

Chapter Three

Research Method

3.1 Introduction

This chapter discusses the research design of the study. Further, the study will highlight and explain the main parts of the research design, which will be used for examining and analyzing of the corporate disclosure environment in both countries, Malaysia and Uzbekistan.

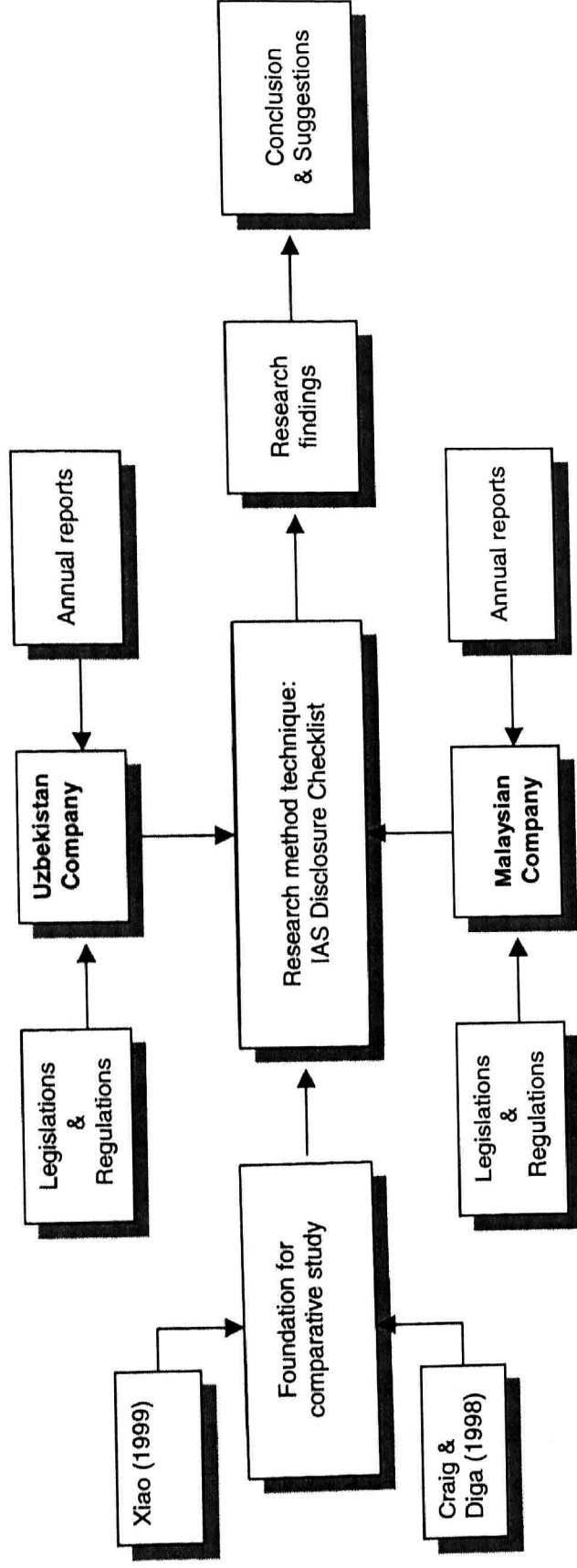
3.2 Research Design

The research design is the planning procedures for conducting the study, which is comprised of five parts such as the foundation for a comparative study, the research method technique (IAS disclosure checklist), the sample and the secondary data, analysis of the findings, and conclusion and suggestions (Diagram 3.1).

3.2.1 Foundation for comparative study

Craig & Diga's (1998) and Xiao's (1999) studies have been found to be useful in developing foundation of this current study due to the similarities between Xiao's (1999) study in the Uzbekistan case, and Craig & Diga's (1998) study in the Malaysian case.

