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Malavoloneque, Anita

2020
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A comparison of non-financial strategy disclosure in the annual reports of Brazilian and Portuguese Listed companies

Student submitting:	**Anita Malavoloneque**
Student number:	**706443**

Date of submission:	29 February 2020
Principal supervisor:	Professor Yaeesh Yasseen

Report submitted in partial fulfilment of the requirements for the degree
Master of Commerce in Accountancy

Degree code:	**CCA01**



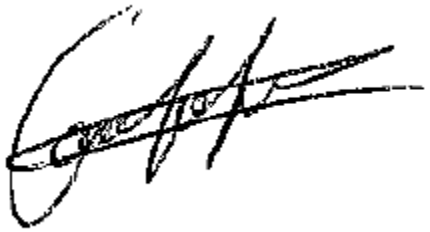
University of the Witwatersrand

Student's contact details:

anita_malavoloneke@hotmail.com

DECLARATION

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and a Research Report at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other University.



Signed by Anita Malavoloneque

706443

February, 2020

ACKNOWLEDGMENTS

'*She is clothed in strength and dignity, and she laughs without fear of the future*' (Proverbs 31:25). For my Lord will not cause pain without allowing something new to be born (Isaiah 66:9). Praise be to the Lord God almighty, for my faith kept me steady and gave me hope.

I would firstly like to thank God, for giving me the strength and perseverance to be able to conduct this study and for always being my pillar in every given situation. I would secondly like to thank my family, starting with my parents (Verónica Joaquim José Franklin Malavoloneque and Celso Domingos José Malavoloneque), for all the given sacrifices they have made for me over the past 25 years. I would also like to give my utmost gratitude to my uncles (Padre Osvaldo Franklin and the late Teddy De Almeida), and my siblings (Emilia Stephanie Franklin Malavoloneque and Marthy Hitula Franklin Malavoloneque), for all their support throughout the past few years. I would further like to thank my spiritual advisors for all their spiritual support especially during the period that this thesis was being written.

I would also like to thank my supervisor (Yaeesh Yasseen) for his availability, insight and continuous guidance. Lastly, I would like to thank the Head of the School of Accountancy (Nirupa Padia) for her continuous support.

A special vote of thanks to my editors (Stephanie Chigumba and Andy Grewar) and statistician (Ayesha Vanker) for the contribution they made to this study.

ABSTRACT

Over the past number of years, corporate entities have been heavily criticised by both academic researchers and practitioners. This is due to a perception that its financial reports have failed to reflect an organisation's ability to create value over the long-term. International scandals such as the collapse of the Portuguese Bank of Business (Banco Português de Negócios), along with recent fraudulent allegations involving Brazil's biggest state-owned oil company Petrobras, have further led various stakeholders to question the moral compass of business leaders and to request more leading information to be divulged in the annual reports, other than complex financial reporting rules. Consequently, over the past two decades, there has been a shift in reporting with more focus being placed on the qualitative aspects of the annual reports.

Strategy disclosures are important for they don't only ensure that investors have access to the necessary information which may impact their decision-making process, but further ensure that there is consensus regarding an entity's future prospects. Given that research on strategy disclosures is rather limited, this study analysed the extent to which Brazilian and Portuguese listed companies disclose non-financial information with respect to strategy disclosures in their 2015 annual reports. The study also investigated the differences in the extent of disclosures between Brazilian and Portuguese listed entities. To this end, a sample of the top 40 listed companies in Brazil was selected from the Brazilian securities stock exchange (Bovespa) and a sample of the top 40 listed companies in Portugal was selected from the Portuguese stock exchange (Euronext Lisbon) based on the companies' market capitalisation. Thereafter, the extent of non-financial strategy information disclosed in the annual reports was scored using ten rating disclosure criteria used in a Dutch study conducted by Santema and Van De Rijt (2001) and these were statistically analysed using a non-parametric statistical test (Mann–Whitney U test) to assess for the presence of a significant difference in the extent of strategy disclosures between Brazilian and Portuguese listed companies. Overall, the findings suggested that there is a significant difference in the extent of strategy disclosures in Brazilian and Portuguese markets. Brazilian listed companies were found to have rather good disclosures in their annual reports with respect to strategy. On the contrary, the study found that Portuguese listed companies have rather low disclosures with respect to strategy in their annual reports.

Key Words: Annual reports, Brazil, narrative disclosures, Portugal, stock exchange, strategy.

LIST OF ABBREVIATIONS

The following abbreviations have been used in the research study, and their meanings are clarified below:

ACCA	The Association of Certified Chartered Accountants
Bovespa	Bolsa De Valores De São Paulo (São Paulo Stock Exchange)
BPN	Banco Português de Negócios
CMVM	Comissão do Mercado de Valores Mobiliários (Securities Market Commission)
EU	European Union
EY	Ernst Young
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IRRC	International Integrated reporting council
IPO	Initial Public Offering
K–S	Kolmogorov–Smirnov test
NYSE	New York Stock Exchange
OECD Governance Principles	The Organization of Economic Cooperation and Development Governance Principles
UK	United Kingdom
US	United States

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Chapter 1: Introduction

1.1 Background of the study

The annual report has traditionally served as a medium through which companies communicate to the users of the financial statements the financial state and corporate performance of an enterprise (Bowman, 1978; Kohut & Segars, 1992). In the past, non-financial disclosures were utterly overshadowed in these reports, with more attention being placed on financial measures of performance (Gibbins, Richardson & Waterhouse, 1990). However, recently there has been a shift in business reporting and a gradual decrease in the value relevance of financial disclosures (Flöstrand & Ström, 2006). This is due to a consensus that companies need to provide information in their annual reports which expands beyond the traditional financial reporting model which focused on backward-looking information (Watson & Monteiro, 2011).

Moreover, recent market developments, increased competition and globalisation, have further highlighted a need for businesses to produce more concise, clear and transparent disclosures in the annual reports (Abdo & Fisher, 2007). International corporate scandals such as Enron and WorldCom in the United States (US), Parmalat in Italy, Daewoo in Korea, Leisurenet and the Maxwell scandal in the United Kingdom (UK) have further encouraged stakeholders to question the effectiveness of complex financial reporting rules (Daniels and Booker, 2011; Abdo & Fisher, 2007). In response to such a call, the big four audit firms have requested for more guidance from regulators such as the US Securities and Exchange Commission on the presentation of expanded disclosures and its inclusion in the annual reports (Amran, Bin & Hassan Che Haat, 2009). However, these disclosures often comprise of narrative disclosures which are often voluntary and not mandatory by law and regulation, which leaves businesses with full discretion on what information to include/exclude in their annual reports (Amran et al., 2009).

Hence, recently there has been a heightened focus towards sustainability reporting, a practice introduced by the Global Reporting Initiative (GRI) which encourages companies to be more transparent about the environmental, economic and social impact of its operations (GRI, 2013). Sustainability reporting is an important element of integrated reporting, a concept that was introduced by the International Integrated Reporting Council (IRRC) in an aim to enhance the communication between companies and capital markets (KPMG, 2016).

Integrated reporting can be best defined as a process that communicates information on how an organisation's strategy, governance, and performance leads to value-creation over the short, medium and long-term (IRRC, 2013).

Amongst the main goals of integrated reporting is to improve transparency and accountability in financial reporting by engaging a wider spectrum of stakeholders (i.e. employees, consumers, suppliers amongst others) in the decision-making process, which isn't only limited to shareholders (Ernst Young, 2014). Central to this end is the proposition that value is increasingly shaped by factors such as reliance on the environment, social reputation, human capital skills (Ernst Young, 2014) and is also heightened by improved disclosures with respect to a business's long term strategy (IRRC, 2013).

A company's strategy essentially comprises information in relation to a company's mission, goals, and objectives and serves as a vehicle through which information in relation to management's honesty, trustworthiness and financial projections can be communicated to stakeholders (Santema, Hoekert, Van De Rijt & Van Oijen, 2005). Strategy and governance are interlinked as investors align an entity's investment decisions, to the company's objectives and risk levels and further utilise governance compliance ratings to evaluate their investment decisions. It is also important to note, that compliance alone is not enough to achieve good corporate governance. Companies should also look to re-enforce effective business policies along with long term objectives to further good corporate governance (Busco et al., 2008).

Over the past decade, there have been increased efforts towards the development of new legislation and regulations in order to enhance good corporate governance. Amongst these developments is the Sarbanes Oxley Act of 2002 adopted in the US subsequent to the Enron scandal, which applies rigorous governance requirements to public companies listed on the New York stock exchange (Agrawal & Chadha, 2005). Moreover, there have been recent amendments made in countries such as Portugal and its previous colony Brazil aimed at improving corporate governance principles (Black, Carvalho & Sampaio, 2014; OECD, 2011). However, despite Brazil's efforts to better its corporate governance, corruption, money laundering and fraud scandals involving major corporations such as Brazil's biggest majority state-owned oil company (Petrobras) have led stakeholders to question the social conscience of business leaders (Leahy, 2016). Furthermore, the country has been facing a historic economic recession heightened by high unemployment, a low Gross Domestic Product (GDP) and high levels of public indebtedness (Harris & Schipani, 2019; Roberts & Castro, 2018) some of which have been attributed to weak business strategies.

Portugal, much like its previous colony Brazil, has also found itself to be in the midst of recent governance controversy.

The occurrence of financial scandals in Portugal involving major corporations such as Portugal's Bank of Business (Banco Português de Negócios), which saw its board of directors accused of financial crimes, has resulted in some questioning whether it is possible to ensure that an institution serves the interests of those whom it serves, rather than some other side-tracked purpose (Tierno, 2014). In the midst of such a storm, one may argue that corporations in both countries are in need of more relevant information to be disclosed in their annual reports, to enable stakeholders to make a better assessment of an organisation's future (Acharya et al., 2009).

In order to contribute to the limited research on strategy, this study examined the extent to which Brazilian and Portuguese listed companies disclose non-financial information with respect to strategy in their annual reports. To this end, the researcher obtained a sample of the top 40 listed companies in Brazil and Portugal from the Brazilian securities exchange (Bovespa) and the Portuguese stock exchange (Euronext Lisbon) in the year of 2015, based on the companies' market capitalisation. The annual reports in the year of 2015 were used as a basis to conduct this study, given that at the time that the research study was undertaken the latest integrated reports which had been published for all 80 companies of interest related to the year ended 2015. This was deemed to be reasonable, as it would allow the researcher to use the latest integrated reports at the time as a basis to conduct this study, which would also provide a better depiction of the most recent level of disclosures in both countries. This study follows the research study conducted by Santema and Van de Rijt (2001), which examined the extent to which Dutch companies disclosed information with respect to strategy disclosure in their annual reports. The study will carry the investigation by scoring the extent of non-financial disclosure, using the ten rating criteria developed in the Dutch study of Santema and Van de Rijt (2001).

1.2 Problem statement

Ernst Young (EY) (2014) has previously reported that investors currently believe there to be a missing gap between the information that is reported by organisations in relation to business strategy and risk. The Association of Certified Chartered Accountants (ACCA) (2013) has also identified such an information gap and has reported that currently, about 45% of investors believe that the annual report has failed to be a useful tool in assessing a company's future performance.

In the countries of interest, Portugal and Brazil, there is a marked deficit in research with regard to non-financial strategy disclosures. To fill this research gap, the study examined the extent to which strategy is disclosed in the annual reports of Brazilian and Portuguese listed entities.

In addition, the study further compared the extent to which strategy is disclosed in both countries by examining whether there is a significant difference in the level of disclosures in both countries. Given that previous studies have found emerging markets to disclose more information with regards to strategy in comparison to developed markets (Phala, Yasseen and Padia, 2019) it would be of interest to assess the extent of disclosures in the two countries since both countries operate in different markets (Brazil operates in a developing market and Portugal in a developed market). Moreover, given that Brazil is a previous colony of the comparative country (Portugal) and that both countries have experienced quite a significant change in its economy over the past two decades which has further served to entice amendments to its governance structure, the study deemed both countries to form a great basis of comparison to undertaking this study.

1.3 Significance of the study

Historically, more focus has been placed on the quantitative aspect of annual reports, whilst the qualitative aspect of these reports has been largely ignored (Kohut & Segars, 1992). However, recently there has been an increased focus by academics on the importance of voluntary disclosures (Meek, Roberts & Gray, 1995; Padia & Yasseen, 2011; Padia, 2012; Marx & Mohammadali-Haji, 2014). A key contribution of this study is to contribute to this identified research need by analysing the extent to which non-financial disclosures are divulged in the annual reports of Brazilian and Portuguese listed firms at an individual and comparative level. This research further aims to illustrate areas to improve the level of strategy disclosures currently provided in Brazil and Portugal and assist companies in both countries to reach an optimal level of strategy disclosure in their annual reports. The study will also provide a comparison of the level of strategy disclosures between Brazilian and Portuguese listed companies.

The findings of this study will be of interest to academics and practitioners, given that to date no study has been conducted that not only analyses the level of strategy disclosures in the two countries individually using the criteria developed by Santema and Van de Rijt (2001) but that further compares the extent of disclosures in the two markets. The study aims to fulfil the research need identified by Santema and Van de Rijt (2001) and improve the level of strategy disclosures currently provided by companies in both Brazil and Portugal.

1.4 Research aim and objective

The aim of the research study is thus to answer the following research questions:

1. To what extent do Brazilian listed companies disclose non-financial information with respect to strategy in their annual reports in the year 2015?

2. To what extent do Portuguese listed companies disclose non-financial information with respect to strategy in their annual reports in the year 2015?

3. Are there any significant differences in the manner in which Brazilian and Portuguese listed companies disclose non-financial information in relation to strategy in their annual reports?

1.5 Assumptions and limitations of the study

This study has the following specific limitations:

The following study will include to a large extent a level of subjectivity and judgment in assessing the narrative information in the annual reports. However, an experienced researcher in the area, along with the primary researcher in this study, will both analyse the information in these reports to mitigate this limitation. Moreover, although content analysis is bound to have some restrictions (Kracauer, 1952), it is a commonly recognised tool in academic research for evaluating the characteristics of a population (Maroun, 2012; Coetsee, 2011).

The analysis of the narrative information will be based on the annual reports in relation to the year of 2015. The study acknowledges that annual reports have certain limitations, including the risk that information, specifically narrative disclosure, is presented in a manner to persuade stakeholders to arrive at specific conclusions, especially in instances of poor performance (Stanton, Stanton & Pires, 2004). However, the credibility of the annual reports is enhanced by the regulators and auditors operating in these capital markets. Moreover, any information, including that which is provided on a voluntary basis both in Brazil and Portugal, needs to be verified for any material inconsistencies by the securities market commission in both markets.

The study is limited to the top 40 listed companies in the Brazilian stock exchange (Bovespa) and the top 40 listed companies in the Portuguese stock exchange (Euronext Lisbon), which were selected based on the companies' with the highest market capitalisation. Hence, the researcher acknowledges that findings undertaken in this research study may not be illustrative of the strategy disclosure practices of unlisted or other public companies.

