that is disclosed in company annual reports. Brooking (1996) published the initial version of the intellectual capital category framework that has since undergone revision (ASCPA & CMA, 1999, p.14; Dzinkowski, 2000; IFAC, 1998, p.7). The modified framework has three major categories of intellectual capital: internal capital, human capital, and external capital (Abeysekera & Guthrie, 2005). External capital is the customer's perception of value obtained from doing business with a firm that supplies goods and/or services (Guthrie & Petty, 2000).

According to Brooking (1996, p. 12), intellectual capital represents the combined intangible assets, not recognised in financial statements, that enable the company to function. The intellectual capital of a firm is a form of 'unaccounted capital' in the traditional accounting system. The traditional accounting system looks largely at severable assets (Leadbeater 1998). With the abundance of knowledge-based products and services in the global economy, traditional accounting has left a vacuum in the recognition of intellectual capital categories such as external capital (Tissen, Andriessen & Deprez, 2000, p. 53).

Investment in the various items of intangibles including external capital is difficult to imitate, contributing to creating a competitive advantage for the firm (Ordonez de Pablos, 2005). However, the role of company annual reports in signalling external capital items through their disclosure strategies in managing public impressions to promote the capital accumulation of firms has so far received little attention in the literature, except signalling human capital items for social and environmental aspects of disclosure (Toms, 2002). This study examines the external capital disclosure signals of the top 30 listed firms in Sri Lanka over two consecutive years, with the aim of gaining insight into the motivation behind the signalling of external capital in annual reports for managing public impressions for capital accumulation.

The diversity of definitions of the term 'signals', has led to ambiguity and disagreement (Guilford & Dawkins, 1995; Hauser, 1996; Maynard Smith & Harper, 2003). Using the definitions in the literature as a basis, s*ignalling* in this paper means external capital disclosure perceived in annual reports intended to or has evolved to give impressions of the signaller firm or its environment.

This paper examines the signalling of external capital of firms in a developing country context, with Sri Lanka selected as an empirical site. The relevance of a study of firms in developing countries has become evident because of increasing competition with firms in developed countries due to rapid globalisation, lower transaction costs and more freely available capital. The competitive advantage of firms lies increasingly in intangibles (such as external capital) which are immutable (Ordonez de Pablos, 2005). Firms use these immutable intangibles to differentiate their products and services (Daley 2001, p. 5). Previous studies (including in Sri Lanka) have indicated that external capital is the most disclosed intellectual capital category (Bozzolan, Favotto, &

Ricceri, 2003; Sujan & Abeysekera, 2007), with firms in Sri Lanka (Abeysekera & Guthrie, 2005) deserving special attention.

The second section of this paper presents a brief review of the capital accumulation of firms in the context of external capital. This section describes the signalling theory and introduces the three stakeholder groups influencing or influenced by firms: political, economic, and social. Section 3 outlines the research methods employed. The content analysis was used to code and analyse by frequency of the external capital disclosure signals in a sample of firms' annual reports of two consecutive years (2001-2002 and 2002-2003), and carried out 11 case study interviews to examine the reasons behind such disclosure signals. Section 4 presents empirical evidence from the content analysis and case study based interviews, while the last section provides the summary and conclusion.

2. Literature and theoretical perspective

The creation of new products and services has expanded local markets into a global market space (Graham 1999; Vanoirbeek, Rekik, Karacapilidis, Aboukhaled, Ebel & Vader 2000). Increasingly, the competitive advantage derived from effectively managing immutable assets such as external capital determines the competitive advantage of firms (Count 1998; Hurwitz, Lines, Montgomery & Schmidt 2002). However, traditional accounting statements do not account for such immutable assets (Lev & Zarowin, 1999).

