



School of Business,
Economics and Law
GÖTEBORG UNIVERSITY

**A Study of Incentives and Benefits of Voluntary
Disclosure in the Extractive Industry by
Companies Listed on the London Stock
Exchange**

John Gartchie Gatsi and Emmanuel Debrah

Graduate Business School

International Accounting
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Supervisor: Ann-Christine Frandsen

Abstract

Over the past few decades, the information contents of many annual reports of companies have increased with voluntary disclosure taking a sizeable portion. The preparation and dissemination of information has huge costs to the companies. We therefore studied incentives and benefits for such voluntary disclosures with reference to companies in the extractive industry listed on the London Stock Exchange. The extractive industry involves all industries that engage in finding, acquiring and trading of natural resources either in its raw or processed forms. The activities of these companies directly affect communities, governments and the environment, hence the voluntary disclosure is dominated by environmental issues. We investigated whether cost minimisation, competitive advantage, avoidance of litigation and reputation costs, pressure from institutional stakeholders, stakeholder understanding and social responsibility are incentives and benefits for voluntary disclosure in the extractive industry.

Legitimacy theory and the content analysis model were used for the analysis. The study generally found out that the companies disclose voluntary information to stakeholders because of the investigated incentives and benefits but adopt an alternative disclosure strategy which portrays all the incentives and benefits for voluntary disclosure to stakeholders as either social responsibility or stakeholder understanding.

Keywords: Incentives and Benefits, Voluntary Disclosure, Extractive Industry, Legitimacy Theory, Content Analysis Model.

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CHAPTER ONE

1. INTRODUCTION

This chapter provides the background of “A study of Incentives and Benefits of Voluntary Disclosure in the Extractive Industry by companies listed on the London Stock Exchange”. The chapter presents the problem statement, statement of purpose, thesis contribution and delimitations. An outline of the rest of the thesis then follows in order to facilitate the reading.

1.1 Background

The annual reports of companies have been used to communicate the activities undertaken by the companies over a period of time to various stakeholders including shareholders, financial analysts, creditors and employees. The traditional annual report mainly communicates mandatory information to stakeholders. The annual reports have changed over the years from the cover to the content making today’s annual reports voluminous. This is partly due to a new dimension to the corporate annual reports which now report extensive voluntary disclosures.

The annual report is viewed as a formal public document made by public companies as a tool to respond to the mandatory requirements of accounting

standards in most countries (Stanton and Stanton, 2002). According to Hopwood (1996), Corporate annual reports have become complex product of reporting entities which proactively construct a desired “visibility and meaning” which do not reveal the actual position of the companies. The communication of reality about corporations is done by constructing a particular reality and on the basis of that reality-picture constructed and disseminated; people think and act (Hines, 1988; Judd and Tims, 1991). In their contribution, Mathews (1997) and Gray et al. (1995) indicate that voluntary disclosure is centred on the disclosure of non-traditional information by reporting entities. They explained that voluntary disclosure of social and environmental issues recorded remarkable improvement over the past decade. Deegan et al. (2000) believe that much of the readiness for environmental disclosure is encouraged in order to moderate the perceptions of most important stakeholders about companies. From the above elucidations about voluntary disclosure by prior researchers, no specific indication has been given about the incentives and benefits for such disclosures by companies in the extractive industry. We therefore study incentives and benefits to fill the research gap in this area of voluntary disclosure with particular reference to Mining, Oil and Gas and Paper and Pulp companies that are listed on the London Stock Exchange (LSE).

Reading through the annual reports of the investigated companies, we found out that the annual reports could not possibly contain all that is demanded and of interest to stakeholders. Many contributors to the information shortage provided by the annual reports indicate that corporate entities as a result utilise management marketing and communication theory to construct a picture of the entities to stakeholders (Neu et al., 1998). This is an

indication to us that there must be some incentives and benefits for companies taking extra time and resources to market and communicate additional information that will satisfy their stakeholders. In utilising the marketing and communication approach to provide discretionary disclosures, companies have been criticised to be providers of annual reports with complicated marketing tools to influence particular stakeholders with a particular image of the company (Neu et al., 1998). It has been reported that between 1970 and 1990, the total mandatory contents of the annual report in the UK increased rapidly because of changing demands from regulatory bodies but the voluntary disclosures which amplify the data included in the financial statement has increasingly expanded because it has now become a public relations document (Beattie and Jones ,1997a). This implies that the main purpose of voluntary disclosure for most corporate entities is to show how socially responsible they are to their stakeholders.

1.2 Problem Statement

Voluntary disclosure which is additional information to the mandatory information has increased substantially over the past few years and may help to maintain a healthy demand for shares (Cooke, 1989). This is relevant because any disclosure that is related to the operations of the companies affect how some important stakeholders will make their investment decisions. Voluntary disclosure according to Spero (1979) has increased the information contents of the annual report which may reduce information risk, lower the cost of capital and receive favourable rating on the securities markets. Alan (2001) stresses that companies which provide voluntary

information differentiate themselves by providing enhanced information that helps investors and creditors to understand them better. From the reasons advanced by Spero (1979) and Alan (2001), we are convinced that there is always a particular incentive and benefit for unsolicited disclosures for companies and these incentives and benefits differ from company to company, hence our duty to investigate the specific incentives and benefits for non-mandatory information in the extractive industry.

In the extractive industry, voluntary disclosure is mainly centred on environmental issues. In corroborating this, Deegan and Gordon (1996) discussed that environmental disclosures are increasing for companies within industries which are environmentally sensitive such as Mining, Oil and Gas, Paper and Pulp. According to Ze'ghal and Sadrudin (1990) there have been increased disclosures about human resources, the environment and community. A number of studies conducted after 1992 on decisions to disclose environmental information from North America and Australia indicate that no environmental disclosures were made in the annual reports. The study considered the effects of Exxon Valdez and Bhopal disasters on disclosures by petroleum and chemical industries (Blacconiere and Patten, 1994; Gamble et al., 1996). Neu et al. (1998) studied Canadian public company annual reports which focussed on mineral extraction, forestry, oil and gas and chemical industries between 1982 and 1991. The study revealed that companies disclose environmental information because of the power of some stakeholders. Deegan et al. (2000), Australian companies which were prosecuted by the Environmental Protection Authority did not disclose negative environmental information in their annual reports mainly to reduce the risk of companies' legitimacy. In reviewing the

environmental reports on voluntary disclosure presented above, the issue of incentives and benefits behind any voluntary disclosure has been reinforced giving us the impetus to investigate specific incentives and benefits associated with such disclosures in the extractive industry since the industry is interfaced directly with environmental issues around the world.

Meek and Gray (1989) mentioned cost minimisation and removal of potential barriers to foreign investment to enhance the free flow of international investment as well as pressure from institutional stakeholders such as International Accounting Standards Board (IASB) and Organisation for Economic Corporation and Development (OECD) as reasons for increased voluntary disclosure in the annual reports. Gray et al. (1995) commented that globalisation of world capital markets and deregulation of national capital markets have exerted enormous pressure on companies to voluntarily disclose information to users beyond what is mandated. Adrem (1997) imputed that apart from the annual reports, companies also utilise press releases and telephone conferences to communicate their voluntary information to target stakeholders. Gray et al. (1995) stated that companies disclose voluntary information well beyond what is required by regulation because of litigation and lawsuit costs, political and competitive disadvantage costs as well as risk exposure in the international capital market. The stated reasons for voluntary disclosure as recognised by Meek and Gray (1989) and Gray et al. (1995) are considered by our work for the study of incentives and benefits to find out if these reasons are applicable to the extractive industry.

Disclosure of voluntary information which is additional information to the mandatory information has increased substantially over the past few years and may help to maintain a healthy demand for shares (Cooke, 1989).

Voluntary disclosure according to Spero (1979) has increased the information contents of the annual report which may reduce information risk, lower the cost of capital and receive favourable rating on the securities markets. Alan (2001) stresses that companies which provide voluntary information differentiate themselves by providing enhanced information that helps investors and creditors to understand them better. From the reasons advanced by Spero (1979) and Alan (2001), we are convinced that there is always a particular incentive and benefit for unsolicited disclosures for companies and these incentives and benefits differ from company to company, hence our duty to investigate the specific incentives and benefits for non-mandatory information in the extractive industry.

Various reasons such as cost minimisation and removal of potential barriers to foreign investment to enhance the free flow of international investment as well as pressure from institutional stakeholders and to moderate the perceptions of most important stakeholders about companies have been indicated as to why companies in general voluntarily disclose information to their stakeholders (Meek and Gray, 1989 and Deegan et al., 2000).

We want to investigate whether the incentives and benefits stated above apply to the extractive industry. This is very important for the study because companies in the extractive industry compete with companies from other industries for capital on the international capital markets. They also easily interface with political authorities and communities where they operate. Since companies from other industries provide voluntary information on their activities because of cost minimisation in securing capital from international capital markets and to construct a positive image about

themselves, it is necessary to investigate whether companies in the extractive industry provide voluntary information because of the same incentives and benefits (Spero, 1979 and Cooke, 1989).

We also want to find out whether there are other incentives and benefits peculiar to the extractive industry since industries have peculiarities and different circumstances within which they operate, different stakeholder pressure and finally different changes in reporting requirements in which some items disclosed voluntarily are now disclosed as part of the mandatory report (Beattie and Jones 1997a). Also, since companies and the environment in which they operate (both internal and external environment) are dynamic, it is possible that new incentives and benefits which are not yet known may exist, hence the drive to find out other incentives and benefits to enrich our general findings for this work.

It is therefore, our focus to study three problem issues:

- (1) Whether the same incentives and benefits for voluntary disclosure are applicable to the extractive industry?
- (2) Which of the incentives and benefits rank highest in deciding to disclose voluntarily?
- (3) Whether there are other peculiar incentives and benefits for voluntary disclosure in the extractive industry?

1.3 Statement of Purpose

We have chosen to study incentives and benefits for voluntary disclosure in the extractive industry because it attracts heavy investments especially Mining, Oil and Gas and Paper and Pulp companies. Also, their activities are such that they attract the attention of all stakeholders hence the need to study the incentives and benefits for voluntary disclosure. In order to increase our understanding of the incentives and benefits of voluntary disclosures, we intend to conduct a descriptive study of incentives and benefits of voluntary disclosure by taking selected companies listed on the LSE.

