

EMPLOYERS' AND PUBLIC ACCOUNTANTS'
ATTITUDES TOWARDS EMPLOYEE
REPORTING IN SOUTH AFRICA

by

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for the degree of

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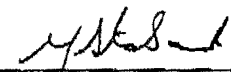
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NOVEMBER 2000

I declare that "Employers' and public accountants' attitudes towards employee reporting in South Africa" is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.



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SUMMARY

The traditional focus of financial reporting has been on meeting the needs of investors and creditors. However, meeting the needs of other users of financial reports, particularly the employees, cannot be ignored. Employee reporting has therefore evolved as a form of reporting which meets the needs of employees for information about the enterprise for which they work. In South Africa, this is a particularly pertinent topic as a result of recent developments which highlight the need to provide other users with information and emphasize the rights of employees.

Furthermore, companies in South Africa are producing employee reports although there is no guidance by any regulatory bodies as to the form and contents of such reports. This study examines the desirability of employee reporting in South Africa with emphasis on the theoretical background to the subject, and the attitudes of employers and public accountants towards the desirability of employee reporting, its form and contents, and public accountant involvement with published employee reports.

After analysis, it was concluded:

- (1) There is a need for employee reporting.
- (2) Although the average response provided support for a separate employee report issued annually as the most desirable form of employee reporting, employers preferred regular meetings as the form of employee reporting.
- (3) Public accountant involvement with published employee reports is undesirable.
- (4) More research is needed.

These conclusions support the following recommendations.

- (1) SAICA should show support for the disclosures required by The King report on corporate governance.
- (2) SAICA should re-instate the Employee Report Award.
- (3) The communication role of employee reporting should be emphasized.
- (4) There should be no regulatory interference with the form of employee reporting at the moment.

Key terms:

Employee reporting; Financial reporting; Accounting theory; Conceptual framework; Corporate social responsibility; Social accounting; Employers' attitudes; Public accountants' attitudes; Employee reporting award; International reporting regulations.

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BIBLIOGRAPHY

LIST OF ABBREVIATIONS

AAA	American Accounting Association
AIA	American Institute of Accountants (currently known as AICPA)
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board (USA; predecessor of FASB)/Accounting Practices Board (SA)
ASC	Accounting Standards Committee (previously ASSC)
ASR	Accounting Series Release (issued by SEC during period 1937 – 1982)
ASSC	Accounting Standards Steering Committee (UK)
BIM	British Institute of Management
CAP	Committee on Accounting Procedure (of AIA)
CBI	Confederation of British Industry
CICA	Canadian Institute of Chartered Accountants
CNPF	French Employers National Council (see FENC)
CPA	Certified public accountant (USA)
EEC	European Economic Community
EU	European Union
FASB	Financial Accounting Standards Board
FENC	French Employers National Council (see CNPF)
GAAP	Generally accepted accounting principles (USA) / practice (SA)
IAS	International Accounting Standard (issued by IASC)
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organization
JSE	Johannesburg Stock Exchange
NAA	National Association of Accountants (USA)
OECD	Organization for Economic Co-operation and Development
SAICA	South African Institute of Chartered Accountants
SEC	Securities and Exchange Commission (USA)
SFAC	Statement of Financial Accounting Concepts (issued by FASB to serve as theoretical basis for SFASs)
SFAS	Statement of Financial Accounting Standards (issued by FASB; represents GAAP)
SOP	Statement of Position (issued by AICPA)
SSAP	Statement of Standard Accounting Practice (issued by ASC)
UEC	Union Européene des Experts Comptables, Economiques et Financiers
UN	United Nations
UNCTC	United Nations Centre on Transnational Corporations

CHAPTER 1

INTRODUCTION

- 1.1 Background to the research topic
- 1.2 Motivation and purpose of the study
- 1.3 Importance of the research
- 1.4 Research approach
- 1.5 Organisation of the study
- 1.6 List of sources

1.1 BACKGROUND TO THE RESEARCH TOPIC

The provision of financial and other relevant information to employees is a topical issue in South Africa. While The corporate report (Institute of Chartered Accountants in England and Wales (ICAEW), 1975) is one of the first accounting documents to show concern for the employees as users of published financial statements with the recommendation that an employment report be published (Belkaoui, 1992:450), employee reporting can be traced back to the 1920s in the United States of America (USA) and to the last century in the United Kingdom (UK) (Everingham, 1994:2).

Employee reporting may be defined as the disclosure of information about a company to the employees of that company in a separate report, the employee report. This is in contrast to reporting on employees which concerns a specific type of information included in general purpose reports. Furthermore, the employee report contains information provided to the employee as a stakeholder on a regular basis and does not concern the issue of providing information to employees or their representatives for collective bargaining purposes (p.2).

Macintosh (1984:39-41) distinguishes between two forms of reporting to employees, the one being "social reporting" (which may be required by law), and the other being the voluntary provision of an employee report. Social reporting applies mainly to those countries, except Britain and Ireland, making up the European Economic Community (EEC) (p.40). Employee reports, on the other hand, enjoy widespread acceptance in Australia, Britain, and the Netherlands and, to a lesser extent, Canada and the USA (p.41).

The expansion of the role of financial reporting from its primary focus on investors and creditors to include other user groups such as employees has provided impetus for developments in reporting to employees. While there was an increase in the incidence in employee reports in the UK, Australia, and New Zealand in the late 1970s and early 1980s, South Africa has lagged behind in these developments (Everingham, 1994:4). According to a survey by Meijers (1993:81), by 1985, only 10 out of 188 respondent companies were producing employee reports and by 1992 this had increased to 32. The SAICA/Alpha Limited Employee Report Award also provides some evidence on the incidence in the preparation of employee reports. The 1997 contest attracted 18 entries of which nine were from listed companies. This however indicates only the number of companies entering the competition and the actual incidence of preparation may be higher. Unfortunately, the competition is currently suspended until a new sponsor can be found.

Impetus for employee reporting and employee related disclosures has also come from pronouncements such as The King report on corporate governance (Institute of Directors in Southern Africa, 1994), Discussion Paper (DP) 12 – Meeting the financial reporting needs of users of financial statements in South Africa (South African Institute of Chartered Accountants (SAICA), 1994) and Stakeholder communication in the annual report (SAICA, 1997a), and the adoption of the International Accounting Standards (IAS) by SAICA. These pronouncements, together with legislation such as the Labour Relations Act (66 of 1995) and the Employment Equity Act (55 of 1998), may provide further momentum for employee reporting in South Africa. As a result of these and the overseas developments, the objective of this study is to investigate the desirability of employee reporting in South Africa. In particular, the study examines the theoretical background to the topic and the attitudes of employers and public accountants towards (1) the desirability of employee reporting, (2) the form and suggested contents of an employee report, and (3) the desirability of public accountant involvement with published employee reports.

1.2 MOTIVATION AND PURPOSE OF THE STUDY

In South Africa, despite the fact that some companies voluntarily issue employee reports and are also making employee related disclosures in their annual reports, very little empirical investigation of employers' attitudes towards employee reporting has been undertaken and this, together with an investigation of public accountants' attitudes towards employee reporting, provides a useful addition to the existing body of knowledge on employee reporting in South

Africa. Establishing the attitudes of employers' and public accountants' towards employee reporting enhances knowledge on employee reporting in South Africa, provides justification for extending the traditional reporting framework to employee reporting, provides some guidance to the SAICA by investigating the form and contents of employee reports, and serves as a basis for further South African research on the issues concerned. The objective of the research is therefore to determine the attitudes of employers and public accountants towards employee reporting and to determine what a comparison of these two analyses may reveal with reference to the form and contents of employee reports which would serve as a basis for possible future regulation.

To achieve the research objective, the study is conducted in two parts. The first part of the study brings together information on firstly, the place of employee reporting within the context of financial reporting and accounting theory, secondly, the objectives, development and importance of employee reporting, thirdly, a global view of employee reporting regulations and practice, and lastly, the prior research conducted on employee reporting within South Africa and overseas.

To elaborate on the four areas indicated above, discussion on the place of employee reporting within the context of financial reporting provides the study with a solid theoretical and financial reporting foundation. Discussion on the objectives, development and importance of employee reporting together with arguments for and against employee reporting promotes further knowledge and understanding of the topic. The current status of employee reporting regulations and practice in leading western countries, the European Union (EU), Australia and New Zealand, and in South Africa are established to provide a basis for comparing South African regulations and practices to those of other countries. Previous international and South African empirical studies are reviewed and classified. This is of particular importance in South Africa where such a consolidation and classification of previous South African empirical studies has not been made. This provides input for the empirical research which follows and enables comparisons to be made with the results of this study.

In the second part of the study, the desirability of employee reporting in South Africa is investigated in that basic empirical information is yielded on the attitudes of employers and public accountants towards employee reporting in South Africa. The investigation takes the form of an opinion survey research strategy whereby the attitudes of employers and public accountants towards the desirability of employee reporting, the form and contents of employee reports and

public accountant involvement with employee reporting are tested by means of a self-administered postal questionnaire.

Statistical sampling was not used to select the two target groups. Instead, the financial managers of the 1999 Financial Mail top 300 companies were chosen to represent the employer group and the public accountants responsible for the audits of these companies were chosen to represent the public accountant group. These groups were chosen because they display characteristics which would result in authoritative and meaningful responses to the questionnaire.

Information obtained from this part of the study is expected to increase and improve knowledge of the topic in South Africa, provide justification for extending the traditional reporting framework in South Africa to employee reporting, provide some guidance to the SAICA on the form and contents of employee reports and serve as a basis for further South African research on the issues concerned.

1.3 IMPORTANCE OF THE RESEARCH

The importance of the research is that it provides a detailed study of the various issues surrounding employee reporting. It does this by bringing together, in one unitary structure, information on the place of employee reporting within the concepts "financial reporting" and "accounting theory", a discussion of the objectives, development and importance of employee reporting, the current status of employee reporting overseas and in South Africa, and prior research conducted on employee reporting. This discussion is also important as it provides essential background information for the empirical research in the second part of the study.

Furthermore, the research provides a detailed study of employers' and public accountants' attitudes towards employee reporting in South Africa. Empirical evidence is provided on the attitudes of employers and public accountants towards the desirability of reporting to employees, the form and suggested contents of an employee report and whether or not the information should be attested to by public accountants. In this respect, the only other research in South Africa which sought to establish some of these aspects of reporting to employees from the viewpoint of management was that carried out by Meijers (1993). This research differs, however, from prior research in that both employers' and public accountants' attitudes will be determined towards (1) the desirability of employee reporting, (2) the form and the suggested contents of an employee report, and (3)

the desirability of public accountant involvement with published employee reports.