Lastly, although this study analysed the extent of strategy disclosures and made a comparison between Brazilian and Portuguese listed companies' disclosure levels in relation to strategy, the study was not aimed at identifying reasons for the disclosures or non-disclosures thereof or reasons for any differences in disclosures in the two markets. However, a brief explanation of the possible reasons for the extent of disclosures in both countries was provided.

The study has the following assumptions:

The reseacrcher will assume in conducting this research study, that the strategy disclosures used by Brazilian and Portuguese listed entities are authentic, truthful and demonstrative of the practices within the respective companies. This is a suitable assumption, as the codes of corporate governance in Brazil and Portugal require truthful disclosures. Furthermore, untruthful disclosures by companies would be an infringement of the law and regulations of the respective countries, resulting in possible reputational damage and legal action. Moreover, the listed firms in both countries of study are subject to an external audit, and auditors in Brazil and Portugal are bound by a professional code of ethics which allows us to trust that the annual reports shall be audited with diligence and due care, taking into consideration third party liability. Moreover, these audited financial statements are overseen by the securities commission in both countries and also need to follow the provisions of the corporate law in the preparation of these financial statements.

Lastly, the study deems the sample of the companies to be a reflection of the general disclosure practices in the two countries of interest.

1.6 Definition of terms

For purposes of this research study, the following terms have been defined below:

Annual reports — An annual report comprises a comprehensive report which informs stakeholders of the company's activities throughout the preceding year. These activities include both financial and non-financial disclosures, as well as any other information considered relevant for the users' assessment of the operations of the enterprise.

Integrated reporting — This is a concept that introduced by the IRRC, in an aim to enhance long-term value with respect to the role organisations play in society. This report not only focuses on the financial aspect of corporations but furthermore on the social and economic effect of operations' strategic decisions. The terms integrated report and annual report will be used in this case study interchangeably.

Voluntary disclosures — These comprise of additional disclosures provided in the annual reports, free from any mandatory requirement by law or regulations thereof.

Stakeholders These comprise employees, investors, customers or any other party that has a vested interest in the operations of an enterprise. Hence, the government, trade associations, and the community at large form part of this stakeholder group.

Strategy disclosures These disclosures include information with respect to an entity's mission, goals, strategic plans, performance targets, and any other voluntary information disclosed that is relevant for the user's decision-making process, in assessing an entity's annual reports.

1.7 Research structure

In Chapter Two the study analyses the available literature and begins by looking into the agency theory which is the framework that has been chosen in this study to highlight the importance of strategy disclosures in the annual reports (**Section 2.2**). It further looks into the colonial history between Brazil and Portugal (**Section 2.3**) and subsequently discusses the current economic status in both countries of interest (**Sections 2.4** and **2.5**).

The study also looks at the available literature which examines the importance of corporate governance (**Section 2.6**) and the current governance practices in both Brazil and Portugal and further analyses how these have evolved over the past few years (**Sections 2.7** and **2.8**). Lastly, it looks into the available literature which examines the value relevance of voluntary disclosures and strategy disclosures in the annual reports (**Sections 2.9** and **2.10**).

Chapter Three presents the methodology used (**Section 3.1**) and looks at the population and sampling tool that was used to undertake this study (**Section 3.2**). It further discusses the data sources that was used to collect the respective data (**Section 3.3**) and also looks at the research instrument and design that was used to conduct the study. The method that was used to conduct the data analysis is further discussed (**Sections 3.4** and **3.5**) and the chapter is concluded by looking into the instrument that was used to test the internal reliability and consistency of the data (**Section 3.6**).

Chapter Four sets out the results of the study. Lastly, Chapter Five presents the conclusions of the study and further offers recommendations for future research.

Chapter 2: Literature Review

2.1 Introduction

The benefits associated with improved strategy disclosures have remained a topic of great discussion amongst different stakeholder groups (Botosan, 1997; Santema & Van De Rijt, 2001; Padia & Yasseen, 2011; Padia, 2012). In order to ascertain the importance of strategy disclosures one first needs to define the stakeholders – the individuals who require such information to assist their decision-making process.

Previously, the views on strategy often ignored some stakeholders whilst favouring the interests of a specific stakeholder group. The term 'stakeholder' refers to a group of individuals who have a genuine and legitimate claim on the firm (Hill & Jones, 1992). According to the stakeholder theory, managers should integrate the interests of shareholders, employees, customers, suppliers, the public sector and any other individual or group of persons that has an ability to influence or is affected by the achievement of an organisation's objectives in its decision-making process (Freeman & Reed, 1983; Clarkson, 1995). This is because different stakeholders tend to have different needs and may demand different information, apart from those in relation to an entity's financial performance (Meek et al., 1995). Furthermore, each of these interested parties has expended resources that are crucial to the firm and, in exchange, they expect their interests to be well served (Freeman, 1984).

Hence, it is believed that stakeholders form part of an interconnection of implicit and explicit contracts, which in its entirety constitutes a firm. However, due to the major role that managers play in a corporation, management's position is seen to be at the centre of such contracts. This is because managers are the only group of stakeholders who enter into a direct contractual relationship with shareholders and who are directly involved in the day-to-day management of operations within a firm (Jansson, 2005). Therefore it is binding upon managers to make strategic decisions in a manner that is most consistent with the interest of all stakeholder groups (Jenson, 2001). The agency theory enhances the importance of strategy disclosures due to the challenges that arise between the two interested parties (managers and stakeholders). To this end, the study has used the agency theory as the theoretical framework to undertake this study.

2.2 Theoretical framework (agency theory)

The need for corporate governance arose due to agency conflicts between principals and agents (Healey & Palepu, 2001; Abdo & Fisher, 2007). This is because initially, businesses were owned and managed by owners and as such self-accountability was prominent. However, as businesses continuously grew, a need arose to separate ownership from management, consequently giving rise to the principal-agent relationship (Watts & Zimmerman, 1983). The term 'agency relationship' was formalised by Jensen and Meckling (1976) and may be defined as a contract, under which one party (the principal) appoints another party (the agent) to perform certain activities on their behalf. In order to perform these activities, the principal delegates some decision-making authority to the agent, which consequently gives rise to an agency conflict (Jensen & Meckling, 1976). The foundation of the agency theory is based on an assumption that the interests of the principal and agent will diverge. This is because under the assumption that both parties are utility maximisers, the separation between owners (principals) and those who control operations of the firm (agents) provides management with an opportunity to conceal detrimental information from its shareholders, which could in turn decrease firm value (Adams, 1994; Jensen & Meckling, 1976).

In order to reduce such information asymmetry and limit the possibility of its interests not being served, the principal incurs agency costs to incentivise the agent to perform to the best of their ability without harming the principal's interests (Jensen & Meckling, 1976). These costs arise as a result of the agent having more information about the firm's performance, which isn't available to the principal, and have been described by Jensen and Meckling (1976) as the aggregate of monitoring costs, bonding costs, and residual loss. Monitoring costs involve the cost associated with monitoring and assessing the agent's performance in the firm and includes expenditure which is incurred to watch and oversee the behaviour of the agent. Bonding costs, refer to set-up costs and costs incurred to guarantee that the agent operates in a manner that is consistent with the structure of the firm, i.e. audit fees. Lastly, residual loss refers to the cost that is incurred as a result of inefficient managerial decisions (Jensen & Meckling, 1976). These elements can be summarised as follows:

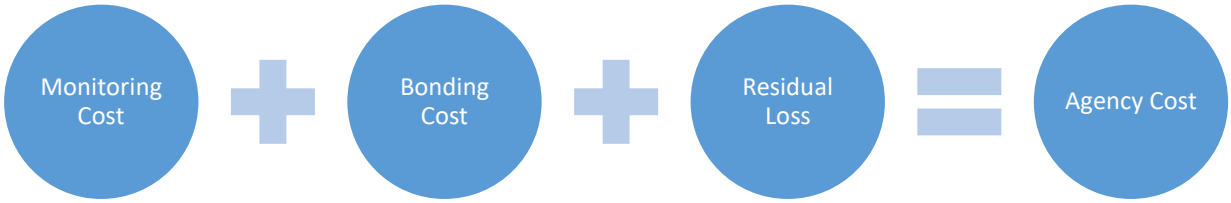


Figure 1: Elements of the agency cost

Source: Jensen and Meckling (1976).

One of the main goals of the principal would be to minimise the residual loss through having clear and well defined strategic objectives. It is important to also recognise that the principal-agent problem is not only limited to a relationship between shareholders and management of the firm. They primarily arise as a result of conflicts of interest between two parties to a contract, and may vary from relationships between controlling and minority shareholders to those between an employer and employees or between buyers and suppliers (Adams, 1994; Shleifer & Vishny, 1997; Gilson & Gordon, 2003).

Agency conflicts between minority and majority shareholders are of particular interest to this study, as the concentrated ownership structure and the use of voting and non-voting shares have contributed to the increased agency conflicts amongst controlling and non-controlling parties observed in Brazil and Portugal (Rabelo & Vasconcelos, 2002; Didier & Schmukler, 2014; Kostyuk, Braendle & Capizzi, 2017). The main shareholders in Brazil happen to be the state, family-owned business groups and affiliates of multinational corporations, creating a hierarchical group similar to that found in continental Europe (Rabelo & Vasconcelos, 2002; Berglöf & Pajuste, 2005; Didlier & Schmukler, 2014; Miralles, Miralles & Lisboa, 2014). Furthermore, the use of non-voting and voting shares in Brazil has further allowed families to continue to control the majority stake of such firms (Didier & Schmukler, 2014) further hindering the interests of minority shareholders. In order to obtain a better understanding of the origins and factors contributing to such ownership dominance in both countries, it is important to obtain a further understanding of the colonial history between Brazil and Portugal.

2.3 Background colonial history between Brazil and Portugal

Upon the arrival of the Portuguese in Brazil in 1500, they sought to import large groups of African slaves to work in their sugar cane and coffee productions (The World Economy, 2010). This initially proved to be an economically successful strategy, for Brazil saw a peak in sugar exports in the 1650s (The world economy, 2010).

However, earnings began to fall thereafter due to lower prices and competition from the rapidly growing output in the Caribbean, but the discovery of gold in the 1690s and diamonds in the 1720s in Minas Gerais enabled the country to pursue new opportunities (The World Economy, 2010).

Nonetheless, despite such economic transformations, Brazil barely benefitted from such profits, as most of the profit was made to benefit Portugal (The World Economy, 2010). Although Brazil

managed to attain its independence in 1822, its gold deposits were exhausted, which resulted in Brazil having to rely once more on agricultural exports such as cotton, sugar, and coffee. This was particularly challenging for Brazil, as during colonial times Brazil found itself unable to develop its own industries (The World Economy, 2010).

Post-independence Brazil continued to be economically dependent on its coloniser for more than 100 years and although slavery was eventually abolished in 1888, no compensation or any kind of resettlement was provided to slaves and their families (Milz, 2018). Consequently, most of the land at the time of independence was owned by slave owners, who were predominantly the white Portuguese population, resulting in the bulk of the remaining population (Blacks, Coloureds and Indians) to be left financially and economically disadvantaged (The World Economy, 2010).

Many of the social and economic effects of colonialism linger to this day and continue to be felt in most regions of Brazil (The World Economy, 2010). Currently, most of the slave descendants live in the *favelas* (rural areas) of Brazil as most of the land and wealth lies in the hands of the Portuguese minority (Milz, 2018). Moreover, the lack of a middle class to purchase goods and services provided by corporations has resulted in very high unemployment and poverty rates and a rigid social hierarchy, leading to great political unrest in the 21st century.

This has further contributed to the downward spiral in the country's Gross Domestic Product (GDP) and although there have been policies implemented by the state over the years, such as the social programmes introduced by President Luiz Inácio 'Lula' da Silva and continued by his successor Dilma Roussef, these wealth redistribution policies have been shown to be unsustainable and only contributed to the already existing crisis and afflicted economy (Roberts and Castro, 2018).

On the other hand, although one would expect Portugal to be in its economic prime, Portugal has also suffered from a financial crisis in the most recent years that forced it to obtain a $111 billion bailout from international creditors and has further seen its economy downgraded to junk status in 2012 (Nelson, 2017; Onishi, 2017). Particularly in 2015, Portugal saw more than 100 000 Portuguese nationals, migrating to Angola, another previous colony of Portugal (Tomás, 2015). Interestingly, the *New York Times* has gone as far as to mention that the roles between Portugal and Angola have reversed, citing that a once coloniser (Portugal) has found itself currently being more of a colony itself in the hands of its previous colony (Angola). This is due to a majority of the capital inflows in Portugal being derived from Angolans, who have invested billions into the Portuguese economy, including in some of its biggest public companies (Onishi, 2017).

In order to obtain a better understanding of the economic structure in both countries of interest and how it has progressed over the years, the study looked into the economic status of both Brazil and Portugal.

2.4 A look at Brazil's economy

Brazil's reputation as one of the world's most promising emerging markets has certainly diminished over the past few years (Roberts & Castro, 2018). Despite it being one of the biggest countries on the planet, with a territory larger than the United States, over the past few years, Brazil has been engulfed by a continuing economic crisis. This has been further heightened by barriers to entrepreneurial activity such as burdensome taxes, inefficient regulation, poor access to long-term financing, and a rigid labour market (Roberts & Castro, 2018).

Furthermore, Brazil's fiscal condition has been severely compromised by a combination of high inflation and widening budget deficits that have elevated the burden of public debt. Although there has been substantial involvement by the state in the economy to alleviate these issues, the efficiency and overall quality of government services remain poor despite high government spending (Roberts & Castro, 2018).

In addition, Brazil's economic crisis has been coupled with several political scandals which have further induced a public social uproar and dissatisfaction with the current political system (Roberts & Castro, 2018). Investigations into widening bribery, corruption, and money laundering have involved high profile political leaders such as Brazil's former president Lula da Silva and his successor Dilma Roussef (Roberts & Castro, 2018).

Not much has changed since, as Michel Temer, who assumed the presidency after the removal of his predecessor (Dilma Roussef), has also been arrested on allegations of bribery and corruption. The country has also been struck with various corporate scandals, which have consequently contributed to the public's weakened confidence in companies' annual reports. Such corporate scandals have not only involved politicians but also resulted in some of the country's most powerful billionaires and corporate executives being jailed (Gallas, 2019).

Amongst these are the executives of one of Brazil's biggest corporations Odebrecht, a Brazilian construction company which found itself having to settle an anti-corruption fine of at least $2.6 billion to authorities in Brazil, Switzerland and the United States upon admission of having contravened the law by paying bribes to politicians to secure multibillion-dollar public works infrastructure construction contracts, making it the largest paid anti-corruption fine in history

(Gallas, 2019; Roberts & Castro, 2018). A similar scandal also involved Brazil's biggest state-owned oil company Petrobras, a corporation once considered to be the biggest company in Latin America and of which Brazil's former president (Dilma Roussef) served as chair (Gallas, 2019; BBC News, 2015).