1.4 Thesis Contribution

We hope to contribute new knowledge about incentives and benefits for voluntary disclosure which is peculiar to the extractive industry as a study of this nature to our best knowledge has not been conducted on the LSE before. We expect that this thesis will help stakeholders of extractive companies in making various investment decisions. It will also form the basis for further research of incentives and benefits of voluntary disclosure of other industries listed on the LSE and other major Stock Exchanges globally.

1.5 Delimitations

Our study is about incentives and benefits for voluntary disclosure in the extractive industry by companies listed on the LSE. We chose only fifteen (15) companies involved in Mining, Oil and Gas and Paper and Pulp in order to work within the short time available for the completion of the thesis since there are more than hundred companies in this category listed on the LSE, it may be difficult to generalise the findings to cover the position of all the companies. Our work is limited to the effect that we are considering only companies in the extractive industry which implies that the knowledge that would be generated at the end of the work could not be empirically useful to other companies which are not in this category. Also, the work is limited, in that, it considered only listed companies even though, there are many companies involve in mining, oil and gas and paper and pulp which are not listed. It therefore implies that the findings could not be practically applicable to non-listed companies in the extractive industry.

1.6 Thesis Outline

This thesis will be structured as follows: Chapter one will be for the background, chapter two for literature review and theoretical framework, chapter three for methodology, empirical studies and analysis for chapter four, chapter five for empirical findings and chapter six for conclusions and suggestion for further research.

CHAPTER TWO

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This section is primarily intended to organise known information related to the research question(s) being investigated in the thesis bordering on incentives for voluntary disclosure in the extractive industry for companies listed on the LSE. In the literature review, ideas from relevant sources in support and against the research question will be explored. Various works consulted will be reviewed under the following: The extractive industry, voluntary disclosure, incentives for voluntary disclosure and theoretical frameworks.

2.1 Voluntary Disclosure

Many regulations in accounting standards such as the International Accounting Standards as well national accounting standards exist to specify when and what information a company must disclose to its stakeholders. Many public companies such as Arab Potash, Sappi Limited and AngloGoldAshanti provide information that is complementary to mandatory disclosure and not included in standard reporting. Writing on solicited (mandatory) as well as voluntary disclosures, Jensen and Meckling (1976) explained that voluntary disclosure of accounting information is based on the principal-agent problem in the context of asymmetric information. Information asymmetry implies that the agent has more information that is not known to the principal which he can use in his own advantage hence the

need for the principal (stakeholders) to be well informed. Accounting information is demanded by shareholders as a means of monitoring contracts with managers and also as a mechanism for conflict resolution between various stakeholders for all investment contracts (Watts and Zimmerman, 1986 and Raffournier, 1995). Accordingly the separation of ownership and control generates agency costs resulting from conflicting interests between managers and stakeholders; hence an extensive disclosure of accounting information would go a long way to reduce monitoring costs. Jensen and Meckling (1976) stressed that stakeholders, mainly shareholders anticipate that managers divert some of the company's wealth into their own coffers hence the "bonding" to disclose to them.

Voluntary disclosure by multinational companies has greatly surged up to augment the traditional financial reports because the enactment processes involve in producing new standards for mandatory disclosures of relevant items and occurrences has been very slow (Cooke, 1989). The slow enactment processes which are deemed to ensure effective mandatory disclosure is just one of the reasons for increased voluntary disclosures. Another reason is that the financial statements by themselves do not give details of what most users expect hence the demand for narrative disclosures. It is equally interesting to know that voluntary disclosure has become very important segment of annual reports to stakeholders including managers as it bridges the information gap that always exists in a dynamic business environment.

Voluntary disclosure according to Spero (1979) and Alan (2001) has brought about improvement in the information contents of the annual report; reduce

the risks associated with raising capital from capital markets by making investors and creditors understand them better. To Adrem (1997) apart from the annual reports, companies also utilise press releases and telephone conferences to communicate their voluntary information to all or targeted stakeholders. Voluntary disclosure is also seen as a marketing and image creation portion of the annual reports by companies (Neul et al., 1998).

For the purpose of this thesis voluntary disclosure is viewed as discretionary disclosure of items to stakeholders to achieve some benefits for the companies and managers as well as stakeholders. Even though voluntary disclosure is discretionary which creates legitimacy and earns visibilities (financial and social reputation) for the company and its management, it does not disclose only good news but also bad news (FASB Steering Committee, 2001). According to Deegan et al. (2000), Australian companies which were prosecuted by the Environmental Protection Authority did not disclose negative environmental information in their annual reports mainly to reduce the risk of companies' legitimacy. The finding by Deegan et al.(2000) is firmly held in high esteem but the thinking of this work is in agreement with the findings of Skinner (1994) and FASB Steering Committee (2001) that voluntary disclosure can be good news or bad news. The truth being that companies have reasons why they voluntarily disclose good or bad news. A closer look at many annual reports indicates that many of the voluntary disclosures are anchored on environmental, human capital and community involvement issues. This is congruence with the contribution of Deegan and Gordon (1996) and Ze'ghal and Sadrudin (1990) who wrote that environmental, human resources, and the community

issues are increasing for companies within industries which are environmentally sensitive such as mining, oil and gas and paper and pulp.

2.2 The Extractive Industry

It is important to understand the industry on which the thesis is focused. The extractive industry is made up of companies that operate globally with enormous economic impact which draws the attention of many stakeholders. The UK Department of Trade and Industry (2004), explained that oil and gas resources provide energy and essential chemicals for both industry and transport and projected that by the year 2010 a sustained investment level of three billion pounds per year will be made to create about hundred thousand jobs with additional one billion pounds as revenue from new businesses (www.og.dti.gov.uk). Writing on sustainable development and the future of mineral investment, Otto and Cordes (2000) argued that the environmental effects of mining include destruction of natural habitats. The projected employment level by the International Labour organisation for the mining sector is about one hundred and fifty million people worldwide. Many large incomes are received worldwide from the oil and gas sector. For example Mexico (\$35 billion), Venezuela (\$30 billion) and Nigeria (\$22 billion) (www.eireview.org). The above issues about the extractive industry make it interesting to study.

International Accounting Standards Committee (IASC, 2000) “extractive industries are those industries that engaged in finding and removing wasting natural resources located in or near the earth’s crust”. It is explained that wasting natural resources are those natural resources that can not be replaced

in their original state by human beings. Accordingly wasting natural resources are generally described as minerals. IASC (2000) accepted mining and petroleum (Oil and Gas) as industries in the extractive industry and considered quarrying as part of mining. The IASC acknowledged that other industries involve in harvesting of timber in its natural state are some times called “extractive industries” but treated them under agriculture because they do not engage in the extraction of wasting natural resources. Though the World Bank Report (2004) on the review of the extractive industry did not define the industry but mentioned oil and gas and mining as well as chemical industries as sector industries in the broad extractive industry. The definition and explanations given by IASC and the World Bank seem to be common.

It is, however, the understanding of this work that the extractive industry involves all industries that engage in finding, acquiring and trading of natural resources either in its raw or processed form. As a result, mining, oil and gas, fishing and forestry and its affiliate activities are broadly regarded as operating in the extractive industry. It is in the light of this elucidation of what the extractive industry comprises that in studying incentives for voluntary disclosure in the extractive industry mining, oil and gas as well as paper companies are chosen.

Even though Bowles and Prickett (2001) did not mention categorically that forestry is part of the broad categorisation of the extractive industry, they indicate that the activities of the main extractive industries such as oil and gas and mining are undertaking in the forests. By this revelation it is difficult

for one to separate the activities of companies related to exploitation of forest raw materials from forests) as being outside the extractive industry.

2.3 Incentives and Benefits of Voluntary Disclosure

Listed companies such as those involved in extractive industry on the London Stock exchange are burdened with a lot of proprietary cost in their attempt to provide information to their stakeholders. The proprietary cost comes from the cost of gathering, processing and disseminating information to stakeholders. Gray et al. (1995) explain that proprietary costs arise when a company discloses vital information that increases competition or government regulations for its activities. Since voluntary disclosure is additional information, it implies additional cost is incurred by companies engaged in extensive discretionary disclosures. Therefore these companies are bound to have incentives and benefits to incur such additional costs. Companies also face competitive risk in publishing their strategies, research findings among others because the annual reports and press releases through which the voluntary disclosures are done (internet or hardcopy) remain public information easily accessible by competitors. Companies do not only compete on products and capital markets but also on the level of what is being disclosed voluntarily. Bearing from the voluntary disclosure competition, when one company provides particular voluntary information that enhances or is poised to brighten its image and receipt of capital flow from the capital market, competitive pressure causes other companies to follow suit (Saudagaran, 1988; FASB Steering Committee, 2001).

According to Gray et al. (1995) the voluntary disclosure competitive pressure is more pronounced among companies that raise capital internationally. The above inspires us to expect incentives and benefits to be the main driving force underpinning any corporate voluntary disclosures.

For the purpose of this work incentive and benefit shall mean any reasons, intents, pressures and expectations for voluntarily disclosing information to all or any group of stakeholders. According to Skinner (1994), managers act on behalf of companies as a result they bear the cost of failing to disclose negative information which affects stock prices. When managers face law suits because of their failure to disclose particular information, it affects the reputation of managers as well as the operations of the entity. Managers therefore disclose in order to avoid litigation and reputation costs. This is very important because shareholders and security analysts do not like adverse stock price surprises as a result of withholding such information by the company or managers. Security analysts may therefore decide not to follow the stocks of the company concerned which will affect investment in the company. Raffournier (1995) lightens the belief that multinational companies and large domestic companies have the propensity to voluntarily disclose information when they are sensitive to political costs in order to assuage public criticisms or governmental intervention in their affairs. FASB Steering Committee (2001) found out that companies that voluntarily disclose information benefit from lesser danger of litigation because it is inadequate information disclosure that generates litigation. Even when faced with litigation the companies stand better defence chances.

Baruch (1992) added to the incentives literature that companies also disclose voluntary information either good news or bad news to set competitive barriers to ward off competitors by shaping extraordinarily glooming or successful picture about the entity.

Neu et al. (1998) found that power of some stakeholders influenced Canadian public companies involved in forestry and oil and gas to disclose voluntary environmental information in their annual reports between 1982 and 1991 so that their legitimacy is not derailed. According to Spero (1979) and Alan (2001), voluntary disclosure is made to stakeholders to understand the companies better. Meek and Gray (1989) mentioned cost of capital minimisation and removal of potential barriers to foreign investment to enhance the free flow of international investment as well as pressure from institutional stakeholders as some of the incentives for voluntary disclosure. What is not forthcoming clearly from prior research is specific incentives for voluntary disclosure in the extractive industry.

