A Field Experimental Study of the Impact of Social Responsibility Disclosure on Institutional Investment Decision-Making

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A FIELD EXPERIMENTAL STUDY OF THE IMPACT OF SOCIAL RESPONSIBILITY DISCLOSURE ON INSTITUTIONAL INVESTMENT DECISION-MAKING

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and
Godwin Y Shiu

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by

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Australia

Abstract:

This study used a repeated measures experimental design to evaluate the effect of social responsibility disclosure in annual reports on the investment decision-making behavior of institutional investors. Information cues were prepared using actual company data and subjects were required to go through an investment exercise. To the extent that social responsibility information was of a general type and presented in narrative form, the results indicated that such disclosure did not have an effect on institutional investors' decisions. However, this study also found that certain themes and presentation of social disclosure were perceived more important for investment decision-making which could have policy implications for preparers of annual reports.

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** Teaching Fellow

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INTRODUCTION

The impact of social responsibility disclosure (SRD) on investment decisions has been the focus of a number of research studies in the past (for example, Ingram, 1978; Spicer, 1978; Buzby and Falk, 1979; Anderson and Frankle, 1980; Shane and Spicer, 1983; Mahapatra, 1984; Booth, et al., 1987). However, these studies have produced some contradictory evidence about the impact of SRD on investment decision-making and there is clearly a need for more research in this area. This was highlighted by Cargile (1983, p.25):

...the results of this research ...warrants a call for the accounting profession to conduct additional research into the relationship between corporate social responsibility information and investment decision making behavior. Studies to date have only scratched the surface in this important research area.

Accordingly this study addresses this issue from the perspective of Australian investors, one of the major user groups identified by the AAA Committee on Accounting for Social Performance (1976 p.67). Unlike some of the previous studies which used students as surrogate investors, this study selected a sample of institutional investors drawn from the population of Australian investment companies and banks as participants.

PRIOR EMPIRICAL RESEARCH

Prior empirical research mainly focused on the information content of SRD. Since these studies produced mixed results reviewing them should provide a useful framework for this study. Information content has been operationalized as the effect of SRD on share market prices. SRD will have information content if it has a positive or negative effect on share prices.

Information content studies in the SRD context have been a major focus of social responsibility accounting research for two reasons. First, there is the potential for these studies to offer empirical evidence that there are net benefits in SRD information for various users thereby justifying the costs of providing such
information. Secondly, existing empirical evidence on investor reactions to SRD of expenditures on socially-oriented activities has been inconclusive.

Previous studies were mainly based on pollution control expenditures data. Belkaoui (1976), for example, analysed the effect of pollution data on share prices and found that prior to disclosure of such data, disclosing companies performed worse than the market performance but, in the period after disclosure, these companies performed better than the market compared with non-disclosing companies. Hence Belkaoui concluded that SRD had a positive effect on share market prices.

Spicer (1978) also reported some statistically significant associations between changes in a company's share prices and social disclosure using a sample of 18 companies in the pulp and paper industry. Another study by Anderson and Frankle (1980) found that the market also valued social disclosure positively and concluded that not only does the "ethical investor" exist but, in fact, he dominates the market.

By contrast, Mahapatra (1984) found that investors behaved as rational investors rather than as ethical investors. He reported that investors considered pollution control expenditures "as a drain on resources which could have been invested profitably, and did not 'reward' companies for socially responsible behavior" (p.37). Similarly, Buzby and Falk (1979) surveyed university investors to assess their demand for social responsibility information and found that these institutional investors generally did not incorporate social information in their investment decision-making. Ingram (1978) extended the research to include other SRD categories besides pollution data. Initially reporting that SRD did not possess any information content, after further analysis by market segments which removed extraneous influences, he did find evidence supporting the information content hypothesis. Thus, in order to minimize any confounding effects, selection of the investor sample should be confined to a distinct group of investors.