Consequently, this turmoil has resulted in rising debt, along with declines in commodity prices, and undermined consumer and investor confidence. Brazil's public debt increased from 51.5% of Gross Domestic Product (GDP) in 2012 to 73% in 2017. Unemployment has also continued to increase from 4.3 % in 2014 to roughly 13% in 2017 (Ferreira, 2015; Roberts & Castro, 2018). Unsurprisingly, GDP has also fallen, from $2.6 trillion in 2011 to a shocking $1.8 trillion in 2016 (Roberts & Castro, 2018), arguably making it Brazil's worst economic crisis to date.

2.5 A look at Portugal's economy

Portugal has recently been faced with economic and political challenges, some of which have been attributed to the economic-financial crisis of 2008 (Kostyuk, Braendle & Capizzi, 2017). It also did not help that between the years 2008 and 2014 Portugal saw three of its major banks go bankrupt which consequently resulted in an increase in public debt, which further contributed to the country's high unemployment rates (Kostyuk et al., 2017).

Amongst the banks that saw such a collapse was Banco Português de Negócios (BPN) in 2008 (Kostyuk et al., 2017). Its failure has been attributed to toxic advances issued by the bank that were illegally authorized to its administrators in exchange for corrupt promises.

The bank was dissolved in 2010 and until then, its dissolution had cost the Portuguese government taxpayers 450 million Euros (Ribeiro, 2012). Consequently, the Portuguese economy saw rising unemployment and a continuous decrease in its GDP for three consecutive years (2011, 2012 and 2013), with its unemployment rate reaching a record high of 16.2% in 2013, resulting in the Portuguese economy facing its most severe recession since the 1970s[1].

However, after many economic and fiscal reforms, the Portuguese economy has stabilised and has continued to expand since the third quarter of 2014, seeing a yearly GDP growth of 1.5% in the second quarter of 2015 (Focus Economics, 2020). The economy's growth was accompanied by a fall in the unemployment rate (11.9% in the second quarter of 2015, compared with 13.9%

[1] Adapted from: www.imf.org. Retrieved 13 April 2019.

registered at the end of 2014) and the government budget deficit also saw a decline from 11.2% of GDP in 2010 to 4.8% in 2014 (Focus Economics, 2020).

However, Portugal has continued to experience an excessively concentrated ownership structure, which has been characterised by a dominance of majority shareholder groups who exercise significant influence over management's decisions (Kostyuk e al., 2017). In 2014, about 54% of Portuguese listed companies were considered to be family owned (Miralles, Miralles & Lisboa, 2014). This has been amongst the main reasons for implementing a regime of required disclosures and improvements in the country's corporate governance practices over the years.

2.6 Corporate governance

Interest in corporate governance has grown quite intensively most recently both for developed and emerging markets. This is due to environmental concerns, corporate scandals and global changes that have occurred over the past few years, which have further encouraged stakeholders to question the manner in which corporations conduct their business affairs (Abdo & Fisher, 2007). Corporate governance refers to the practices, methods and processes by which a company is directed and controlled (Khan, 2011). A corporate governance structure defines the roles and responsibilities of those within an organisation, i.e. board of directors, managers and other stakeholders, and further permits that the company's structure is aligned with the firm's objectives, which allows it to have a strong basis to monitor performance (Khan, 2011).

One aspect of corporate governance which has been often analysed is the relationship between ownership (cash flow rights), control (voting rights), and firm valuation. According to Shleifer and Vishny (1997), the ownership structure of a firm along with the legal protection in the respective country is one of the most important determinants of corporate governance.

Claessens, Djankov and Lang (2000), who looked into the conflicts of interest between large and small shareholders, found that as large investors control a corporation their policies may result in the expropriation of minority shareholders. Given that Brazil is a developing country, whilst Portugal operates in a developed market, this study also considered studies that investigated the effect of corporate governance in developing and developed markets. Klapper and Love (2003) found evidence that there is a relationship between a firm's performance and corporate governance.

This study also considered the correlation between strategies, governance and performance and looked into a study undertaken by Beiner, Drobetz, Schmid and Zimmerman (2006) which looked

into a developed country – Germany – which concluded that corporate governance rating is positively correlated with firm value.

In conclusion, one can note through the analysis of the literature conducted above that there is a benefit associated with improved corporate governance and its disclosure in annual reports. The study thus deemed it important to look into the implementations which have been made in both Brazil and Portugal over the past few years in relation to their corporate governance practices.

2.7 Corporate governance in Portugal

The universal question of perfecting mechanisms with an aim to protect investors has extended to all international markets (International Monetary Fund, 2007). Consequently, this has resulted in various countries adopting and implementing new governance structures, in order to increase transparency in financial reporting and protect the interests of its interested parties. Particularly in Europe, numerous efforts have been made towards the creation of a legal and regulatory framework in order to ensure that companies adopt 'good corporate governance' principles (Berglöf & Pajuste, 2005). This is because, over the years, Europe has experienced increased growth in capitalism due to largely concentrated shareholdings (Berglöf & Pajuste, 2005), which have subsequently contributed to the weakened position of minority shareholders. Particularly in Portugal, corporate shareholding is quite high and most boards are dominated by directors affiliated with controlling shareholders (OECD, 2011).

Corporate governance principles applicable to Portuguese listed companies are much like those in European Union states and are derived from a variety of sources which includes laws and regulations which are binding on companies. Portuguese listed companies are mostly governed by the 'CMVM (Comissão do Mercado de Valores Mobiliários) governance code', which comprises recommendations made by the Portuguese Market Commission (OECD, 2011). The CMVM issued its first corporate governance code in 1999 and is applicable to companies whose share capital is open to investment by the public (i.e. listed companies) and is the most relevant governance code being adopted by listed companies in Portugal (OECD, 2011).

In 2001, due to the majority of companies not adopting or insufficiently implementing such recommended principles and also due to the economic climate at the time, CMVM Regulation 07/2001 was modified and made it obligatory for listed Portuguese companies to disclose the level of compliance and reasons for non-compliance ('Comply or explain') thereof, with respect to the principles as set out in the 1999 recommendations (Alves & Mendes, 2009). This requirement imposed on listed companies to publish a report on their corporate governance practices. The

report was set to follow a compulsory structure, making reference to almost each of the recommendations by the CMVM (Alves & Mendes, 2009).

The CMVM was further modified several times since 2001 with an aim of harmonising the national legal environment with international developments (Alves & Mendes, 2009; OECD, 2011). However, despite all such modifications, the current governance disclosures surrounding Portuguese firms mostly focus on the structure of the board, the special committees, the election of members of the board, director remuneration, the audit committee, and other general disclosures (Alves & Mendes, 2009). The referred principles are mostly geared towards the equal treatment of the shareholders and protecting the dispersed interests of minority interested parties due to the large concentrated ownership structure faced in most of Europe. Consequently, very little to no attention is paid to strategy disclosures.

Moreover, the CMVM regulations in Portugal are quite flexible and permit a listed company to adopt any other governance code that is produced by another entity, for as long as the selected entity is 'competent' to produce such governance practices.[2] It would thus be of interest to assess the extent to which information with regard to strategy is disclosed in the integrated reports of Portuguese listed companies.

2.8 Corporate governance in Brazil

Weak governance practices have been amongst the main causes of a weak Brazilian economy (Black et al., 2014). In the late 1990s, Bovespa (the Brazilian stock exchange) experienced many cross-listings of Brazilian firms to the New York Stock Exchange (NYSE), taking liquidity out of Bovespa and leading to almost no Initial Public Offerings (IPO's).

Expropriation of minority shareholders by controlling shareholders was a major contributing factor, along with a lack of governance principles in listing requirements which protected minority interests (Black et al., 2014). Brazil, much like its previous coloniser Portugal, had majority stakes controlled by majority shareholders (families, the state or multinational corporations) who owned the bulk of the corporation's shares but a smaller economic interest (Schiehll & Santos, 2004). This was facilitated by the use of voting and non-voting shares, which empowered the expropriation of minority shareholders by controlling shareholders (Black, Carvalho & Gorga,

[2] Available from: https://ecgi.global/content/corporate-governance-portugal. Accessed: 11/02/2019.

2010). The low level of non-executive directors and non-financial disclosures further amplified market concerns.

In 2000, Bovespa recognised that investors were eager for new developments that better protect their interests and launched its new differentiated corporate governance trading levels: Level 1, Level 2 and Novo Mercado (Black et al., 2014). The new listing levels permitted listed companies to voluntarily adopt its governance principles and required companies to make additional disclosures beyond those that were required by Brazilian corporate law (Didier & Schmukler, 2014; Black et al., 2014). Although these principles provided much stricter standards for corporate governance, they have served to reinforce greater accountability and transparency amongst corporate organisations since their implementation. Novo Mercado has the strictest standards of corporate governance. However, despite this, it has been well received by local and foreign investors (Didier & Schmukler, 2014). A study conducted by Black et al. (2014) found that corporate governance practices in Brazil improved significantly in the period 2004 to 2009 and that this was attributable to improvements in the listing requirements and governance practices of the firms that were already listed. In fact, since the introduction of the new trading levels, Brazil has continued to benefit from greater liquidity and its equity market has become much less concentrated (Black et al., 2014).

One can thus conclude that corporate governance is an important concept in both developed and developing markets. Not only does it enable a company to remain competitive but it further enhances a firm's international recognition. From the analysis of the literature, it is evident that non-financial disclosures are vital in protecting stakeholders and decreasing agency costs, which are a major contributor to information asymmetries between managers and stakeholders. Given the importance of voluntary disclosures, it is important to understand their significance and value relevance by looking at the currently available literature.

2.9 Voluntary disclosures

Voluntary disclosures include information which is provided over and above what is mandatorily required by legislation or any other regulation to be divulged in annual reports (Meek et al., 1995). They include, amongst other things, information in relation to a company's mission, vision and corporate strategy (Santema et al., 2005). These disclosures moderate the information gap between investors and managers of corporations (Gu & Li, 2007) and improve the integrity of the annual reports (Healey & Palepu, 1993).

A study conducted by Segupta (1998) re-enforced the importance of voluntary disclosures and found that high levels of disclosure decreased perceptions of default risk, in turn reducing an entity's cost of debt. The study also found that the importance of disclosures is greater in situations where there is a high degree of market uncertainty with respect to the variance of stock returns. This was further highlighted by Healy and Palepu (2001), who found that increased voluntary disclosures permit managers to retain corporate control especially in the event of poor performance, which ultimately reduces the risk of poor stock performance.

However, some have argued that the inclusion of narrative disclosures in the integrated reports, serves as a means to provide biased information through purposefully selecting information which is to be included or excluded in the integrated reports, with an aim to deceive or impress the readers of the financial statements (Bartlett & Chandler, 1997; Brennan & Merkl- Davies, 2013; Stanton et al., 2004; Yasseen, Moola-Yasseen & Padia, 2017; Yasseen, Mohamed & Moola-Yasseen, 2019). However, a study conducted by Flöstrand and Ström (2006), which examined the relationship between analysts' use of non-financial information and institutional and environmental factors (such as industry, firm size, and a firm's level of intangibles), highlighted the value relevance of non-financial information in annual reports, and a study conducted by Uyar and Kiliç (2012) highlighted the same, as the study found that voluntary disclosures have a positive effect on firm value.

Despite this, firms have remained reluctant to disclose voluntary information in their annual reports, with studies showing that only larger firms have a tendency to disclose more voluntary information (Robb & Zarzeski, 2001). A study conducted by Robb and Zarzeski (2001) looked into US, Canadian and Australian firms and evaluated the extent of significant differences in the disclosure of non-financial information in both the forward-looking information and the environment of the company, and found significant differences amongst the disclosure of firms.

The study concluded that larger firms disclosed more non-financial information in all three countries observed. This result is consistent with that of Vanstraelen, Zazerski and Robb (2003) who compared Belgium, Germany and the Netherlands and also concluded that there were more non-financial disclosures in bigger corporations. This is supported by conclusions in other studies, which have concluded that a firm that relies on equity finance discloses more information (Berglöf & Pajuste, 2005). Given that the companies which will be used to conduct this study rely on equity finance and are all listed on a stock exchange, it will be of interest to ascertain the extent of disclosures in both countries.

Furthermore, Vanstaelen et al. (2003) also found there to be differences in the disclosure of non-financial information in the annual reports in each of the countries due to dissimilar cultures, accounting practices, and legal and regulatory principles. This is of particular interest to this study, for one may deem Brazil and Portugal to have a similar culture which originates from its colonial history. Moreover, from the analysis of the corporate governance practices conducted above, one can deduce that both governance structures in Brazil and Portugal have a similar end, which is to protect the interest of minority shareholders. Hence, it will be of interest to examine the extent to which their disclosures differ.

There is likely to be a trade-off between attracting more investors and additional costs which would arise from greater disclosures (Berglöf & Pajuste, 2005). Amongst the added benefits associated with additional disclosures is an increase in the credibility of the firm (Ferreira & Rezende, 2007), a decrease in the entity's cost of capital (Botosan 1997), and enhanced quality in the annual reports (Padia & Yasseen 2011). Moreover, increased disclosures further enhance liquidity in the stock market, which further decreases the cost of equity which is a consequence of decreased transaction costs or an increased interest in the company's securities (Healy & Palepu, 2001; Bailey, Li, Mao & Zhong, 2003; Francis, Dhananjay & Xin, 2006). However, each firm should consider the added benefits associated with these disclosures against such additional costs.

Given that this study looks into the extent to which listed companies in Brazil and Portugal divulge information in relation to strategy in their annual reports, it is important to understand the concept behind a well-defined corporate strategy.

2.10 Strategy disclosures

For purposes of this study, strategy disclosures refer to information in relation to an entity's vision, mission, action plans, strategic goals or any other information which allows stakeholders to examine an entity's current and future prospects (Padia, 2012; Padia & Yasseen, 2011; Santema & Van De Rijt, 2001; Santema et al., 2005). A well-defined strategy serves management and stakeholders as a means to assess the future feasibility of the firm and further provides an entity with an opportunity to distinguish itself from its competitors (Ferreira & Rezende, 2007; Santema et al., 2005).

Several studies have shown that the narrative aspect of the annual reports such as the president's letter, management's discussion and analysis, serve as the most important aspect to some users of the financial statements i.e. financial analysts (Santema et al., 2005; Kohut & Segars, 1992).

However, despite this, strategy disclosures have continued to be overshadowed in the annual reports (Santema & Van De Rijt, 2001; Santema et al., 2005).

A study conducted by Santema and Van de Rijt (2001) which examined the extent of strategy disclosures amongst Dutch listed firms concluded that the disclosures with respect to an entity's strategy disclosure in the Dutch annual reports were not sufficient.