Accounting becomes a way for firms to sustain and legitimise their activities to social (i.e. community), economic (i.e. capital providers), and political (i.e. government, legislators and regulators) stakeholders (Cooper, 1980, p. 164). Firms must convince capital providers that they are capable of using their assets (such as external capital) at the highest levels of efficiency for capital accumulation. Firms do this through news releases, including accounting reports such as company annual reports. The disclosure signals of external capital in annual reports are distinctive in two ways. First, external capital disclosure signals are presently unregulated, allowing firms to choose what, when and where to disclose. Second, external capital disclosure signals are proactive and voluntary, since there are no legislative or accounting requirements that need to be met (Abeysekera & Guthrie, 2004).

Around the world, firms have signalled that they consider the external capital category to be the most important aspect of immutable intellectual capital. This is demonstrated in the reporting of the 19 largest listed firms in Australia (Guthrie & Petty, 2000; Sujan & Abeysekera, 2007), technology- and people-oriented listed firms in Ireland (Brennan, 2001), non financial listed firms in Italy (Bozzolan et al. 2003) and Spain (Ordonez de Pablos, 2003), the 20 largest listed mining firms in South Africa (April, Bosama & Deglon, 2003), and the top 30 listed firms in Sri Lanka (Abeysekera & Guthrie, 2005).

Signalling is one way of responding to perceived market failure when the market does not have full information to create better market efficiency (Erdem & Swait, 1997; Spence, 2001; Watts & Zimmerman, 1986, pp. 163-166). The signals are often country-specific (Hall, Hutchinson & Michaelas, 2004). Depending on whether disclosure signals meet certain conditions, stakeholders will believe some signals to be true and reject others. These conditions include that management has sufficient incentive to disclose, that the signal is difficult to imitate, that there is an observable relationship between the firm disclosing and stakeholder perception, and that the signals are cost effective. Management is believed to have sufficient incentive when the firm is dependent on stakeholders to continue as a going concern (Toms, 2002). Firms depend on three types of stakeholder: capital providers, policy makers, and the community (Abeysekera & Guthrie, 2005). It is often easier to manage public impressions of firms through communication than through output, goals and methods of operation (Dowling & Pfeffer, 1975, p. 127; Neu, Warsame & Pedwell, 1998).

3. Research methods

To analyse the role of voluntary disclosure signals, this study used content analysis to identify external capital disclosure in annual reports in 2001-2002 and 2002-2003, and semi-structured interviews to understand the role of such disclosure signals.

I. Analysis of content in annual reports

Sample size

The study used the top 30 firms by market capitalisation for two reasons. First, previous research in voluntary disclosure such as corporate social disclosure (Andrew, Gul, Guthrie & Teoh, 1989; Gray, Kouhy & Lavers, 1995) and financial reporting (Mitchell, Chia & Loh, 1995; Smith & Taffler, 2000) reveals that larger firms are more forthcoming in making voluntary disclosures. The trends found in voluntary disclosure are applicable to this study, which examined annual reports for voluntary disclosure of external capital; disclosure that was not mandated by accounting standards or company law (Abeysekera & Guthrie, 2004). Second, larger firms are more likely to disclose external capital voluntarily because of their visibility and the resources at their disposal to sponsor new initiatives (Abyesekera & Guthrie, 2004).

Since differences in external capital disclosure signals can arise due to variations in size of the firm, this study minimised that effect by selecting top 30 firms by market capitalisation (Abyesekera & Guthrie, 2004). (It is acknowledged that market

capitalisation is not the only possible proxy for size; others include employee numbers and total assets.)

The listing status of the particular stock exchange can be a factor influencing firms in voluntarily disclosing external capital (Cooke, 1989). The sample firms selected were the top 30 companies listed in the Colombo Stock Exchange having the same listing status as fully tradeable shares. Further, the sample represented about 60% of the market capitalisation of the Colombo Stock Exchange (in Sri Lanka), representing a substantial portion of the firms listed in the Colombo Stock Exchange (CSE, 1998, p. 33).