To ascertain whether SRD has information content, nearly all of these studies employed a market reaction approach, a method which has been criticized by Booth, et.al. (1987 p.40) as simplistic. Similarly, Shane and Spicer (1983) questioned
whether investors in these studies had in fact used SRD information in making investment decisions:

Taken as a whole, these studies provide only limited support for the proposition that investors find disclosure of some socially-oriented data useful for investment decision making. (p. 522)

In order to overcome this limitation the present study addresses the issue more directly by requiring institutional investors to respond to two sets of information cues for making investment decisions which differed only in terms of the social information disclosed, and analyzing the decision responses.

DEVELOPMENT OF RESEARCH HYPOTHESES

Impact of General SRD On Institutional Investors' Decisions

The market reaction studies in prior research provided some evidence supporting the information content of SRD relating to a "specific item" such as pollution control records rather than "general SRD". Booth, et.al (1987 p.39) stated this quite succinctly:

The evidence supporting this at the aggregate level has been equivocal. The weight of evidence of the studies is in support of specific items of SRD having information content but this evidence does not extend to a wide range of specific disclosure items. The shortage of evidence supporting the information content of general SRD is due to the dearth of studies in this area. The general indication is that further exploration of the disclosure - information content relationship for specific items of SRD and SRD per se is warranted.

Thus the call for more research into the information content of general SRD provided further impetus for this study. The SRD items used in this study were human resources and community involvement. The choice of these information cues to test for impact on investment decision-making was based on a content analysis\(^1\) of annual reports of the top 100 public listed companies in Australia. Human resources and community involvement information were ranked first and second in terms of frequency of appearance in annual reports. Chi-square tests for extent of SRD showed

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\(^1\)Content analysis is a research technique in which communication content (e.g. corporate social activities) is transformed, through objective and systematic application of categorization rules, into data that can be summarized and compared. In this study corporate social activities in annual reports were analyzed along several dimensions viz., themes of SRD, methods of SRD and extent of SRD. For more details of this technique, see Holsti, 1969.
that these two SRD were significantly different from other SRD items at the normal level of significance.

Community involvement was presented along with human resources information for another reason. SRD on community involvement was more likely to be perceived as indicative of a company’s preparedness to accept its social responsibility than human resource disclosures which might sometimes be regarded as a surrogate for economic information. By presenting both types of information cues, therefore, this study provided additional evidence of the impact of SRD on investment decisions complementing previous studies which generally had relied upon a specific information cue.

To address this question of the impact of general SRD on investment decisions the following null hypothesis was tested:

**Hypothesis H₀:** There is no difference in the impacts of financial information and financial plus general SRD information on investment decisions by institutional investors.

**Forms Of Presentation Of SRD**

Since the SRD information cue was based on actual cases of predominant themes and presentation format found in Australian company annual reports, a priori, these themes and format were perceived as important for investment decisions by institutional investors. To test this assumption the following two hypotheses were formulated. If the first hypothesis (H₀) above was rejected then the tests for perceived importance of different forms of presentation and themes of SRD indicated by these two hypotheses should confirm that the existing SRD strategy was in accord with the information needs of institutional investors. On the other hand, if the first hypothesis was not rejected then these additional tests should provide some evidence concerning which theme and disclosure format would be perceived as important for investment decision-making by institutional investors.
Teoh and Thong (1984) found that there was little evidence of any attempt by respondent companies to report social performance on a systematic and formal basis. According to Teoh and Thong (1984, p.205):

At best, social reporting has been given passing reference, on an ad hoc basis, in the Chairman's Statement in annual reports and, to some extent, in newsletters or company magazines, both of which are far from satisfactory.

An Australian study by Guthrie et.al. (1987) also found that the most common form of presentation of SRD was narrative or a combination of narrative and quantitative non-financial disclosures. But there seemed to be a strong feeling among accountants that quantitative financial disclosure could provide "real" value to users like professional investors. The advantage of quantitative financial disclosure was best described by Ingram (1978, p.273):

Monetary disclosures possess the inherent quality of being cross-sectionally comparable, whereas nonmonetary disclosure, even if quantified in other terms, frequently lack a common denominator. Consequently, these two groups of disclosures may differ with respect to information content.