A further study conducted by Santema et al. (2005), which analysed the extent of strategy disclosures by European firms in the following countries: The United Kingdom, The Netherlands, Germany, France and Poland, highlighted the insufficiency of strategy disclosures provided by European listed firms. Amongst the reasons for such little to no disclosure, is the fear that public-announcements may limit management's ability to seek more optimal projects (Ferreira & Rezende, 2007). However, what management should acknowledge is that by publicly announcing its strategy, it increases the firm's credibility and further decreases the probability that the entity will not pursue its promises (Ferreira & Rezende, 2007).

On the contrary, there have been studies that have found the extent of strategy disclosures in developing countries to be sufficient. A study undertaken by Padia and Yasseen (2011) found the level of strategy disclosures by South African listed firms to be quite decent. This was further re-enforced by another study conducted by Padia (2012), which analysed the association between the extent of disclosures of non-financial information with reference to strategy disclosed by listed companies in the JSE for the years 2005 and 2008. The results indicated that South African listed companies usually have good strategy disclosures and that there was a substantial rise in disclosures in the years under study (2005 to 2008) for JSE listed companies.

Moreover, a study conducted by Phala, Yasseen and Padia (2019) which examined the extent in which developed and emerging markets disclosed information in their annual reports with respect to non-financial strategy disclosures further highlighted that companies in emerging markets provided better strategy disclosures in their annual reports in comparison to companies in the developed market. Hence, based on the results of the above studies, due to Brazil being a developing country and Portugal a developed market, one would expect Brazilian listed companies to divulge more non-financial information in comparison to Portuguese listed companies.

In addition, a study conducted by Holt, Yasseen and Padia (2015) which replicated the studies of Santema and Van de Rijt (2001) and Padia and Yasseen (2011), and analysed the extent of strategy disclosures with respect to South African and Indian listed companies, highlighted that

differences in strategy disclosures tend to be due to differences and alterations in the stock exchange regulations in the respective countries. Therefore, the study indicates that there is more likely to be a difference in the extent of disclosures between Portuguese and Brazilian listed entities due to the difference in the laws and regulations, governance practices and stock exchange regulations in both countries which influence the extent of disclosures in both countries.

2.11 Conclusion

The literature review was structured with the aim of providing an account of the importance of strategy disclosures in the annual reports of Brazilian and Portuguese listed entities. To this end, the study began by considering the theoretical framework (Agency Theory) which was used in this given study to highlight the importance of strategy disclosures in the annual reports. Through an analysis of the agency framework, it was found that the conflicts of interest due to a separation of ownership and control combined with an inability to perfectly establish formalised contracts between the principal and agent form the basis for further research to be conducted on the extent of strategy disclosures in the annual reports.

The study further conducted an investigation into the colonial history between Brazil and Portugal, with the aim of better understanding the historical context of the two markets. Through such an analysis, it found that the effects of colonialism continue to be felt throughout the regions of Brazil until this day and that it has had a drastic effect on the countries' economy.

Through a further investigation into the current economic status of both countries, the study also found that both countries have been subject to economic, political and public unrest over the past few years, some of which have been attributed to the mismanagement of those who managed some of the countries' biggest corporations (i.e. Banco Português de Negócios and Petrobras) of which, many of these scandals have been attributed to a lack of transparency and accountability by those who were in charge of managing such corporations.

Moreover, the study further looked into the corporate governance practices in both countries and most importantly, considered studies that analysed the importance of voluntary disclosures and more specifically strategy disclosures in the annual reports. The literature shows that additional disclosures add value, amongst these, a lower cost of capital and a decrease in market uncertainty. However, the studies also indicate that there is a cost and benefit trade-off associated with such disclosures. Hence, it is vital for entities to perform a cost-benefit analysis in an aim to find an optimal level of disclosures.

Lastly, the literature indicates that emerging markets disclose more information in relation to strategy in comparison to developed markets. Given that Brazil operates in a developing market, whilst Portugal operates in a developed market the literature indicates it to be more likely that Brazilian listed companies would disclose more information in comparison to Portuguese listed companies. Therefore, a study was conducted in order to confirm or disprove whether disclosure in Brazil and Portugal followed the trends seen previously in other environments.

Chapter 3. Research Methodology

3.1 Research methodology

According to Leedy and Ormrod (2001), research methodology is 'the general approach the researcher takes in carrying out the research project'. This section discussed the methodological approach that was used to examine the extent to which Brazilian and Portuguese listed companies disclose information in relation to strategy in their annual reports and to further test the differences in the extent of strategy disclosures in both markets.

In conducting the study, a quantitative research methodology approach was followed. A quantitative research methodology involves the collection of data, so that information can be quantified and subjected to statistical analysis in order to confirm or disprove existing theories (Creswell, 2003). Quantitative research focuses on collecting information using a sampling method and further depicts the results in numerical form. Amongst the main goals of a quantitative research study, is to determine the relationship between one aspect (an independent variable) and another (the dependent variable) within a given population. It is not aimed at establishing causality, to the contrary, it is aimed at establishing associations between variables (Leedy & Ormrod, 2001; Creswell, 2003). Given that the aim of this research paper was to examine the extent to which companies in both Brazil and Portugal disclose information in relation to strategy disclosures in their annual reports and the extent to which such disclosures differ, a quantitative research method was best suited in conducting this study.

Quantitative research has three main broad categories which are: Descriptive, experimental and causal-comparative (Leedy & Ormrod, 2001). Descriptive research is a scientific method that looks into the identification of attributes of a particular phenomenon, based on an observational basis or the exploration of the correlation between two or more variables without influencing it in any way. It is primarily focused on finding out 'What' is, rather than 'Why' a particular phenomenon has occurred. Hence, observation tools are often used to gather data (Gall, Gall & Borg, 2007). For purposes of this study, a descriptive research method was used to examine the behaviour of an observed phenomena which comprised of strategy disclosures in Brazil and Portugal and to further explore any possible relationships between the dependent variable (the 10 rating strategy disclosure criteria) and the independent variable (companies in Brazil and Portugal).

3.2 Population and sampling

Although good sampling practice is frequently linked with random or probability sampling (Bryman & Bell 2011), this study followed a descriptive research method. In order to conduct this research study, information was selected and analysed from a total of 80 listed companies which comprised of the top 40 listed companies in the Brazilian stock exchange (Bovespa), as well as the top 40 listed companies in the Portuguese stock exchange (Euronext Lisbon) based on the firm's market capitalisation in the year of 2015. To this end, the annual reports of the listed companies was used as a primary source of information. The top 40 listed companies in Brazil and Portugal were selected from their respective stock exchange.

By selecting the top 40 listed companies in Portugal it represents 70% of the companies listed in the Portuguese stock exchange (Euronext Lisbon). Although Brazil had more than 300 companies listed in its stock exchange (BM&F Bovespa), in order to achieve comparability the top 40 listed companies in Brazil was also be used. Furthermore, the year of 2015 was selected, due to the most recent year of publication of most companies' annual reports at the date the research study began (31 January 2017), being the year of 2015. Moreover, by the study placing value on past information with respect to strategy disclosures, it will in turn serve to be useful in assessing and evaluating future prospects (Santema & Van de Rijt, 2001).

Portugal and Brazil were selected as both countries have made considerable improvements in regulating their governance and disclosure principles in the past few years. Amongst such developments are the recommended governance practices provided by the Securities Market Commission in Portugal and the new listing requirements which were introduced by Bovespa. Moreover, Portugal is an existing member of the European Union and the Union has outlined minimum standards, with respect to a member's state's transparency disclosure. However, given that these disclosures comprise of additional disclosures undertaken by European firms and that they are therefore not compulsory to be disclosed (Berglöf & Pajuste, 2005), it would be interesting to determine the extent to which companies in a European country (Portugal) would disclose information in relation to strategy disclosures in their annual reports.

In addition, both countries have opted for a voluntary 'Comply or explain' approach with respect to the presentation of non-financial information in their annual reports, much like the United Kingdom (UK), and have suffered great economic turmoil over the past few years.

Hence, Brazil and Portugal would make a great basis of comparison in conducting this research study from both a social and economic standpoint.

3.3 Data sources

In order to analyse the narrative information to further this study, a list of the top 40 publicly trading listed companies in Brazil were obtained from the Brazilian stock exchange (Bovespa) at www.bovespa.com.br/rpincipal.asp, whilst a list of the top 40 publicly trading companies in Portugal was collected from the Portuguese stock exchange (Euronext Lisbon) at www.euronext.com. The top 40 listed companies both in Brazil and Portugal were selected based on the firm's market capitalisation which was also adopted from Bovespa and Euronext Lisbon respectively. Moreover, in order to analyse the narrative description in the annual reports, the company's annual reports were retrieved and downloaded manually from the respective company's website.

3.4 Research instrumentation and design

The study used secondary data derived from the annual reports of the countries of interest. The quantitative aspect of this given study firstly involved analysing the annual reports in order to generate a score for the degree of strategy disclosures disclosed in such reports. In analysing the annual reports, content analysis was used in order to make interpretations about the extent of disclosures in the annual reports of Brazilian and Portuguese listed companies, by objectively and systematically interpreting the contextual material presented in the annual reports. Content analysis was used to analyse the content of the annual reports, given that amongst its main attributes is assuring that all units receive equal treatment irrespective of whether they are entered at the beginning or end of the process (Leedy & Ormrod, 2001). Furthermore, the researcher also found the use of content analysis to be a relatively inexpensive research method as the annual reports were easily accessible on each company's website.

To various users in both developed and developing markets, the annual reports have served as an important means of information amongst all other sources (Gray, Owen & Adams, 1996; Botosan, 1997; Chau & Gray, 2010). The annual reports have thus been used as the primary source of evidence for they are not only vital in analysing and evaluating information disclosures (Botosan, 1997) but also make it accessible for researchers to conduct research analysis (Botosan, 1997; Meek et al., 1995; Padia & Yasseen, 2011; Richardson & Welker, 2001; Santema & Van de Rijt, 2001).

The annual reports in the year 2015 were used to conduct this study, given that at the time that the research study began, the latest integrated reports which had been published for all companies in the sample size, having been those which related to the year ended 2015.

By using the most recent annual reports available, it also allowed the researcher to further depict the most recent level of disclosures in both countries of interest.

One of the advantages of using a quantitative research approach is that the research study can be replicated due to its high reliability. To this end, the research instrument used comprised of ten rating criteria (see **Table 1**) adapted from a study undertaken by Santema and Van de Rijt (2001) developed based on standard books on strategy. The study that was undertaken by Santema and Van de Rijt (2001) comprised of an international study which examined the extent of strategy disclosures with respect to Dutch companies.

This research study is also in line with studies undertaken by Padia and Yasseen (2011) and Padia (2012), which examined the extent in which South African listed companies disclosed information in relation to strategy disclosures in the annual reports, and Phala, Yasseen, and Padia (2019), which examined the extent in which strategy is disclosed in the annual reports of emerging and developed markets.

Below is the strategy disclosure criteria table which was used in order to undertake this study:

Table 1: Strategy disclosure criteria

01. Mission: What does a company want to be?
02. Goal: What general controls does the company have?
03. Objectives: What concrete quantitative goals does the company have?
04. Corporate strategy: What is the corporate strategy of the company?
05. Consistency: Is the corporate strategy in line with the statements on strategy in previous reports?
06. Monitoring: Are the goals and the objectives monitored?
07. Business unit goals: What is the goal of the business units?
08. Business unit strategies: What are the strategies of the business units?
09. Action plans (ex-post): What actions have been executed in the past year in relation to the strategy?
10. Action plans (ex-ante): What action plans are to be executed in the next year in relation to the strategy?

Source: Adapted from Santema and Van De Rijt (2001)

The rating criterion used in this study ranged from 0 to 1 (see **Table 1**), using 0.25 increments. A rating of 0 indicated that there was no strategy disclosure, and a maximum rating of 1 was awarded if there was comprehensive strategy disclosure in place (Padia & Yasseen, 2011; Santema & Van de Rijt, 2001).

Partial disclosure was represented by 0.25, 0.5, 0.75 (Padia & Yasseen, 2011). Refer to **Table 2** for the scoring table which was used in order to assess the degree of strategy disclosures in each company.

Table 2: A scoring table in assessing strategy disclosure

Score	Strategy
0	The company does not have any strategy disclosure in place.
0.25	The company has some strategy disclosure in place.
0.5	The company has an adequate strategy disclosure in place.
0.75	There is well-defined strategy disclosure in place
1	There is a comprehensive strategy disclosure in place.

In order to reinforce objectivity in scoring the sampled companies' extent of disclosures when applying each criterion, the researcher used the same rating measurement which was developed in the research study of Phala et al. (2019) and applied it to each company assessed (See **Appendix 1**). Upon performing an analysis of the annual reports and having ranked the extent of strategy disclosures in Brazil and Portugal in an excel spreadsheet, the results were summarised and presented using descriptive analysis.

This involved systematically reading the annual reports and categorising the information into specific categories (Category 1, 2 and 3) in order to examine the presence of meaningful patterns. The three categories as identified by Padia and Yasseen (2011) were namely: mission statement, goals and objectives, which fell into category 1; corporate strategy and the action plans ex-post and ex-ante, which formed part of category 2; and consistency, monitoring, and business unit goals and strategies of the organisation, which formed part of category 3. Subsequently, after categorising the texts, the researcher was able to statistically estimate the proportions of patterns in the texts, as well as correlations between patterns.

3.5 Data analysis

On that note, this study was able to statistically examine the extent of strategy disclosures in Brazil and Portugal in the year 2015. The analysis was presented using the three categories identified by Padia and Yasseen (2011) and the results of the study can be found in **Section 4.2.1**. A normality test was conducted in order to determine whether to use parametric or non-parametric statistical tests in assessing for the presence of a statistically significant difference in the extent

of strategy disclosures between Brazilian and Portuguese listed companies. Non-parametric tests, often called distribution-free tests, are based on fewer assumptions and are used in the event that the data isn't normal. However, parametric tests are used if the data is approximately normal as the test does not assume that the outcome is approximately normally distributed (Cox, 2017).

The tests often used in testing for normality are the Kolmogorov–Smirnov test (K–S) and the Shapiro–Wilk test. Both tests compare the scores in the sample to a normally distributed set of scores with the same mean and standard deviation (Oztuna, Elhan & Tuccar, 2006). The null hypothesis for each test is $\mathbf{H_0}$: Data follows a normal distribution versus $\mathbf{H_1}$: The data does not follow a normal distribution. If the test is statistically significant ($p<0.05$) the data is deemed to not follow a normal distribution, and a nonparametric test is justified (Oztuna et al., 2006).

One of the limitations of the K–S test is that it has a high sensitivity to extreme values (Thode, 2002). Hence, some have argued that although the K–S test is more popular, the Shapiro-Wilk test provides better power than the K–S test (Steinskog, 2007). Power is the most frequent measure of the value of a test for normality, given that it shows the ability to detect whether a sample comes from a non-normal distribution (Ghasemi et al., 2010).