The study is therefore considered useful to researchers and non-academics, such as standard-setters, employers (management) and employees, as it provides new information to assist in the development of employee reporting in South Africa by regulatory bodies and by preparers of employee reports and which can also be used for further empirical investigation of the subject.

As this study is concerned with the employers' and public accountants' attitudes towards employee reporting, employees and their informational needs do not form part of this study. This is a particularly difficult area to research as reporting to employees involves the satisfaction of individual informational needs and as employees differ considerably from one another in education, aptitude, language and other areas, it is questionable whether they can be regarded as an homogeneous target group for reporting purposes (Schreuder, 1981: 306). This is particularly true in South Africa and Everingham (1994: 14) suggests that determining the needs of employees may need to take place on a stratified basis.

1.4 RESEARCH APPROACH

In order to meet the research objective discussed in section 1.2, two research methods were employed: archival research and survey research.

Archival research, whereby a search of existing literature on the subject is conducted, was used in chapters 2 to 5 and partly in chapter 6. The use of existing literature, or secondary data, has the advantage that readily available authoritative opinions are used. According to Martins, Loubser and Van Wyk (1996:100) secondary data helps formulate the research problem and serves as a source of information for the making of comparisons and evaluations of the information which is obtained from the survey research.

However, the use of secondary data is subject to certain disadvantages (p.106-107). For instance, secondary data can either be the original (or primary) source or an acquired (or secondary) source. Using the original source is generally more useful as acquired sources may contain errors in transcriptions or omissions. Furthermore, the status of the publication should be evaluated to ensure it provides a reliable source of information. Finally, the quality of the data and its scientific credentials should be assessed.

As chapters 6 to 8 are concerned with the determination of employers' and public accountants' attitudes towards employee reporting in South Africa, survey research is used. Survey research requires the study's aims and hypotheses to be identified, target groups to be selected, the survey instrument (the questionnaire) to be prepared and pre-tested, the survey to be administered, the data to be analysed and organised, and finally, the results of the survey to be interpreted (Fink, 1995a:78–80; Oppenheim, 1992:7–8). The survey instrument is a self-administered postal questionnaire which forms the basis of the data collection and analysis process and enables the attitudes of the two target groups to be ascertained.

1.5 ORGANISATION OF THE STUDY

This study comprises 8 chapters which are divided as follows:

Chapter 1: Introduction

This chapter presents the background to the research topic, the reason for and the objective of the study, the importance of the research, the research design and the organisation of the study.

Chapter 2: The financial reporting and theoretical framework of employee reporting

This chapter describes the concepts "financial reporting", "employee reporting" and "accounting theory". The role of financial reporting as a source of information for employees and the theories on which financial reporting may be based with reference to employee reporting are discussed.

Chapter 3: The nature and importance of employee reporting

In this chapter the objectives, development, importance of and the need for employee reporting are presented together with a description of the development of employee reporting internationally and locally. Corporate social responsibility, the influence of research studies and professional pronouncements, and the influence of trade unions are examined to ascertain their impact on employee reporting. The chapter also considers arguments for and against employee reporting and the relevance of the conceptual framework to employee reporting.

Chapter 4: The current status of employee reporting

Employee reporting regulations and practice in major western countries including Australia, New Zealand and South Africa, are outlined.

Chapter 5: Significant prior research on employee reporting

This chapter examines completed research in three areas. These are firstly, the desirability of employee reporting, secondly, the form and contents of employee reports and employee related disclosures in annual reports, and lastly, the desirability of attesting to published employee reports by public accountants.

Chapter 6: The methodology used to establish the attitudes of the selected target groups towards employee reporting

The research objectives and hypotheses, the selection of the target groups, the research method and other related aspects, the statistical presentation and analysis of the data, and the limitations of the research are described.

Chapter 7: Presentation and analysis of the research findings

This chapter presents the analysis and evaluation of the research findings with respect to the desirability of employee reporting, the form and contents of employee reports, and the desirability of public accountant involvement with published employee reports.

Chapter 8: Summary, conclusions and recommendations

The study concludes with a summary of the previous chapters, conclusions resulting from the study are presented and recommendations for further research in the area of employee reporting are made.

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CHAPTER 2

THE FINANCIAL REPORTING AND THEORETICAL FRAMEWORK OF EMPLOYEE REPORTING

- 2.1 Introduction
- 2.2 The concepts “financial reporting”, “employee reporting” and “accounting theory”
- 2.3 The role of financial reporting as a source of information for employees
- 2.4 The theories on which financial reporting may be based with reference to employee reporting
- 2.5 Summary
- 2.6 List of sources

2.1 INTRODUCTION

In the literature of both economics and accounting, the focus in the past has been on the needs and the viewpoints of the investors (Glautier & Underdown, 1997:374). Accounting research which focused on the importance and relevance of financial reporting to decision makers has traditionally been limited to the decisions of investors and creditors. However, Glautier and Underdown comment that there has been a changing social environment concerned with the social imbalance between those with wealth, who control society through the influence of wealth, as opposed to those whose political influence in numerical terms had voted in a government committed to reforms and the gradual redistribution of wealth. They (p.375) suggest that the process of remedying this imbalance is occurring and that reporting to employees is evidence of progress in this area. This description of social imbalance is pertinent to South Africa and an expectation would also be developments in employee reporting in South Africa as a result of changes in social attitude and law.

Employee reporting has evolved in two distinct areas. The one is reporting to employees in the form of an annual employee report, together with other relevant information communicated on an on-going basis during the year and which is the focus of this study, and the second is reporting as part of the process of collective bargaining. Employee reporting has also been included as part of “social reporting” which may be required by law (Macintosh, 1984:39).

As employee reporting falls within the wider ambit of financial reporting, an examination of the concepts “financial reporting” and “employee reporting” is necessary. The concept “accounting theory” is also examined in order to place this study within a theoretical framework. The relationship between accounting theory and practice and the role of accounting research as the link between accounting theory and accounting practice are also considered. This discussion establishes the foundation for the examination of the role of financial reporting as a source of information for employees and for an examination of the different approaches to the formulation of accounting theory. This examination follows the classification of Belkaoui (1992) who divides the approaches into the traditional and the new approaches and adds further insight to the concepts “accounting theory” and “employee reporting”.

2.2 THE CONCEPTS “FINANCIAL REPORTING”, “EMPLOYEE REPORTING” AND “ACCOUNTING THEORY”

Financial accounting has two closely related functions, the recording of transactions and the communication and presentation of information to external users. This second function is what is often referred to as financial reporting. However, definitions of accounting generally do not distinguish between the two functions. For example, accounting has been defined as “[t]he process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information” (American Accounting Association (AAA), 1966:1). A further definition states that “[a]ccounting is a service activity. Its function is to provide quantitative information, primarily financial in nature about economic entities that is intended to be useful in making economic decisions, in making resolved choices among alternative courses of action” (American Institute of Certified Public Accountants (AICPA), 1970:para.40). Glautier and Underdown (1997:29) regard financial accounting as being concerned with the activities of recording financial transactions and summarising and presenting financial information in reports.

Macintosh (1984:5) suggests that financial reporting “may be considered the means of communicating the information produced by the accounting system of an organization to interested or affected parties”. Macintosh notes that financial reporting is affected by the economic, legal, political and social environment and that there are different theories and approaches that underlie financial reporting. As examples, Macintosh cites the American thought that financial reporting should provide information for the efficient operation of

capital markets, the British suggestion in The corporate report (Institute of Chartered Accountants in England and Wales (ICAEW),1975) that companies report on their resources and performance to those persons affected by their operations, and that countries in the European Economic Community (EEC) already have differential reporting in the form of social reporting directed at employees. Macintosh therefore suggests that a fully acceptable definition of financial reporting is not possible. He does state however that financial reporting describes generally “the provision of information by a business corporation to those persons external to the organization who have an interest in or are affected by its operations” (1984:5).

Macintosh (p.6) divides financial reporting into formal reporting which covers reporting governed by statutory, professional or regulatory requirements and informal financial reporting which is at the discretion of the reporting enterprise. Employee reporting, which is not governed by any statutory, professional or regulatory requirements in South Africa would be described as informal financial reporting.

Although it may not be possible to formulate one all-embracing definition of the concept “financial reporting”, it may be seen as having a communication function as indicated in the following quotation. “Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system – that is, information about an enterprise’s resources, obligations, earnings, etc” (Financial Accounting Standards Board (FASB), 1978:para. 7).

The role of financial reporting as a source of information for employees is discussed in section 2.3.

The concept “employee reporting” embraces the provision of financial and other relevant information to company employees. Employee reporting may be formal in that it is required by law or informal in that it is voluntary. As stated previously, employee reporting required by law has been termed “social reporting” (Macintosh, 1984:39).

Most (1982:530) considers the social report to describe “the contributions which the company has made to the economy in the form of payments to suppliers, employees, and governments, and quantifies the benefits which employees have derived from the company during the

period covered". Gray, Owen and Maunders (1987:ix) define social reporting as "the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large". Accordingly, they (p.4) equate the term "social reporting" with corporate social reporting as it is "the process of providing information designed to discharge social accountability".

Social reporting in Western Europe has been influenced by concern with the enterprise-employee relationship resulting in the adoption of the Fifth Directive on employee participation by the EEC Commission and the Vredeling proposals (p.26). More specifically, in France, legislation passed in 1977 required companies with more than 750 workers to publish a social balance sheet in 1979 and this requirement was extended in 1982 to companies employing more than 300 people. In West Germany, although public companies and companies employing 5 000 or more employees are required to include certain information such as employment statistics in notes to their annual reports (Thompson & Knell, 1979:37), social reporting is well developed despite the absence of any statutory provisions (Gray et al., 1987:29). In Sweden, social reporting for internal decision-making has been the focus of interest rather than for external stakeholders (p.34), and in the Netherlands, voluntary social reports are well developed and in addition, Dutch companies are required to disclose certain financial and manpower information to works councils in terms of law (p.36). In the United Kingdom (UK), various disclosures relevant to social reporting have been legislated (the Health and Safety at Work Act of 1974; the Employment Protection Act of 1975; the Employment Act of 1982 and the Companies Act of 1985). However, a major impetus for social reporting was the publication of The corporate report (ICAEW) in 1975. This recommended, amongst others, the inclusion of an employment report in the published corporate report. An employment report contains statistical information about numbers employed and time worked as well as information on employment costs. In the United States of America (USA), practice has tended to be directed towards the general public's and consumers' interests rather than towards employees. Canadian external reporting practice broadly follows the USA practice (Maxwell & Mason, 1976) whereas Australian practice reflects a mixture of the UK and USA approaches (Gray et al., 1987:26).