This present study therefore also investigated the importance of different forms of SRD dichotomised into non-financial versus financial and narrative versus quantitative. The null hypothesis was formally stated as follows:

**Hypothesis H02**: There is no difference in the perceived importance of (a) financial and non-financial forms of SRD and (b) quantitative and narrative forms of SRD by institutional investors for investment decision-making.

**Themes Of SRD**

A content analysis of the annual reports of Australian companies showed that the human resource theme received extensive coverage, gaining the most frequent mention. Previous studies also indicated that the proportion of companies disclosing human resource information appeared to be increasing over the years (Trotman, 1979; Pang, 1982). In the context of investment decision-making, it was important to identify the relevant SRD theme(s) so that, in the future, the appropriate social responsibility information could be presented to institutional investors. The paucity of
... although the respondents consider the information published to be useful in that it provides some comprehensive knowledge about the companies' activities, there appears to be a general feeling that some of the information is not of priority significance while more important areas are left uncovered.

The present study, therefore, also investigated the importance of the different themes of SRD in the context of investment decision-making. The null hypothesis was stated formally as follows:

Hypothesis $H_0$: There is no difference in the perceived importance of different themes of SRD by institutional investors for investment decision-making.

RESEARCH METHOD

Sample Selection

The subjects selected for this study were institutional investors comprising investment companies and financial institutions represented by financial analysts and bank officers who have the authority to make or have strong influence on investment decisions. Thus individual investors and non-investment or non-financial companies were excluded.

Institutional investors were selected for this study from among the potential groups of users because, first, investors were considered the primary users of annual financial reports (for example, FASB, 1976, p.3). Secondly, certain mutual funds in the United States have encouraged institutional investors to invest in companies which could demonstrate socially responsible behavior as evidenced by the extent of SRD in the annual reports (for example, Buzby and Falk 1978). Thirdly, institutional investors represented a more homogeneous group for the purpose of this analysis. Fourthly, institutional investors have also been employed as subjects in prior studies (for example, Longstreth and Rosenbloom, 1973).

The sample consisted of 200 investment companies, banks or financial institutions in the metropolitan cities of Sydney and Melbourne using the Kompass
Australia business directory (1987). Since responses by subjects in the control group would not be used in further analysis 120 subjects were randomly assigned to the experimental group and only 80 subjects assigned to the control group. This proportion had been chosen arbitrarily.

Respondents were 95% male and 5% female. Age ranged from 22 to 62 years with a mean age of 39.7. Investment experience ranged from 4 to 30 years with a mean of 10.4. The mean for working experience in the present firm was 6.5 years. Almost all respondents possessed a bachelors or higher degree and half of them also had professional qualifications. All respondents came from middle to senior management, were mostly financial analysts and investment managers, including five who were directors or partners. Clearly, the respondents had adequate educational background, experience and training, and were in positions that would have ultimate influence and authority to make investment decisions. Moreover, t-tests comparing the distributions of these demographic variables between the experimental and control groups showed there were no significant differences observed at the .05 alpha level, thus indicating that the randomisation procedure was reasonable. Considering the sample size, these demographic data were also submitted to non-parametric tests. The Mann-Whitney U-test was employed for each of the variables sex, qualification and position held in the firm, and the Kruskal-Wallis one-way analysis of variance for each of the variables age, length of working experience and experience in the present firm. These comparisons also revealed no significant differences for p<.05.
Research Design

<table>
<thead>
<tr>
<th>Experimental Group</th>
<th>Control Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINA</td>
<td>FINA</td>
</tr>
<tr>
<td>FINB</td>
<td>FINB</td>
</tr>
<tr>
<td>SRDA</td>
<td>SRDA</td>
</tr>
</tbody>
</table>

FIN - Financial Information  
SRD - Social Responsibility Information  
A - Company A  
B - Company B