The issue at stake therefore in this work is to come out clearly with specific incentives underlying voluntary disclosure of any kind in the extractive industry. The bases have been set that since voluntary disclosure is disclosure beyond what is required by law, companies will only engage in it if there are expected incentives and benefits.

2.4 The Theoretical Framework

The objective of this section is to explore the theoretical ground on which the research problem stands to help provide better understanding on which the thesis is based. Stakeholders of companies demand information disclosure about the operations of the companies to get clear understanding which form the basis for their decision-making (Stolowy and Lebas, 2004 and Foster 1986). According to the International Accounting Standards Committee (1989), for the information provided by corporate entities to be useful for the decision-making process of the users, it must be understandable, relevant, reliable, comparable and timely.

Prior research has utilised various theoretical models as foundation for understanding why disclosures are made to stakeholders including the lemon problem, agency and legitimacy theories (Jensen and Meckling, 1976; Watts and Zimmerman, 1986 and Raffournier, 1995). The theoretical foundation of this thesis is premised on the legitimacy and content analysis theories.

Legitimacy theory and the content analysis model are chosen to help explain the incentives and benefits for corporate voluntary information disclosure in the extractive industry to provide understanding and analysis of the research question.

2.5 Legitimacy Theory

According Van Der Lean (2004), legitimacy theory is one of the widely utilised theories to explain why corporate entities disclose relevant

information to their stakeholders. The idea is that the purpose of corporations is to act on behalf of their stakeholders and as a requirement corporate entities should disclose both economic and social performance to these stakeholders to be well informed about the investment made and compare the performance to their expectations about the companies. In the view of Lindblom (1994) corporate entities are in continuum seeking to operate in the best interest of their stakeholders. The theory assumes that the action of an entity should fit into some socially constituted system of norms, values and definitions such that the entity acts in congruence with the socially constituted system. In the pursuance of the going concern of all businesses, Guthrie and Parker (1989), firmly elaborate that corporations are bound by social contract both written and unwritten in which they agree to act in socially desired ways in return for continual approval of its objectives and other rewards. In the recent past companies' legitimacy was derived from profit performance and adherence to legal requirements. Mathews (1993), however, indicates corporate legitimacy is now inclusively derived base on economic, social including environmental performance, abiding by legal requirements as well as toeing the line of norms and values of stakeholders.

The thinking of this thesis is in consonance with Deegan (2000) and Gray et al. (1996) that legitimacy is greatly system oriented theory in that it considers corporate entities as part of a larger society within which they exist, and ensure that their operations are perceived by the outside stakeholders as legitimate.

Failure to comply with the expectations of outside stakeholders such as creditors, shareholders, environmentalists and media groups is likely to result in the revocation of the social contract that implicitly and explicitly exist between the entity and its stakeholders Deegan and Rankin, (1996). Willingness by investors to pay a premium to corporate entities for complying with socially constituted norms and values has been indicated by Pava and Krauze, (1996) and Toms, (2000).

Legitimacy in the reasoning of this work is about acting in the interest of stakeholders via the provision of information and also outlines reasons for not meeting stakeholder expectations as well as remedial actions to mitigate shortfall in expectations.

2.6 Legitimation Strategies

Legitimacy theory has been identified as system-focused hence there is the need to carve workable strategies to ensure that corporations maintain or do not entirely lose their legitimacy. Legitimation is the process of gaining legitimacy. Legitimation strategy is all about managing the core issues inherent in gaining and losing stakeholder support for continuous operation by manipulating stakeholder perception. The effectiveness of legitimation strategy depends on the effectiveness of corporate communication. The communication strategies prescribed by Dowling and Pfeffer (1975) and Lindblom (1994) and adapted by KHOR (1989) for entities seeking legitimacy is re-adapted for the purpose of this thesis. Four strategies are identified by their propositions. This implies they look at corporate

disclosure as a strategic guide to follow in their legitimisation process. The four legitimisation strategies are depicted in table 1 below:

Table 1: Corporate Legitimation Strategies

LEGITIMISATION STRATEGIES(LS)			
LS1	LS2	LS3	LS4
Alteration of social definition	Modification of external expectations	Conformity to definitions	Manipulation of social perceptions
The existing social definition of legitimacy is altered to be in line with current practices without changing its behaviour	The external expectations are modified to agree with current corporate performance	The company adapts itself to conform to prevailing definitions of legitimacy by changing its behaviour and informing relevant stakeholders about it.	The company manipulates social perceptions by associating itself with symbols, values or institutions which possess a strong legitimacy base.

Source: Adapted from the work of KHOR (1989)

2.7 Corporate Incentives

Many reasons have been adduced as to why corporate entities make corporate disclosures. In the wisdom of Mathews (1993) corporate disclosure can be made because of moral reasons (presenting the firm as acting in accordance with the social contract) or on pragmatic grounds (with gaining corporate legitimacy as the incentive for disclosure). The view of this work is that a combination of these motives for disclosure and other unidentified ones are likely to propel corporate entities to make voluntary disclosures. The thinking of this work also agrees with Carruther (1995) that companies are not only granted legitimacy by their stakeholders but they also go out for it through proactive voluntary information disclosures. As a result the understanding being projected by the thesis is that legitimisation strategies may be reactive as well as proactive through disclosures leading to

attainment of corporate legitimacy (receiving resources for continuous operations). Sometimes the legitimacy gain is actually for the management and not for the corporation but this is hard to discern and separate since management's reputation and support enhances corporate performance.

Companies communicate to their stakeholders by the information they disclosed in their annual reports, press releases and other reports. The kind of legitimisation strategy implored may affect disclosure actions. When the entity's activities are not in line with the expectations of stakeholders, it may rectify deviations by:

Being Reactive. That is the company has to change its behaviour and disclose this to stakeholders and educate them so that it can maintain or regain lost legitimacy. Hence failure to comply with the tenets of the social contract will call for a legitimisation strategy which will also prompt corporate disclosure (KHOR, 1989).

Being Proactive. Here the voluntary disclosure is made to change or manipulate the definition of legitimacy or social expectations so that the company's current behaviour conforms to a refined terms of the social contract. This is what Lindblom (1994) called change or dynamic legitimacy. Changes in social norms and values threaten legitimacy and call for legitimisation strategy leading to disclosures. The chain of activities involves in attaining or regaining legitimacy includes changes in Social norms and values and disclosures (proactive or reactive).

2.8 Content Analysis Model

Another model widely used to examine the voluntary disclosures by companies is the content analysis. It is the examination of words and the intents inherent in narrative disclosures by chief executive officers in the annual reports and other reports. Prior researchers have made use of content analysis in the study of the effects of narrative disclosures in annual reports on bankruptcy of firms and to defend or justify negative outcomes about the firm (Aerts, 1994 and Abrahamson and Park, 1994). It has been argued that content analysis model is difficult in its application but Krippendorff, (1980) supports it because the user of the annual reports has the free hand to use judgment to determine the hidden messages being conveyed in the narrative disclosures.

Two generic methods (objective and subjective) are considered in the content analysis literature by Smith and Taffler (1999). The objective method is also referred to as form focused which involves routine counting of words used in the narrative disclosures in the annual reports. The subjective method is also called meaning focused in which meanings inherent in the texts are examined based on the judgment of the individual user (Smith and Taffler, 1999).

In order to unearth the underlying incentives and benefits for voluntary disclosure in the extractive industry, the content analysis shall be explored in its general term to include both objective and subjective perspectives. This is very important because the narrative disclosures use words that give

concrete reasons for disclosure but for others, individual user judgment is required to identify the incentives for such disclosures.

CHAPTER THREE

3. METHODOLOGY

This chapter is devoted to the methodological issues bordering the thesis and the particular or combination of methods chosen to study voluntary disclosure incentives and benefits by companies in the extractive industry listed on the LSE. The content of this section shall include discussion on methodological issues, research approach, data collection and the quality of the research.

Many methodological approaches have been applied in accounting research since the inception of the subject such as qualitative and quantitative methods. Silverman (1997) explains that methodology is about a general approach to studying research topics while method is a specific research technique or tool to gather empirical data. Amaratunga et al. (2001) deem research as a process of enquiry and investigation in a systematic and methodical way to increase knowledge. Remenyi et al. (1998) advance that research methodology is the procedural framework within which research is conducted. As a result of the thinking of the above researchers it is clear that no meaningful research is conducted without a particular or combination of research method(s).

3.2 Research Approach

Various approaches can be used to study a problem. The choice of an approach depends on the degree of precision with which the original

research question can be formulated and how much knowledge already exists in the area of research. Research approach can be of exploratory, descriptive or hypothesis testing characteristics.

In order to increase our understanding of the incentives and benefits of voluntary disclosures, we will conduct a descriptive study of incentives and benefits of voluntary disclosure in the extractive industry taking selected companies listed on the LSE. Descriptive study is used in order to discover and describe the characteristics of the variables of interest in a certain situation. The goal is to offer a profile or to describe relevant aspects of the phenomena of interest to the researcher from an individual, organisational, industry-oriented or other perspective (Sekaran, 2003). Descriptive studies may or may not have the potential for drawing powerful conclusions and do not explain why an event occurred or why variables interact the way they do (Cooper and Schindler, 1998). According to Aaker et al. (1995), a descriptive study seeks data about a well-defined question; the purpose is to describe how the present situation looks without explaining why. In line with the explanations given by Sekaran (2003), Cooper and Schindler (1998) and Aaker et al. (1995), we will seek to describe the specific voluntary disclosure incentives and benefits associated with companies in the extractive industry listed on the LSE.

Our study will focus on three main areas in the extractive industry as Mining, Oil and Gas and Paper and Pulp companies listed on the London Stock Exchange (LSE). We have chosen the LSE because it is universally accepted as the first stock exchange in the world with a market capitalisation of about £3.5 billion, value of trade estimated at \$7.5 billion, over 5.1 billion

number of trades and about 2800 listed companies as at 2004 (www.londonstockexchange.com). The universal acceptability of the LSE as the first stock Exchange in the world and the fact that most of the companies selected for the study are also listed on other major stock exchanges such as the New York Stock Exchange and the Stockholm Stock Exchange is the main reason for choosing the LSE for this study.

3.3 Methodological Issues

We have chosen a combination of both qualitative and quantitative research methods for the purpose of studying voluntary disclosure incentives and benefits. The methodological issues will now consider mainly the views of prior researchers on quantitative and qualitative methods and our position for the thesis.

