

**A CORRELATION BETWEEN PERFORMANCE AND GRAPHIC PRESENTATION IN UNIT
TRUST'S ANNUAL REPORT**

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ABSTRACT

This paper investigates the extent use of graphs, the types of graphs and the types of information being presented graphically in unit trust's annual reports. The paper formulates and test hypothesis concerning selectivity in the use of graphs. Results show that 78 per cent of unit trust's annual reports use graphs and that 2.1 is the mean number of graphs per graph-using companies. The most commonly graphed financial variables are asset allocation, performance, investment and fund size. Line and pie graphs are more popular than bar and column. Thus, contrast to studies of graphs in annual report, no correlation is found between performance and graphic presentation in unit trust's annual report. This is because the graphic presentation in unit trust's annual report is normally dependent on discretion of company's management.

1.0 Introduction

Annual report has been recognized as useful mechanism in providing and communicating company information to users. In relation to this, companies have used various techniques to perform such tasks particularly to provide voluntary information. Among others, graph has been a popular techniques used to disclose voluntary information since the last two decades. Scholars discover that graph help users in many ways. For instance, they argue that graph allows investors to evaluate company's financial performance and potential growth of company's value (Pijper, 1993; Pava & Epstein, 1993). It also may overcome several weaknesses of narrative texts and traditional alphanumeric table (Friend, 1982; Holmes, 1984; Smith & Bain, 1987; Gibson & Schroeder, 1990; Coles & Rowley, 1997).

Even though graphs have been intensively used in annual report, however, company uses them to disclose only selected information. Previous studies point out that company give preferences to information on performance such as sales, profit, earning per share, and dividends to be highlighted through various types of graphs (Steinbart, 1989; Beatie & Jones, 1992; Beatie and Jones, 2000). This phenomenon has made the relationship between performance and graphic presentation as a main focus of the researchers in order to explain why do companies such information using graphs. In Malaysia, studies on graphic presentation in annual report still at infant stage in which we do not find any published work on this matter. As we noticed, only three unpublished empirical studies were carried out to examine such relationship in listed companies on the Bursa Malaysia (Shamharir, Suhaimi & Nurwati, 2000; Mohd.Diah & Azhar, 2001; Ram Al Jafri, 2004).

This study differs from previous studies in two perspectives. Firstly, unlike previous studies which focus mainly on companies, this study focuses on unit trusts that is another important component of Malaysian capital market. Secondly, it attempts to discuss the applicability of impression management in relation to graphic presentation in unit trust's annual report. Presumably, this study may add to the literatures on voluntary disclosures in general and graphic presentation in specific. In addition to this, it might be useful to enrich the discussion on impression management from different point of view. We address to specific questions to lead a direction of this study. Does unit trusts give due attention to graphic presentation in their annual report? Does performance of unit trust influences the extent of graphic presentation in its annual report? To give an explanation to these questions, this study attempts to examine the actual practice of graphic presentation in unit trusts' annual report and to examine the correlation between unit trust performance and the extent of graphic presentation. The rest of this study is organized in followings order. The next section will discusses on the development of unit trust industry in Malaysia to give insights why it is important to carry out this study. Section three will review the literatures on the importance of graphic presentation and the issue of impression management in graphic presentation. Section four will explain how hypothesis is developed. Section five is the main focus in which it will discuss the results of this study. Finally section six will summarize the whole paper and will highlight the future research on graphic presentation in unit trust.

2.0 The Development on Unit Trust Industry in Malaysia

In 1959, the first unit trust was established known as the Malayan Unit Trust Ltd. Since then, the development of this industry has experienced three phases of growth. The first phase (1959-1979) shows a slow growth in which only 18 unit trusts were launched during this period. This might be due to ignorance of public towards the importance of long-term investment.