FIGURE 1 - RESEARCH DESIGN

To test the first hypothesis, information cues were prepared using actual data from two companies within the same manufacturing industry. Any confounding effect of market segment differences (Ingram 1978) was thus removed. One of the companies provided SRD in addition to financial information whereas the other company did not have any SRD. The identity of these two companies was not disclosed in order to minimize the effects of any prior respondent biases. At the same time using actual data ensured that the information cues were realistically presented. A sample is included in the Appendix I. In this study the two companies were labelled Company A and Company B. As shown in Figure 1, two sets of information cues were presented for Company A. The first set contained only conventional financial statements which comprised three-year comparative balance sheets and two-
year profit and loss statements together with some financial highlights. The second set contained the same financial information but, in addition, also included community involvement and human resources information in narrative form. Company B was provided with a conventional set of comparative financial statements and financial highlights only. This information was drawn from the company which did not make any SRD.

Subjects were first randomly assigned between an experimental group and a control group. Each subject in the experimental group was asked to assume the role of investor with a sum of $100,000 to invest in Company A and Company B in a proportion to be decided after reviewing the conventional financial information provided for Company A and Company B. The subject then proceeded to review the second set of information which contained both conventional financial statements and SRD for Company A and to make a decision on how the fund should be allocated between Company A and Company B. The experimental group was thus subject to a repeated measures procedure in which any subject differences could be controlled. Any significant differences in decision outcomes between the two experimental conditions could only be attributed to the impact of the additional social responsibility information disclosed. Order effects were tested utilizing a methodology employed by Hendriks (1976). According to this approach, the control group was presented with a set of information cues containing both financial information and SRD identical to the second information set for Company A that was given to subjects in the experimental group. Thus each subject in the control group was asked to make an investment decision concerning Company A and Company B in exactly the same way as a subject in the experimental group for the second experimental condition. Absence of order effects was established if no significant difference exists in the response scores

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2The experimental material was presented in exactly the same way as would appear in the annual report. Any attempt to "bury" social responsibility information within the financial information category would offset a realistic setting.

3For the design and administration of the experiment which attempted to minimize the potential effects of demand characteristics, see Hendriks, 1976, pp.292-305 and 1979, pp.205-208.
for the control group and the experimental group for the second experimental condition.

**Instrumentation**

Data were collected using a questionnaire design. Question one was an investment decision exercise in which each subject in the experimental group was required to review the conventional financial information, first without, and then in conjunction with, social responsibility information. Then they had to decide how $100,000 should be allocated between Company A and Company B. This investment exercise attempted to test the first hypothesis ($H_{01}$) that there is no difference in the impact between financial information and financial plus SRD information on the investment decisions of institutional investors.

The next two questions addressed the importance, respectively, of the different forms of presentation of SRD and various themes of SRD in making investment decisions by institutional investors. In each case subjects were asked to rate the perceived importance on a 5-point Likert scale, with 1 indicating little or no importance and 5 indicating extreme importance.

Finally, a demographic profile section was included to collect demographic information on the subjects. These demographic variables were sex, age, years of working experience, years of working experience in present firm, educational background, professional qualifications and position in the firm. Although subjects have been randomly assigned between the experimental and control groups, it was important to perform a test for homogeneity to ensure no confounding occurred due to these demographic variables.

The questionnaire was field-tested to check for meaningfulness and completeness. All relevant comments that would improve the questionnaire design were incorporated. Of the 200 questionnaires mailed to investment firms and financial institutions in Sydney and Melbourne, 24 were returned as "non-deliverable". All questionnaires were addressed to investment managers directly. A covering letter explained the purpose of the study and assured respondents of confidentiality.
concerning the information provided. A total of 54 responses were returned (excluding those returned as "non-deliverable") for an overall delivered response rate of 31%. Sixteen returned responses were not usable because subjects were unable to participate for one reason or another, leaving a total of 38 usable responses. This gave a usable delivered response rate of 22% which might be considered a little low but, nevertheless, was within the modal range of 20%-40% (Nachmias and Nachmias 1976). The low response rate might be indicative of a lack of interest in this issue.