Quantitative methods of conducting research have been broadly associated with American researchers while qualitative methods are ascribed to mainstream research in Europe. It is, however, obvious that quantitative and qualitative research have advantages and disadvantages. Gilmore and Carson (1996) in reviewing the work of Patton (1980) explained that qualitative method of conducting research is flexible and adaptable throughout the research process. It also consists of detailed descriptions of events, situations and interactions between people and things which help to provide in-depth findings. In the view of Van Maanen (1979), qualitative research concentrates on unfolding the process rather than on the social structures. He claimed qualitative research lays emphasis on data

interpretation, holistic picture or outlook of issues, describes, decodes, translates and come to terms with the meaning of certain naturally occurring phenomena in the social world. He further stated that in utilising qualitative research, interviews, visual recordings, written reports and or questionnaires are used.

Fitzgerald and Rumrill (2005) reported that quantitative research is very important to conducting a study because it is quick, simple and objective to assess effective relationship observed among a set of related studies to produce empirical findings. They acknowledged that quantitative research involves the use of mathematical and statistical techniques to establish relationships that exist between or among variables. Even though, qualitative research is holistic, they claimed it is subjective evaluation of accumulated evidence from a set of studies. Whatever method is preferred should be informed by the research question and objective (Rimmel, 2003). Cook (1992) suggests that quantitative research is limited in the sense that it produces a generalisation premised on restricted specific settings, times, concepts and research populations that only explain one small piece of a larger phenomenon.

Our work shares with Glaser and Strauss (1967) that both quantitative and qualitative forms of research are very important to increase the understanding about the incentives and benefits associated with voluntary disclosure in the extractive industry since we are using questionnaires to solicit the views of the companies as well as their reports. By combining both qualitative and quantitative research methods, the study will benefit from a comprehensive descriptive analysis of the data with simple statistics

to analyse the data. This will help us find out specific incentives and benefits of voluntary disclosure in the extractive industry.

3.4 Data Collection

Sekaran (2003) presents different techniques on how to collect data. The chosen alternative depends on which method best answers the question of the investigation.

Data collection is done via primary and secondary sources. Our thesis demands that we access information through primary and secondary sources. Primary data is deemed necessary to study the incentives and benefits of voluntary disclosure in the extractive industry while secondary data broadly reviewed the thoughts and findings of earlier researchers to lay a firm basis for the interest and motivation of the thesis.

3.5 Primary Data

Primary source is a record of events as they are first documented without interpretations. Also, primary data refer to information obtained firsthand by the researcher on the variables of interest for the specific purpose of the study (Sekaran, 2003). Some examples of sources of primary data are individuals, focus groups, panels of respondents specifically set up by the researcher and from whom opinions may be sought on specific issues from time to time. The internet could also serve as a primary data source when questionnaires are administered over it (Sekaran, 2003).

In order to collect the primary data, open-ended and close-ended questionnaires have been designed and sent to some selected oil and gas, mining and paper and pulp companies listed on the LSE. The questionnaire has been designed to ensure maximum response from respondent companies as opposed to other means of collecting data such as interviews. Questionnaire has been chosen for the data collection because it will help illicit relatively quick, standardised and objective responses from respondent companies. The self administered questionnaire is useful for the work since respondents can answer the questions after reflecting on them very well and at their own comfort. It also enhances greater anonymity which is very important in the extractive industry. To ensure high response rate, few straightforward questions were asked to achieve the objectives of the thesis. The questions were sent to the chief executives, managing directors, company secretaries and in some cases corporate affairs directors as well as to the companies direct. On receipt of the completed questionnaires, we noticed some were completed by the chief finance officers, corporate affairs officers because some indicated their status in the e-mail sent to us whilst some added their complementary cards.

However, Oil and Gas companies did not respond to the questionnaires sent to them. We reminded them through e-mail after a month but received no answer. We again reminded them, this time with deadline of September 1st, 2005 since we sent the questionnaire to them in July, 2005, they again did not send any reply. We are therefore convinced that companies in the oil and gas sector do not want to cooperate with us in the thesis. Also, one company from Mining wrote to us that they could not respond to the questionnaire because they have received a lot of similar request from other

researchers globally and their work load could not allow them to pay attention to any individual or group of researchers

The questions asked in the questionnaire were informed by information gathered in the review of prior research, the annual reports and other reports of the companies.

Primary data could be qualitative or quantitative. A qualitative investigation is of that kind where the researcher gathers, analyses and interprets data where it is not possible to quantify meaningfully, that is expressed in figures. Information that is transmitted through words is called qualitative and information presented in digits is called quantitative (Sekaran, 2003).

3.6 Secondary Data

A secondary source is a record of events that is interpreted or analysed. Also, secondary data refer to information gathered from sources already existing. Examples of secondary (data) sources used in this thesis include text books, journal articles, periodicals and company records and websites (annual reports, press releases) (Sekaran, 2003; Rumsey, 2004). In gathering information from secondary sources, we concentrated mainly on the Business Source Premier Data Base and augmented it with the annual reports, press releases, sustainable development reports, corporate accountability reports and environmental and social reports.

3.7 Selection of Companies

Fifteen companies have been selected which implies the sample size is fifteen (15). We chose to work on only fifteen companies to be able to do in-depth studies of their incentives and benefits of voluntary disclosure within the limited time frame allotted for the thesis. The selection of the companies is based on whether a company is foreign or domestic? We decided to work on more foreign companies listed on the LSE to ensure that the companies come from diverse geographical regions. The foreign companies chosen come from Africa, the Middle East, Canada, America and Ireland. We chose the foreign companies based on their geographical location in order to get information from companies with different geographical influence. It was difficult at the time of visiting the website of the LSE to get the total number of listed companies in the extractive industry. This was partly due to the monthly update of list of companies. However, it could be estimated that over hundred (100) companies are listed on it. The category of the companies expected to respond to the questionnaire is displayed in table 2 below:

Table 2: Category of Companies

Company Type	Number of Questionnaire sent
Mining	6
Oil and Gas	6
Paper	3
TOTAL	15

The results that will be obtained from the completed questionnaire will be disclosed, analysed and interpreted by using descriptive analysis, tables and graphs. These descriptive statistical tools are chosen to display a quick visual impression of the responses given by the companies selected about each of the questions asked.

We shall also comment on words and texts used in the fifteen selected companies' annual reports and other records available.

3.8 Comments on References

It is important but not mutually exclusive to use current references for academic work. We were compelled to use some very old references dated as far back as 1967 and 1979 because their relevance to our area of study is still potent and do not truncate the value of the findings. For instance, Glaser and Strauss (1967) and Van Maanen (1979) were very useful in understanding quantitative and qualitative methods in conducting research. Very few websites were used because we considered the sites to be credible. Most of the information about the LSE and the reports studies utilise the respective official websites. It would have been more enhancing and reinforcing of academic facts when other sources are added but it was very difficult. However, the main focus of the thesis has been founded on current references most of which are in the 1990s with some as current as 2004 published by well recognised journals such as accounting organisation and society and accounting auditing and accountability journal.

3.9 The Reports Studies Process

We shall study the annual reports and other available records such as press releases, sustainable development reports, corporate accountability reports, and environmental and social reports from 2000 to 2004 by using both quantitative and qualitative approaches. In total we shall study seventy-three (73) annual reports, one thousand, eight hundred and forty-nine (1,849) press releases, eleven (11) sustainable development reports, two corporate accountability reports and five (5) environmental and social reports. We shall do this by making comments on words and texts used in the fifteen selected companies' annual reports and other records available because some of the words and sentences used in press releases and annual reports disclose direct as well as indirect incentives and benefits for certain disclosures. The use of comments on words and texts used in the annual reports and other reports by the selected companies is in agreement with the content analysis model which allows researchers the discretion to use judgement to determine the hidden messages conveyed by discretionary disclosures. We are encouraged to employ the ideas of the content analysis in studying the reports presented by the companies because the incentives and benefits for voluntary disclosure are not normally made clear to stakeholders even though, we support the argument by Krippendorff (1980) that the content analysis is difficult in its application.

The use of the content analysis model for the report studies and analysis of the data collected are to generate specific legitimisation strategy adopted by companies in the extractive industry. The corporate legitimisation strategies below is not specific for the extractive industry but serves as a guide to

generating the specific legitimisation strategies from the analysis done on the primary data and the reports studies. However, the four levels of legitimisation strategies are still relevant for the extractive industry. For instance, when the strategy is to portray social responsibility to stakeholders, words and phrases such as “we plan to undertake social investment initiatives, pay compensations to landowners for the loss of assets” were used by the companies. Again, when the strategy is to show that the companies are concerned with institutional stakeholder pressure, they make statement such as “we support the principles and values in the UN Global Compact and other regulations, we shall hold regular dialogue with institutional stakeholders and comply with external laws and regulations”.

Corporate Legitimation Strategies

LEGITIMISATION STRATEGIES(LS)			
LS1	LS2	LS3	LS4
Alteration of social definition	Modification of external expectations	Conformity to definitions	Manipulation of social perceptions
The existing social definition of legitimacy is altered to be in line with current practices without changing its behaviour	The external expectations are modified to agree with current corporate performance	The company adapts itself to conform to prevailing definitions of legitimacy by changing its behaviour and informing relevant stakeholders about it.	The company manipulates social perceptions by associating itself with symbols, values or institutions which possess a strong legitimacy base.

Source: Adapted from the work of KHOR (1989)

Aligning our data analysis and reports studies with the legitimisation strategies promises quality findings.

3.10 Quality of the Research

The scientific value of a research report is very important and embodies the concepts of validity and reliability. To ensure the quality of our work we have designed the questionnaire based on our research questions considering the general incentives and benefits inherent in voluntary disclosure. We then set the questions to solicit information pertaining to the extractive industry. We further linked the methodology adopted as well as the theoretical foundation for the thesis in the empirical studies and analysis leading to the findings. The concepts of validity and reliability cannot be separated from the quality research work. These concepts express how well the investigation and study results are dependable (Yin, 1994).

3.10.1 Validity

Validity in the sense of research work implies the ability of a particular or combination of methods to measure what is intended to measure as outlined in the research question. Validity takes place when the measuring instrument shows substantial evidence that the theoretical framework corresponds to observations (Kirk and Miller, 1985; Aaker et al., 1995). However, Silverman (1997) claims there can not be absolute validity but relative depending on the method and circumstances surrounding the research.