Source documents

The situation in Sri Lanka is typical of a developing nation in that the information technology (IT) industry is still in its infancy and cannot be used extensively to source detailed information about signalling of external capital of top 30 listed firms to their stakeholders, to manage public impressions for capital accumulation. Most of the firms within the IT industry are young and rely on the domestic market. Although this industry in Sri Lanka is witnessing a dynamic change with the liberalisation of service providers in the telecommunication industry (Gamage 2001a), to build an effective IT industry the telecommunication provided needs to be cost effective (Gamage 2001b). Most internet service providers (ISPs) do not provide telecommunication services, as there is no central internet switch, which means that they need to lease digital subscriber lines from telecommunication firms. This arrangement can increase the cost of IT services to the end-users. Further, there is less regulation over the activities and security of ISPs, which discourages firms from transmitting firm-sensitive data electronically (Wattegama 2001, pp. 168-170). Limited access to cable capacity, as well as lack of digital subscriber lines (DSL) and advanced digital subscriber lines (ADSL), have retarded growth of internet usage in Sri Lanka (Gamage 2001b). It could be argued that the lack of widespread access to the internet forces stakeholders to rely predominantly on annual reports to seek and evaluate information about firms.

Further, in this study annual reports were the source documents of choice because firms produce them regularly and they present a historical account of the concerns of a firm. They outline management's thoughts in a comprehensive and compact manner (Niemark, 1995, pp. 100-101), and stakeholders rely on them for both financial and non-financial information (Gamble, Hsu, Kite & Radtke, 1995, p. 34; Patten, 1992, p. 472). Annual reports appears to be preferred method of communicating with stakeholders relevant to firms as opposed to the general public, and the accounting literature considers capital providers to be the primary users (Neu et al., 1998; Zeghal & Ahmad, 1990, p. 49).

Content analysis

Content analysis of annual reports is a well-established technique in studies of voluntary disclosure (Abbott & Monsen, 1979; Newson & Deegan, 2002) and here it was used to examine external capital disclosure in annual reports. The content in annual reports of the years ending 2001-2002 and 2002-2003 was analysed by coding pre-defined external capital items and recording the frequency of signalling in the coding sheet for each year. The frequency was the number of times an external capital item was mentioned described in an annual report. The level of frequency was the average frequency of occurrence of external capital items over the two-year period.

The study employed semantic content analysis, the purpose being to count pre-determined external capital items referred to in the annual reports (Andren, 1980, p. 56). An ordinal scale consisting of the units '−1, 0, 1' was used to provide frequency scores for items relating to external capital (in the frequency analysis). The '−1' represented an external capital liability item, '0' not an external capital item, and '1' an external capital asset item (Abeysekera & Guthrie, 2005). The total count of signals for a given external capital item represented the net signalling frequency.

Two features increased objectivity in recording and analysing data. First, the external capital items used in the coding framework were pre-defined. Second, the annual reports were re-examined some time after the coding to confirm the consistency of the frequency coding. Two persons independently coded the data, each person reviewing his coding after a time interval, leading to high intra-coder reliability. Thereafter these two persons crosschecked their coding. and agreed upon the coded items leading to high inter-coder reliability.

II. Case study based interviews

Case study based interviews were the tool for examining the role of the external capital disclosure items identified by the coding framework used in the content analysis. The key marketing executives of firms (i.e. directors and senior managers) were interviewed. Statements by the marketing executives about external capital disclosure items in the annual reports were subsequently analysed to understand the role of external capital disclosure in signalling their stakeholders: political stakeholders (i.e. government and statutory bodies), social stakeholders (i.e. community), and capital stakeholders (i.e. capital providers).

An exclusive focus on annual reports is unlikely to provide a complete picture of firms' external capital disclosure practices (Unerman, 2000). Case study based interviews, on the other hand, facilitate investigation of the phenomena underlying such disclosure (Yin, 1994, p. 13). Further, the combination of content analysis and case study based

interview techniques can increase the validity of inferences (Carney, 1972, p. 199; Sepstrup, 1981, p. 139).