Test For Non-Response Bias

Given the high non-response rate (78%), it was reasonable to assume that there could be some doubt about the representativeness of the results of this study. A non-response bias test based on the "early/late hypothesis" was undertaken. The early/late hypothesis suggested that late respondents were roughly similar to non-respondents (Oppenheim, 1966, p.36). The statistical test involved making a comparison of the response distributions between the first 10 and the last 10 questionnaires received. The results indicated that the responses from these two categories were not significantly different at the .05 alpha level based on the Mann-Whitney U-test. No material non-response bias was thus detected.

EMPIRICAL RESULTS

Impact Of General SRD On Institutional Investors' Decisions (H01)

Hypothesis H01 states that there is no difference in the impacts of financial information and financial plus general SRD information on investment decisions by institutional investors. Seventeen subjects from the experimental group received repeated treatments, at first with financial information only and then, financial information plus SRD information. Twenty-one subjects from the control group received only the second treatment, that is, financial information plus SRD information.

As mentioned in the methodology section, the purpose of the control group was to control for order effects since all subjects in the experimental group received
the financial information only treatment first. A t-test of the mean amounts allocated to Company A following financial information plus SRD information treatment by subjects in both the experimental and control groups, ($52,941 and $47,142 respectively) showed that there was no statistically significant difference in the mean amounts. This suggests that the possibility of confounding due to order effects seemed unlikely.

In testing hypothesis $H_{01}$, the subjects' scores in the experimental group for both treatments were compared with reference to investment decisions in Company A. The mean amount allocated to Company A based on financial information only was $52,143 and the mean amount allocated to Company A based on both financial and SRD information was $49,643. A paired t-test was used to test the hypothesis that the mean amount for the financial information only treatment was not different from the mean amount for the financial information plus SRD information treatment. The result indicated that the null hypothesis ($H_{01}$) of no statistically significant difference could not be rejected at the .05 level of significance ($t=.98$, df=13, n.s.). Further support for this conclusion was provided by performing a non-parametric Wilcoxon Matched-Pairs Signed-Ranks test ($Z=-.8090$, $p<.4185$, N=17). Based on these results, it can be inferred that the provision of general SRD information in addition to financial information has no impact on the investment decisions of institutional investors.

**Forms Of Presentation Of SRD ($H_{02}$)**

Hypothesis $H_{02}$ states that there is no difference in the perceived importance of (a) financial and non-financial forms of SRD and (b) quantitative and narrative forms of SRD by institutional investors for investment decision-making. Initially a Friedman Two-Way analysis of variance was used to test the relative importance of the different forms of presentation of SRD. The results showed that forms of presentation of SRD were not perceived to have equal importance ($X^2=52.7, df=6, p<.001$). Then a t-test was performed between the financial and non-financial forms of SRD for the whole sample. A statistically significant difference
was found ($t=2.75, df=37, p<.01$) with financial SRD being perceived as more important for investment decision-making compared to non-financial SRD. Similarly, a t-test was also performed between the narrative and quantitative forms of SRD for the whole sample. Again a statistically significant difference was found between these two forms of SRD ($t=3.11, df=37, p<.001$) with quantitative disclosure showing a much higher mean score than that for narrative disclosure. The null hypothesis ($H_{02}$) of no difference therefore was rejected.

**Themes Of SRD ($H_{03}$)**

Hypothesis $H_{03}$ states that there is no difference in the perceived importance of different themes of SRD by institutional investors for investment decision-making. Again a Friedman Two-Way analysis of variance was used to test this hypothesis. The results showed that product improvement was ranked extremely important whereas community involvement was ranked very low. A statistically significant difference was found ($X^2=6.59, df=5, p<.001$) among the different themes, thus rejecting the null hypothesis ($H_{03}$) of no difference in perceived importance.