The researcher has thus opted to conduct a Kolmogorov–Smirnov test (K–S) and Shapiro–Wilk test to test the data for normality (see **Appendix 2**). Hence, not limiting the results to the limitations found in the K–S test. The K–S test compared the scores in the sample to a normally distributed set of scores with the same mean and standard deviation in order to determine whether the given sample or group of data fit into a standard normal distribution**.** The Shapiro–Wilk test tested for normality based on the correlation between the data and the corresponding normal scores (Ghasemi et al., 2010).

Given that the results showed that the data is not normally distributed (**see Appendix 2**), non-parametric tests were used to statistically test the differences in the extent of strategy disclosures between Brazilian and Portuguese listed companies. The non-parametric test used in this case was the Mann–Whitney U test. The Mann–Whitney U test is a non-parametric test of the null hypothesis that it is equally likely that a randomly selected value from one sample will be less or greater than a randomly selected value from a second sample (Mann and Whitney, 1947).

In examining the differences in strategy disclosures between Brazil and Portugal, the following hypotheses were tested: The null hypothesis $\mathbf{H_0}$**:** There is no significant difference in the extent of strategy disclosure between Brazil and Portugal. Alternate hypotheses $\mathbf{H_1}$: There is a significant difference between the extent of strategy disclosures between Brazil and Portugal.

In order to use the Mann–Whitney U test, the following assumptions needed to be met:

1. The dependent variable must be either continuous or ordinal (i.e. one can at least determine between two observations, which one is greater). In this case, ordinal (Likert items with a five-point scale).
2. One has one independent variable (Listed companies) that consists of two categorical independent groups (In this case Brazil and Portugal).
3. All observations from both groups need to be independent of each other, meaning, that there should be no relationship between the observations in each group of the independent variables or between the groups (In this case the companies are all independent of each other).
4. The distribution of scores for both groups of the independent variable should have the same shape.

The results of the Mann–Whitney U test can be found in **Tables 8-10.**

3.6 Validity and reliability

The researcher tested the internal reliability and consistency of this study, by using the Cronbach alpha test which is a test that was developed by Lee Cronbach in the early 1950s and is used to measure the internal consistency of a test (Tavakol & Dennick, 2011). This test was vital for the purposes of this research study for it is important to test the internal consistency of an instrument before it can be employed for research. In addition, a reliability test further serves to demonstrate the extent of measurement error in a test (Tavakol & Dennick, 2011). The results of the respective test can be found in **Section 4.4.**

This test determined the extent to which the 10 criteria of disclosure all measure some dimension of the same construct (i.e. strategy disclosures) in both Brazil and Portugal. The rule of thumb which was used in this research study to interpret the Cronbach test results are depicted in **Table 3** below:

Table 3: Cronbach's alpha interpretation guidance

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Source: George and Mallery (2003)

3.7 Research ethics

According to Lincoln and Guba (1985), trustworthiness is one of the ways that the researcher can attest to the credibility of a research study. The researcher ensured that the data collected through the analysis was transparently and honestly communicated to the readers of the research study. The researcher can thus attest that the assumptions used in deriving the results of this given study have been communicated honestly and truthfully. None of the information, conclusions or results hereby presented have been fabricated, falsified or misrepresented in any manner that is not sincere or consistent with the information analysed or presented.

Chapter 4: Results and Discussion

4.1 Introduction

Given that there is no obligation for a firm to disclose voluntary information, it is important to comprehend the extent to which these disclosures are divulged in the annual reports. Moreover, in the countries of interest, Portugal and Brazil, there is a marked deficit with respect to academic research relating to voluntary strategy disclosures. From the analysis of the literature, it is evident that both countries have experienced significant economic changes over the past decade which has served to entice amendments to its governance disclosures. Hence, these countries serve as a great basis of comparison to undertaking this study. In order to ascertain the extent to which Brazilian and Portuguese listed companies disclosed information in their annual reports with regard to strategy, the researcher considered a total sample of 80 listed companies, which comprised of the top 40 listed companies in Brazil and the top 40 listed companies in Portugal. The following chapter has been structured follows:

In the first section, the study looks into the descriptive statistics which was conducted in order to ascertain the extent to which Portuguese and Brazilian listed companies disclosed information in their annual reports with regard to strategy. Hence, the descriptive test was conducted in order to answer research questions 1 and 2: *To what extent did listed companies in Brazil and Portugal disclose information in relation to strategy disclosures in their annual reports in 2015?*

The extent of the disclosure in each country was presented by exploring the number and percentage of listed companies in Brazil and Portugal that have obtained each score on the scale of each disclosure criteria. In order to analyse the results, the data was grouped as follows: mission, goals and objectives comprised category 1, category 2 comprised corporate strategy and action plans (ex-post and ex-ante). Lastly, category 3 comprised consistency, monitoring, business unit goals, and strategies. The study further explored the number and percentage of disclosures by looking at the percentage of listed companies in Brazil and Portugal at each respective category. Graphical representations of the percentage of companies obtaining each score for the rating criteria are included in **Figure 2** and **Figure 3**. In addition, the study also assessed the extent of disclosures between the two countries, on the basis of the mean scores by conducting a mean analysis (**Section 4.2.2**).

In the second section, the study looks into the normality test results (**Section 4.3**). These results found that the data was not normally distributed and non-parametric tests were used to statistically test the differences in the extent of strategy disclosures between Brazil and Portugal.

The non-parametric test used in this case was the Mann–Whitney U test in order to answer research question number 3 in determining the significance of the difference in the extent of strategy disclosures between Brazil and Portugal.

Lastly, in the last section, an internal reliability test was performed of the strategy disclosure criteria using Cronbach's alpha (**Section 4.4**).

4.2 Descriptive statistics

Descriptive statistics were used in order to ascertain the extent to which Portuguese and Brazilian listed companies disclosed information in their annual reports with regard to strategy in the year 2015. Moreover, a comparison was made of the extent to which Brazil and Portugal divulge information with regard to strategy in their annual reports.

4.2.1 Extent of strategy disclosures

A disclosure matrix adapted from the study of Phala et al. (2019) was used in order to analyse the data relating to the extent of disclosures in each country (**Appendix 1**). The extent of disclosure in each country was presented by exploring the number and percentage of companies in Brazil and Portugal that obtained each score (**Tables 4** and **5**) in the scale of each disclosure criteria (**Tables 1** and **2**).

Graphical representations of the percentage of companies that obtained each score for the rating criteria are included in **Figure 2** and **Figure 3.** It is evident from **Figure 2** that the majority of Brazilian companies have relatively high levels of disclosure. Of all the levels of disclosures, a rating of 0.75 and 1 was mostly achieved for Brazilian companies. On the contrary, **Figure 3** indicates very few to no disclosures being made by Portuguese listed companies as the majority of Portuguese listed companies obtained a score of 0 or 0.25.

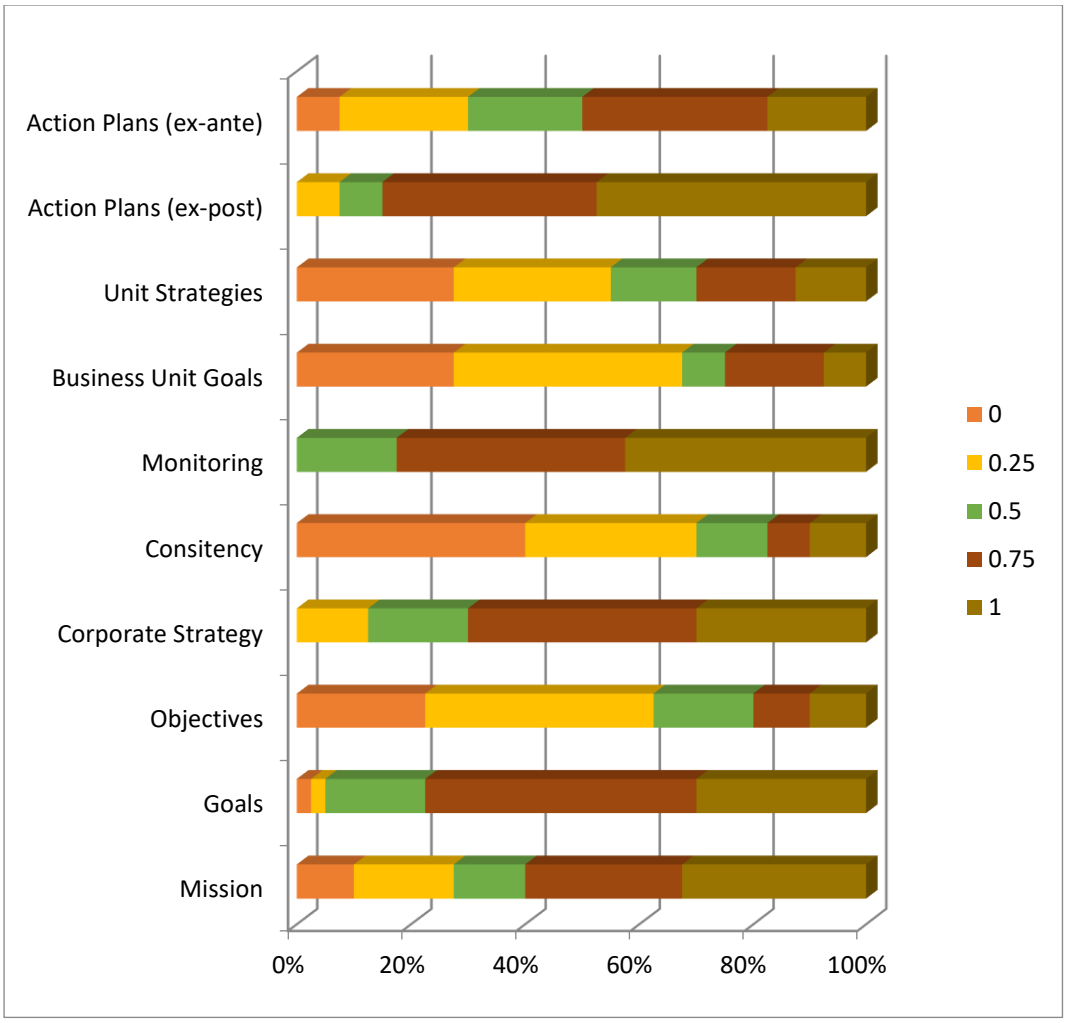


Figure 2: Graphical representation of scores for Brazilian listed companies in the year 2015[3]

[3] Considering that a rating of 1 and 0.75 indicates relatively high disclosures, the graph above indicates that the majority of Brazilian listed companies had relatively high disclosures with respect to strategy in their annual reports.

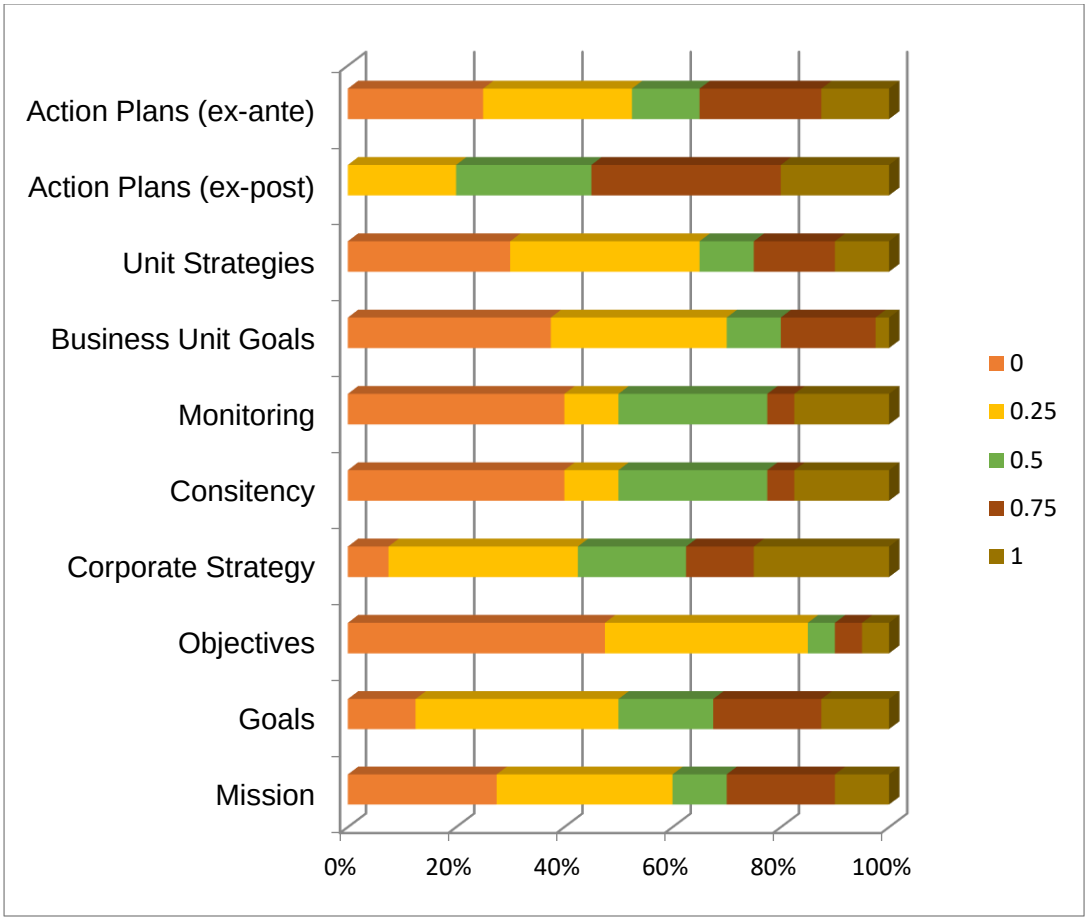


Figure 3: Graphical representation of scores for Portuguese listed companies in the year 2015[4]

In order to analyse the results, the data was grouped as follows: mission, goals, and objectives comprised category 1, category 2 comprised corporate strategy and the action plans (ex- post and ex-ante). Lastly, category 3 comprised consistency, monitoring and business unit goals and strategies. A summary of these scores on the scale of each disclosure criteria has been included in **Tables 6** and **7.** In addition, a graphical representation of the percentage of the extent of disclosures in each country, in relation to the respective categories was included in **Figures 4** to **9.**

[4] Considering that a rating of 0 and 0.25 indicates relatively low to no disclosures, the graph above indicates that majority of Portuguese listed companies had relatively low to no disclosures with respect to strategy in their annual reports.

Lastly, the researcher assessed the extent of disclosures between the two countries, on the basis of the mean scores by conducting a mean analysis**. Figure 10** indicates the mean scores for the 10 strategy disclosure criteria variables used in conducting this research study.

The overall preliminary analysis indicated a greater extent of strategy disclosures in Brazil in comparison to Portugal, except for the degree of disclosures made in both countries in relation to consistency. In that aspect, Portugal was shown to have a greater extent of disclosures in comparison to Brazil.