Before the case study based interviews, a pilot interview was conducted with a senior marketing executive from a listed firm not in the sample, using a semi-structured interview questionnaire framework. Analysis of this interview helped to formulate and re-frame questions for the 11 case study based interviews, which also used the semi-structured interview format. The questions in the interviews related to external capital disclosure items in the coding framework that was used to record data from the content analysis.

Eleven industry sectors represented the top 30 firms sample in this study, and firms interviewed to represent each industry sector was selected using a stratified sampling technique, since disclosures could vary due to differences in industry characteristics (Cooke, 1992; Dye, 1985; Lev & Zarowin, 1999). This study refer to them here as Bank Ltd, Beverage, Diversified Ltd, Engineering Ltd, Finance Ltd, Food Ltd, Hotel Ltd, Property Ltd, Manufacturing Ltd, Tobacco Ltd, and Trading Ltd, to maintain anonymity as assured in the ethics agreement,.

Five processes were adopted to increase the validity and reliability of the case study based interview method: managing the interpersonal behaviour of the researcher; carefully selecting respondents holding senior positions; using an interview format that enabled the researcher to take active control of the interview; using a semi-structured questionnaire; and the researcher taking notes during the interview process.

Interviewees were company directors, or in the absence of a director, the senior manager who was responsible for functions involving external capital items. When information obtained from the first person interviewed was not sufficient, an additional person of similar ranking in the same functional area of the firm was interviewed. The interview time allocated was 60 minutes.

Data analysis

To bring analytical rigor to data interpretation in annual reports and interviews, the 10 external capital items in the coding framework were groped into five classes. These are brand building, corporate image building, business partnering, distribution channels and market share. The brand-building class includes brands, customer satisfaction and quality standards items. The corporate image-building class includes company name and favourable contracts items. The business partnering class includes business collaboration, licensing agreements, and franchising agreements (Abeysekera & Guthrie 2005).

4. Results and Discussion

Table 1 outlines the output of data by external capital class disclosure signals in annual reports. Appendix 1 summarises the frequency count of external capital items and classes, as derived from the content analysis. Appendix 2 displays external capital practices for each external capital class by sample firms. This sample of firms disclosed the following external capital classes in their annual reports (in descending order of frequency): brand building, corporate image, distribution channels, business partnering, and market share. Each external capital class is discussed below.

Table 1. External capital disclosure analysed by signalling perspective

External capital class (from most to least frequent)	Concerned stakeholder groups	Signalling agenda
Brand building	Economic	Focus on most profitable value added segment of products and services.
	Political	Display restrictive consumption in promotion as required by legislation.
Corporate image	Economic	Build confidence among capital providers.
	Social	Portray firm as visible corporate citizen taking care of society.
Distribution channels	Economic	Take advantage of relations with wholesale and retail outlets.
Business partnering	Economic	Display positive business attitude.
Market share	Political	Avoid creating friction with the government monopoly status of some industry sectors.
	Social	Lower visibility of dominance or near monopoly status in the market place.

A. Brand building

The literature indicates that branded products are at the highest end of the value chain, enabling industry groups to maximise their capital accumulation (Daley 2001). Overall, the industry sectors reported the most about their 'brand building', treating it as one of their best assets. The Food Ltd interviewee said, "I would think brands are the assets are of this company. Competition is marginal. We invest in brands – brand building activity, freshen the brands". Firms that signalled brand building did so truthfully and appeared to inform stakeholders about them to further

capital production depending on their ability to influence brand building.

The Engineering and the Hotel industry sectors signalled least about brand building in their annual reports. The case study interviews with Engineering Ltd and Hotel Ltd revealed that they reported little about brand building because they lacked branded products or services. The Engineering Ltd interviewee said, "We are not in mass production. In our case, we have to meet specific requirements of the customers. We don't have branded products". The Hotel Ltd interviewee said, "Once the refurbishments are done I think we should come in with our own brand. We should create our brand which should enable us to go to other parts of the world as well. …One day, maybe 50 years or 100 years hence, it will be a brand that people are talking about …We can't do what Hilton is doing right now. Their 12–15% revenue comes from worldwide booking systems whereas ours is 1%. That is because of the brand name".