**DISCUSSION OF RESULTS**

To the extent that general SRD was operationalised in the context of human resources and community involvement, and presented in a narrative format, the results suggest such disclosure would have no significant impact on the investment decisions of institutional investors. This finding was not unexpected considering the lack of interest in this issue as indicated by the low response rate (22%). The finding of no significant difference however should not negate the usefulness of the results. As Kerlinger (1973, p.26) pointed out:

> Negative findings are sometimes as important as positive ones, since they cut down the total universe of ignorance and sometimes point up fruitful further hypotheses and lines of investigation.

Comments by the respondents provided further support for this finding. One of the largest Australian investment companies expressed its policy in these words:
Our relative allocation of monies would not have been affected by social information...it would be unusual if social-oriented information affected our decision making processes to any degree. We certainly make no attempt to formally include it in investment discussions.

An exception to the general conclusion, however, was noted in the comment by one investment manager:

If a company's record in the social areas was so poor as to damage its reputation and prospects, we would take this into account.....In areas such as consumer products, a company does need to avoid unfavourable publicity, since it can be commercially damaging, even if the criticism itself is unjustified.

Since the information cues for the investment decision exercise were based on actual cases of predominant SRD themes and formats found in Australian company annual reports, the question might also be asked whether the present SRD policy ought to be reviewed so that more relevant SRD information could be provided and presented in the appropriate form for making investment decisions by institutional investors. As this study has found, institutional investors perceived as more important for the investment decisions if SRD information could be presented in quantitative and financial form, and focused on the product improvement theme.

Instead, the present SRD information was perceived as general and somewhat vague and was described by one respondent as "decorated items". This respondent added further that:

Companies that disclose information of this kind would not necessarily have a particularly good record in social areas. They may merely believe it makes analysts and shareholders think more highly of them.

The comment by another respondent was also pertinent:

...the reports say educational training/support is granted to employees even if, say, just one employee has received benefit in this regard. What is important is the real depth within these comments i.e. some specific information.

These findings also suggested that the sensitization effect was negligible. Had sensitization been present, respondents who were exposed in the first part of the questionnaire to the community involvement and human resource SRD themes and the narrative presentation format would have perceived these as important for
investment decisions. But the fact that this was not so would only strengthen the argument that the most popular themes and presentation format might not be appropriate for institutional investors' decisions.

In the light of these findings and comments, further empirical analysis seemed warranted particularly the main and interaction effects between different themes and presentation of SRD on the decision-making behavior of not only institutional investors but all other potential users of SRD information.

LIMITATIONS OF STUDY

Several limitations of this study should be pointed out. First, this study addressed a specific category of users, viz. institutional investors, who were concerned with a specific type of decision, viz. investment decisions. It may well be possible that SRD has an impact on other users for making decisions other than investment. The findings of a lack of demand for SRD by institutional investors in investment decision-making are not generalizable to other potential users of SRD for making other types of decisions.

Secondly, the investment decision exercise presented SRD information in narrative form and focused on the human resources and community involvement themes. The results might have been different if other SRD themes were also included and if these SRDs were presented in quantitative financial format.

Thirdly, the results would have been more conclusive if the sample size was larger even though a test for non-response bias was performed to ensure no significant bias existed between respondents and non-respondents. Consideration should be given to increase the response rate in any replication of this study.

SUMMARY AND CONCLUSION

This study used a repeated measures experimental design to evaluate the effect of SRD information on the investment decision-making behaviour of institutional investors. The results indicated that where SRD information were general in nature
and presented in narrative form, such disclosure would have no effect on institutional investors’ decisions.

Preparers of annual reports can utilise the results of this study to review their present SRD policy. The results suggested that more specific SRD information, particularly concerning product improvement, based on quantitative financial data, were perceived as being more important by investors.

Since there has only been limited research to date in this area our findings are tentative, any generalisations will have to wait until further evidence is available. Further research investigating the impact on investment decision-making in terms of general SRD using different variations of presentation formats and including financial and non-financial social responsibility data, would appear essential.
Appendix I
Sample of Questionnaire

Instructions
This questionnaire is designed to seek your assessment of the following information for making investment decisions. You are requested to review the information provided and answer the questions at the end. To facilitate recording of your subjective judgements, most of the questions require you to circle an appropriate number on a 5-point scale. There are no right or wrong answers.