Employees may also receive information about the enterprise in a special purpose report – an employee report. This information is produced by an enterprise on a voluntary basis and

traditionally includes financial information and other information on relevant issues, such as staff benefits, housing, safety matters and training. Hussey (1980:149) defines an employee report as a “statement produced at least annually, in written form, specifically for all employees and which provides information relevant to a financial period of the undertaking”. Employee reports are common in Australia, the Netherlands, Britain, and to not quite the same extent, the USA and Canada (Macintosh, 1984:41).

The concept “employee reporting” is thus “the communication of information by companies in some printed form, usually on an annual basis, to individual employees” (Maunder, 1981:171). Struckmann (1993:15) defines employee reporting as “an on-going process of communicating on at least an annual basis, financial and other information about an enterprise, to all employees of that enterprise”.

In summary, it can be stated that employee reporting is the communication of financial and other information to individual employees whereas financial reporting is not aimed specifically at the employee user group but rather to interested or affected users.

In order to provide a theoretical basis for this study, the concept “accounting theory” within the context of employee reporting, is examined and is followed in section 2.4 by an examination of the theories on which financial reporting may be based with reference to employee reporting.

Kerlinger (1986:9) defines a theory as “a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena”. A further definition of a theory is that it represents “the coherent set of hypothetical, conceptual, and pragmatic principles forming the general frame of reference for a field of inquiry” (Webster’s Third New International Dictionary, 1961:2371).

According to Wolk, Francis and Tearney (1992:1), although the phrase accounting theory is often used in financial accounting, it has no standard definition. Instead, it is seen as involving “the whole complex of concepts, models, hypotheses, and theories that underlie and influence the work of the rule-making groups” (p.6). Kam (1990:vii) concurs that

accounting theory is broad based and that it seems to mean different things to different people.

Hendriksen (1982:1) defines an accounting theory as “logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedures”. While accounting theory is useful to explain and understand existing practices, Hendriksen suggests that the objective of accounting theory should be the provision of a coherent set of logical principles that form a general frame of reference for the evaluation and development of sound accounting practices. This objective is embodied in Hendriksen’s definition of accounting theory given above.

Belkaoui (1992:57) suggests that for an accounting theory to exist it must constitute a frame of reference and it must also include the three elements suggested by McDonald (1972). These three elements are (1) the encoding of phenomena to symbolic representation (found in accounting with the use of debits and credits and an unique accounting terminology); (2) manipulation or combination according to rules (for example, techniques for determining profit); and (3) translation back to real-world phenomena (that is, determining profit as a symbolic representation of an economic event).

Both Belkaoui (1992:57) and Hendriksen (1982:1) therefore see accounting theory as providing a coherent set of logically derived principles that form the general frame of reference for evaluating and developing sound accounting practices.

As a result of the many opinions, approaches and values between accounting practice and accounting research, two methodologies exist, one descriptive and one normative, for the formulation of accounting theory. While a descriptive theory of accounting attempts to justify “what is” by examining existing accounting practice, a normative theory of accounting attempts to justify “what ought to be” (Belkaoui, 1992:57). He suggests that both methodologies may be necessary in the formulation of an accounting theory. Existing accounting practices which are considered useful will be justified using a descriptive methodology while accounting practices that ought to be adopted will be justified using a normative methodology.

Watts and Zimmerman (1986:2) state that “[t]he objective of accounting theory is to *explain* and *predict* accounting practice”. Belkaoui (1992:54) also comments that accounting is a set of techniques which are practised within a theoretical framework comprising principles and practices “accepted by the profession because of their alleged usefulness and their logic”. This link between accounting theory and accounting practice is seen in the changes of accounting principles that occur as a result of attempts to provide answers to new accounting issues and attempts to formulate a theoretical framework for the accounting discipline (p.55).

The need to provide a sound basis for accounting practice requires accounting theory construction. Belkaoui (1992:228) suggests that the structure of accounting theory should contain the following elements:

1. A statement of the objectives of financial statements.
2. A statement of the postulates and the theoretical concepts of accounting concerned with the environmental assumptions and the nature of the accounting unit. These postulates and theoretical concepts are derived from the stated objectives.
3. A statement of basic accounting principles based on both the postulates and the theoretical concepts.
4. A body of accounting techniques derived from the accounting principles.

Accounting theory construction should be subjected to theory verification or validation (p.55). In other words, accounting theory should be a combination of a process of theory construction and a process of theory validation.

Thus, for the development of acceptable accounting techniques to occur, there needs to be an acceptable frame of reference. While accounting theory constitutes this frame of reference (p.178), the frame of reference itself is based on the establishment of accounting concepts and principles. In order to ensure the acceptability of these accounting concepts and principles, the objectives which underlie the concepts and principles require to be specified. This was noted by Devine (1960:399) who stated that “the first order of business in constructing a theoretical system for a service function is to establish the purpose and the objectives of the function. The objectives and purposes may shift through time, but for any period, they must be specified or specifiable.”

The question whether accounting theories provide a basis for determining the content of external financial reports and a basis for resolving controversies, was addressed by the

Committee on Concepts and Standards for External Financial Reports of the AAA in 1977 in a report entitled Statement on accounting theory and theory acceptance. While at a general level there is consensus that the purpose of financial accounting is to provide economic information about reporting entities, divergent theories result once both the users of the information and the environment in which preparers and users of accounting information are thought to behave are specified. This led the Committee to conclude that there is no single body of accounting theory capable of encompassing the full range of user-environment specifications and thus there exists a collection of theories encompassing the differences in user-environment specifications (AAA, 1977:1-2). Hendriksen and Van Breda (1992:21) define an accounting theory as “a coherent set of hypothetical, conceptual, and pragmatic principles forming a general frame of reference for inquiring into the nature of accounting”, and suggest that such a broad definition encompasses both the traditional view of a theory as a general frame of reference for the evaluation and development of sound accounting practices and the modern view that it is a general frame of reference by which accounting practice can be explained and predicted. Nevertheless, Hendriksen and Van Breda state that while a single theory of accounting is desirable, “accounting as a science is still in too primitive a stage for such a development”. At this developmental stage, they see a set of theories and subtheories that may be complementary or competing.

As a result of growth in the body of accounting knowledge and an accompanying criticism of accounting and accountants, there is a need for a generally acceptable accounting theory. Most (1982:57) sees a need for such an accounting theory as accountants are now interacting with scientists, humanists and engineers who themselves are well grounded in scientific methods. Furthermore, the professional liability of accountants may result in cases where accountants are the defendants. In such situations, accountants will need to be able to argue that the rules and principles exist within the context of an acceptable accounting theory. Finally Most argues that the existence of new areas of accountability such as social accounting, human resource accounting and public sector accounting are areas where traditional explanations do not seem to apply and require positioning within an acceptable accounting theory.

Watts and Zimmerman (1986:14) comment that positive accounting theory is important as it provides decision-makers with the ability to predict and explain the consequences of their decisions. They also state that because a theory attempts to explain a general class of

phenomena, all observations may not be explained or predicted. Thus there is not one theory, but many theories competing for general acceptance.

Watts and Zimmerman (p.340) view accounting research as an economic good. In an unregulated economy, accounting research meets the demand from users to understand and predict the effect of accounting choices on their welfare, it assists teachers to structure the diversity found in practice according to developed theory and thus assists learning, and it enables the justification between choices in different accounting procedures. In a regulated economy, government regulation and rules lead to an increase in pedagogic and information demands for accounting research. The nature of future regulations also require explanations and predictions. Accounting research is used by special interest groups to justify public interest arguments (p.340 – 343).

The above would imply that accounting research should be a link between accounting theory and accounting practice. Watts and Zimmerman (1979:274) offer the following as an explanation why accounting research has not had a major impact on accounting theory and practice.

Often the lack of impact is attributed to basic methodological weaknesses in the research. Or, the prescriptions offered are based on explicit or implicit objectives that frequently differ among writers. Not only are the researchers unable to agree on the objectives of financial statements, but they also disagree over the methods of deriving the prescriptions from the objectives.

This lack of agreement on the objectives of financial statements has been addressed by several countries. However, the FASB recognised that not only the objectives of the financial statements require addressing, but that standard setting rests on both the objectives and an established body of concepts. To provide a basis for setting standards, the FASB instituted the conceptual-framework project. The FASB (1976:2) described a conceptual framework as “a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and financial statements”. The establishment of a conceptual framework has also been addressed by several countries. The acceptance of a conceptual framework does not however resolve the issue of a lack of a generally accepted accounting theory. However, while there is no single comprehensive theory of accounting, various theories have resulted from the use of different approaches. These are discussed in section 2.4.

Before examining the approaches to the formulation of an accounting theory, the role of financial reporting as a source of information for employees is examined.

2.3 THE ROLE OF FINANCIAL REPORTING AS A SOURCE OF INFORMATION FOR EMPLOYEES

Previously, financial reporting was defined as communicating information provided by the accounting system. There is general agreement that financial reporting standards, to be useful, need to be seen to be based on agreed objectives (Most, 1982:147). One approach is reporting to specific user groups who have specific decision objectives. This is the investment-decision approach which is found in the USA, whereas an alternative approach is general-purpose reporting for a set of unknown users having multiple objectives and which occurs in Western Europe where an accountability orientation philosophy prevails (Macintosh, 1984:18). Although Most (1982:147) states that this second approach has not proved capable of operation, Macintosh (1984:18) submits that reporting to employees and certain approaches to social reporting found in Europe represent a form of differential or multiple reporting. In order to evaluate the role of financial reporting as a source of information to employees, both approaches are examined. The investment-decision approach is based on the behavioural approach to the formulation of accounting theory which encompasses the decision-usefulness, decision-making theory of accounting (p.19). Macintosh submits that the main focus of this approach is on the provision of information relevant for investment and credit decisions, and thus financial reporting as a source of information for employees would fit best in the accountability approach (p. 20, 22).