However, the subsequent decade was considered as the turning point for the unit trust industry in Malaysia. The introduction of New Economy Policy that emphasizes on equal distribution of wealth among various ethnics in Malaysia was seen as the contributive factor to the growth of the industry. The Malaysian government had identified that the unit trust was one of potential mechanisms to enhance the shareholdings of bumiputra in listed companies in order to reduce the obvious economic gap between bumiputra and non bumiputra. To achieve this objective, the government had played important and active role in this industry by launching several government-sponsored unit trusts for bumiputra in early 1980s. In 1981, for example, Permodalan Nasional Berhad (government agency) launched two specific unit trusts namely Amanah

Saham Bumiputra and Amanah Saham Nasional and both had been given overwhelming response by bumiputra. This led private fund management companies keen to offer new unit trusts to capture the market of non-bumiputra. As a result, there were .. unit trusts operating in the market at the end of the decade.

From the year 1990 until now was the period of amazing growth of the industry. The introduction of Islamic capital market and economic crisis in the middle the 1990th were considered as the accelerated factors to the growth of unit trusts. In the context of Islamic capital market, the government had included Islamic unit trust as one of the main components in order to encourage the involvement of Muslims in capital market. As a result, 42 Islamic unit trusts were launched during this period as compared to 6 Islamic unit trusts in the prior period.

Even though economic crisis has been always related with disaster to any economic activities, but in the context of this industry in Malaysia, it had revealed a reverse direction. During the crisis in 1997 to 1999, the government had used unit trust as strategic plan to increase liquidity in capital market. This strategy had been strongly supported by financial institutions in which they established their own fund management companies and offered various types of unit trusts such as equity, bond, and mixed unit trust. As a result, the number of unit trusts operating in market increase tremendously. To date, there are 295 unit trusts have been approved with the net asset value more than RM 80 billions (Securities Commission, 2005).

3.0 Literature Review

Basically, literatures on graphic presentation focus mainly on two perspectives. The first perspective discusses the importance of graphs to users while the second perspective discusses how management uses graphs to impress users.

Too much information in annual reports can overload readers and this will pose a challenge to them in understanding accurately the financial data. Graph is seen as useful techniques to users of annual report to identify and understand better the trend of financial information. The display of numerical data in graphical format assists readers to observe the trend and highlight important data (Coles & Rowles, 1997). Graphs enable the readers to pay attention at one issue at one time, which permit comprehensive overview of corporate attributes to be developed (John, 1997) and are effective tool in communication process because of the advantage that they have over basic human perceptual and cognitive abilities (Beattie & Jones, 1993).

Apart from that, information disclosed using graphs is more interesting and easy to read. Therefore, it will enhance the role of annual report in communicating important information to users. Graphs also can improve decision quality or speed among users (DeSantic, 1982; Brown, 1992). For investors, graph provides assistant to determine the competency and efficiency of company's operation and performance (Steinbert, 1989; Beattie & Jones, 1992) because it summarizes and simplifies the complicated financial data (Beattie & Jones, 1997). Libby & Lewis (1997) argue that the fact that human poses certain limitation in information processing capabilities makes graphs become more useful to investors to facilitate them in making an investment decision.

Despite of its usefulness, the use of only selected information to be disclosed via graphs has triggered scholars to discuss and carry out research from different perspective. They argue that the use of graphs in annual report is voluntary in nature, as it does not subject to any standards or rules (Nue, 1991; Beattie & Jones, 1999). The information presented makes graph differs from other voluntary disclosures (Beattie & Jones, 1999). Normally, voluntary disclosures present new information but graphs highlight the information that is already available somewhere else in the annual reports in a summarized form.

The extensive use of performance information such as sales, profit, earning per share, and dividend in the graphs has strengthened the assumptions of the scholars that the management has hidden agenda towards graphic presentation. A number of studies found consistent results that companies place a great attention to disclose the such performance variables in graphs (). Moreover the way this information is highlighted will

affect the judgment and perception of users towards company's performance (Thomas, 1991). This leads scholars to link the use of graphic presentation and management impression.

In the context of graphic presentation, impression management might be seen as how management select the information to display via graphs in order to impress users that the company is managed proficiency and efficiently (Steinbard, 1989; Beattie & Jones, 1992). In this regards, the main issue raised by scholars that graphs exhibit measurement distortion. They argue that most of graphs break the basic principle in which the physical measurement of graphs does not in direct proportion to the numerical values that they represent.