Both companies A and B provide financial information but Company A also includes corporate social responsibility accounting information in narrative form. These information (slightly modified) are obtained from annual reports of actual companies (names deleted).

You have $100,000 to invest in the ordinary shares of the two companies. You have to decide how to allocate this fund between them based on the information provided:

<table>
<thead>
<tr>
<th>Company A</th>
<th>Comparative Balance Sheets</th>
<th>As at 30 June</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1984</td>
<td>1985</td>
<td>1986</td>
</tr>
<tr>
<td>Issued capital &amp; reserves</td>
<td>341,403</td>
<td>413,798</td>
<td>431,678</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>100,536</td>
<td>83,658</td>
<td>103,349</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>269,718</td>
<td>317,379</td>
<td>216,312</td>
</tr>
<tr>
<td>Total funds</td>
<td>711,657</td>
<td>814,835</td>
<td>751,339</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>283,640</td>
<td>341,145</td>
<td>356,728</td>
</tr>
<tr>
<td>Current assets</td>
<td>428,017</td>
<td>473,690</td>
<td>394,611</td>
</tr>
<tr>
<td>Total assets</td>
<td>711,657</td>
<td>814,835</td>
<td>751,339</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company A</th>
<th>Comparative Income Statements</th>
<th>For the Year Ended 31 December</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1984</td>
<td>1985</td>
<td>1986</td>
</tr>
<tr>
<td>Sales</td>
<td>1,171,790</td>
<td>1,301,790</td>
<td>1,165,117</td>
</tr>
<tr>
<td>Operating profit before income tax</td>
<td>34,390</td>
<td>39,270</td>
<td>47,296</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>13,443</td>
<td>4,806</td>
<td>7,143</td>
</tr>
<tr>
<td>Operating profit before extraordinary items</td>
<td>20,957</td>
<td>34,464</td>
<td>40,153</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>(8,606)</td>
<td>1,267</td>
<td>(1,590)</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>12,351</td>
<td>35,731</td>
<td>38,563</td>
</tr>
<tr>
<td>Add: Unappropriated profits brought forward</td>
<td>19,210</td>
<td>23,727</td>
<td>40,184</td>
</tr>
<tr>
<td>Transfers (to) and from reserves</td>
<td>1,842</td>
<td>(7,538)</td>
<td>4,820</td>
</tr>
<tr>
<td>Amount available for appropriation</td>
<td>33,403</td>
<td>51,920</td>
<td>83,567</td>
</tr>
<tr>
<td>Less: Dividends</td>
<td>9,676</td>
<td>11,736</td>
<td>12,751</td>
</tr>
<tr>
<td>Unappropriated profits</td>
<td>23,727</td>
<td>40,184</td>
<td>70,816</td>
</tr>
</tbody>
</table>
### Company A

#### Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on shareholders' funds (%)</td>
<td>6.8</td>
<td>9.5</td>
<td>10.0</td>
</tr>
<tr>
<td>Earnings per share (cents)</td>
<td>32.5</td>
<td>53.2</td>
<td>61.9</td>
</tr>
<tr>
<td>Dividend per share (cents)</td>
<td>15.0</td>
<td>19.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Dividend covered (times)</td>
<td>2.2</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Net tangible asset backing per share ($)</td>
<td>4.8</td>
<td>5.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Debt / equity (times)</td>
<td>108.3</td>
<td>96.1</td>
<td>75.4</td>
</tr>
<tr>
<td>Gearing (total liabilities / total assets) (%)</td>
<td>52.0</td>
<td>49.2</td>
<td>42.5</td>
</tr>
</tbody>
</table>

In the 1986 annual report of Company A, the following sections are included in the Director’s Report:

### STAFF AND COMMUNITY

#### Superannuation

Upgraded superannuation has this year been at the head of continually improving employment condition for our staff. In Australia a new accumulation plan was introduced. Plans in New Zealand, United Kingdom, United States of America and the Pacific were also reviewed.