It is important in conducting research to ensure that the methodology employed display a relationship between the empirical findings and the theoretical framework so that it is possible to generalise the findings relating to similar circumstances. We have chosen our methodology in such a way as to blend the tenet of the legitimisation process and the content analysis model to come out with empirical findings that can represent the incentives and benefits for voluntary disclosure in the extractive industry using companies listed on the LSE. In order to enhance the validity of our work the data collected through the disseminated questionnaires have been analysed and compared to prior literature as captured in the literature review and the information from the companies' annual reports and other reports.

3.10.2 Reliability

Rimmel (2003) advances that “reliability refers to the degree of consistency with which different researchers come to the same answer or with which one researcher came to the same answer on different occasions”. From the position of Rimmel as stated above, a research work is considered reliable when the work can be replicated or conducted at different times by the same researcher or at the same time by different researchers. In other words, reliability is the degree to which a test gives the same result when the test is repeated several times. Independent researchers must be able to get consistent results given the same study procedure (Yin, 1994).

To ensure reliability, the procedures followed in this thesis have been documented. This approach will enable any investigator applying the same

procedures in performing the same study using the same methodology to obtain similar findings and conclusions.

We are informed by the tenets of utilising a combination of qualitative and quantitative methods that our work fits into the reasoning of Rimmel (2003) to produce the needed reliability which solidifies any new knowledge produce at the end of the thesis.

CHAPTER FOUR

4. THE EMPIRICAL STUDIES AND ANALYSIS

The previous chapters considered the introduction leading to the research questions, methodology and the literature review where we concentrated on the legitimisation strategies and the content analysis model. We will now study and analyse the data we have collected through open and closed ended questionnaires administered on companies in the extractive industry listed on the LSE. The chapter embodies the data collected about the main research questions with the help of methods outlined in the methodology chapter and the legitimisation and content analysis model.

Table 3 below shows the types of companies within the extractive industry considered for our studies. The table shows comprises the number of questionnaire sent to Mining, Oil and Gas and Paper and Pulp companies.

Table 3: Categories of Survey

Company Type	Number of Questionnaire sent
Mining	6
Oil and Gas	6
Paper	3
TOTAL	15

Analysis of Responses

We will now analyse the responses given by the companies in table 1 to the questionnaire sent to them in relation to the research question and the empirical foundation for the thesis. Each table below studies and analyses a question from the questionnaire sent out. A total of fifteen questionnaires were administered.

Table 4 displays the number of responses per category of companies.

Table 4: Responses by Company Type

Company Type	Number of questionnaires Administered	Number of responses received	Percentage of responses received
Mining	6	3	50.00
Oil and Gas	6	-	-
Paper	3	3	100.00
Totals	15	6	40

Source: Authors' Survey (2005)

Table 4 above displays the responses received from Mining, Oil and Gas and Paper. We received three (3) responses out of six from the mining companies forming 50% and 100% (three out of three) responses from Paper companies. From the table, Oil and Gas companies did not respond the questionnaires sent to them and they did not give us any reason. Therefore, in terms of aggregate, we are working with six questionnaires from Mining and Paper and Pulp companies making up 40%.

Table 5: Disclosure of Voluntary Information in Annual Reports and Press Releases.

Company Type	Number Responding to this question	Number Responding Yes	Number Responding No	Percentages	
				Yes	No
Mining	3	2	1	66.67	33.33
Paper	3	3	-	100.00	-
Totals	6	5	1	83.33	16.67

Source: Authors' Survey (2005)

From table 5 above, respondent companies were asked to indicate whether they disclose voluntary information in the annual reports and press releases. A total of six companies responded to the question. A total of five out of six companies responded 'Yes' to this question making up 83.33%. Only one company indicated 'No' to the question making up 16.67%.

On company specific, all the Paper companies indicated 'Yes' (100%) to the question while 66.67 % and 33.33% of Mining companies indicated 'Yes' and 'No' respectively.

There is therefore 83.33% indication that companies in the extractive industry listed on the LSE utilise the Annual reports and Press releases to communicate their voluntary information in line with existing literature. However, our study considered only fifteen (15) companies and Oil and Gas companies did not answer the questions. It is therefore, difficult to give absolute conclusion that companies in the extractive industry listed on the LSE completely utilise annual reports and press releases for voluntary disclosure.

Table 6: Other Media for Voluntary Disclosure

Company Type	List of Other Media Stated	Remarks
Mining	Website, Conference calls	The list of other media for voluntary disclosure for both mining and paper companies can be influenced by their geographical environment, type of sensitive stakeholders and industry – specific influences.
Paper	Website, Quarterly magazine to shareholders, Capital market days, Road shows, site visit statements, Social and environmental report, investor publications and fact and figures publications.	

The other media for the purpose of this thesis mean any medium by which the companies disclose voluntary information apart from annual reports and press releases which were specifically stated in the questionnaire.

The summarised list of other media stated by both Mining and Paper companies in table 6 is indicative that companies in the extractive industry utilise any available media to disclose discretionary information including special occasions such as visiting their sites of operation, capital market days and road shows. This is parallel with Caruthers (1995) that companies are not only granted legitimacy by their stakeholders but they also go out for it through proactive voluntary information disclosures by manipulating social perceptions by associating themselves with symbols, values or institutions which possess a strong legitimacy base.

Incentives and Benefits for Voluntary Disclosure:

Table 7a: To Minimise Cost of Securing Capital

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	2	-	2	-	100
Paper	3	2	1	66.67	33.33
Totals	5	2	3	40	60

Table 7a displays the responses of Mining and Paper companies whether they disclose voluntary information in order to reduce the cost of capital in securing capital from the capital market by indicating ‘Yes’ or ‘No’. In all, 40% of respondent companies indicated they disclose voluntary information because they want to reduce the cost of capital while 60% indicated in the negative. About 100% of Mining companies indicated they do not disclose voluntary information because they want to minimise cost of capital while 66.67% of Paper companies agreed they disclose voluntary information because they want to minimise cost of capital while 33.33% disagreed. The picture being portrayed is that for Mining companies, minimisation of cost of capital is not an incentive for voluntary disclosure but it is for Paper companies. This can be misleading since all the companies make use of legitimisation strategies to disclose voluntary information.

Table 7b: To be Socially Responsible to Stakeholders

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	3	3	-	100	-
Paper	3	2	1	66.67	33.33
Totals	6	5	1	83.33	16.67

From table 7b above, 83.33% of both Mining and Paper companies indicated that their incentive for voluntary disclosure is to be socially responsible to their stakeholders. The table also shows that 100% of Mining companies provide voluntary information because they want to be socially responsible to their stakeholders while 66.67% of Paper companies disclose same for same reason. This therefore implies that in the extractive industry, to be socially responsible to stakeholders is a strong incentive for voluntary disclosure which will intend benefit the reporting companies to earn legitimacy.

Table 7c: To make Investors and Other Stakeholders Understand their Operations Better

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	3	3	-	100	-
Paper	3	3	-	100	-
Totals	6	6	-	100	-

Table 7c captures the responses as to whether in the extractive industry companies communicate additional information with making investors and other stakeholders to understand them better as incentives and benefits.

From the table, there is 100% indication that they disclose voluntary information so that investors and other stakeholders better understand their operations. In so doing, the companies use different legitimisation strategies and media to continue to benefit from the support of their stakeholders. We are led to this conclusion because the companies make use of any media available to them to disclose voluntary information. These media include websites, conference calls, quarterly magazines, capital market days, road shows and sites visit statements (Table 6). The geographical environment, type of sensitive stakeholders and industry specific influences can determine the type of media used.

Table 7d: To Take Competitive Advantage Over Competitors

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	2	2	-	100	-
Paper	3	-	3	-	100
Totals	5	2	3	40	60

From table 7d 60% of companies in the extractive industry do not disclose voluntary information in order to gain competitive advantage over their competitors while 40% do. Mining and Paper companies indicated 100% for ‘Yes’ and ‘No’ respectively. This implies in the extractive industry Paper companies do not consider taking competitive advantage over their competitors as incentive but Mining companies consider it seriously. It is strange for some companies to indicate they did not consider competitive advantage as an incentive and benefit for voluntary disclosure. The reason

being that except for not for profit organisations, all business entities operate to make profit and competitive advantage is a means to making profit in the global business environment. This again maintains our thinking that companies in the extractive industry hide their profit motive in their legitimisation strategies.

Table 7e: Pressure from Institutional Stakeholders

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	3	1	2	33.33	66.67
Paper	3	1	2	33.33	66.67
Totals	6	2	4	33.33	66.67

By institutional stakeholders, we mean governments, environmentalists, communities and organisations such as banks with interest in the companies. The question as to whether pressure from institutional stakeholders serve as incentive for voluntary disclosure in the extractive industry has been displayed in table 7e. From the table only 33.33% of the companies indicated that pressure from institutional stakeholders propel them to engage in voluntary disclosure while 66.67% indicated ‘No’. The percentage for ‘No’ is twice that of ‘Yes’. This difference might be due to the fact that the companies do take their time to conclusively explain and communicate their voluntary disclosure messages to all stakeholders, hence institutional stakeholders exert little incentive influence on the industry. We have come to this thinking because corporate voluntary disclosure is a form of accountability by the companies to stakeholders. We can therefore deduce from table 7e that the more efficient the companies are able to communicate

their voluntary information through effective legitimisation strategies, the lesser the pressure for disclosure from important stakeholders, such as institutional stakeholders on the companies.

Table 7f: To Avoid Litigation and Reputation Costs

Company Type	Number responding to this question	Number responding Yes	Number responding No	Percentages	
				Yes	No
Mining	3	1	2	33.33	66.67
Paper	3	1	2	33.33	66.67
Totals	6	2	4	33.33	66.67

Table 7f displays the responses given to the question, whether they disclose voluntary information because they want to avoid litigation and reputation costs. From the table, only 33.33% of Paper and Mining companies affirmed that they disclose voluntary information to avoid litigation and reputation cost. Again, from table 7f, 66.67% of the same companies claimed they do not disclose discretionary information because they want to avoid litigation and reputation costs.

Table 8: Statement of Other Incentives and Benefits for Voluntary Disclosure apart from Table 7a-f above

Company Type	Summarised Statements	Remarks
Mining	Total shareholder returns	Paper industries revealed other incentives and benefits to highlight the importance of having analysts commenting on their earnings.
Paper	Social responsibility and company culture, greater investor understanding to lower risk premium, to enhance analysts forecasting.	