The extent of strategy disclosure in Brazil

Table 4: Scores for a sample of Brazilian listed companies in the year 2015

Category	0	0.25	0.5	0.75	1	TOTAL
Mission	4	7	5	11	13	40
Goals	1	1	7	19	12	40
Objectives	9	16	7	4	4	40
Corporate strategy	0	5	7	16	12	40
Consistency	16	12	5	3	4	40
Monitoring	0	0	7	16	17	40
Business unit goals	11	16	3	7	3	40
Unit strategies	11	11	6	7	5	40
Action plans (ex-post)	0	3	3	15	19	40
Action plans (ex-ante)	3	9	8	13	7	40

The results found in **Table 4** showed that the disclosures made by Brazilian listed companies were more comprehensive and detailed in nature than disclosures of Portuguese listed companies. The majority seemed to realise the importance of a well-defined strategy, with many

having a well-established mission, goals and corporate strategy in place. Other aspects of the company's strategy, i.e. monitoring and action plans (ex-post and ex-ante) were also well defined. However, this study took note that Brazilian listed companies divulged very limited information in relation to consistency, objectives, business unit strategy and business unit goals.

Brazilian listed companies that had experienced corporate scandals in the given year, e.g. Petrobras recognised that through disclosing a well-defined strategy they could further inform their stakeholders on the strategic plans that they had put in place in order to mitigate the reoccurrence of such events. This is in line with the understanding of the literature, which showed that voluntary disclosures permit managers of a firm to retain corporate control especially in the event of poor performance (Healy & Palepu, 2001). However, this further highlights a concern raised in previous studies that corporate entities may see voluntary disclosures as a means to affect a reader's perception and to further demonstrate a more favourable image of the company and thus convince stakeholders that the company's affairs are being well managed (Bartlett & Chandler, 1997; Brennan & Merkl-Davies, 2013; Stanton et al., 2004; Yasseen et al., 2017; Yasseen & Mohamed 2019). However, the analysis of the literature shows that this is mitigated by the fact that by management disclosing such information publicly, they can be held accountable for failure to deliver on their promises (Ferreira & Rezende, 2007).

The literature also highlights that companies that operate in bigger markets are more likely to disclose more non-financial disclosures (Robb & Zarzeski, 2001). Given that Brazil is considered to be Latin America's biggest economy, it is thus expected for Brazilian businesses to have more detailed strategic information disclosed in their annual reports. Arguably, one may dispute that Portugal operates in the European market, which makes Portuguese businesses also accountable to more market participants. However, the researcher found that more of the Brazilian listed companies in the sample size produced their integrated reports in line with GRI reporting guidelines in comparison to the Portuguese listed companies, which further contributed to the comprehensive disclosure levels seen in Brazil.

Analysis of the extent of strategy disclosures in Brazil

Category 1: Mission, Goal and Objectives

Through an analysis of **Figure 2** and **Table 4,** the study found that the majority of the listed companies in Brazil have relatively high disclosures in category 1. It further found that

approximately 78% of the listed companies in Brazil obtained a rating between 0.75 and 1 in relation to goals, indicating relatively high disclosures in that regard. Interestingly, in comparison to the other two variables (mission and objectives), the results indicated that Brazilian listed companies divulge more information in relation to goals than its mission or objectives, thus, making goals the highest disclosed criteria for Brazilian companies in category 1.

Through a further analysis of the extent to which Brazilian companies disclose information in relation to a company's mission, it was found that 60% of Brazilian companies in a total sample of 40 companies have a disclosure rating between 0.75 and 1 indicating high disclosures. More specifically, majority (33%) of the Brazilian companies in the sample of 40 companies, were found to have a maximum rating of 1 (representing full disclosures) in relation to mission and only 18% of Brazilian listed companies were found to score a rating of 0.25 (indicating minimal disclosures).

Contrary to the high extent of disclosures that were found in Brazil in relation to a company's goals and mission, when the researcher analysed the extent of disclosures in relation to objectives it was found that the majority of the listed companies in Brazil have little to no disclosures on that regard. Approximately 63% of Brazilian companies scored a rating between 0 and 0.25 making objectives the lowest disclosed criteria in category 1 in Brazil. As a matter of fact, only 10% of Brazilian listed companies were found to have a maximum score of 1. Hence, in all variables of category 1 the study found Brazil to have the lowest disclosures in relation to a company's objectives.

However, this study concludes that the extent to which Brazil discloses information in relation to the variables in category 1 is decent as a majority of the companies in Brazil obtained relatively high disclosures in two out of the three variables in category 1.

Category 2: Corporate strategy, Action plans (ex-post), Action plans (ex-ante)

With regard to category 2, the majority of the companies in Brazil were found to divulge moderate to high disclosures in all 3 groupings in category 2. The study found that with regard to action plans (ex-post) the bulk of Brazilian listed companies (85%) scored between a maximum rating of 1 and 0.75. Hence, the criteria in relation to action plans (ex-post) was found to be the variable that had the highest disclosures in category 2. The results for Brazil, are consistent to that of Santema and Van de Rijt (2001), who also found the extent of disclosures to be high in the criteria (ex-post action plans).

With regard to corporate strategy, 70% of the companies in Brazil were found to have a rating of between 0.75 and 1, which demonstrated significantly high disclosures in relation to corporate strategy in Brazil. The bulk of the Brazilian listed companies (40%), were found to have scored a rating of 0.75, with 30% of Brazilian listed companies achieving a maximum disclosure rating of 1. In addition, the results didn't find present any companies that made no disclosures (a rating of 0) in relation to corporate strategy.

Lastly, an analysis of the extent to which Brazilian companies disclosed information in relation to action plans (ex-ante) was conducted and the results showed that the majority of the companies in Brazil (70%), had a rating of 0.5, 0.75 or 1. Only 30% of Brazilian listed firms were found to have scored a rating between 0.25 and 0. This reflected between moderate to high disclosures in relation to action plans (ex-ante). More specifically, the study found that 33% of Brazilian listed companies in the sample obtained a rating of 0.75 on that regard, indicating relatively high disclosures.

Hence, the study concludes that Brazil has relatively moderate to high disclosures in all 3 variables of category 2.

Category 3: Consistency, Monitoring, Business unit goals, and Business unit strategies

The study found that the majority of Brazilian listed companies (55%), had a rating between 0 and 0.25 in relation to business unit strategies. More specifically, 28% of the Brazilian listed companies scored a disclosure rating of 0 in relation to business unit strategies, with only 12.5% of Brazilian listed companies having obtained a maximum rating of 1 in relation to a company's business unit strategies. Consequently, demonstrating that the extent to which Brazilian companies disclose information in relation to business unit strategies is relatively low.

Likewise, with respect to business unit goals, the study found majority (68%) of the listed companies in Brazil to have a rating between 0 and 0.25, with most of the Brazilian listed companies (40%) having achieved a rating of 0.25. The results further indicated that only 7.5% of Brazilian listed companies obtained a maximum rating of 1. One can thus deem the disclosures in relation to business unit goals in Brazil to be rather low. Furthermore, the study found that 70% of the companies in Brazil obtained a rating between 0 and 0.25 in relation to consistency with only 10% of Brazilian listed companies scoring a maximum rating of 1.

On the contrary, when an analysis of the extent of disclosures in relation to monitoring was conducted, the study found that most listed companies in Brazil have high disclosures, with 83%

of the companies in Brazil having achieved a rating between 0.75 and 1. Moreover, about 43% of the listed companies in Brazil were found to have a full disclosure rating of 1.

Hence, the results showed monitoring to be the criterion with the highest disclosure in Brazil in relation to category 3, with all other variables obtaining relatively low disclosures.

The extent of strategy disclosure in Portugal

Table 5: Scores for the sample of Portuguese listed companies in the year 2015

Category	0	0.25	0.5	0.75	1	TOTAL
Mission	11	13	4	8	4	40
Goals	5	15	7	8	5	40
Objectives	19	15	2	2	2	40
Corporate strategy	3	14	8	5	10	40
Consistency	16	4	11	2	7	40
Monitoring	16	4	11	2	7	40
Business unit goals	15	13	4	7	1	40
Unit strategies	12	14	4	6	4	40
Action plans (ex-post)	0	8	10	14	8	40
Action plans (ex-ante)	10	11	5	9	5	40

Through an analysis of the results in **Table 5** Portuguese listed companies were found to divulge very little to no information in relation to the company's strategy. If information was provided, it was rather vague and not comprehensive enough for the reader to be able to ascertain the strategic plan that the entity had in place. Moderate to high disclosures were only found to be present in the following disclosure criteria: Corporate strategy and action plans (ex-ante).

Many of the companies ' disclosures seemed to focus rather on compliance with the Portuguese corporate governance code, which places very little emphasis on strategy disclosures and focuses more on ensuring a company discloses information in relation to its governance structure. Unlike Brazil, very few Portuguese listed companies in the sample size presented their integrated reports in line with the GRI reporting guidelines, which further contributed to the low extent of disclosures in comparison to the Brazilian listed entities.

The low disclosures also substantiate the theories that were found in the literature, which suggested that European listed companies disclose rather low disclosures in relation to strategy in their annual reports (Santema et al., 2005). The findings are also consistent to the Phala et al. (2019) study who also found developed markets to divulge less information in relation to strategy, in comparison to developing markets. Moreover, although EU law requires listed companies to disclose non-financial information in relation to the manner in which they operate, it focuses more on factors such as environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards, thus having very little focus on disclosures in relation to a company's strategy.

Analysis of the extent of strategy disclosures in Portugal

Category 1: Mission, Goal and Objectives

In category 1, the study found that only 33% of Portuguese companies divulge comprehensive information in relation to a company's goals as these companies achieved a rating between 0.75 and 1. Half of the companies (50%) were found to have a score between 0 and 0.25, indicating little to no disclosure in that regard.

Moreover, when an analysis was conducted of the extent to which Portuguese listed companies disclosed information in relation to their mission, the results showed that the majority (60%) of Portuguese listed companies achieved a rating of 0 and 0.25. More specifically, 33% of Portuguese listed companies were found to have a rating of 0.25 and only 10% of Portuguese listed companies were found to have a maximum score of 1.

Moreover, through a further analysis of the extent of disclosures in relation to a company's objectives, the study found that 85% of Portuguese listed companies achieved a rating of 0 and 0.25 in relation to disclosures on objectives. Only 10% of Portuguese listed companies achieved a rating between 0.75 and 1. Interestingly, for category 1, both Brazil and Portugal show their lowest disclosures on objectives.

Category 2: Corporate strategy, Action plans (ex-post), Action plans (ex-ante)

The study further found that with regard to action plans (ex-post) 55% of Portuguese listed firms obtained a score between 0.75 and 1, indicating that the majority of Portuguese listed companies have relatively high disclosures in that regard. In addition, only 20% of Portuguese listed companies were found to have scored a rating of 0.25.

Interestingly, both Portugal and Brazil, disclose more information in relation to the companies' action plans (ex-post) in category 2, as only 20% of Portuguese listed firms obtained a rating of 0.25 whilst only 7.5% of Brazilian companies scored a rating of 0.25. Moreover, no firms in either country were found to have scored a rating of 0.

With regard to corporate strategy, 58% of Portuguese listed firms were found to have scored a rating between 0.5, 0.75 and 1, indicating moderate to high disclosure. Interestingly, whilst 7.5% of Portuguese listed companies were found to have obtained a rating of 0, no firms in the sample in Brazil were found to have scored a rating of 0.

Lastly, through an analysis of the extent to which Portuguese listed companies disclose information in relation to action plans (ex-ante), the study found that the majority of Portuguese listed companies 53%, obtained a rating between 0 and 0.25, indicating little to no disclosure. On the contrary, only 30% of Brazilian listed firms were found to have scored a rating between 0.25 and 0. More specifically, the study found about a quarter of the companies in Portugal (28%) to have obtained a score of 0.25, indicating minimal disclosures in this regard. Hence, this study found disclosures on action plans (ex-ante) to be the variable in category 2 with the lowest degree of disclosures in Portugal.

Category 3: Consistency, Monitoring, Business unit goals, and Business unit strategies

In category 3 the study found a majority of Portuguese listed companies (65%) to have a rating between 0.25 and 0 with regard to business unit strategies, with only 10% of Portuguese listed companies achieving a maximum score of 1.

With respect to business unit goals, the results showed that the majority of Portuguese listed firms (70%), had a score between 0.25 and 0, with only 2.5% of Portuguese listed companies having obtained a maximum rating of 1. Interestingly, the study found business unit goals to be the criterion with the lowest extent of disclosure in Portugal, in comparison to the other 3 variables of category 3.

Through a further analysis of the extent in which Portuguese listed companies disclose information with respect to consistency, the results showed that 50% of Portuguese listed companies obtained a rating between 0 and 0.25 and much like Brazil, it also found that 40% of Portuguese listed companies obtained a score of 0. Only 17.5% of Portuguese listed companies were found to have a maximum score of 1.

Through an analysis of the extent of disclosures in relation to monitoring, the study found that 40% of the companies in Portugal have a rating of 0 indicating that the majority of the companies in Portugal simply do not disclose information with regard to monitoring at all. Only 10% of Portuguese companies made a few disclosures in relation to monitoring and were found to have a rating of 0.25, whilst 28% of the companies made medium disclosures in that regard.

A comparison of the extent of disclosures between Brazil and Portugal per category

Table 6: A summary of scores by category for Brazil

Scores

	0	0.25	0.5	0.75	1	TOTAL
Percentages						
Category 1	12	20	16	28	24	100
Category 2	3	14	15	37	32	100
Category 3	24	24	13	21	18	100

Table 7: A summary of scores by category for Portugal

Scores						
	0	**0.25**	**0.5**	**0.75**	**1**	**TOTAL**
Percentages						
Category 1	29	36	11	15	9	100
Category 2	11	28	19	23	19	100
Category 3	37	22	19	11	12	100

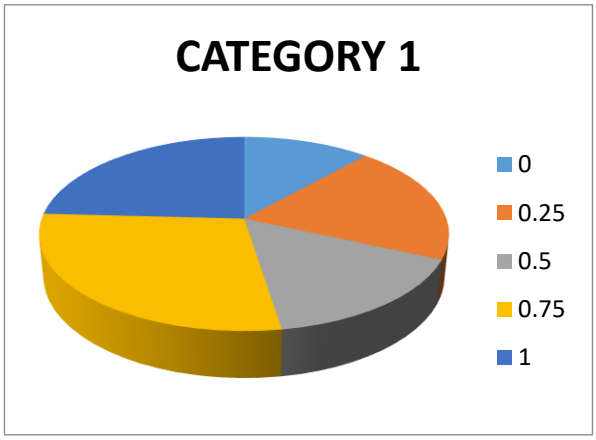


Figure 4: Graphical representation of the extent of strategy disclosures in Brazil, in category 1

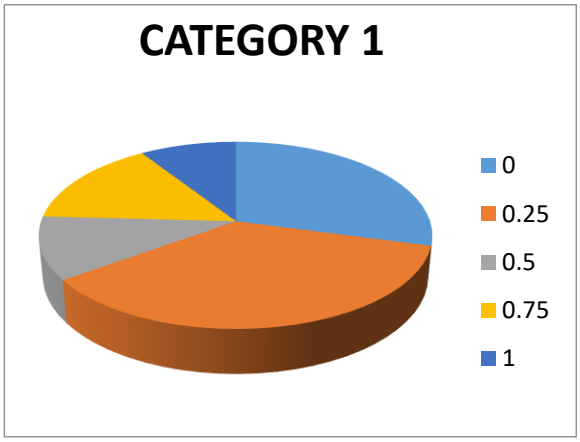


Figure 5: Graphical representation of the extent of strategy disclosures in Portugal, in category 1

As depicted above in **Figure 4**, the majority of the companies in Brazil were found to have scored a rating of 0.75 and 1 which is in line with the results depicted in **Table 4.** This re-enforces the high degree of disclosures which was found to be divulged by Brazilian listed companies more specifically, with regard to goals and mission. On the contrary, through an analysis of **Figure 5**, one can denote that Portuguese listed entities were found to have scored a majority rating of 0.25 and 0, which is in line with the results depicted in **Table 5**, indicating a high degree of little to no disclosures in all 3 criteria of category 1.