#### Occupational Health and Safety

During the past year divisions have been placing special emphasis on the development of the systems and the training of people in the area of health and safety at work... where training programmes are creating greater awareness and providing the skills for working safely.

#### Training

To ensure the continued high standards of performance, Company A has ongoing training courses operating for all levels of staff. In addition, the Group supports outside tertiary and post-graduate institutions. A graduate training programme recruits university students who are completing business oriented courses and gives them experience in a broad range of the Group’s activities.

#### Communications

Company A remains committed to fully communicating with our staff wherever they are in the world.

#### Community

A continues to be involved in community events of international standards... All divisions of Company A also participate in projects at a local community level.

---

### Company B

#### Comparative Balance Sheets

As at 30 June

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued capital and reserves</td>
<td>158,658</td>
<td>180,020</td>
<td>205,553</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>71,274</td>
<td>110,770</td>
<td>100,637</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>110,155</td>
<td>119,213</td>
<td>121,325</td>
</tr>
<tr>
<td>Total funds</td>
<td>340,087</td>
<td>410,003</td>
<td>427,515</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>177,871</td>
<td>223,819</td>
<td>237,557</td>
</tr>
<tr>
<td>Current assets</td>
<td>162,216</td>
<td>186,184</td>
<td>189,958</td>
</tr>
<tr>
<td>Total assets</td>
<td>340,087</td>
<td>410,003</td>
<td>427,515</td>
</tr>
</tbody>
</table>
## Company B
### Comparative Income Statements
### For The Year Ended 30 June

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>526,505</td>
<td>659,477</td>
<td>720,801</td>
</tr>
<tr>
<td>Operating Profit before Income Tax</td>
<td>43,555</td>
<td>54,995</td>
<td>59,816</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>20,677</td>
<td>23,958</td>
<td>27,327</td>
</tr>
<tr>
<td>Operating Profit before extraordinary items</td>
<td>22,878</td>
<td>31,037</td>
<td>32,489</td>
</tr>
<tr>
<td>Extraordinary Items</td>
<td>2,288</td>
<td>3,150</td>
<td>6,330</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>25,166</td>
<td>34,187</td>
<td>38,819</td>
</tr>
<tr>
<td>Add: Unappropriated profits brought forward</td>
<td>41,748</td>
<td>48,296</td>
<td>61,115</td>
</tr>
<tr>
<td>Transfers (to) and from reserves</td>
<td>(5,963)</td>
<td>(7,411)</td>
<td>(6,090)</td>
</tr>
<tr>
<td>Amount available for appropriation</td>
<td>60,951</td>
<td>75,072</td>
<td>93,844</td>
</tr>
<tr>
<td>Less: dividends</td>
<td>12,655</td>
<td>13,957</td>
<td>15,397</td>
</tr>
<tr>
<td>Unappropriated profits</td>
<td>48,296</td>
<td>61,115</td>
<td>78,447</td>
</tr>
</tbody>
</table>

## Company B
### Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on shareholders’ funds</td>
<td>(%)</td>
<td>14.8</td>
<td>17.6</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>(cents)</td>
<td>20.9</td>
<td>25.6</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>(cents)</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Dividend covered</td>
<td>(times)</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Net tangible asset backing per share</td>
<td>($)</td>
<td>142.5</td>
<td>147.9</td>
</tr>
<tr>
<td>Debt / equity</td>
<td>(times)</td>
<td>47.2</td>
<td>60.9</td>
</tr>
<tr>
<td>Gearing (total liabilities / total assets)</td>
<td>(%)</td>
<td>53.5</td>
<td>56.1</td>
</tr>
</tbody>
</table>
References


Calder, B.J. and M. Ross, (1973), Attitudes and Behavior, General Learning Press.