Diagram 3.1: The Research Design Framework



3.2.1.1 Xiao's (1999) study and Uzbekistan case

The study by Xiao (1999) on corporate disclosure made by Chinese listed companies reflects a similar situation in Uzbekistan in field of corporate disclosure practices. Thus, this study can be used for further exploration and understanding of the situation in Uzbekistan. Furthermore, Xiao (1999) provided a historical overview of corporate disclosure development of the regulations and practices in China that can be helpful for understanding of current corporate disclosure practices in Uzbekistan.

Xiao (1999) mentioned that in China under the old system, all enterprises were either state-owned or collectively-owned. Both types of enterprises were run directly by the government, with the little room for market mechanisms. Government agencies (including the supervising authority of a company, fiscal authority, taxation authority and the state-owned banks) and the company management were the only users of financial reports. The basic requirements were "true numbers, accurate calculation, complete content and timely reporting (Xiao, 1999)".

In case of Uzbekistan, the primary function of accounting was to record the factual data necessary to assess plan accomplishments rather than to assess an enterprise's financial situation i.e. the focus of Soviet Union accounting was more on bookkeeping than on the process of accounting (Narayan & Reid, 2000). In other words, the entire legal framework and accounting practice in China and Uzbekistan was geared to central planning and specified exactly what information should be produced, how it should be produced and to whom it should be provided (Narayan & Reid, 2000).

Therefore, the recent development of legal and regulation requirements in China in the field of corporate disclosure practices mentioned in Xiao's (1999) research would definitely help the study in analyzing of corporate disclosure environment in Uzbekistan due to the above-mentioned similarities.

3.2.1.2 Craig's & Diga's (1998) study and Malaysian case

As mentioned previously, the research paper of Craig and Diga (1998) analyzed existing corporate disclosure regulations in selected Association of South East Asian Nations (ASEAN) countries, that is, Singapore, Malaysia, the Philippines, Indonesia and Thailand.

Craig and Diga (1998) emphasized on different legal and regulation disclosure requirements and the sources of information, which have been used in their research. In the case of Malaysia, the researchers mentioned the sources of secondary data in Malaysia such as Malaysian Association of Certified Public Accountants (MACPA)², Malaysian Institute of Accountants (MIA), Malaysian Accounting Standards Board (MASB), Companies Act 1965 (Ninth Schedule) and Kuala Lumpur Stock Exchange Listing Requirements. The study on corporate accounting disclosure in ASEAN reflected the level of corporate disclosure practices between regional grouping of countries (ASEAN) and it also highlighted the strengths and weaknesses of Malaysian legislation and regulation requirements in the field of corporate disclosure among these countries.

The sources of secondary data as well as findings in Craig and Diga's (1998) study will be useful in examining the Malaysian corporate disclosure environment in a comparative study of corporate disclosure between Malaysia and Uzbekistan. Thus, the combination of information mentioned in Craig and Diga's (1998) research with current study will give a broad picture of corporate disclosure practices in Malaysia.

3.2.1.3 Craig & Diga (1998) and Xiao (1999)

The most important factor is that both studies, Craig and Diga (1998) and Xiao (1999), used the disclosure checklists for examining corporate disclosure practices. Also, both studies examined the different number of companies on the extent of compliance with corporate disclosure requirements i.e. Craig and Diga (1998) randomly have chosen annual reports of 145 companies (30 companies

² MACPA has been changed to MICPA, which stands for the Malaysian Institute of Certified Public Accountants.

from Malaysia) in ASEAN and Xiao (1999) has chosen only annual reports of 13 companies from different industries of China.

Whereas, the current comparative study on corporate disclosure practices in Malaysia and Uzbekistan selected one company from each country and from the same industry. The existing legal and regulation requirements in Uzbekistan do not encourage listed companies to disclose their financial information (annual reports) publicly i.e. the disclosure of financial information is limited. It should be noticed that the limitation in disclosure of information is due to several factors such as corporate disclosure issue is new and at the same time unknown to Uzbekistan environment. The interested parties, they don't know what information to demand and how to use it as well as the suppliers of information, they don't know what information need to be provided for interested parties for sound decisions. Uzbekistan is newly independent country (12 years of independence from the Soviet Union regime) and it needs a time to familiarize itself with issues of corporate disclosure.