Previous studies reveal that the measurement distortion in graphs occurs in practice. Johnson, Rice, and Roemmich (1980) found that 29.5 percent out of 423 graphs were constructed incorrectly.

4.0 Theory and Hypothesis

The signaling theory has been widely used by the scholars to discuss the concept of impression management and graphic presentation. The theory argues that management discloses and highlights particular information not only to communicate but to impress users that they are performing well. Managements select only information that in favor to them and highlights such information through graphs in unethical manner.

Ross (1979) pointed out that only managers with a strong self-interest would disclose relevant voluntary information in their reports. He then conceived that;

The economic fortunes of the management depend on those of the corporation. The performance of the company is affected by the actions of the management and serves as a measure of how well the members have performed. Compensation geared to firm's performance; therefore it serves as an incentive for managerial performance. Managerial compensation does not have to be tied directly by some specific formula to the earnings or overall performance of the firm (Ross, 1979.p 183).

The above statement clearly supports the argument of the signaling theory on how and why managers keen to make voluntary disclosures. Managers that have good news will disclose it to increase the value of company as well as managerial compensation. Thus the usage of graphic presentation could be explained as a way how selected information of performance could be highlighted (Verrecchia, 1986; Dye, 1998).

In the context of unit trust, we use three performance variables namely earning per share, return on equity, and net asset value to examine their correlation with the extent of graphic presentation in annual report. We assume that the unit trusts with better earning per share and return on equity will be having more graphic presentation. Management will highlight good performance may support this argument.

Unlike managerial compensation in company, the unit trust's management company is paid based on the commission of daily net asset value. The managements attempt to maximize net asset value not only to increase the value of unit holders but the most important is to maximize their compensation. We assume that management will properly highlight these efforts through graph to create the schema of trustworthy management.

Based on above argument, we hypothesize that:

H1: The extent of graphic presentation is correlated with the earning per share, return on equity, and net asset value of the respective unit trust.

5.0 Data and Measures

This study focuses only to equity unit trusts due to its major composition in the industry. According to FMUTM (2003), equity unit trust represents 67.8 per cent (116 out of 171) of the total unit trusts approved for the year-end of 2002. For the final sample, we use only 86 equity unit trusts due to the availability of its annual reports at FMUTM. We use the data for the year 2003, which is obtained from the annual reports of respective unit trusts.

The primary focus of this study is to examine the correlation between performance and the extent of graphic presentation. Thus we use the number of graphs presented in annual reports as a measure to the extent graphic presentation. For the performance variables and size, we use the following measures:

Earning per share = net income divided by number of units circulated

Return on equity = percentage of net income to unit holders equity

Net asset value = market value divided by number of unit circulated

All the data then are analyzed using SPSS according to objectives of the study. We use descriptive analysis to examine the actual practice of graphic presentation in unit trust's annual reports and bivariate analysis to examine the correlation between performance and graphic presentation.

6.0 Results and Discussion

This section will discuss the results of analyses performed in order to give explanation to the research questions stated earlier on the graphic presentation in the unit trusts.

6.1 Practice of Graphic Presentation

For the purpose to examine the practice of graphic presentation in unit trusts annual report, we classify unit trusts into three main categories namely government-sponsored, bank-sponsored, and private-sponsored. Table 1 show that each category represents 25.6, 40.7, and 33.7 per cent of the sample respectively. The results also show that all categories of unit trusts present graph at almost similar percentage and overall, large majority (67/86) of the unit trusts in the sample presents graphs in their annual reports.

However, the results reveal that only bar, column, line, and pie graph are regularly used by unit trusts to disclose information. In terms of popularity of types of graph used, unit trusts prefer to use line graph and pie graph as compared with the other two types of graph. Out of 67 unit trusts that have graphic presentation, 62 unit trusts use line graph and 58 unit trusts use pie graph. The frequent use of these types of graph might be related to the types of information disclosed.