The alternative approach to financial reporting, the accountability approach, is of relevance to this study as the extension of financial reporting to employees would be based on this approach. Macintosh (p. 22) contends that this approach has been down-played by accounting theorists who adopt or support an investment-decision approach as it is based on inductive reasoning which is currently not fashionable. According to Ijiri (1975:ix), accountability reflects existing financial accounting practice as "accountability presumes a relationship between two parties, namely someone (an accountant) is accountable to someone else (an accountee) for his activities and their consequences. The accountability relationship may be created by a constitution, a law, a contract, an organizational rule, a custom, or even by an informal moral obligation". Konar (1989:52) sees accountability or financial stewardship as synonymous. Chen (1975:539) points out that in large enterprises, ownership is dispersed and

thus control is transferred to management. As a result, management “becomes not merely the steward of its owners, but also the steward of the employees, customers, and society as a whole. In short, it is a public steward. As a public steward, management is not responsible solely for the pursuit of the interest of any specific group. Rather, it has the responsibility to perceive and attain social objectives”. Accountability is found in the FASB’s statement of objectives (FASB, 1976:59) resulting in it becoming a subset of the decision-making user approach (Konar, 1989:52). An examination of the objectives of financial reporting over time shows a shift from directing financial information to only investors and creditors to a more diverse user group.

In the USA, the Committee on Concepts and Standards Underlying Corporate Financial Statements of the AAA stated in 1955 that “[t]he underlying determinants of adequacy of disclosure in published financial reports is their usefulness in making decisions, particularly with respect to investment problems” (p.400). Although the AAA often referred to this approach to financial reporting, it was only accepted by the AICPA in 1970 and subsequently adopted by the FASB in 1978 (Macintosh, 1984:19). The FASB, in 1978, stated the primary objective of financial reporting as follows: “Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions” (para. 34). Any stewardship responsibility was seen to be only to the owners. A reason for the investment-decision approach to financial reporting was the formation of the Securities and Exchange Commission (SEC) which was formed to protect the interests of investors in the USA and only financial statements prepared using accounting practices enjoying “substantial authoritative support” or complying with its own rules were accepted (Macintosh, 1984:21). Originally the pronouncements of the AICPA were relied upon but in 1973, the responsibility of setting accounting standards was delegated to the FASB by the SEC. This had led to the FASB directing its efforts towards protecting the interests of investors.

In the UK, the accountability approach was embodied in Recommendation N.15 – Accounting in relation to changes in the purchasing power of money (ICAEW, 1952:para. 1) which stated that “[t]he primary purpose of the annual accounts [ie, financial statements] of a business is to present information to the proprietors, showing how their funds have been utilized and the profits derived from such use”. This was however withdrawn in 1974. In 1975, The corporate report was published by the Accounting Standard Steering Committee

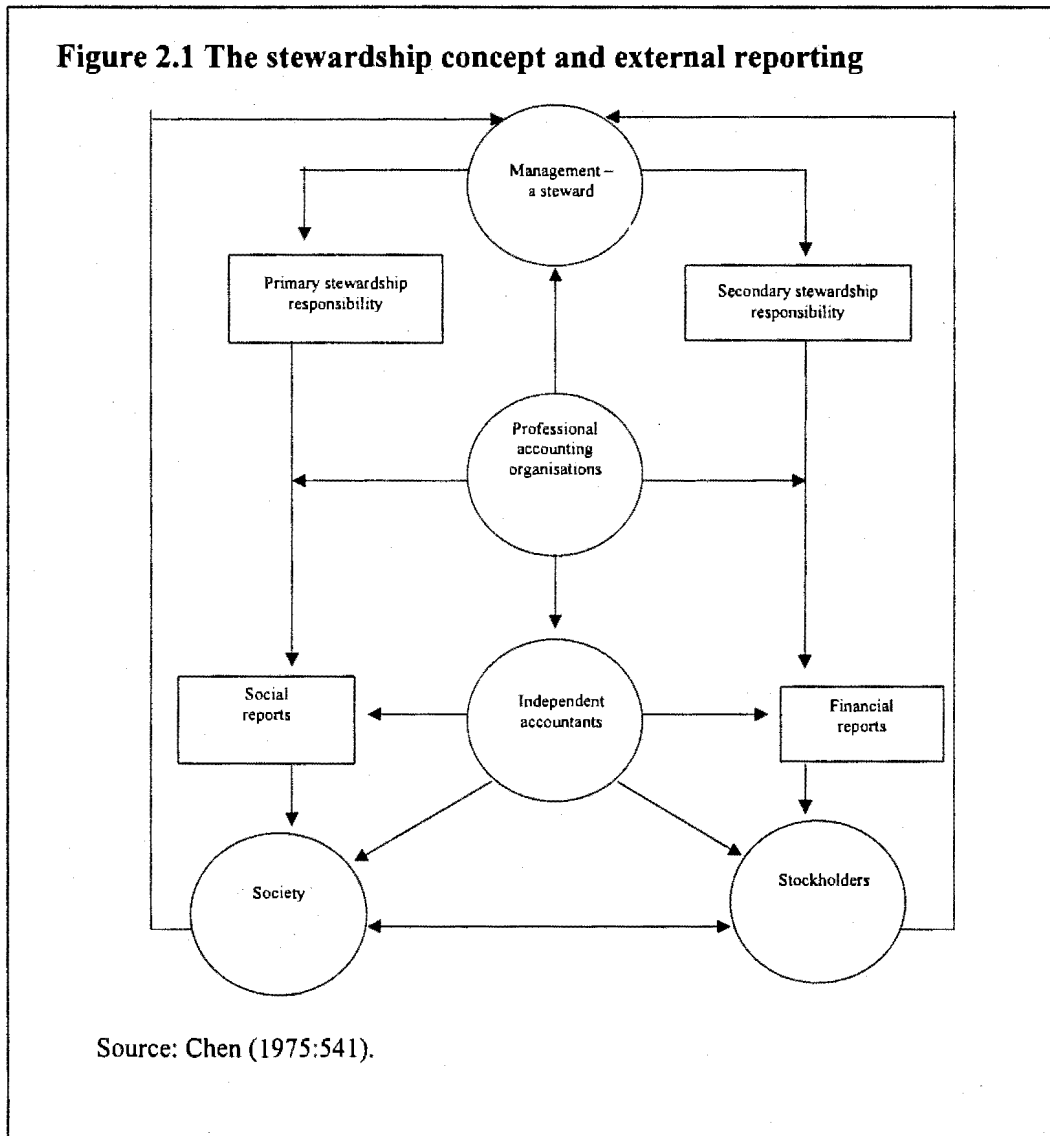
(ASSC) of the ICAEW whose frame of reference was to re-examine the scope and aims of published reports and to concern itself with the public accountability of business entities. The corporate report drew attention to the following objectives:

- (a) The objective of financial reporting is to communicate relevant information on the reporting entity to those persons having a reasonable right to receive that information;
- (b) The information provided by the financial reports should be understandable by all affected parties; and
- (c) Additional information should be provided in financial reports to meet the accountability responsibilities of the reporting entity (ICAEW, 1975: 28-31).

From a theoretical viewpoint, Chen (1975:539) argues that large businesses are characterized by great amounts of invested capital in which few investors may significantly participate and as a result of this dispersed ownership, the power of control is transferred to management. As a result, management is not only the steward of the owners, but is also the public steward of the employees, customers and all society with the responsibility to perceive and attain social objectives. Chen thus distinguishes between two types of stewardship responsibility, primary and secondary (p.541). Primary responsibility is for the attainment of social welfare or social responsibility, and secondary responsibility is for the pursuit of the interests of the immediate owners (p.542).

Chen (p.541-542) explains that management has two stewardship responsibilities: (1) a primary (social) responsibility and (2) a secondary (financial) responsibility (refer to figure 2.1). Social reports discharge management's primary responsibility to society and financial reports discharge management's secondary responsibility to shareholders. The accounting profession's role is to develop auditing standards and supervise independent accountants as well as to observe business activities and behavioural patterns in order to establish generally accepted accounting standards for both social and financial reports. Independent accountants have a dual role. The one is to audit social reports as a responsibility towards society and the other is to audit financial reports as their responsibility to shareholders. Society uses the social report to evaluate management's social performance, while shareholders will use the financial report to evaluate the financial performance of management. The shareholders' views should then be absorbed by social values while certain social values will be adopted by the shareholders.

Figure 2.1 The stewardship concept and external reporting



This expansion of the role of financial reporting to a group wider than investors and creditors has been recognised as an emerging trend in financial reporting. In 1978, Beaver (1978:45) commented on the reformulation of the stewardship concept by the FASB, in its Tentative conclusions on objectives of financial statements of business enterprises in 1976, where stewardship is subsumed under the user, decision-making approach, and that this may result in a broader set of disclosures in annual reports and in 1981 he (p.17) identified, amongst others, a reporting trend that there would be less emphasis on earnings and more emphasis on the disclosure of useful information to other users of financial reporting information.

Lee (1981:15) argued that the most important change in attitude in company financial reporting at that time had been the recognition of employees as major potential users of reported financial information. Gourley (1984:4) identified that the shift from a “true income” approach to a “decision-usefulness” approach, as a result of the acceptance that

“public accountability” which had replaced the concept of a straightforward relationship between an identifiable owner and steward, had led to new fields of inquiry. These were:

Who are the users who have the right to financial information?

How can financial reporting be made most effective?

What information is required to assist the user in decision making?

Enthoven (1985) identified a developing trend as being, amongst others, the identification, measurement and reporting of relevant information including socio-economic measurements and human-resource information (Saenger, 1991:19).

Studies (The Trueblood report (AICPA, 1973) and the FASB’s Objectives of financial reporting (1978)) in America, and The corporate report (ICAEW, 1975) and The Sandilands report (Sandilands, 1975) in Britain identified the equity investor, the loan creditor, employees, the analyst adviser, the business contact group, the Government and the public to be users of financial information. Of particular interest to this study is the inclusion of the employee user group. This position has been accepted internationally and employees are included as users in the Framework for the preparation and presentation of financial statements, issued by the International Accounting Standards Committee (IASC) in 1989 and adopted by the South African Institute of Chartered Accountants (SAICA) in 1990 as AC 000.

Glautier and Underdown (1997) contrast financial reporting which attempts to meet the needs of investors as users of financial statements with an examination of the extent to which the needs of employees are met. They make the following comparison.

- (a) In both instances, it is necessary to focus on investors’ and employees’ needs as users, rather than upon their wants.
- (b) Although information relevant to investors is also relevant to employees, employees have more complex information needs than investors as they require additional information on more specific matters, for example housing.
- (c) For both user groups, the disclosure of information has been regulated by the Companies Act of 1973, as amended, in the case of shareholders, and by the Labour Relations Act of 1995, in the case of employees. In the UK, the Employment Protection Act of 1975, places an obligation on employers to disclose information for collective bargaining purposes.