Uzbekistan has done a lot of efforts to improve the legislations and regulations in the field of corporate disclosure. However, these efforts need to be continued in order to reach a level of corporate disclosure practices as in developed countries. Due to these above-mentioned reasons, a small sample of listed companies has been used.

3.2.2 Sample of the study

Two companies are chosen as a sample of this study. The sample of both companies will be from the same industry of both countries i.e. pharmaceutical industry. One of the companies is publicly listed in Tashkent Stock Exchange and another one is publicly listed in Kuala Lumpur Stock Exchange (Table 3.1).

It can be seen that both companies are chosen from the same industry and they are publicly listed in stock exchanges in Malaysia and in Uzbekistan. The reason of this is that the similarities in parameters will give more justified background for comparative analysis of corporate disclosure practices in both countries.

Table 3.1: The characteristics of the sampled companies.

No.	Company Name	Industry	Stock Exchange	Date of Initial listing	Accounting system	Auditors	Language
1	Gold Coin Bhd	Pharmaceutical	Kuala Lumpur	08/78	Malaysian	Local	Malay/English
2	Farm Sanoat	Pharmaceutical	Tashkent	02/97	Uzbek/Foreign	Local	English

Source: Annual reports

3.2.3 Data of the study

The study will use two types of secondary data. The first data is the annual reports of pharmaceutical companies of both countries from the year 1997 till 1999 (Table 2). It is important to mention that the annual report presented by pharmaceutical company from Uzbekistan has been prepared based on standards which are adoptions of IASs, and in case of Malaysia, the annual reports has been prepared based on MASB, which are also based on the IASs.

The second data is the legal and regulation requirements of Malaysia and Uzbekistan. The legal and regulation requirements are comprised of legislative documents and guideline of stock exchanges as well as accounting standards (Table 3.2). It should be pointed out that Malaysian and Uzbekistan legal and regulation disclosure requirements would have some differences due to different economic stages of development in those countries as well as due to different previous legal systems that have been influenced on development of existing legal systems in those countries. Malaysia evolved its legislative system based on British legal system, whereas, Uzbekistan legal system has been influenced by Soviet Union legislation which have been further developed in order to meet today's needs.

Table 3.2: The sources of secondary data.

No.	Country	Secondary Data	
		1st Source of Data	2 nd Source of Data
1.	Malaysia	Annual Reports: a. 1997 b. 1998 c. 1999	Legislations and Regulations: a. Company Act 1965 b. Guideline of Security Commission 1995 c. KLSE Listing Requirements d. MASB
2.	Uzbekistan	Annual Reports: a. 1997 b. 1998 c. 1999	Legislations and Regulations: a. Accounting Law 1996 b. Enterprises Law 1991 c. Law on Joint Stock Companies and Protection of Shareholders Rights 1996 d. Tashkent Stock Exchange Listing Requirements ³ e. IASs

Source: Annual reports and legal & regulation requirements

3.2.4 Disclosure checklist

In Craig and Diga's (1998) study, a checklist comprising 200 specific IAS disclosures was prepared in order to compare the five ASEAN countries disclosure requirements against IAS disclosure requirements. Thus, those ASEAN countries *disclosure requirements* were compared against *IAS disclosure checklist*, whereas, this study will compare the *annual reports* of the Malaysian and Uzbekistan pharmaceutical companies against selected IASs disclosure checklist (Appendix A).

³ Note: In Uzbekistan, the Tashkent Stock Exchange Listing Requirements are based on requirements mentioned in the Accounting Law (1996), the Enterprises Law (1991) and the Joint-Stock Companies and Protection of Shareholders Rights (1996).

This study will examine and analyze the compliance with corporate disclosure requirements of both countries from years 1997 to 1999. Further, the extent of compliance of these disclosure requirements will be determined from an examination of those annual reports with the IASs disclosure checklist.