Further examination of firms whose representatives were interviewed in this study revealed that multinational firms aggressively promoted their brand building. The multinational firms in the sample were concentrated in the consumer goods manufacturing area. They had access to a large array of resources from their global group of firms which were generally not available to other firms. The interviewees from Beverage Ltd, Food Ltd and Tobacco Ltd, which are multinational firms, confirmed that they had access to their global brands. They marketed these global branded products locally to maximise their accumulation of capital.

It was evident from information about sales of alcoholic beverages and tobacco that the Sri Lankan government exercised regulatory power to curb the sale of these products. The tobacco industry sector had come under political pressure from the Presidential Task Force since a review of the production, marketing and distribution of tobacco and alcoholic beverages. This led to the imposition of marketing restrictions on tobacco products in the country (Ceylon Tobacco Company 1999, p. 26). Firms that produced alcoholic beverages were also under political pressure, and were subject to a high duty regime designed to curb alcoholic consumption in the country (Distilleries Company of Sri Lanka 1999, pp. 8-9; The Ceylon Brewery Limited 1999, p. 2; The Lion Brewery Limited 1999, p. 1). These regulatory actions made the tobacco and beverage (particularly, alcoholic) industry politically visible and sensitive, creating downward pressure on the share price and profitability of these firms. Although the advertising of tobacco and alcoholic beverage brands was restricted in public places, these industry groups appeared to use their annual reports, a medium unregulated by the government, to communicate to stakeholders about their brand building.

B. Corporate image building

The corporate image is an invaluable asset to firms in promoting them, and awareness of that was evident across industry groups. The top 30 firms promoted their corporate image via the annual reports to distinguish them from others, and to present as a responsible corporate entity, taking care of the community and the environment. Firms often signalled community projects they had carried out, their harmonious relationship with the local community, and the funding they had provided for these projects.

In the interviews with firms, Hotel Ltd and Engineering Ltd signalled most frequently about their corporate image. This could be because they lagged on brand building, and were more dependent on local than foreign shareholder capital. According to these interviewees, local shareholders invest their capital for a longer term than foreign shareholders. Firms in the Hotel and Engineering industry sectors require substantial investment in non-current assets that takes longer to yield a return on capital. In turn, the huge capital investment in non-current assets gives these firms greater corporate visibility, and a need to maintain, build and signal their corporate image to convince shareholders to keep investing in them. The Hotel Ltd interviewee explained, "now that the market knows that conglomerates like xxx [name of parent company] are behind the hotel, it also gives them and the hotel much needed stability and indicates that we are committed to developing and expanding".

Firms from the Banking, Finance, Manufacturing, and Diversified industry sectors signalled most frequently about corporate image in their annual reports. The Bank Ltd interviewee said, "Last year we came up with corporate advertising for the bank, because of the financial performance as at the end of the year. We portrayed ourselves as a very steady and healthy bank, rather than going through peaks and coming down". The Finance Ltd interviewee noted, "In Sri Lanka it is very important. It is about who we are, and what sort of business we are into". The Finance Ltd interviewee further said, "For a long time we have not concentrated on corporate image advertising, but last year we concentrated on corporate image advertising again, and we strengthened our position as an IT resourced bank for local customers, as our customers are local customers". It appeared from the annual reports that these industry sectors engaged in corporate image building with a view to enhancing their corporate reputation.