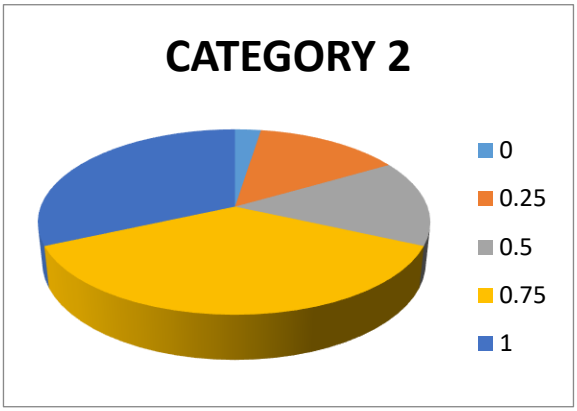


Figure 6: Graphical representation of the extent of strategy disclosures in Brazil, in category 2

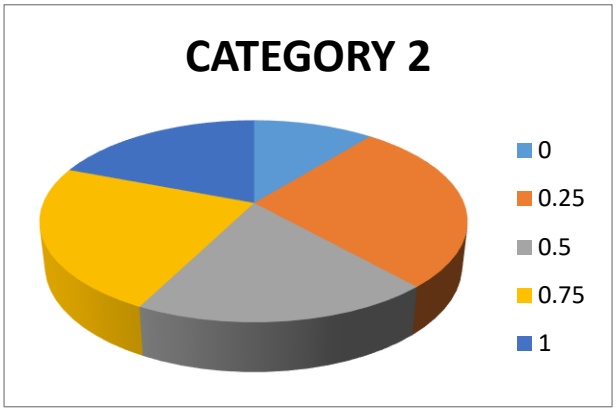


Figure 7: Graphical representation of the extent of strategy disclosures in Portugal, in category 2

Through an analysis of **Figure 6**, one can denote that the majority of Brazilian listed companies obtained a score between 0.75 and 1, indicating significantly high disclosures in category 2. This is in line with the results found in **Table 6**, which showed that 69% of Brazilian listed entities in the sample size obtained a score between 0.75 and 1. On the contrary **Figure 7** showed that the majority of Portuguese listed entities obtained a score of 0.25 (see **Table 7**).

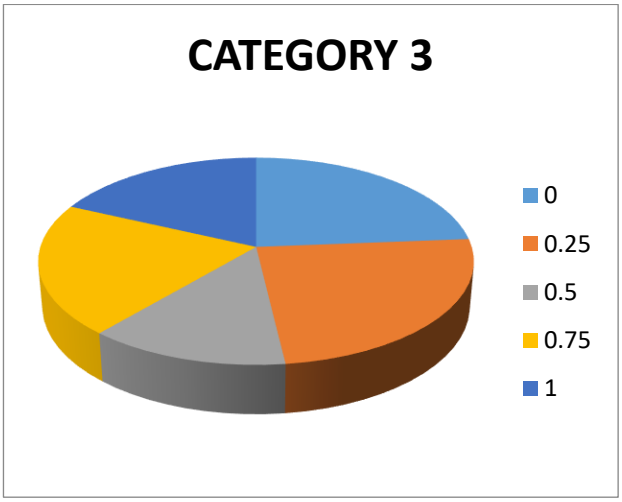


Figure 8: Graphical representation of the extent of strategy disclosures in Brazil, in category 3

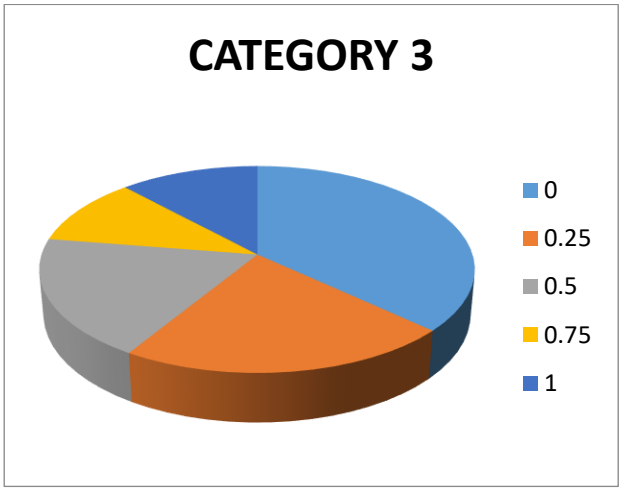


Figure 9: Graphical representation of the extent of strategy disclosures in Portugal, in category 3

Figure 8 indicates that the majority of Brazilian listed firms achieved a rating of 0 and 0.25 indicating minimal disclosures in the criteria aspects of category 3.

Through an analysis of **Figure 9**, the study also found that the majority of Portuguese listed firms had also obtained a score of 0 and 0.25 overall in category 3. This makes category 3 the least disclosed criteria in both Brazil and Portugal.

Overall comparison of the extent of strategy disclosures in Brazil and Portugal

In category 1, an average of 24% of Brazilian listed companies scored a maximum score of 1. On the contrary, only 9% of Portuguese listed companies obtained a maximum score of 1 for the three criteria in category 1. Furthermore, the bulk of the listed companies in Brazil (28%) in the sample size were found to have a rating of 0.75, which indicates that Brazil has relatively high disclosures in relation to the three criteria in category 1. On the contrary, the bulk of Portuguese listed companies (36%) were found to have a rating of 0.25, whilst 29% were found to have a rating of 0. In contrast, only 20% of Brazilian listed companies scored such a minimum score of 0.25 and only 12% of Brazilian listed companies were found to have a score of 0. This indicates that Brazil has greater disclosures, as the majority of Brazilian firms (52%), were found to have a score of 0.75 and 1. On the contrary, the majority of Portuguese listed firms (65%) were found to have a score of 0.25 and 0, indicating the extent of low disclosures currently in Portugal. The findings are consistent with those of Phala et al. (2019), who also found there to be a greater extent of disclosures being made by developing markets in comparison to developed markets in category 1.

In category 2, an annual average of 32% of Brazilian listed companies and 19% of Portuguese listed companies were found to have a maximum rating of 1 for the three category 2 criteria. In contrast, an annual average of 3% of Brazilian listed firms scored a rating of 0 whilst an annual average of 11% of Portuguese listed firms obtained a score of 0. Furthermore, the majority of the companies in Brazil (37%) were found to have a score of 0.75, indicating high disclosures in relation to category 2. On the contrary, only 23% of Portuguese listed companies obtained a score of 0.75 in relation to all three criteria of category 2. Over a quarter of Portuguese companies (28%), were instead found to have a rating of 0.25, which contrasted with 14% of Brazilian listed companies who were found to have a score of 0.25. These results indicate that the majority of Brazilian listed companies (69%) obtained a score between 0.75 and 1, whilst 42% of Portuguese listed companies were found to have a score between 0.75 and 1. The extent of strategy disclosures in Brazil is thus better than the extent of strategy disclosures in Portugal in this regard.

In category 3, an average of 18% of Brazilian listed companies were found to score a maximum of 1 and an average of 12% of Portuguese listed companies were found to score a maximum rating of 1 in relation to the 4 category 3 criteria. Furthermore, 21% of Brazilian listed firms were found to have a score of 0.75, whilst only 11% of Portuguese listed firms obtained such a score. On the other hand, an annual average of 24% of Brazilian listed firms were found to score a minimum score of 0 and 37% of the Portuguese listed firms were found to score the minimum score. Interestingly, a proportion of both Brazilian (24%) and Portuguese listed companies (37%) were found to have a rating of 0. Hence, this study found that the extent of disclosures in Brazil, although slightly similar to that of Portugal, as most companies in both countries indicated minimal to no disclosures, was still better in comparison to Portuguese listed entities. The findings in this study are consistent with those of Phala et al. (2019) who found a low extent of disclosures being made by developed and developing markets for the category 3 criteria.

The low extent of disclosures in Portugal can be attributed to the fact that the corporate governance principles that are currently in place in Portugal are mostly aimed at protecting the minority interests of shareholders, paying little to no regard to strategy disclosures. It is also important to note that this study also found that more Brazilian listed companies in the sample size were listed in the NYSE in comparison to Portuguese listed companies. Given the rigorous extent of disclosures that is required by the NYSE, it further highlights why the extent of disclosures by Brazilian listed companies would be greater in comparison to those of Portuguese listed companies.

In addition, Brazil operates in a bigger market, having more than 350 companies listed in its stock exchange (Bovespa), whilst Euronext Lisbon has fewer than 50 companies listed in its stock exchange. It is thus expected that Brazilian companies would disclose more information in their annual reports, given that they are accountable to a greater number of third parties. Moreover, through an analysis of the past literature, one can denote that voluntary disclosures serve to decrease the information asymmetry that occurs between the agent and the principal and further decreases market uncertainty. Given the economic uncertainty that Brazil is currently facing due to its current economic turmoil, it is reasonable that Brazilian listed companies would disclose more information in relation to their future prospects and goals in order to mitigate such market uncertainty.

Through the analysis of the literature, one can further expect developing markets to disclose more information in relation to strategy than developed markets (Phala et al., 2019). The results in this study prove such a fact, given that Brazil was found to disclose more information in relation to strategy in comparison to Portuguese listed companies; this has been further highlighted through the mean analysis conducted below.

4.2.2 Mean analysis

The mean scores are represented for both Brazil and Portugal for the year 2015 and comparisons in mean scores between the two countries were made. **Figure 10** indicates the mean scores for the 10 strategy disclosure criteria variables used in conducting this research study. The table below displays the average scores (between 0 and 1) for each strategy disclosure criterion. The overall preliminary analysis indicates a greater extent of strategy disclosures in Brazil in comparison to Portugal, except for the degree of disclosures made in both countries in relation to consistency. In that aspect, Portugal was shown to have a greater extent of disclosures in comparison to Brazil.

The disclosure scores indicate that the mean disclosure scores in Brazil are better in comparison to those of Portugal in 9 different rating criteria: mission, goals, objectives, corporate strategy, monitoring, business unit goals, business unit strategies, action plans (ex-post), and action plans (ex-ante). As stated, the only criterion where Portugal was shown to have a better mean score in comparison to Brazil was for consistency.

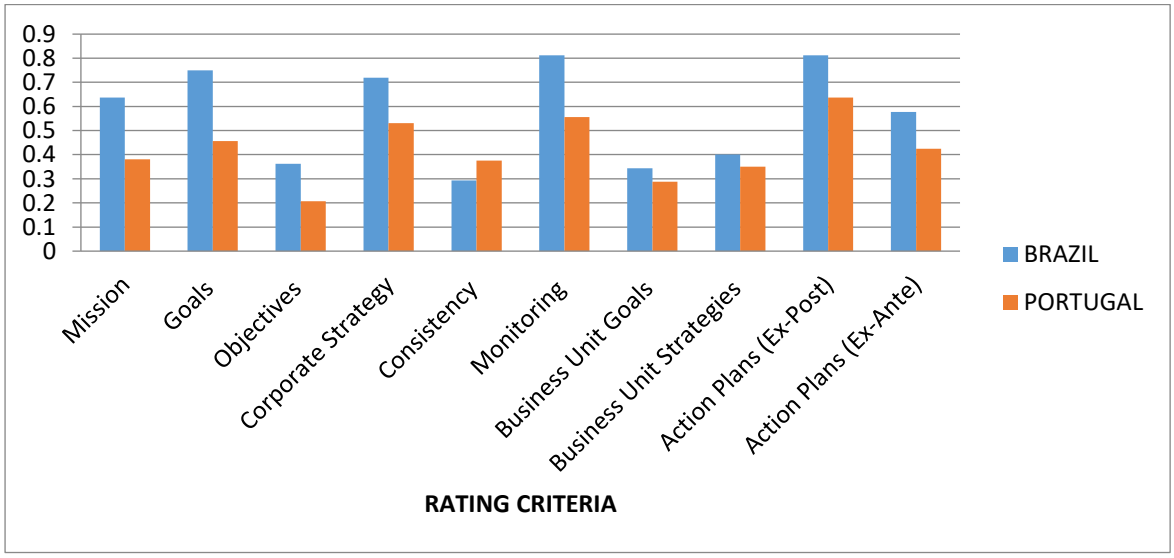


Figure 10: Disclosure mean scores for the 10 rating criteria in Brazil and Portugal

4.3 Primary analysis

4.3.1 Normality and analysis results

The Kolmogorov–Smirnov test (K–S) and Shapiro–Wilk tests both produced a *p*-value of less than 0.003 (as can be seen in the 'sig' column in **Appendix 2**). Hence, it was concluded that at a 1% level of significance the data deviated significantly from normality in the case of each strategy criterion. Since the data was found not to be normally distributed, the researcher used non-parametric tests to statistically test the differences in the extent of strategy disclosures between Brazil and Portugal. The nonparametric test used in this case was the Mann–Whitney U test.

The Mann–Whitney U test is a non-parametric test of the null hypothesis that it is equally likely that a randomly selected value from one sample will be less or greater than a randomly selected value from a second sample.

4.3.2 Mann–Whitney U test results

Table 8 shows the overall U test ranking for Brazil and Portugal, and **Table 9** gives the results of the Mann–Whitney U tests per criteria level. The results of the test demonstrate that the disclosure scores for the following strategy disclosures criteria differ significantly from those of Portugal: mission, goals, objectives, corporate strategy, monitoring, action plans (ex-post), and action plans (ex-ante) as $p<0.05$. However, the results showed that the disclosure scores for the following: consistency, business unit goals and business unit strategies scores in Brazil did not differ significantly from those in Portugal for the year 2015, as $p>0.05$.