Craig and Diga (1998) used a dichotomous procedure to identify the disclosure of items, that is, an item scores "1" if it is disclosed and "0" if it is not disclosed. Later, the sums of scores will be compared between two countries, Malaysia and Uzbekistan, for comparison purposes of the level of disclosure.

The study has selected only several IASs. There are as follows:

- IAS 1 – *Presentation of Financial Statements*;
- IAS 2 – *Inventory*;
- IAS 7 – *Cash Flow Statement*;
- IAS 16 – *Property, Plant and Equipment*;
- IAS 18 – *Revenue*; and
- IAS 33 – *Earning Per Share*.

The above-mentioned IASs have been chosen due to the fact that Malaysia as well as Uzbekistan used IASs for developing their accounting standards. In case of Uzbekistan, the above-selected IASs were among earlier IASs, which have been adopted by the country. Therefore, the study has selected the above-mentioned IASs for comparative study between Malaysia and Uzbekistan.

The IAS 1 "*Presentation of Financial Statements*" has been chosen because it includes four financial statements such as Balance Sheet, Income Statement, Statement of Changes in Equity, and Cash Flow Statement and their accompanying notes. The financial statements and their explanatory notes contain a wealth of useful information regarding the financial position of a company, the success of its operations, the policies and strategies of management, and insight into its future performance (Fraser & Ormiston, 1998). The information disclosed in financial statements is valuable for management

and other interested parties like investors, shareholders, government, bankers, creditors and so on. The two most widely used financial statements are the Balance Sheet and Income statement. Together, these two statements summarize all the information contained in the hundreds or thousands of pages comprising the detailed accounting records of a business (Meigs & Meigs, 1990).

The IAS 2 "*Inventory*" is important because inventory can have a material effect on both the Balance Sheet and the Income Statement i.e. it can influence on bottom line due to its various classifications and valuation methods. Inventory may be one of the most significant assets reported on the face of the Balance Sheet of manufacturing and merchandising companies (Chasteen, Flaherty and O'Connor, 1998).

The IAS 7 "*Cash Flow Statement*" has been chosen because the statement provides information about a company's cash receipts and cash payments during the accounting period. Such information helps investors and creditors assess a company's ability to generate positive future cash flows, assess a company's ability to pay liabilities and dividends, and explain the reasons for the difference between the net income and the change in cash for the period (Englard, 1992).

The IAS 16 "*Property, Plant & Equipment*" represents the bulk of items, which are tangible long-term assets. This standard has been used because the property, plant and equipment are substantial amounts in financial statements, affecting the presentation of the company's financial position and the profitability of the enterprise, through depreciation and also if an asset is wrongly classified as an expense and taken to the income statement (BPP, 1998).

The IAS 18 "*Revenue*" has been chosen because the revenue has always been one of the most controversial issues in accounting i.e. many companies have experienced financial difficulties from "premature" recognition of revenue. Also, revenue recognition as well as revenue collection are directly influence on

income information, which is important for investors and other financial statement users (Chasteen, Flaherty and O'Connor, 1998).

The IAS 33 "*Earnings Per Share*" has been chosen because it is the most often cited and reported measure of an enterprise's performance. Investors, creditors, analysts and others use the statistic to evaluate how successful an enterprise has been in attaining its profit goals. Financial statement users also use Earnings Per Share data to assess earnings potential and prospects for future dividends (Blasch, Kelliher, and Reed, 1996).

3.3 Conclusion

It can be seen from Diagram 3.1 that this chapter of the research will be concerned with development of the theoretical foundation for comparative study and further, deriving the research method technique for examining of disclosure environment in both countries, Malaysia and Uzbekistan. The research design framework also highlighted further steps of the study such as the research findings, conclusion and suggestions. The research findings, conclusion and suggestions will be discussed in next chapters, chapter four and chapter five.