- (d) For both user groups, traditional financial information has limited usefulness. Financial reports are less relevant to employees as they do not deal with matters such as safety or overtime which are of importance to employees.
- (e) Employees are directly affected by management decisions compared to investors. Investors who dislike management policies could sell their shareholdings. Few employees would find it easy to transfer their human capital.
- (f) Auditors protect the interests of shareholders but are not required to protect the interests of employees.
- (g) The timespan of financial reporting to investor and employee reporting underlies the different treatment of the two groups. Interest in employee reporting only proliferated after 1970 whereas financial reporting to investors originated in the nineteenth century (p. 375–376).

Concluding this section, the role of financial reporting is to provide financial information directed at the investor and creditor user groups as a result of the capitalist society and the legal system. However, a changing perspective has recognised the importance of employees and the necessity to meet their information needs too.

2.4 THE THEORIES ON WHICH FINANCIAL REPORTING MAY BE BASED WITH REFERENCE TO EMPLOYEE REPORTING

This section overviews the various approaches to the formulation of accounting theory with reference to employee reporting and follows the classification of Belkaoui (1992: 58), who divides the various approaches into the traditional approaches and the new approaches. In the traditional approaches, accounting practice and verification are considered synonymous whereas in the new approaches, attempts are made to verify the theory either logically or empirically (p.56).

These two approaches, the various categories and the different theories falling within each category are shown in figure 2.2.

2.4.1 Traditional approaches

According to Belkaoui (1992:58), the traditional approaches have reached a higher level of acceptance and exposure than the new approaches. Belkaoui categorises the traditional approaches into either the nontheoretical approaches or the theoretical approaches.

Figure 2.2 The approaches to the formulation of accounting theory

Traditional approaches	New approaches
1. Nontheoretical	1. Regulatory approach
(a) Pragmatic (practical)	2. Events approach
(b) Authoritarian	3. Behavioural approach
2. Theoretical	4. The human information processing approach
(a) Deductive	5. The predictive approach
(b) Inductive	6. The positive approach
(c) Ethical	
(d) Sociological	
(e) Economic	
(f) Eclectic	

Source: Belkaoui (1992: 58-65, 74-98, 109-125, 138-163).

2.4.1.1 Nontheoretical approaches

The nontheoretical approaches are the pragmatic (or practical) approach and the authoritarian approach.

a. Pragmatic approach (practical)

The pragmatic approach may be described as consisting “of the construction of a theory characterized by its conformity to real-world practices that is useful in terms of suggesting practical solutions” (p.58). Thus accounting techniques and approaches should be chosen on the basis of their usefulness to users of accounting information and their relevance to the decision-making process. Fremgen (1967: 458) defines usefulness, or utility, as “that property which fits something to serve or to facilitate its intended purposes”. Support for the use of utility as a criterion for the choice of accounting principles has come from Prince (1963), Fremgen (1967), Mueller (1967) and Cowan (1968) (Belkaoui, 1992:59; Saenger, 1991:34). The link between accounting theory construction and accounting practices is the use of utility as a criterion for the choice of accounting principles and this, according to Belkaoui (1992), may explain the lack of support for the pragmatic approach. Skinner (1972:302) comments too that attempts to reduce conflicting practices have been extremely tentative and cautious and that experience has shown that this approach will not, by itself, reduce conflict in accepted accounting principles.

However, in the USA (FASB, 1978), internationally (IASC, 1989) and in South Africa (SAICA, 1990), the objective of financial statements is seen as providing information that is useful to a wide range of users in making economic decisions (para. 12). The emphasis of the pragmatic approach on decision-making is of some relevance to this study as employees are usually included as users who require information for decision-making (para. 9).

b. Authoritarian approach

This approach is employed primarily by professional organizations and consists of issuing pronouncements for the regulation of accounting practices in order to provide practical solutions on the basis of the usefulness of the information (Belkaoui, 1992:59). Although this is of some relevance to this study, currently in South Africa, no such pronouncements exist relating to employee reporting.

The pragmatic and authoritarian approaches are grouped together as practical approaches as they both attempt to provide practical solutions. Belkaoui (p.59) regards both approaches as having been largely unsuccessful in reaching satisfactory conclusions in their attempts to construct an accounting theory due to their nontheoretical nature. Belkaoui does not however dismiss the nontheoretical approaches. He notes that practical approaches are necessary to any theory with an operational utility and that pragmatic considerations permeate through the field of accounting through the generally accepted standard of relevance.

2.4.1.2 Theoretical approaches

Belkaoui (p.58) identifies the deductive, inductive, ethical, sociological, economic and eclectic approaches as comprising the theoretical approaches to the formulation of accounting theory.

a. Deductive approach

The deductive approach begins with basic propositions and from these derives logical conclusions about the subject under consideration. According to Belkaoui (p.60) the steps to derive the deductive approach will include:

1. Specifying the objectives of the financial statements.
2. Selecting the "postulates" of accounting.
3. Deriving the "principles" of accounting.
4. Developing the "techniques" of accounting.

The inter-relationship of these four steps means that if the objectives, postulates and principles are true, the techniques must also be true (p.60) and thus the disadvantage is that if any of the postulates and premises are false, this may lead to the conclusions being false too (Hendriksen & Van Breda, 1992:16). A further criticism of the deductive method is that it is thought to be too far removed from reality to provide the basis for practical rules or to be able to derive realistic and workable principles (p.16).

The deductive approach is usually normative because it is non-empirical, with its conclusions based strictly on its premises (Wolk et al., 1992:33). They (p.34) also describe the deductive approach as sometimes global (macro) in nature. An example of this are theories that advocate one type of valuation system for all balance sheet and income statement accounts.

Deductive theorists include Paton (1922), Canning (1929), Sweeney (1936), MacNeal (1939), Alexander (1950), Edwards and Bell (1961), Moonitz (1961) and Sprouse and Moonitz (1962) (AAA, 1977:5,7). These deductive theorists drew on economic theory and behaviour which they applied to accounting and in particular, the economic terms of "income" and "wealth" which they attempted to make operational in an accounting context (p.6-7).

Although the deductive approach has disadvantages and its critics, Hendriksen and Van Breda (1992:16) comment that these have resulted from a misunderstanding of the nature and purpose of a theory. If the objective of the theory is to provide a framework for the development of new ideas and procedures and to assist in choosing between alternative accounting procedures, then the theory need not be based only on practical concepts or that it be used only to provide practical rules.

The deductive approach can be contrasted with the inductive approach which follows.

b. Inductive approach

The inductive approach to the formulation of accounting theory begins with observations and measurements and moves towards generalized conclusions (Belkaoui, 1992:61). Thus, in accounting, observations are first made about the financial information of business enterprises and then generalizations and principles of accounting are constructed from these observations on the basis of recurring relationships.

Belkaoui lists the four stages of the inductive approach to a theory as follows:

1. Recording all observations.
2. Analysis and classification of these observations to detect recurring relationships (“likes” and “similarities”).
3. Inductive derivation of generalizations and principles of accounting from observations that depict recurring relationships.
4. Testing the generalizations.

The inductive or empirical approach is usually positive or descriptive as it attempts to describe “what is” rather than “what should be” (a normative approach) (Wolk et al., 1992:31).

Wolk et al. (p. 34) also describe this approach as particularistic (micro) as an inductive approach can only focus on a small part of the relevant environment within real-world phenomena. Inductive theorists include Hatfield (1927), Gilman (1939), Paton and Littleton (1940), Littleton (1953) and Ijiri (1975) (AAA, 1977:5). These theorists attempted to draw theoretical and abstract conclusions from rationalisations of accounting practice (Belkaoui, 1992:61).

Hendriksen and Van Breda (1992:17) note that an advantage of the inductive approach is that researchers may make any observations deemed relevant as the approach is not constrained by a preconceived model or structure. Conversely, the disadvantage of this approach is that observers may be influenced by subconscious ideas of what data should be observed and what the relevant relationships should be. Belkaoui (1992:61) also comments that while the formulation of propositions is accomplished by inductive reasoning, the principles and techniques are derived by deductive reasoning.

As to which approach should be followed, Caplan (1972) supported the inductive theory because it could shed light on particular questions (Wolk et al., 1992:35). Nelson (1973) saw global theories of accounting at an impasse (Wolk et al., 1992:34) and in 1977, the AAA (1977) also regarded global accounting theories as unresolvable at that particular time. In contrast, Hakansson (1969) supports a deductive approach (Wolk et al., 1992:35).

In conclusion, Wolk et al. see the deductive-inductive distinction as complementary in nature and capable of being used together and not as mutually exclusive approaches. Inductive research in accounting explains relationships and phenomena existing in the business environment and this is useful in the policy-making process in which the rules that are to be prescribed have been determined by deductive reasoning (p.35-36).

These first two approaches, the deductive and inductive approaches, may be compared to the ethical approach which highlights the concept of “fairness” in the formulation of accounting theory.

c. Ethical approach

The ethical approach to the formulation of accounting theory emphasises the concepts of justice, truth and fairness (Hendriksen & Van Breda, 1992:8). Scott (1941) suggests that the principles underlying social organizations form the basis for the determination of accounting practice. Scott’s basic concepts were:

- (1) accounting procedures must provide *equitable* treatment to all interested parties;
- (2) financial reports should present a *true* and *accurate* statement without misrepresentation; and
- (3) accounting data should be *fair, unbiased, and impartial*, without serving special interests (Hendriksen, 1982:17).

Scott (1941) also added the requirement that there should be continual revision of accounting principles to allow for changes in conditions and that these principles should, where possible, be consistently applied (Hendriksen, 1982:17).

Belkaoui (1992:62) suggests that accountants since Scott have considered the concepts of fairness, justice, equity and truth to be equivalent. However, Yu (1976:108) views truth as a value statement and only justice and fairness as ethical norms. “Fairness” is ranked by Patillo (1965) as a basic standard to be used to evaluate other standards as it implies “ethical considerations” (Belkaoui, 1992:62). Spacek (1962) suggests that the first step in the construction of an accounting theory is to determine principles that will result in a fair presentation of the facts in the form of financial accounting and financial reporting and that this fairness of accounting and reporting must be for and to people who represent the various segments of our society (Belkaoui, 1992:62).

Fairness has become one of the basic objectives of accounting. It is found in the South African Companies Act of 1973 as amended, and Hendriksen and Van Breda (1992:8) comment that each of the concepts of justice, truth, and fairness is found in the FASB's conceptual framework. In South Africa, these concepts are also found in AC 000 - Framework for the preparation and presentation of financial statements (SAICA, 1990: para. 46) where "true and fair" and "fair presentation" are considered to be achieved due to the application of the qualitative characteristics and the appropriate accounting standards. Furthermore, the components of the qualitative characteristic of relevance includes faithful representation (para. 33) and neutrality (para. 36). Thus ethical considerations are pervasive in accounting.