Corporate reputation becomes paramount in withstanding damaging news: firms with a high reputation tend to suffer the least impact from bad news about their financial performance, as stakeholders may be disinclined to believe it (Davies, Chun, da Silva & Roper, 2003, pp. 201-217). Interviewees did not agree that firms engaged in

corporate image building with a view to enhancing their corporate reputation, but they agreed that the benevolence ensuing from a good corporate reputation could enhance their corporate image. For instance, the Tobacco Ltd interviewee said, "We do many CSR [corporate social reporting] activities to build corporate image – giving a helping hand in IT in rural areas, art and craft, using fuel wood to generate electricity". The Hotel Ltd interviewee said, "It is more than a business. It is not to get publicity, we don't want publicity. But it is mainly you also have to give something back to society, as society gives so much to you to maintain your business".

The Property industry sector did not report at all about corporate image in its annual report. This could be because this industry sector is the least dependent on shareholders to attract capital. The Property Ltd interviewee said that corporate image was unimportant to that firm, as it was a fully owned subsidiary of a big bank. This big bank is the sole customers of the firm.

Most firms approached corporate image building as distinct from brand building, as the brands did not identify the firms. Tobacco Ltd and Beverage Ltd were the exceptions. Tobacco Ltd was the only legal cigarette manufacturer in Sri Lanka. Although its brand names were different from the company name, its virtual dominance in the marketplace ensured that stakeholders identified its corporate image with brands. This was evident when the interviewee from Tobacco Ltd said, "You can buy illicit cigarettes; our company name [name deleted] itself, guarantees the quality".

Although some firms appeared to design their corporate image building to attract capital providers and customers, for others it was a more thoughtful and encompassing exercise. As already mentioned, the alcoholic beverage and tobacco firms were subject to political pressure. Hence, for these firms corporate image building entailed convincing several stakeholder groups, not just capital providers. The Tobacco Ltd interviewee explained, "for corporate image we have identified government as a whole, and two ministries as key decision makers: government - pricing is controlled by state, health ministry, and agriculture ministry". The Beverage Ltd interviewee said of corporate image building: "We lie low in that area. It is a fairly a sensitive issue because of the type of business we are in. We are very much in focus".

The interviews with Tobacco Ltd and Beverage Ltd suggested that when firms operate in a politically sensitive industry, their preferred strategy is to separate brand building from corporate image building. However, the near monopoly status of the firms interviewed in these industry groups negates the preferred strategy, so that stakeholders could closely relate the brand image and the corporate image. A few firms had taken a novel strategic direction of merging brand names with corporate image, in the belief that it would improve their capital accumulation. The Food Ltd interviewee said, "We leverage yyy [brand name deleted] brand as the company. The xxx [company name deleted] brand – 10 to 15 years ago, people did not know that yyy etc comes from xxx. Today we drive xxx as a brand which stands for quality, reliability. You have the xxx seal of guarantee on it."

C. Distribution channels

Some industry groups signalled more about distribution channels than others, depending on their importance for capital accumulation using their products and services in their annual reports. The types of distribution channels mentioned at interviews as used by their firms also varied depending on the industry sector. Hotel Ltd interviewee referred to distribution channels in terms of the reservation system and location of hotels. Beverage Ltd interviewee referred to their wholesalers and retailers as distribution channels.

Further, interviewees considered distribution channels as inter-related to other classes of external capital. The Hotel Ltd interviewee noted, "Your distribution channels and market share are really vital to give you profitability". The Finance Ltd interviewee said, "Without distribution channels you can't have market share". The Beverage Ltd interviewee mentioned that the firm was looking at its business models to outwit competitors and outsource retail distribution. Although distribution channels appeared to be important for capital accumulation, their relatively limited signalling in annual reports could be attributed to their complementary role in promoting brand building, corporate image building and market share.

D. Business partnering

The fourth most signalled class of external capital was business partnering in annual reports. The Trading, Beverage, Food and Tobacco industry sectors in particular signalled less about business partnering in annual reports. A substantial proportion of the sample firms in these industry sectors were multinationals, and these firms generally did not seek business partnering to attract capital and improve profitability. The Food Ltd interviewee said, "There are products such as ice cream, we don't have a distribution network. As and when we go in, we will use a network. We will tie up with xxx company [name deleted]. It will be purely on a needs basis thing". The Tobacco Ltd interviewee said, "Franchising – you have to register your brands. We use our international brands, and you have to pay franchising (technical and advisory fees). We don't sign any other."