Table 1: Types of Unit Trust and Graph

Category of unit trust	Sample (N=86)	Unit trust with graphic presentation (N= 67)	Types of graph			
			Bar	Column	Line	Pie
Government-sponsored	22	18	1	0	18	15
Bank-sponsored	35	28	8	4	23	28
Private-sponsored	29	21	9	0	21	15
Total	86	67	18	4	62	58

Meanwhile Table 2 displays types of information disclosed using graphs. Unit trusts focus only four types of information namely fund size, asset allocation and performance. All the 67 unit trusts that have graphic presentation report information on asset allocation and only one unit trust does not report information on performance. For the information on fund size and investment, only 12 and 26 unit trusts report that information respectively. The results also show that almost all unit trusts use pie graph to disclose information on asset allocation and line graph to disclose information on performance. The usage of these graphs to disclose such information may be appropriate to enable better understanding of users.

From the above analyses, it is proven that unit trusts place a great attention to the graphic presentation in annual reports. Furthermore, the results are also consistent with previous studies that only selected information will be highlighted through graphs particularly information on performance. Does performance influence the extent of graphic presentation will be discussed in subsequent section.

Table 2: Types of Information Disclosed in Graphs

Category of unit trust	Unit trust with graphic presentation (N= 67)	Types of information			
		Fund size	Investment	Asset allocation	Performance
Government-sponsored	18	0	11	18	18
Bank-sponsored	28	8	9	28	27
Private-sponsored	21	4	6	21	21
Total	67	12	26	67	66

6.2 Performances and the Extent of Graphic Presentation

Table 3 presents the descriptive statistic of the variable used in this study. Based on units circulated, the size of unit trusts varies from 0.8 to 3,000 million units where the average is 274 million units. The largest is Amanah Saham Bumiputra and the smallest is the Sixth Amanah Saham MARA, both are government-sponsored unit trusts. In general, the descriptive statistics show that the unit trusts do not perform well in year 2003. Earning per share and return on equity indicate that in average, return to unit holders only RM 0.05 and RM 0.08 respectively.

Table 3: Descriptive statistic of the variables

Fund characteristic	Number of fund	Minimum	Maximum	Mean
Size (million units in circulation)	86	0.80	3000	274.11
Earning per unit	86	.00	.21	.05
Net asset value	86	.10	1.83	.63
Management fee	86	0.03	0.98	0.20
Return on equity	86	.00	.35	.08
Graph presented	86	0	6	2.99

For the correlation between performance and the extent of graphic presentation, as shown in Table 4, both results of Pearson Correlation and Chi square test indicate that none of the performance variables and size correlates with the number of graphs presented in unit trusts annual report. Thus, this study fails to reject the null hypothesis and to support alternative hypothesis on such correlation.

Table 4: Correlation between performance and the extent of graphic presentation

Variables	Pearson Correlation		Chi-square Test	
	Coefficient	Significant level	Pearson Chi-Square	Significant level
Return on equity	-0.111	0.310	516	0.418
Earning per share	-0.054	0.623	496.206	0.514
Net asset value	0.050	0.650	324.716	0.478

We conduct further analysis to give an explanation to these findings. We discover that the graphic presentation in unit trust annual report is highly dependent on discretion of management company. The management standardizes the format of reporting for all unit trusts that they manage regardless its performance and size. For example, all the six unit trusts managed by AmInvestment Services Berhad do not present a single graph in its annual reports. On the other hand, all the five unit trusts managed by Mayban Unit Trusts Berhad present six graphs in its annual report.

7.0 Conclusion and Future Research

This study explores the graphic presentation in unit trust's annual report. The findings show that unit trusts use extensively graphs to disclose only selected information particularly information on asset allocation and performance through annual reports. However, this study fails to provide evidence that performance is not determinant factor to the number of graphs presented. Based on this, we may conclude that the management use graphs in unit trusts annual report not to impress users. Thus, the relation between performance and the extent of graphic presentation seems not applicable in the unit trusts.

However, this study may provide an essential avenue for future research to study graphic presentation from different perspective. Do graphs influence decision of investors to hold shares in unit trusts? This question should be given priority by researcher to examine the importance of graphs from user's perspective.