Although the ethical approach is discussed as a separate approach to the formulation of accounting theory, this does not imply that other approaches ignore ethical considerations, nor does it imply that all other concepts are ignored by ethical approaches (Hendriksen & Van Breda, 1992:7). Patillo (1965) regards fundamental ethical questions as fundamental to all modern theory building (Hendriksen & Van Breda, 1992:7). In conclusion, truthfulness in financial reporting depends on the validity of the accounting principles underlying the financial statements and this is an inadequate basis for measuring truthfulness (p.8). The sociological approach which follows is also an ethical approach but has a broader concept of fairness which is social welfare (Belkaoui, 1992:63).

d. Sociological approach

This approach to the formulation of accounting theory evaluates a given accounting principle or technique on the basis of its reporting effects on all groups of society (p.63). Thus, the social effects of accounting techniques and a broader concept of fairness, namely social welfare, are emphasised. Furthermore, this approach implies that accounting data will be useful in making social-welfare judgments.

The sociological approach uses as criteria for the formulation of accounting theory the assumption that "established social values" (Rappaport, 1964) exist. Although there are difficulties in determining acceptable "social values" for all people and identifying the information needs of those who make social welfare judgements (Belkaoui, 1992:63), this approach has contributed to the evolution of socioeconomic accounting, a new accounting subdiscipline. Belkaoui (1975) and Beams and Fertig (1971) refer to the necessity of

“internalizing” social costs and social benefits of the private activities of the business firm (Belkaoui, 1992:63). Ladd (1963) and Littleton and Zimmerman (1962) assert that accounting should serve the public interest and evolve in anticipation of public inputs, minority viewpoints and group disagreements (Belkaoui, 1992:63). Demaris (1963) argues that accounting contributions to the general welfare of society in terms of measurement of income should be ranked in a hierarchy of social importance (Yu, 1976:115). Bedford (1965) argues that a measure of income determination that is best for society will facilitate the maximisation of social well-being (Belkaoui, 1992:63). The AAA (1966) states that accounting should develop information which meets individuals’ needs and social wants and Ijiri (1967) signifies the need for a valuation system in terms of society’s goals to regulate conflicting interests by using the term “equity accounting” (Yu, 1976:116). A further proponent is Devine (1960) who appealed for the acceptance of an existing social system as a foundation for accounting goals and later considered the use of a statement of accounting objectives based on accepted social values as the starting point for the formulation of a theoretical accounting framework (Yu, 1976:116).

Earlier exponents of the social welfare approach include the American Institute of Accountants (AIA) (1939) who stated that the test of the corporate system are the results produced by that system and these require judging by society as a whole, and Paton and Littleton (1940) who contend that large corporations have a duty to the general public and resources should be allocated to industries which serve the interests of the public (Yu, 1976:114).

The sociological viewpoint is closely linked to corporate social reporting (CSR) which may be defined as “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large” (Gray, Owen & Maunders, 1987:preface). In 1991 Glautier and Underdown (p.8) regarded this as a new phase in accounting development which owed its birth to the Western world and the social revolution which had existed for a number of years. In Western Europe, CSR has tended to concern itself with the enterprise-employee relationship. This is evidenced by the EEC’s adoption of the Fifth Directive on employee participation and the Vredeling proposals which give information rights to employees of “large” companies (Gray et al., 1987:26). In France, legislation requires certain companies to produce an annual social balance sheet; in Germany a number of companies voluntarily produce a social report; in

Sweden, social information tends to be used for internal-decision making purposes; in the Netherlands, law requires companies to disclose a wide range of financial and manpower information to works councils; and in Belgium, companies are obliged to provide a wide range of corporate information to works councils (p.26–37). In the USA, CSR has a higher profile but is directed to the interests of the general public and consumers rather than employees as is the case elsewhere (p.23). In South Africa, CSR disclosures have not had as much attention (Konar, 1989:200). Konar ascribes this to the absence of a generally accepted conceptual framework at that time, that the disclosures are voluntary and that companies prefer to disclose that with which they are comfortable.

Recent developments in South Africa are the issue of The King report on corporate governance (Institute of Directors in Southern Africa, 1994) which proposes the directors should report to all stakeholders (p.28); Discussion Paper (DP) 12 - Meeting the financial reporting needs of users of financial statements in South Africa (SAICA, 1994) which identifies the need for reporting to a wider interest group – the stakeholders, the issue of a booklet entitled Stakeholder communication in the annual report by SAICA (1997a), and the passing of the Labour Relations Act (66 of 1995) which grants trade union representatives the right to relevant information in order to perform effectively the functions outlined in the Act.

The sociological approach is thus of relevance to this study which concentrates on the employee stakeholder group and the perspectives of employers towards employee information. In contrast, the economic approach adopts a macroeconomic viewpoint.

e. Economic approach

This approach “emphasizes controlling the behavior of macroeconomic indicators that result from the adoption of various accounting techniques” (Belkaoui, 1992:64). In other words, different accounting techniques are chosen according to their effect on the national economy or on that country’s particular economic situation. The economic approach which focuses on “general economic welfare” may thus be contrasted with the ethical approach which focuses on “fairness” and the sociological approach which focuses on “social welfare”.

Hendriksen and Van Breda (1992:9-10) subdivide the economic approach into the macroeconomic, the microeconomic and the corporate social approach. In the macroeconomic approach, the general criteria are firstly that accounting policies and

techniques should reflect “economic reality” (Brooks, 1976) and secondly, the choice of technique should depend on “economic consequences” (Zeff, 1978) (Belkaoui, 1992:64). According to Mueller (1967), Sweden is an example of a country which aligns accounting policies with other macroeconomic policies (Belkaoui, 1992:64). Hendriksen and Van Breda (1992:9) also cite the example of Sweden as a country which bases accounting concepts and practices on economic goals.

On a microeconomic level, accounting theory focuses on the firm as an economic entity which affects the economy through its operations in markets. This approach has as its fundamental premise that accounting information has an economic consequence (p. 9). The effect a firm has on society is not totally encompassed by the microeconomic view as social issues such as pollution and unemployment are not reported by a firm; instead these social issues are addressed by corporate social accounting. Corporate social accounting is linked to macroeconomic objectives through the recognition that there are many different users interested in financial information.

f. Eclectic approach

Belkaoui (1992:64 - 65) is of the opinion that in general, the formulation of an accounting theory and development of accounting principles have followed a combination of approaches. This he has termed the “eclectic approach”. This approach is the result of many attempts by individuals and professional and government organizations to participate in establishing accounting concepts.

In summary, the traditional approaches are categorised as either the nontheoretical or the theoretical approaches to the formulation of accounting theory. The pragmatic and authoritarian approaches have some relevance to this study as the former emphasises the decision making of users (which would include the employee user group) and the latter emphasises accounting pronouncements which also emphasise decision making on the basis of the usefulness of the information. Among the theoretical approaches, the sociological approach has some relevance to this study because of its link with CSR.

In concluding this discussion of the traditional approaches to the formulation of accounting theory, the eclectic approach, or a combination of approaches, has provided the foundation for the new approaches which follow.

2.4.2 New approaches

The traditional approach to the formulation of accounting theory may be characterised by the fact that it “employed either a normative or a descriptive methodology, a theoretical or a nontheoretical approach, a deductive or inductive line of reasoning, and has focused on a concept of ‘fairness’, ‘social welfare’, or ‘economic welfare’ ” (Belkaoui, 1992:65). The traditional approach evolved into an eclectic approach and is being replaced by the new approaches, which are the regulatory, events, behavioural, human information processing, predictive, and positive approaches. These new approaches are discussed below.

2.4.2.1 Regulatory approach

The regulatory approach to the formulation of accounting theory is concerned with the establishment and enforcement of standards and the determination of how best to establish accounting standards in order to ensure their acceptability and usefulness to the accounting profession and various users. These standards are generally accepted rules which may have legal backing. Establishing standards is necessary (1) to provide interested users with relevant accounting information, (2) to provide public accountants with guidelines and rules to use in providing their services, (3) to provide government with information useful for achieving various economic and social goals, and (4) to generate interest and debate on accounting issues (p.75).

In considering who should set accounting standards, Belkaoui (p.84) states that regulation is assumed to be acquired by a particular industry and is designed and operated primarily for its benefit. Two major categories of theories of regulation of a given industry exist: firstly, public-interest theories, and second, interest-group or capture theories. Public-interest theories maintain that regulation is in response to public demand for the correction of market prices and thus they are instituted for the protection and benefit of the general public. Interest-group or capture theories maintain that regulation is supplied in response to special interest-groups’ demands. Interest-group theories may either be the political ruling-elite theory of regulation which concerns the use of political power to gain regulatory control or the economic theory of regulation which concerns the use of economic power to gain regulatory control.

In South Africa, regulations are set by SAICA in the form of statements known as Generally Accepted Accounting Practice (GAAP). In the USA, the FASB sets Statements of Financial

Accounting Standards (SFAS) as part of their structure of Generally Accepted Accounting Principles (GAAP). Regulations are also set by the AICPA as Statements of Position (SOP) and by the SEC which endorses the FASB but has retained its rights to express its views by issuing, amongst others, Accounting Series Releases (ASR) which are pronouncements on accounting matters (Belkaoui, 1992: 30,77,82 - 83). In the UK, regulations are issued by the Accounting Standards Committee (ASC) of the ICAEW as Statements of Standard Accounting Practice (SSAP). International Accounting Standards (IAS) are issued by the IASC.

While regulations are a reality of the accounting environment, these regulations do not themselves comprise an accounting theory. The FASB, since its inception in 1973, has concerned itself with the establishment of a conceptual framework to serve as a basic point of reference for policy making on certain issues. The FASB defined a conceptual framework as a “coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function and limits of financial accounting and reporting” (FASB, 1980:i). In 1989, the IASC issued its Framework for the preparation and presentation of financial statements which has been adopted by SAICA as AC 000 (SAICA, 1990).