On the other hand, Diversified Ltd, a domestic firm, was actively seeking business partnerships with international firms. The interviewee disclosed that one of the keys to its business success was collaborating with reputable international firms.

The overall lower frequency of signalling about business partnering could be attributed to the

relatively few franchising and licensing agreements between firms in Sri Lanka and international firms. As past research has pointed out, this could be due to firms in developed countries obtaining lower return from international ventures with firms in developing countries (Ueng, Kim & Lee, 2000). Further, the lack of respect for and enforcement of intellectual property rights (USAID 1998, p. 7) in Sri Lanka and the civil war there at the time of these interviews doubtless also contributed to an uncertain business environment, which adversely affected business collaborations with foreign firms who were wary of the uncertain environment (McSheey, 2001).

E. Market share

Although all industry groups reported least about their market share, the case study interviews revealed that all industry sectors focused strongly on managing market share. The only exception was Property Ltd, which rented its entire property portfolio of property to its parent firm to earn revenue. This eliminated the need for Property Ltd to manage its market share.

The interview findings identified that a crucial business strategy used by firms was to maximise capital accumulation through increasing their volume of sales. For instance, the Food Limited interviewee disclosed that the firm monitored its volume of sales on a daily basis and explored opportunities of synergy with other firms to increase its market share.

Although firms actively managed their market share, they were loath to signalling about market share in their annual reports. Some interviewees did not see how such signalling could impress shareholders. In this respect, the Tobacco Ltd interviewee said, “Market share is 90%. Currently in [our] 10-year plan, the expectation of competition is low because there are other barriers in the market – registration, infrastructure, excise duty 80% of retail price. The likelihood for anybody [else] to come and manufacture is very low. You might compete in importing and selling premium brands. With the given economic growth of the country, we don’t see a strong possibility of that happening”.

Some firms which were market leaders appeared to assume that their dominant market presence among shareholders was common knowledge in the market. The Beverage Ltd interviewee said, “We have increased to 85% by about 2% over a period of two years. Mainly we have squeezed the competition”.

Further, the government held the monopoly position or major market share in respect of certain products, and that increased the competition for firms marketing those products and services in some industry groups. The Banking industry sector had to compete with government-held firms. Government-held firms generally held a larger market share in this industry sector for two reasons. First, being among the early players in the industry enabled them to establish themselves in the market. Second, the non-competitive and inequitable pricing structure of government-held firms enabled them to attract consumers. The government budget-funding supplement, which allowed government-held firms to continue inefficient practices such as relative pricing of products and to write off bad debts, was a prominent concern in the equality of the market place (Mahendran 2001, p. 4). Further, with government monopolies holding a larger market share they were able to take actions that were not available to firms with a low market share.

5. Concluding remarks

The annual reports directed signals mainly towards capital providers as the primary users of annual reports, with the aim of increasing capital accumulation. The predominance of signalling about brand building and corporate image building is testimony to this motivation. The signals were used to manage public impressions. However, the signals did not provide false information. Rather, they appeared to be selective communication designed to manage the impressions, knowledge and attitudes of stakeholder groups, so that firms could increase capital accumulation. The firms recognised all stakeholder groups as relevant, while signalling in an indirect fashion in annual reports that existing or future regulatory action could influence capital providers. The acknowledgement of regulatory action was prominent in politically sensitive industry sectors (i.e. alcoholic beverages and tobacco), and these industry sectors attempted to counter further such action by signalling empathy with political and social stakeholders.