Other incentives and benefits mean any incentives and benefits apart from cost minimisation, avoidance of litigation and reputation costs, competitive advantage, pressure from institutional stakeholders, social responsibility to stakeholders and better stakeholder understanding which were clearly stated in the questionnaire. The other incentives and benefits were part of the open ended questionnaire in which the companies have free hand to state.

Table 8 summarises other incentives and benefits for voluntary disclosure. Paper companies in consonant with table 7a stated they disclose voluntary information because they want to reduce the risk premium which is related to the cost of capital. They also want analysts to focus on their results.

Table 9: Most Important/Highest Ranking of the Incentives and Benefits for Voluntary Disclosure

Company type	Summarised Statements
Mining	Shareholder returns, corporate social responsibility, make stakeholders fully understand the operations and avoiding litigation and reputation costs.
Paper	Request of stakeholders and to make investors understand the operation better. Reduction in cost of capital,

Table 10: Summary of Total Percentage Responses

Items	Yes	No
Understanding of investors and other stakeholders	100.00	-
Socially responsible to stakeholders	83.33	16.67
Minimise cost of capital	40.00	60.00
Competitive advantage	40.00	60.00
Pressure from Institutional Stakeholders	33.33	66.67
Avoid litigation and reputation costs	33.33	66.67

Table 10 is the summary of responses in percentages given by companies in the extractive industry. From the table when companies in the extractive industry decide to disclose voluntary information, their incentive for doing so will rank highest from ensuring that investors and other stakeholders understand their operations better, followed by their quest to be socially responsible to stakeholders. Cost of capital minimisation and competitive advantage will then be the next while pressure from institutional stakeholders and avoidance of litigation and reputation cost will least influence them.

It therefore implies that the two most important incentives that influence voluntary disclosure in the extractive industry as portrayed by such companies listed on the London Stock Exchange are:

1. Make investors and other stakeholders understand their operations better.
2. Social responsibility toward stakeholders.

The first two are the main incentives for voluntary disclosure because the main benefit they want to receive after the voluntary disclosure is to receive, maintain and improve their legitimacy with the stakeholders.

They only consider cost minimisation and avoidance of litigation and reputation costs after the first two.

Table 10 has been visually presented in the graph below to give a quick visual representation of the empirical information gathered from the

administered questionnaires on companies in the extractive industry listed on the LSE. The vertical axis is the percentage values of responses computed from the answered questionnaires. The horizontal axis represents ‘items’. Items 1 to 6 represent understanding of investors and other stakeholders, socially responsible to stakeholders, minimise cost of capital, competitive advantage, pressure from institutional stakeholders and avoidance of litigation and reputation costs as they appear in the table.

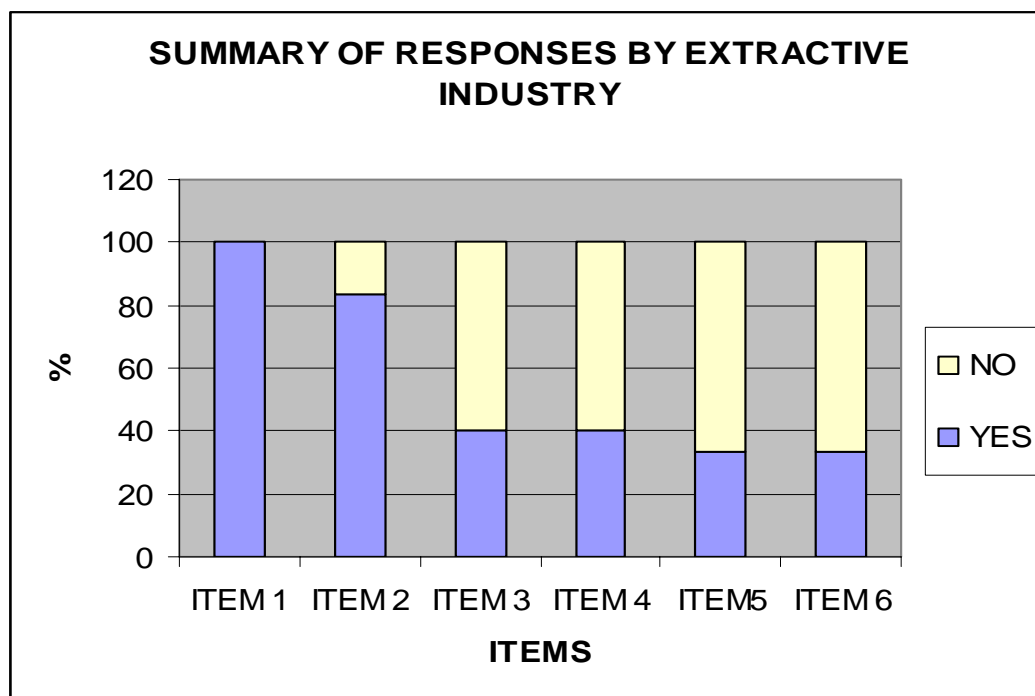


Table 11: Mining

Summary of total percentage responses		
Items	Yes	No
Understanding of investors and other stakeholders	100	-
Socially responsible to stakeholders	100	-
Competitive advantage	100	-
Pressure from Institutional Stakeholders	33.33	66.67
Avoid litigation and reputation costs	33.33	66.67
Minimise cost of capital	-	100

Even though we are studying the extractive industry as whole, there is the need to consider what voluntary disclosure incentives and benefits influence the individual companies. This is important because, the companies disclose voluntary information individually.

From the table 11 above, Mining companies indicate they do not consider minimisation of cost of capital at all when disclosing voluntary information but give the same consideration to competitive advantage, social responsibility and stakeholder understanding of their operations.

Table 11 has been graphically presented below to give a quick visual representation of the empirical information gathered from the administered questionnaires on Mining companies in the extractive industry, listed on the London Stock Exchange. The vertical axis is the percentage values of responses computed from the answered questionnaires. The horizontal axis represents 'items'.

Items 1 to 6 represent understanding of investors and other stakeholders, socially responsible to stakeholders, minimise cost of capital, competitive advantage, pressure from institutional stakeholders and avoidance of litigation and reputation costs as they appear in the table.

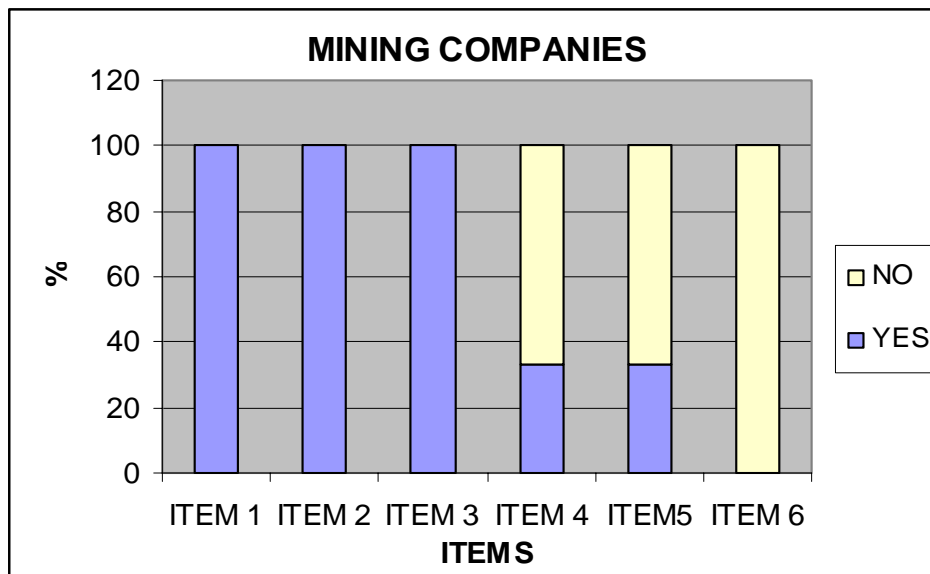
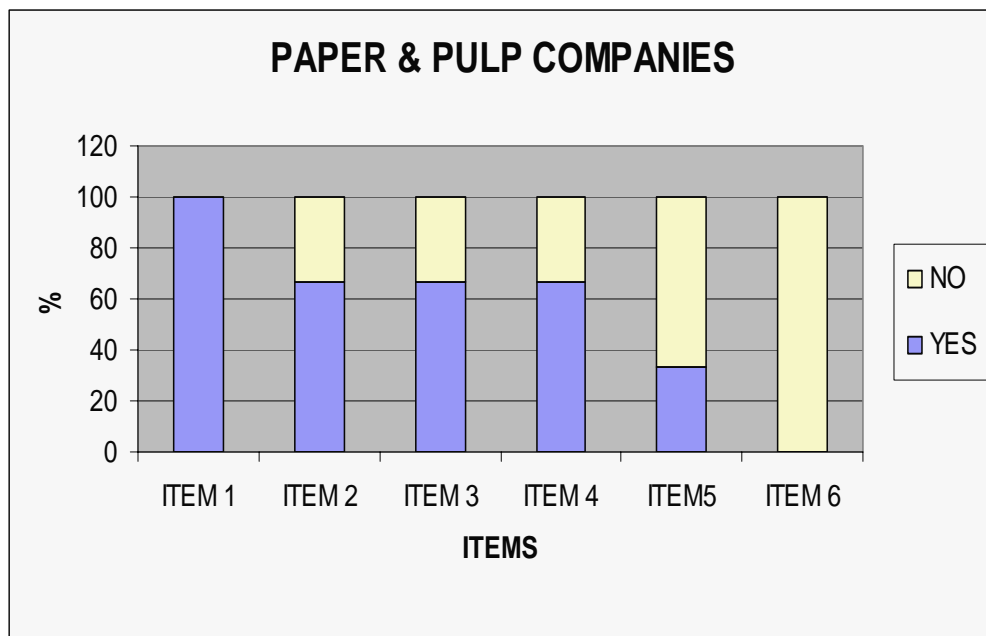


Table 12: Paper and Pulp

Summary of total percentage responses		
Items	Yes	No
Understanding of investors and other stakeholders	100	-
Socially responsible to stakeholders	66.67	33.33
Cost Minimisation	66.67	33.33
Avoid litigation and reputation costs	66.67	33.33
Pressure from Institutional Stakeholders	33.33	66.67
Competitive Advantage	-	100

Unlike in Mining, Paper companies indicate that they do not give any consideration to taking competitive advantage over their competitors when disclosing voluntary information but consider equally cost minimisation, avoidance of litigation and reputation costs with stakeholder understanding being the first and most important incentives and benefits for voluntary disclosure.