Of relevance to this study is the objective of financial statements found in paragraph 12 of AC 000 which states that the “objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions”. While the type of information is limiting in this definition (Everingham & Watson, 2000: 2:5) in that information about the age and qualifications of management is useful but falls outside information about financial position, performance and changes in financial position, the reference to a wide range of users and the inclusion of employees as a user of financial statements is of relevance to this study. Employees have subsequently been included as users in DP 12 - Meeting the financial reporting needs of users of financial statements in South Africa (SAICA, 1994), The King report on corporate governance (Institute of Directors in Southern Africa, 1994) and in a booklet entitled Stakeholder communication in the annual report issued by SAICA (1997a).

To conclude this discussion on the regulatory approach, the development of a theory to describe accounting standard setting is in its infancy (Belkaoui, 1992:84). Whether accounting should or should not be regulated is under debate (p.85). Approaches to standard-setting include the free-market approach, the private-sector approach and the public-sector approach. Inherent in each of these approaches is an assumption about who would produce the accounting standards. Advantages and disadvantages for each exist (p.85–96) leading to the conclusion that no one approach can be chosen above another.

The regulatory approach to the formulation of accounting theory can be compared to the events approach.

2.4.2.2 Events approach

After a divergence of opinion amongst the members of the committee of the AAA which had issued A statement of basic accounting theory in 1966, the events approach, as opposed to the value approach (conventional accounting model), was first explicitly stated by Sorter (1969). According to the events approach, the purpose of accounting is “to provide information about relevant economic events that might be useful in a variety of decision models” (p.13). In other words, while it is up to accountants to provide information about the events, it is up to the user to transform “the event into accounting information suitable to the user’s own individual decision model” (Belkaoui, 1992:111). The events approach thus suggests it would be necessary to greatly expand accounting data presented in annual reports as a result of the amount of observable characteristics and events that might be relevant to the decision models of all types of users. This approach would require that “[c]haracteristics of an event other than monetary values may have to be disclosed”.

In the value approach, the balance sheet indicates the financial position of the firm at a given point in time. However, the effect on the balance sheet in the events approach would require that the “balance sheet should be constructed [in such a way] as to maximise the reconstructibility of the events to be aggregated” (Sorter, 1969:15). This would imply that all aggregated figures in the balance sheet should be capable of disaggregation in order to show all the events that have occurred since the incorporation of the firm (Belkaoui, 1992:111).

In terms of the value approach, the income statement measures the financial performance of the firm for a given period of time. The events approach however regards the balance sheet as “a *direct* communication of the operating events that occur during a given period” (p.111).

In the value approach, the funds statement measures changes in working capital. In the events approach, “the funds statement is better perceived as an expression of financial and investment events. In other words, an event’s relevance, rather than its impact on the working capital, determines the reporting of an event in the funds statement” (p.111).

The events approach is based on a normative events theory of accounting which Johnson (1970:650) summarises as follows:

In order for interested persons (shareholders, employees, managers, suppliers, customers, government agencies, and charitable institutions) to better forecast the future of social organizations (households, businesses, governments, and philanthropies), the most relevant attributes (characteristics) of the crucial events (internal, environmental, and transactional) which affect the organization are aggregated (temporally and sectionally) for periodic publication free of inferential bias.

Thus the normative events theory of accounting has as its objective maximising the forecasting accuracy of accounting reports by focusing on the most relevant attributes of events considered crucial to users (Belkaoui, 1992:112). The reference to employees in the above quotation would indicate that this theory is of some relevance to this study. As the focus of the events approach to the formulation of accounting theory is maximisation of the forecasting accuracy of accounting reports by providing information about the economic events useful to users with different decision models, employee reporting would increase the amount of information available to the employee group who would then decide on the type and amount of information needed for their decisions.

Belkaoui (p.113) lists the following arguments which may affect the usefulness of the events approach.

1. The psychological type of the decision maker. While high-analytic decision makers prefer structured/aggregate reports, low-analytic decision makers prefer data-base type enquiry systems.
2. Information overload. Attempts to measure the relevant characteristics of all crucial events affecting the firm may result in information overload.

3. An adequate criterion for the choice of crucial events has not yet been developed.
4. Difficulties in measurement. Given the state of the art in accounting, it may prove difficult to measure all the characteristics of an events approach.
5. More research may be required. The impact of different design approaches (for example, hierarchical, network, relational, entity-relationship and REA models) to the events approach theory requires more research.

The event approach which focuses on the provision of useful information about economic events to interested users may be compared to the behavioural approach.

2.4.2.3 Behavioural approach

This approach to the formulation of accounting theory emphasises the relevance to decision making of the information being communicated and the individual and group behaviour caused by the communication of the information (p.114). Belkaoui labels these communication-decision orientation and decision-maker orientation. According to this approach, the purpose of accounting is to influence behaviour through the information conveyed and through the action of accountants. The behavioural approach thus concerns itself with human behaviour as it relates to accounting information and problems, and applies behavioural science to accounting. Hendriksen and Van Breda (1992:11) see the behavioural approach as an alternative to the economic approach. The focus of the behavioural approach is on the relevance of information communicated and the subsequent behaviour of the recipients.

The content and format of the accounting information may affect individual decision making and research studies in this area have focussed on alternative accounting models and disclosure practices to assess the relevance and impact on behaviour of the available choices.

As a general theoretical framework does not exist (Belkaoui, 1992:115), the research studies have been classified in various ways. Dyckman, Gibbins and Swieringa (1978) divide the research studies into five general classes with each class being examined by different approaches.

The five classes and approaches within each class are shown below as certain of them are of relevance to this study.

1. The adequacy of disclosure
 - (a) Patterns of use of data were examined from the viewpoint of resolving controversial issues concerning the inclusion of certain information.
 - (b) Perceptions and attitudes of different interest groups were examined.
 - (c) The extent to which different information items were disclosed in annual reports and the determinants of any significant differences in the adequacy of financial disclosure among companies were examined.

2. Usefulness of accounting data
 - (a) The relative importance of the investment analysis of different information items to both users and preparers of financial information were examined.
 - (b) The relevance of financial statements to decision making, based on laboratory communication of financial statement data in terms of readability and meaning to users in general were examined.

3. Attitudes about corporate reporting practices
 - (a) Preferences for alternative accounting techniques were examined.
 - (b) Attitudes about general reporting issues, such as how much information should be available, how much information is available, and the importance of certain items were examined.

4. Materiality judgements
 - (a) The main factors that determine the collection, classification, and summarization of accounting data were examined.
 - (b) What items are considered to be material were focused on and the degree of difference in accounting data that is required before the difference is perceived as being material were determined.

5. Decision effects of alternative accounting procedures

These were examined mainly in the context of different inventory techniques, price-level information, and non-accounting information (Belkaoui, 1992:115-116; Dyckman, Gibbins & Swieringa, 1978:50-67).

These indicate the nature of the studies on the behavioural effects of the accounting information. Three other areas also fall into the behavioural approach to the formulation of accounting theory. These are: (1) the linguistic effects of accounting data and techniques, (2) functional fixation, and (3) information inductance (Belkaoui, 1992:116-118). The linguistic effects of accounting data relates to studies which investigate the similarities between linguistics and accounting and the importance of linguistic considerations in the field of accounting. Functional fixation refers to the fact that often an individual attaches a meaning or use to an object and is unable to attach alternative meanings or uses. This is a common feature of human behaviour and studies have attempted to explain the impact of alternative accounting techniques using functional fixation. Information inductance refers to the fact that the behaviour of an individual is influenced by information through receiving information and sending information.

The behavioural approach to the formulation of accounting theory has a wide-ranging effect on the different issues affecting accounting development with the focus firmly on accounting's influence on behaviour and this study on employee reporting could be classified within this approach. The human-information processing approach which follows is also of relevance to this study.

2.4.2.4 The human information processing approach

According to Belkaoui (p.118), the human information processing approach arose "from a desire to improve both the information set presented to users of financial data and the ability of users to use the information". Studies have focused on the three main components of an information processing model – input, process and output.

Studies on the input component focus on variables that are likely to affect how people process information for decision making. Studies on the process component focus on variables affecting the decision maker and studies on the output component focus on variables related to the judgment, prediction or decision that may affect the way the information is processed by the user (p.119).

Belkaoui discusses four different approaches which have been used to study the three components of an information processing model. These are: (1) the lens model approach, (2) probabilistic judgment, (3) predecisional behaviour, and (4) the cognitive style approach.

The lens model approach is used “primarily to assess human judgmental situations – situations in which people make judgments on the basis of a set of explicit cues from the environment” (p.119). Similarities between the environment and the subject response are emphasised by the model.

The probabilistic judgment approach focuses on a comparison of intuitive probability judgments and the normative model (p.121). A normative model for probability revision, Bayes’ Theorem, is used as the descriptive model of human information processing.

Predecisional behaviour addresses the dynamics of problem definition, hypothesis formulation and information search in environments which are less structured than those where experiments would be conducted using either the lens model or probabilistic judgment.

The cognitive style approach “focuses on the variables that are likely to have an impact on the quality of the judgments made by the decision makers” (p. 123). This approach is used to explain the process which occurs between stimuli and responses. In psychology, five approaches to the study of cognitive style have been reported. These are: (1) authoritarianism, (2) dogmatism, (3) cognitive complexity, (4) integrative complexity, and (5) field dependence. According to Belkaoui (p.124), accounting studies have focussed on the classification of users of information according to their cognitive structure and designing an information system which suits the cognitive style of the decision maker. Belkaoui reports that evidence is mixed as variables were unaccounted for and unmeasured, and evidence is also mixed on the impact of “information overload” on the quality of the decision and failure to define “information overload”.

The human information processing approach is of relevance to this study in that employees are a specific user group and the desire to improve the information set presented to users of financial data and the ability of employees to use the information would fall into this approach.

To summarise, the events, behavioural and human information processing approaches to the formulation of accounting theory each rely on different assumptions, on new methodologies and unique approaches. Belkaoui (p.125) states that “[e]ach approach is beginning to take on the attributes of a distinctive paradigm, thereby causing accounting to become a

multiparadigmatic science in which competing paradigms strive for dominance". These approaches may be contrasted with the predictive approach.

2.4.2.5 The predictive approach

The predictive approach to the formulation of accounting theory arose as a method for evaluating and choosing between accounting measurement alternatives. This approach utilises the criterion of predictive ability which follows from the qualitative characteristic of relevance. The ability to predict future events would make data relevant. While accounting data should facilitate decision making, identifying and defining all the decision models employed by users is difficult as most models are descriptive rather than normative (p.139). Furthermore, even if the decision model is well-defined, a criterion for the choice of relevant information is still required. Using predictive ability as the criterion would enable a choice between different accounting measures to be chosen on the basis of which produces the better decision. Belkaoui distinguishes between prediction and decision by suggesting that it is possible to predict without making a decision, but a decision without a prediction is not possible. Belkaoui suggests that this approach has failed to identify and define the users' decision models and the kinds of events requiring prediction. However, the predictive approach has initiated much empirical accounting research concerning either the ability of accounting data to explain and predict economic events or the ability of accounting data in explaining and predicting market reaction to disclosure.