Comparing the case study interview findings with the signalling in annual reports revealed that firms deliberately under-reported, their market share (Table 1). It was possible that signalling more frequently about market share could influence the perception of political and social stakeholders, other than capital stakeholders, and invite regulatory action. This is a distinct possibility with firms in industry sectors that are under political scrutiny due to the nature of the products they manufacture and market. Signalling about a near monopoly market share might invoke further criticism and adverse legislation. Among industry groups such as banking, since the government held a monopoly, signalling market share could give rise to tension between the firm and the government. However, even firms from industry sectors that did not encounter political scrutiny or challenge government-backed competition still signalled little about market share. It could be that signalling a large market share might invite regulatory action from other than capital providers.

Managing public impression with external capital items for capital accumulation is complex. The industry sector to which a firm belongs plays an influential role. The signalling of external capital

items produces a combined effect of all items rather than a segregated effect for each item.

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APPENDIX

Table 1. Frequency of external capital disclosure signals in annual reports

	2001-2002	2002-2003	Average
Brand Building	**163**	**157**	**160**
Brands	102	113	108
Customer satisfaction	5	10	8
Quality standards	56	34	45
Corporate image building	**129**	**185**	**157**
Company names	129	184	157
Favourable contracts	-	1	1
Distribution channels	**164**	**50**	**107**
Distribution channels	164	50	107
Business partnering	**44**	**41**	**43**
Business collaborations	41	34	38
Licensing agreements	-	4	2
Franchising agreements	3	3	3
Market share	**11**	**13**	**12**
Market share	11	13	12
	511	446	479

Table 2. Some external capital signals described by interviewees

Respon-dent company	Brand building	Corporate image building	Business partnering	Distribution channels	Market share
Property Limited	Nil	Nil	Nil	Nil	The firm was purpose built to operate the high-rise building to house its parent firm
Enginee-ring Limited	No brands due to nature of activities	Nil	Only as part of ongoing business	Obtains supplies fast from its subsidiary in Singapore	Product-building business restricted to local market. Planning to capture overseas market
Hotel Limited	'The venue is marketed as an event and promotion place	Leveraging on resources with other firms for mutual benefit	Planning to collaborate to better package its services	Nil	Caters to short term travellers
Trading Limited	A lot of advertising to build brands	Working towards trusted excellence so that the consumer will not worry after purchase	Collaborates with financiers on credit cards and mobile phone sales	107 retail shops growing 10% per annum	Market leader in several categories; refrigerators, television, gas ovens, washing machines
Tobacco Limited	Two key assets: people and brands; people make the brands and not vice versa	Shares best practice with national and international firms	Collaborates with other businesses for mutual benefit, case by case basis	Surveys other distributors to ascertain their satisfaction	Near monopoly for legal product
Food Limited	Fundamental to the firm; belief in building strong brands	Intangible side where consumers feel they belong to a special group, more an attitude or emotion	Parent firm of the multinational group makes decisions about business collaborations	Works with distributors who are business partners	Crucial since the firm wants to be the number 1 or 2 in a given product category
Beverage Limited	Strength is the character of the brand and unique copy line used in advertising	Nil	Helps to manage its competency to run as profit centres	Distributors appointed under distributor agreement	About 80% of legal beer market, has been growing over the years
Manufac-turing Limited	Supporting own brands is costly; margins don't justify it	Reliability, 4th largest independent non-medical glove producer	Largely marketing collaboration	Works mainly with the distributors, not retailers	Growing due to long established relations with distributors
Diversified Limited	Advertising campaigns project the image of the firm since the market is small	Major reason employee likes to work	Relies mainly on joint internationally recognised venture partners for innovative products and services	Ideally wishes to reduce number of distributors	45% market share of soft drinks; 65% of ice cream; 85% of frozen foods and processed meat market
Finance Limited	Main brand is company name	Stable and performance driven	Government institutions to implement loan schemes	8 branches owned by the firm	Market share not estimated; relies heavily on repeat customers
Bank Limited	Majority of products are branded	Ingenious bank with a modern outlook; first to provide electronic banking; real time online banking	Mobile banking solution with phone companies, hospitals, retail firms	Opens, on average, 5 fully functional branches a year	10-20% market share; gained through service differentiation