Table 12 is presented in the bar graph below to give a quick visual representation of the empirical information gathered from the administered questionnaires on Paper and Pulp companies. The vertical axis is the percentage values of responses computed from the answered questionnaires. The horizontal axis represents 'items'.



The table below captures the names and number of reports from 2000 to 2004. We also gave remarks corresponding with Mining, Oil and Gas and Paper and Pulp companies.

Table 13: Number of Annual Reports and Other Reports from 2000-2004

Company Category	Number of Annual Reports (2000 - 2004)	Name and number of Other Reports (2000 – 2004)	Remarks	
		Name	Number	
Mining	30	Press Releases	871	
		Sustainable Development Reports	6	This deals with the position of the company currently and the future growth.
		Corporate Accountability Reports	2	This reports the stewardship of management and staff to stakeholders.
Oil & Gas	27	Press Releases	759	One of the companies produced only three (3) annual reports for the period.
Paper & Pulp	15	Press Releases	219	
		Sustainable Development Reports	5	This deals with the position of the company currently and the future growth.
		Environmental & Social Reports	5	This reports the environmental commitment of the companies.

We considered five year period which implies Mining and Oil and Gas companies listed on the London Stock Exchange should have thirty (30) annual reports each because six (6) companies were selected from this category. Since only three (3) companies were selected from Paper and Pulp companies, they produced a total of fifteen (15) annual reports. However, Oil and Gas companies produced twenty-seven (27) annual reports as against the expected thirty (30). This is due to the fact that some of the

companies were not in existence early 1999 in order to produce annual reports covering the period.

From table 13, other reports produced by the companies as stated on the annual reports include Press Releases, Sustainable Development reports, Corporate Accountability reports and Environmental and Social Reports.

Table 13 revealed that Mining, Oil & Gas and Paper & Pulp companies listed on the LSE utilised eight hundred and seventy-one (871), seven hundred and fifty-nine (759) and two hundred and nineteen (219) Press Releases respectively to communicate their voluntary information to stakeholders. This means that they make most use of Press Releases to communicate voluntary information which can be proactive or reactive to address issues that need immediate attention to give the correct signal to stakeholders, the companies cannot wait until the relevant reports are prepared to address the issues.

In accordance with the theoretical foundation of this thesis, the companies make extensive use of Press Releases which are handy and less time consuming to undertake their legitimisation strategies.

Table 14: Statements from Companies' Reports on Voluntary Disclosure using Content Analysis Model

Company Category	Specific words and phrases used to depict incentives and benefits for voluntary disclosure from Annual and other reports between 2000 and 2004					
	<i>minimise cost</i>	<i>socially responsible</i>	<i>Better stakeholder understanding</i>	<i>competitive advantage</i>	<i>Institutional Stakeholder pressure</i>	<i>Avoidance of litigation and reputation cost</i>



Mining		Work to continually improve environmental performance. Debate on environmental matters globally.	Provision of companies' websites containing up-to-date information.	Not condone anti-competitive market practices.	Support the principles and values in the UN Global Compact and other regulations.	Strive to perform duties honestly and in ways which avoid conflicts.
		Undertake social investment initiatives.	Disclose material information in understandable languages to stakeholders.	Consistently strive to generate competitive shareholder returns.	Regular dialogue with institutional stakeholders.	Maintain the highest reasonable standards at all locations in case laws and regulations are non-existent or inadequate.
		Affordable health care for employees and families		Committed to seeking out mutually beneficial, ethical long term relations with business partners.		
		Promote the development of work force.				
Oil & Gas		Committed to safe, efficient and environmentally sound operations.	Engage in dialogue with a wide variety of groups.	Strive to maximise shareholder value on a long-term basis.	Compliance with external laws and regulations.	Committed to communicate security expectations to host governments and business partners.
		Compensation to landowners for the loss of assets.	Material information is available to all stakeholders by internet broadcast or open conference call.	Strive to achieve sustained competitive performance	Maintain dialogue with a number of global organizations.	Continue to perform duties conscientiously and honestly to avoid conflicts.
		Place the highest priority on health, safety and development of employees.	Committed to earn the admiration of all stakeholders.		Business policies are in accordance with the principles in the UN Global Compact.	
		Strive to contribute to the sustainable economic				

		development of host communities.				
		Produce safe, reliable and affordable energy.				
Paper		Committed to a process of continual improvement in environmental stewardship.	Provide material information to all stakeholders via the companies' websites.	Committed to sound business practices.	Compliance with Forest Management Guidelines, laws and other regulations.	Do not deal with illegal logging operators.
		Strive to promote the development of employees	Make regular presentations to analysts and rating agencies.	Strive to secure long-term viability of all operations.	Maintain dialogue with a number of global organizations.	Committed to disclose material information to stakeholders.
		Undertake social investment initiatives.	Engage in dialogue with customers, suppliers and other stakeholders.	Go all out to enhance shareholder value.		Full compliance with all applicable regulatory requirements.
		Strive for continuous improvement of health and safety in work places.		Treat all current or potential business partners fairly and without prejudice.		

Table 14 has been prepared based on the content analysis model as spelt out in the review of literature and emphasised in the methodology. This is in line with Krippendorff (1980) that researchers have the free hand to use judgement to determine hidden meaning being conveyed by discretionary disclosures. It was also informed by Smith and Taffler (1999) that the use of content analysis model is meaning focused in which the meanings of words and phrases used in voluntary disclosures are discovered based on individual judgement.

Using this approach, the annual reports and other reports considered during the period revealed that extractive companies listed on the London Stock Exchange did not disclose any information to mean cost of capital minimisation. However, from the table, they have stated specific words and

phrases to mean their incentives and benefits for voluntary disclosure include social responsibility, better stakeholder understanding, competitive advantage, institutional stakeholder pressure and avoidance of litigation and reputation costs.

The empirical studies and analysis considered information gathered from completed questionnaires as primary source and information gathered from the annual reports and other reports of the companies in the selected companies in the extractive industry listed on the LSE. We conducted this using simple statistical computations and simple bar graphs to visually portray the responses given by the companies as stated in the methodology. We also used descriptive analysis to create tables for information gathered from the annual reports and other reports. In analysing the results, we related the data gathered to the methodological tools described in the methodology chapter as well as theoretical framework. The Content Analysis Model described in the theoretical framework has been used to analyse the annual reports and other reports.

CHAPTER FIVE

5. EMPIRICAL FINDINGS

We set out our purpose for this thesis bordering on incentives and benefits of voluntary disclosure in the extractive industry because it attracts huge investment and their activities draw the attention of all stakeholders especially Governments, Non-Governmental Organisations (NGOs) including Communities and the Media.

The empirical findings consider the analysis of the empirical data in relation to the research problem issues.

In the extractive industry, voluntary information is widely disclosed using the annual reports, press releases (websites and hard copy). The empirical studies also found out that companies in the extractive industry make use of other reports such as quarterly magazines, environmental and social reports, corporate accountability reports and sustainable development reports. They also make use of special occasions such as capital market days, road shows and site visits to disclose voluntary information to their stakeholders.

Our empirical finding is in line with the theoretical framework proposition that companies in the extractive industry disclose voluntary information mainly to earn, maintain or improve legitimacy from their stakeholders. They do this by making use of various types of media to communicate with stakeholders as indicated in the completed questionnaire when asked to state

other media they use for voluntary disclosure (Table 6). When companies utilise different types of media for their voluntary disclosure, it gives an indication that they want to improve their legitimacy with their stakeholders.

5.1 Findings on Incentives and Benefits

It has been empirically established from our study that companies in the extractive industry disclose voluntary information because of the following incentives and benefits: Understanding of investors and other stakeholders, socially responsible to stakeholders, minimisation of cost of capital, competitive advantage, pressure from institutional stakeholders and avoidance of litigation and reputation costs. They however, rank understanding investors and other stakeholders and social responsibility to stakeholders as the two most important incentives and benefits considered in disclosing voluntary information to stakeholders. In addition, they give the same weight to cost minimisation and competitive advantage as incentives and benefits for engaging in discretionary disclosure.

However, when the companies are disclosing voluntary information individually, the incentives and benefits vary except understanding investors and other stakeholders and social responsibility to stakeholders. In Mining companies, competitive advantage is as important as understanding investors and other stakeholders and social responsibility to stakeholders (Table 11). In Paper and Pulp companies, social responsibility to stakeholders, cost minimisation and avoidance of litigation and reputation costs rank the same after understanding of investors and other stakeholders (Table 12). Again in

Mining companies, cost minimisation is not considered as incentive and benefit of voluntary disclosure at all, even though, Paper and Pulp companies place high premium on it. While competitive advantage is an important incentive and benefit for voluntary disclosure in Mining, it is not considered at all in Paper and Pulp companies (Table 11 & 12). We also found out from the empirical studies and analysis that in addition to the incentives and benefits listed above, companies in the extractive industry engage in voluntary disclosure to attract analysts to comment on their performance.

From the theoretical framework, we posited that companies' main purpose of voluntary disclosure is to earn, main and improve their legitimacy with their stakeholders. However, the process (legitimation strategy) of attaining or regaining legitimacy varies. The effectiveness of legitimation strategy depends on the effectiveness of corporate communication. This implies that various companies in different industries will adopt different legitimation strategies and how they communicate them. The legitimation process provided by Lindblom (1994) and adapted for our studies did not prescribe a specific legitimation strategy and how they are communicated to stakeholders though, he maintained effective communication is important for a successful legitimation strategy. As a result, there is the need to come out with an alternative legitimation strategy peculiar to the extractive industry. Our empirical studies have led us to develop the alternative voluntary disclosure strategy for the extractive industry. In this strategy comparable to legitimation process in which the companies alter social definitions, modify external expectations, conform to existing definitions and the manipulation of social perception, the alternative

voluntary disclosure strategy uses two voluntary disclosure incentives and benefits to gain, maintain and improve legitimacy.

From the empirical studies and analysis, the companies disclosed voluntary information for the purpose of all the incentives and benefits discussed but effectively communicate them to the stakeholders as either to increase the understanding of investors and other stakeholder or to be socially responsible to stakeholders. For instance, if the incentive and benefit for a particular voluntary disclosure is to minimise cost of capital or to become competitive, they will communicate the information using any media deemed appropriate to stakeholders as either they are socially responsible to them or to enhance their understanding of the companies' operations. This is illustrated in the diagram below.