Table 8: 2015 Total Mann–Whitney U test statistics ranks for Brazil and Portugal

Ranks	Country	N	Mean rank	Sum of ranks
Overall	**Brazil**	40	48.53	1941.00
	Portugal	40	32.48	1299.00
	Total	80		

Note: *N* represents the number of companies (sample size) used to undertake the study.

Table 9: Mann–Whitney U test per criteria level

Test Statistics

	Mission	Goals	Objectives	Corporate strategy	Consistency	Monitoring	Business unit goals	Business unit strategies	Action plans (ex-post)	Action plans (ex-ante)
Mann–Whitney U	479.500	381.500	541.500	543.000	713.500	418.500	716.500	736.000	490.000	598.500
Wilcoxon W	1299.500	1201.500	1361.500	1363.000	1533.500	1238.500	1536.500	1556.000	1310.000	1418.500
Z	–3.158	–4.157	–2.627	–2.549	–0.869	–3.811	–0.841	–0.636	–3.132	–1.987
Asymp. Sig. (2-tailed)	0.002	0.000	0.009	0.011	0.385	0.000	0.400	0.525	0.002	0.047
Exact Sig0. (2-tailed)	0.001	0.000	0.008	0.010	0.393	0.000	0.406	0.532	0.002	0.053
Exact Sig (1-tailed)	0.001	0.000	0.004	0.005	0.197	0.000	0.203	0.266	0.001	0.027
Point Probability	0.000	0.000	0.000	0.000	0.007	0.000	0.004	0.004	0.000	0.001

a. Grouping variable: C1

Table 10 indicates the results of the overall Mann–Whitney U tests per criteria level. The overall Mann–Whitney U analysis indicates that the overall disclosure scores for Brazil differed significantly from those in Portugal (p<0.050) in the year 2015.

Table 10: 2015 Total Mann–Whitney U test statistics

Test Statistics

	Overall
Mann–Whitney U	479.000
Wilcoxon W	1299.000
Z	−3.093
Asymp. Sig. (2-tailed)	0.002
Exact Sig. (2-tailed)	0.002
Exact Sig. (1-tailed)	0.001
Point Probability	0.000

a. Grouping variable: C1

4.3.3 Conclusion on the overall primary analysis

Based on the above results, this study concludes that there is a significant difference in the extent of disclosures between Brazil and Portugal. However, through an analysis of the individual variables, the study found that the Mann–Whitney U test results indicate a significant difference in the two countries' strategy disclosures for the following criteria: mission, goals, objectives, corporate strategy, monitoring, action plans (ex-post), and action plans (ex-ante) as $p<0.05$. However, the results demonstrate no significant difference between the extent of disclosures in Brazil and Portugal for the following variables: consistency, business unit goals, and business unit strategies. See **Table 11** for a summary of the hypothesis test.

Table 11: Hypothesis test summary

	Null hypothesis	Test	Sig.	Decision
1	The distribution of Mission is the same across categories of Country	Independent samples Mann–Whitney U test	0.002	Reject the null hypothesis
2	The distribution of Goals is the same across categories of Country	Independent samples Mann–Whitney U test	0.000	Reject the null hypothesis
3	The distribution of Objectives is the same across categories of Country	Independent samples Mann–Whitney U test	0.009	Reject the null hypothesis
4	The distribution of Corporate strategy is the same across categories of Country	Independent samples Mann–Whitney U test	0.011	Reject the null hypothesis
5	The distribution of Consistency is the same across categories of Country	Independent samples Mann–Whitney U test	0.385	Retain the null hypothesis
6	The distribution of Monitoring is the same across categories of Country	Independent samples Mann–Whitney U test	0.000	Reject the null hypothesis
7	The distribution of Business unit goals is the same across categories of Country	Independent samples Mann–Whitney U test	0.400	Retain the null hypothesis
8	The distribution of Business unit strategies is the same across categories of Country	Independent samples Mann–Whitney U test	0.525	Retain the null hypothesis
9	The distribution of Action plans (ex-post) is the same across categories of Country	Independent samples Mann–Whitney U test	0.002	Reject the null hypothesis
10	The distribution of Action plans (ex-ante) is the same across categories of Country	Independent samples Mann–Whitney U test	0.047	Reject the null hypothesis

Asymptotic significances are displayed. The significance level is 0.05

4.4 Internal reliability

Validity and reliability are two important elements of a measurement instrument. In order to test the internal reliability and consistency of the data used in this research study, the Cronbach alpha test was used. Whilst validity is concerned with the degree in which an instrument measures what it is intended to measure, reliability is concerned with the ability of a given instrument to be able to measure such information consistently. To this end, the Cronbach test is most often used as a means to measure the reliability and consistency of a given instrument. This is achieved by calculating alpha and evaluating through such results whether it is indicative of reliability and consistency (Tavakol & Dennick, 2011).

Table 12: Standardised Cronbach's alpha result for Brazil

Reliability statistics		
Cronbach's alpha	Cronbach's alpha based on standardised items	Number of items
	0.655	0.701

Table 13: Standardised Cronbach's alpha result for Portugal

Reliability statistics		
Cronbach's alpha	Cronbach's alpha based on standardised items	Number of items
0.897	0.902	10

Based on the common rule of thumb, the results presented above indicate that Brazil obtained a score of 0.7, which shows that the internal reliability and consistency for all variables in Brazil is acceptable. Portugal, on the other hand, was found to have a score of 0.9 which indicates that the internal reliability is excellent. This study thus concludes that there is a good correlation for both Brazil and Portugal in all 10 variables that were used in this study.

Chapter 5: Conclusion and recommendation for future research

5.1 Conclusion

The aim of this research study was to make a contribution to the limited literature on strategy disclosures, by examining the extent to which strategy is disclosed in the annual reports of Brazilian and Portuguese listed entities. Moreover, the study also aimed to make a comparison in the extent of strategy disclosures between the two countries.

In conclusion, the study found the extent of strategy disclosures in Portugal to be particularly weak. The majority of Portuguese listed companies scored very low disclosures for category 1 and category 3. Portuguese listed companies were only found to have moderate to good disclosures with regard to the variables in category 2 more specifically, in relation to corporate strategy and action plans (ex-post). On the contrary, the majority of Brazilian listed companies were found to have relatively good disclosures and scored relatively high disclosures specifically in categories 1 and 2. However, the results indicate that Brazilian listed companies divulge very limited information in relation to the disclosure variables in category 3. The low degree of disclosure for business unit strategies and business unit goals found in the Brazilian market is in line with the study of Phala et al. (2019) who also found emerging markets to divulge very little to no information in that regard.

However, a higher extent of disclosures was still found to be present in the Brazilian market, possibly due to more Brazilian companies in the sample size having been listed on the NYSE. Moreover, through the analysis of the annual reports, it was found that more Brazilian listed companies produced their integrated reports in line with the GRI reporting guidelines. Interestingly, Brazilian listed companies that had particularly witnessed corporate scandals in the given year (2015) provided more detail in their integrated reports with an aim to provide further insight to their stakeholders on their current and future strategic plans to mitigate the reoccurrence of such events. On the contrary, the Portuguese listed companies in the sample size provided very simplistic disclosures in relation to strategy in their annual reports, with some barely disclosing any information with regard to strategy. The findings in this research study are consistent with those of Santema et al. (2005), who highlighted the insufficiency of strategy disclosures provided by European listed firms.

A comparison of mean analysis and the mean scores of Brazil and Portugal for the 10 variables of strategy disclosure further highlighted a greater extent of strategy disclosures in Brazil in

comparison to Portugal for all variables, with the exception of Consistency. In that aspect, Portugal was found to divulge more information in that regard.

This study further evaluated whether the extent of disclosures in relation to strategy in the 2015 Brazilian annual reports significantly differed from those of Portuguese listed entities. The results of the Mann–Whitney non-parametric test found that the overall disclosure scores for Brazilian listed entities differed significantly from those in Portuguese listed companies, highlighting that there is a significant difference in the extent of disclosures between Brazilian and Portuguese listed companies. The study further analysed the individual variables per criteria level and found that the Mann–Whitney test results indicated that there is a significant difference in the strategy disclosures for the following criteria: mission, goals, objectives, corporate strategy, monitoring, action plans (ex-post) and action plans (ex-ante) as $p<0.05$. However, the results showed that there is an insignificant difference between the extent of disclosures in Brazilian and Portuguese listed companies in the following variables: consistency, business unit goals and business unit strategies. The findings in this study are consistent to a study conducted by Holt et al. (2015), who highlighted that there are likely to be differences in strategy disclosures between different markets due to differences and alterations in the stock exchange regulations in the respective countries.

Lastly, the data used to conduct this study was tested for validity and reliability using the Cronbach alpha test. The results showed that the internal reliability and consistency for all variables in Brazil are acceptable whilst Portugal's were found to be excellent. This study thus concludes that there is a good correlation for both Brazil and Portugal in all 10 variables that were used in this study.

5.2 Recommendations for future research

This study only considered the extent to which Brazilian and Portuguese listed companies divulge information in relation to strategy in their annual reports, and did not draw a conclusion on the possible reasons for the difference in disclosures in both countries. It would be of interest to further research the possible reasons for the differences in the extent of disclosures in both countries. Amongst these reasons, could be differences in business ethics, market size or the countries' laws and regulations. Moreover, this study only analysed the top 40 listed companies in Brazil and Portugal. The researcher also takes note that this comprised more than 70% of the listed companies in Portugal; however, it would be of interest to look further into a larger sample size in the Brazilian market, given that currently more than 300 companies are listed in the Brazilian stock exchange.

In addition, only information presented in the annual reports was used in order to assess disclosures in relation to strategy. It would be of interest to further consider information provided in the media, company websites, and newspapers amongst others, in order to have a more complete picture of the extent to which strategy is being disclosed by the respective companies.

Lastly, further research could look into the extent of disclosures in other Portuguese colonial countries, i.e. Angola, Mozambique and Cape Verde, and further draw a comparison between the extent of disclosures in those countries and that of their previous coloniser, Portugal.

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Appendix 1: Strategy Disclosure Rating Measurement

Adapted from Phala et al. (2019)

Company name:

Reporting year:

Mission	
0	No evidence of mission statement is available in the company's annual report
0.25	Evidence exists of a mission statement, however the mission statement vaguely defines the company's mission
0.5	Mission is available and is adequately disclosed. However, it is of little value as it does not clearly describe what the company strives to become.
0.75	Well defined mission statement which has a vision.
1	Mission is well defined and clearly conveys to stakeholders what the company strives to be.

Corporate strategy	
0	No evidence of the company's corporate strategy is available in the company's annual report
0.25	Evidence exists of the company's corporate strategy, however the mission statement vaguely defines the company's strategy.
0.5	A corporate strategy is available and is adequately disclosed. However, it is of little value as it does not clearly describe what the company strives to achieve.
0.75	Well defined corporate strategy.
1	Corporate strategy is well defined and clearly conveys to stakeholders what the company strives to be and achieve.

Consistency	
0	The corporate strategy is not in line with the corporate strategy in the previous annual reports.
0.25	The current corporate strategy is partially in line with the corporate strategy in the previous annual reports.
0.5	The current corporate strategy is 50% in line with the previous year's corporate strategy.
0.75	The current corporate strategy is 75% in line with the previous year's corporate strategy.
1	The current corporate strategy is fully aligned with the previous year's corporate strategy.

Monitoring	
0	There are currently no controls in order to monitor the goals and objectives, and mitigate risk.
0.25	There are minimal controls in place to monitor and ensure the company achieves its goals and objectives, and minimises its business risks.
0.5	There are medium control measures set to ensure the company's goals and objectives are achieved and risks mitigated.
0.75	There is a well- defined structure to which the company monitors the extent in which its goals and objectives are achieved and risks mitigated.
1	A well implemented structure is in place in order to ensure that the company's activities, objectives and goals are well monitored, and its risks well mitigated and investigated through an effective control system.

Business unit goals	
0	No goals at a business unit level.
0.25	Some goals are in place for some business units, but are not well defined.
0.5	There are goals in place for approximately 50% of business units. However such goals are vaguely described.
0.75	There are well defined goals in place for approximately all business units.
1	There are well defined goals for all business units.

Business unit strategies	
0	No strategies at a business unit level.
0.25	Some strategies are in place for some business units, but are not well defined.
0.5	There are strategies in place for approximately 50% of business units. However such strategies are vaguely described.
0.75	There are well defined strategies for approximately all business units.
1	There are well defined strategies for all business units.

Action plans (Ex-post)	
0	No actions have been executed in the past year in order to achieve the company's goals, objective and strategies.
0.25	Very few actions have been executed in the past year in order to achieve the company's goals, objectives and strategies.
0.5	Approximately, 50% of the company's goals, objective and business strategy was acted upon in the past year.
0.75	Approximately all strategies have been executed in the past year.

1	All actions have been executed in the past year in order to achieve the company's objectives, strategies and goals.

Action plans (ex-ante)	
0	No action has been planned or executed in order to achieve the company's strategy in the next upcoming year.
0.25	Minimal action has been planned or executed in order to achieve the company's strategy in the next upcoming year.
0.5	The current corporate strategy is 50% in line with the previous year's corporate strategy.
0.75	Action for approximately most of the strategies in the company have been planned to be executed in the next upcoming year in relation to the company's strategy.
1	All action have been planned to be executed in the next upcoming year in relation to the company's strategy.

Appendix 2: Kolmogorov–Smirnov and Shapiro–Wilk test results

Tests of Normality

		Kolmogorov–Smirnov[a]			Shapiro–Wilk		
	Country	Statistic	df	Sig.	Statistic	df	Sig.
Mission	Brazil	0.228	40	0.000	0.855	40	0.000
	Portugal	0.250	40	0.000	0.861	40	0.000
Goals	Brazil	0.275	40	0.000	0.825	40	0.000
	Portugal	0.244	40	0.000	0.889	40	0.001
Objectives	Brazil	0.267	40	0.000	0.862	40	0.000
	Portugal	0.286	40	0.000	0.728	40	0.000
Corporate Strategy	Brazil	0.250	40	0.000	0.848	40	0.000
	Portugal	0.224	40	0.000	0.863	40	0.000
Consistency	Brazil	0.253	40	0.000	0.806	40	0.000
	Portugal	0.241	40	0.000	0.821	40	0.000
Monitoring	Brazil	0.269	40	0.000	0.787	40	0.000
	Portugal	0.190	40	0.001	0.893	40	0.001
Business Unit Goals	Brazil	0.291	40	0.000	0.841	40	0.000
	Portugal	0.250	40	0.000	0.827	40	0.000
Business Unit Strategies	Brazil	0.217	40	0.000	0.873	40	0.000
	Portugal	0.268	40	0.000	0.845	40	0.000
Action Plans (Ex-Post)	Brazil	0.273	40	0.000	0.761	40	0.000

	Portugal	0.218	40	0.000	0.873	40	0.000
Action Plans (Ex-Ante)	Brazil	0.216	40	0.000	0.902	40	0.002
	Portugal	0.217	40	0.000	0.876	40	0.000

a. Lilliefors Significance Correction