5.2 Special Issues from the Analysis

The issues captured here give credence as to why specific strategy is needed in the extractive industry to communicate non-mandatory information to stakeholders. It has generally been found from our reports studies that the companies utilise press releases as their most effective communication tool in applying the alternative voluntary disclosure strategy represented in the diagram below. They also use annual reports and other reports when the disclosure issue is not urgent.

5.2.1 Oil and Gas Companies

Oil and Gas companies did not respond to the questionnaire sent to them. This has limited us to only Mining and Paper and Pulp companies. As a result the empirical studies and analysis was exhaustively conducted without Oil and Gas companies. We have, however, found out that using the content analysis model, the Oil and Gas companies disclose voluntary information via annual reports and press releases. They also used specific words and phrases to give indication that they disclose voluntary information with social responsibility to stakeholders, better stakeholder understanding, competitive advantage, institutional stakeholder pressure and avoidance of litigation and reputation costs as incentives and benefits.

5.2.2 Press Releases

From our report studies press releases have been identified as an effective legitimisation moderating media used to deploy both proactive and reactive voluntary information to stakeholders. Within the period covered by our study (2000 – 2004), the companies' websites indicate that Mining, Oil and Gas and Paper and Pulp companies issued eight hundred and seventy-one (871), seven hundred and fifty-nine (759) and two hundred and nineteen (219) press releases respectively. The wide use of press releases by the companies was probably aimed at addressing pressing and very important issues that need immediate attention without which their legitimacy will be damaged.

5.2.3 Cost Minimisation

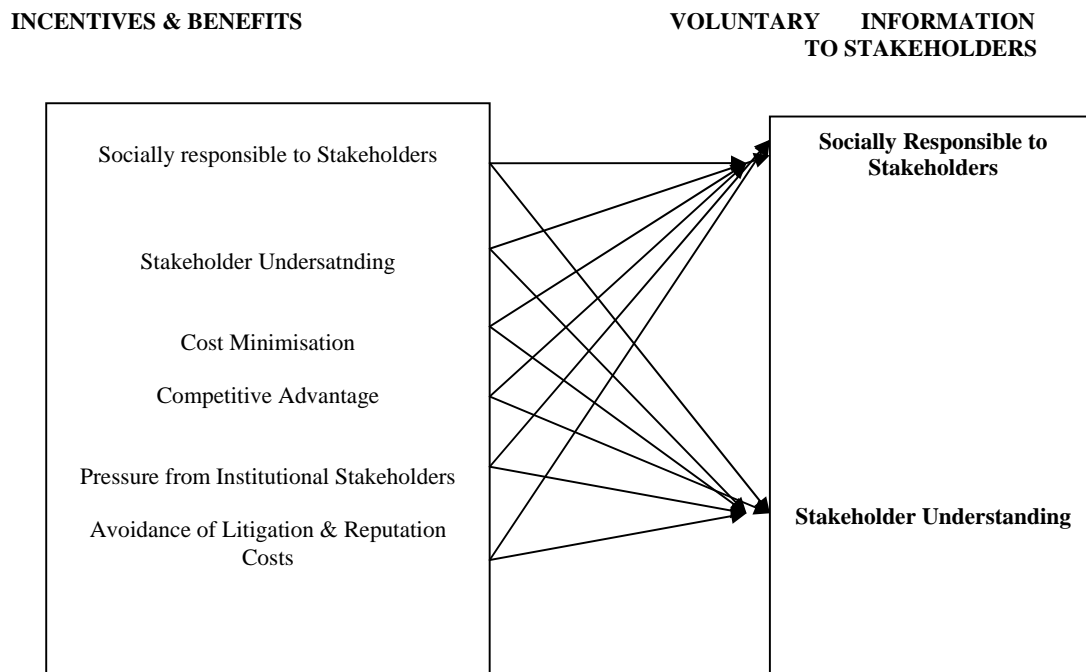
It is however strange that when using the content analysis model to study the annual reports and other reports, no company used a specific word or phrase to imply that they disclose voluntary information with cost minimisation as incentive and benefit (Table 14). While this confirms the difficulty in using the content analysis model to find hidden motives for voluntary disclosure (Krippendorff, 1980), it reinforces the thinking of the ‘Alternative Voluntary Disclosure Strategy’ undertaken by companies in the extractive industry.

In support of the ‘Alternative Voluntary Disclosure Strategy’ adopted by the extractive industry using the content analysis model, it has been revealed that even though, Paper and Pulp companies absolutely indicated that competitive advantage is not an incentive and benefit for voluntary disclosure, we found specific words and phrases giving enough evidence that it is actually an incentive and benefit (Table 14). For instance they stated they will be committed to sound business practices, strive to secure long-term viability of all operations, go all out to enhance shareholder value and treat all their business partners both current and future fairly and without prejudice. This is a serious attempt by Paper and Pulp companies to ensure enduring competitive edge over their peers.

5.3 Alternative Voluntary Disclosure Strategy

The special issues have added importance to the development of the Alternative Voluntary Disclosure Strategy. The strategy is represented in the diagram below. The left hand side shows the possible incentives and

benefits of voluntary disclosure while the right hand side shows the two ways voluntary incentives and benefits are communicated to stakeholders. The strategy implies that in these companies, only two languages in disclosing voluntary information to stakeholders are mainly used.



In conclusion, our empirical findings emphasised that companies disclose voluntary information because of the stated incentives and benefits and make extensive use of press releases to enhance their legitimisation strategy. Finally, the study projected the ‘alternative voluntary disclosure strategy’ of companies in the extractive industry listed on the LSE.

CHAPTER SIX

6. CONCLUSIONS, RECOMMENDATIONS AND SUGGESTION FOR FUTURE RESEARCH

6.1 Conclusions

In our study of Incentives and Benefits for voluntary disclosure in the extractive industry by companies listed on the LSE, we investigated whether cost minimisation, competitive advantage, avoidance of litigation and reputation costs, pressure from institutional stakeholders, stakeholder understanding and social responsibility are incentives and benefits for voluntary disclosure in the extractive industry. We also investigated if there are any peculiar incentives and benefits for voluntary disclosure in the extractive industry and how they are ranked. The issues investigated were based on the general reasons for voluntary disclosure by prior researchers such as Meek and Gray (1989) and Deegan et al. (2000).

We reviewed prior research and adopted the legitimacy theory and the content analysis model as the theoretical framework for the thesis. We used a descriptive study where we combined quantitative and qualitative methods for the collection of primary and secondary data. Various reports published by the companies were studied using the content analysis model in line with the research question and the legitimisation strategies adopted by the companies to disclose their voluntary information.

The empirical studies and analysis provided tables that captured simple statistics of responses collected for the primary data and the secondary data which were related to the research question and the theoretical framework.

We generally found out theoretically that all the incentives and benefits investigated influence companies in the extractive industry for voluntary disclosure. In addition to the findings that all the incentives and benefits investigated were the reasons for voluntary disclosure, desire to have analysts to comment on their operations is a strong incentive and benefit. They adopt different legitimisation strategies to convey their voluntary information to stakeholders. The empirical findings therefore concluded that legitimacy theory and the legitimisation strategies studied in the literature review was relevant but could not specify the specific legitimisation strategy needed to communicate voluntary information. As a result, we empirically provided Alternative Voluntary Disclosure Strategy in which all the incentives and benefits for voluntary disclosure in the extractive industry are communicated to stakeholders as being socially responsible or to make stakeholders understand the operations of the companies. The Alternative Voluntary Disclosure Strategy in which the companies express any incentives and benefits for unsolicited disclosure as either stakeholder understanding or social responsibility portrays that companies do not actually want their stakeholders to know all their motives.

Since the work was specifically based on the extractive industry, it is impractical to generalise it for application in all industries. It is also difficult to apply it to all companies in the industry because the study was conducted on listed companies and cannot be reasonably applied to non-listed

companies. However, non-listed companies in the industry can significantly gain a lot in winning stakeholder support when the findings are applied. We expect the findings to be applicable to all listed companies in the industry irrespective of the stock exchange they are listed because all stock exchanges share common features and some of the companies considered for the study are equally listed on other major stock exchanges across the globe.

Finally, it is expected that the users of annual reports will more critical when companies communicate their actions to them in relation to social responsibility and making them understand their operations.

6.2 Recommendations

Since our study revealed that companies in the extractive industry only show social responsibility and understanding of their activities to stakeholders as the main incentives and benefits for voluntary disclosure, it is recommended that stakeholders take keen interest in the social responsibility activities of such companies towards them so that they are not misled. We also recommend that similar studies be conducted on the other major stock exchanges such as the New York Stock Exchange and Stockholm Stock Exchange to establish extended empirical facts surrounding the findings.

6.3 Suggestion for Future Research

From the empirical findings, social responsibility and stakeholder understanding are the incentives and benefits for voluntary disclosure in the

extractive industry of companies listed on the London Stock Exchange. We therefore suggest that for further research, stakeholder benefits from voluntary disclosure by companies in the extractive industry listed on the London Stock Exchange be conducted. This will help find out if indeed stakeholders actually benefit from the voluntary disclosure of the companies in which they invest.

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Appendix

QUESTIONNAIRE

This questionnaire is part of the thesis work on the above topic. Kindly complete the questions below by ticking the appropriate box. Your information will be treated confidentially and for academic purpose only. Thank you.

1. Kindly tick (x) the category in which your company falls based on your core business activities:

Paper () Oil and Gas () Mining ()

2. Do you disclose voluntary information in your annual reports and press releases? Not sure what kind of voluntary information to which you refer but assume yes, some of what we disclose is voluntary.

Yes ()

No ()

3. Kindly state other media by which you disclose voluntary information: website, conference calls, press releases.

.....

4. Do you disclose voluntary information because of the following incentives and benefits?

(a) To minimise cost of securing capital from the capital market

Yes () No ()

(b) To be socially responsible to stakeholders



Yes () No ()

(c) To make investors and other stakeholders understand your
Operations better

Yes () No ()

(d) To take competitive advantage over competitors

Yes () No ()

(e) Pressure from Institutional Stakeholders

Yes () No ()

(f) To avoid litigation and reputation costs

Yes () No ()

(5) Kindly state other incentives and benefits you consider in
disclosing voluntary information apart from (4) above:

.....
.....

(6) Which of the incentives and benefits or combination of incentives
and benefits rank highest when deciding to disclose voluntarily?

.....
.....

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School of Business,
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GÖTEBORG UNIVERSITY

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