Studies concerning the prediction of an economic event have concentrated on:

- (1) Time-series analysis to determine the time-series properties of reported earnings and prediction issues in time-series analysis.
- (2) The relevance of earnings forecasts which are necessary for the efficient functioning of capital markets.
- (3) Distress prediction where attempts are made to determine the characteristics that distinguish financially distressed from non-distressed firms.
- (4) Prediction of bond premiums and bond ratings.
- (5) Predictive ability of information decomposition measures.
- (6) Explaining corporate restructuring behaviour.
- (7) Credit and bank-lending decisions (p.140-145).

Research in accounting relating to the prediction of market reaction to disclosure has used the efficient market hypothesis, the capital-asset pricing model, portfolio theory and the market model to evaluate capital market reactions (p.149). According to Belkaoui, research in this area is usually classified in the following categories:

- (1) Information content studies.
- (2) Difference in discretionary accounting techniques.
- (3) Consequences of regulation.
- (4) Impact on related disciplines (p.149-150).

Although the predictive approach to the formulation of accounting theory is not of direct relevance to this study, the reference to decision making is of relevance. Employees are accounting information users who make decisions and therefore require accounting data to facilitate decision making. This however raises the problems of being able to identify and define the employee user groups' decision models and the types of events employees ought to predict.

2.4.2.6 The positive approach

The call for a positive approach to the formulation of accounting theory came when Jensen (1976) called for "the development of a positive theory of accounting which will explain why accounting is what it is, why accountants do what they do, and what effects these phenomena have on people and resource utilization" (Belkaoui, 1992:155). This is in contrast to a normative approach which is concerned with what ought to be, or with the ideal rather than the actual. Accounting theories were considered unsuccessful as they were normative and should therefore be replaced by positive theories that would explain and predict why management would choose accounting procedures and how regulations have changed over time. This would be done by analysing the cost and benefits of certain financial disclosures in relation to various individuals and to the allocation of resources in the economy (p.156). Thus the positive theory is based on the proposition that managers, shareholders and regulators behave in a rational manner and their choice of an accounting procedure rests on a comparison of the relative costs and benefits in order to maximise their utility and thereby, their wealth.

The positive approach to the formulation of accounting theory was facilitated by the result of developments in finance which itself had taken the concept from economics. Accounting

researchers in the mid-1960s noticed that tests of the efficient markets hypothesis produced contradictory results to hypotheses underlying accountants' normative prescriptions and in explaining the contradictions to accountants, research methods of finance and its related concept of theory and methodology were introduced (Watts & Zimmerman, 1986:5). Ball and Brown (1968), although preceded by finance-based articles such as those of Beaver (1966) and Benston (1967), are credited with making the biggest impact on accounting literature (Watts & Zimmerman, 1986:5).

Belkaoui (1992:156) divides positive research in accounting into either research on the income-smoothing hypothesis or research on positive theories.

The income-smoothing hypothesis hypothesises that management's objectives are to smooth income over the years rather than report maximum profit. Proponents of this are Hepworth (1953), Gordon (1964) and Kamin and Ronen (1978). In contrast, positive theories in accounting have as their assumption that share prices depend on cash flows rather than on reported earnings. Thus the central problem is "to determine how accounting procedures affect cash flows and, therefore, management's utility functions to obtain an insight into the factors that influence a manager's choices of accounting procedures" (Belkaoui, 1992:157). Two theoretical assumptions are used to guide the resolution of the problem. The first, agency theory, views a firm as a "nexus of contracts" that require monitoring and enforcement, thereby requiring accounting and auditing (Watts & Zimmerman, 1986:354). The second, contracting cost theory, views the role of accounting information as one of monitoring and enforcing the contracts to reduce the agency costs where certain conflicts of interest arise (Belkaoui, 1992:157). Both of these theories are part of what Watts and Zimmerman (1986:354) label the economic theory of the firm and have as the underlying assumption that accounting methods are selected as part of the wealth-maximising process (Belkaoui, 1992:158).

Watts and Zimmerman (1986) also suggest a second income-based theory which is the theory of government regulation. This theory sees the political process as a competition for wealth transfers among interested persons. Earnings figures in particular are used to justify regulation. As accounting procedures affect earnings, the ability to regulate the firm is affected (p.354).

The positive approach to the formulation of accounting theory has generated enthusiasm that many positive research questions may now be addressed (Belkaoui, 1992:160). Watts and Zimmerman (1986:355 - 356) also state that positive accounting theory provides a framework for interpreting accounting and auditing that is useful to many individuals, particularly managers and auditors who may only have an understanding of parts of accounting and auditing phenomena.

The positive approach to the formulation of accounting theory has also been criticised. Christenson (1983) bases his criticism on four points:

- (a) The theory is based on a confusion of phenomenal domains at different levels (accounting entities versus accountants).
- (b) The theory is drawn from an obsolete philosophy of science and is a misnomer, as theories of empirical science make no positive statement of "what is".
- (c) A theory that is known to be false may be used for prediction. However, an explanatory theory or one that is used to test normative proposals ought not to be known to be false.
- (d) Unlike the empirical method of subjecting theories to severe attempts to falsify them, ad hoc arguments are made to excuse the failure of positive theories (Belkaoui, 1992:160).

A further criticism is based on the argument that positive theories are also normative because they mark a conservative ideology in their accounting policy implications (Tinker, Merino & Neimark, 1982:167). Sterling (1990) too dismisses the positive approach commenting that the two pillars of value-free study and accounting practices are insubstantial, scientific and economic support of the theory is mistaken, and there have been no accomplishments (Belkaoui, 1992:160).

In concluding the discussion on the positive approach, it must be noted that a well-developed positive theory does not exist (Watts & Zimmerman, 1986:357). The new approaches, as opposed to the traditional approaches, are innovative, less generally accepted and more empirically orientated (Belkaoui, 1992:162). Although there is some relevance within the traditional approaches to this study, in particular, the sociological approach, in general the new approaches with their emphasis on decision making and users are of more relevance to this study.

2.5 SUMMARY

This chapter examined employee reporting within the context of financial reporting and its role as a source of information for employees. The concept “accounting theory” and the theories on which financial reporting may be based were also examined with particular reference to employee reporting. This examination was necessary to place employee reporting in the context of financial reporting and accounting theory and thus provide a sound theoretical background to this study.

By examining the concept of financial reporting, reporting to employees is seen as a specialized area within general financial reporting. If financial reporting is the means of communicating accounting information to interested parties, employee reporting is the means of communicating accounting information to a particular interested party, the employee group. Examination of the role of financial reporting indicates that there has been a shift in providing information to mainly the investor and creditor group as a result of the legal system and a capitalist society to one which emphasises its social importance. Social reporting which embraces employee reporting has become an important feature of employee reporting.

An examination of the concept “accounting theory”, together with discussions on the definitions of accounting theory, the need for an accounting theory and noting a lack of a single theory of accounting, led to an examination of the approaches to the formulation of accounting theory. The traditional and new approaches to the formulation of accounting theory were discussed.

While the nontheoretical traditional approach to the formulation of accounting theory has only indirect relevance to this study, the sociological approach included in the theoretical traditional approaches is of some relevance to this study because of its link with CSR. Within the new approaches to the formulation of accounting theory, the regulatory, the events, the behavioural, the human information processing, the predictive and the positive approaches all had some relevance to the study due to their emphasis on either the objectives of financial reporting or the decision-making of users. Employee reporting, the subject of this study, fits better with the new approaches than the traditional approaches.

In conclusion, this chapter provided the theoretical underpinning of this study and placed employee reporting in both financial reporting and accounting theory.

The next chapter examines the nature of employee reporting in order to provide further background and insight into employee reporting.

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CHAPTER 3**THE NATURE AND IMPORTANCE OF EMPLOYEE REPORTING**

- 3.1 Introduction
- 3.2 The objectives of employee reporting
- 3.3 The development of employee reporting
- 3.4 The importance of employee reporting
- 3.5 The need for employee reporting
- 3.6 Arguments for employee reporting
- 3.7 Arguments against employee reporting
- 3.8 Employee reporting and the conceptual framework
- 3.9 Summary
- 3.10 List of sources

3.1 INTRODUCTION

The previous chapter placed employee reporting within the context of financial reporting and also examined approaches to the formulation of accounting theory with reference to employee reporting. Chapter 2 also contrasted the accountability or stewardship approach with the decision or investment-usefulness approach to financial reporting. Gray, Owen and Adams (1996) argue that social and environmental accounting and disclosure are indispensable to the development of accountability (p.32–33) and that social accounting is a combination of accounting for different things, in different media, to different individuals or groups, and for different purposes (p.3, 11). In order to provide some limits to social accounting, corporate social reporting is restricted to formal accounts prepared by organisations either for themselves or which are disclosed to others about certain areas of activities (such as the natural environment and employees) and wider “ethical issues” and assumes that in addition to the owners and creditors, organisations should report to their “stakeholders” (p.11). Stakeholders are considered to be the other internal and external participants in the organisation and include members of local communities, employees and trade unions, consumers and society at large (p. 11-12). Employee reporting is thus placed within the wider framework of social accounting or corporate social reporting and its main justification is as an extension of the concept of accountability.

To understand fully the concept “employee reporting”, it is necessary to explore the subject in greater detail. This is done by examining the nature and importance of employee reporting, the focus of this chapter, the current status of employee reporting, discussed in chapter 4, and the relevant research studies which have been carried out internationally and in South Africa (chapter 5). These chapters provide the empirical part of this study with a solid theoretical and financial reporting foundation.

To examine the nature of employee reporting, it is necessary to discuss firstly the objectives of employee reporting. If the employees’ need for information is not met by the general purpose annual report, it will be necessary to seek the information from another source. Secondly, the development of employee reporting is traced to establish the factors which have led to its publication. This development is contrasted with its development in South Africa to establish whether there are any similarities in the South African environment compared to overseas. Three areas are examined in detail: corporate social responsibility, the influence of research studies and professional pronouncements, and the influence of trade unions. Thirdly, the importance of employee reporting and the need for employee reporting are discussed followed by an examination of the advantages and disadvantages of employee reporting. Finally, the relevance of the conceptual framework, AC 000 - Framework for the preparation and presentation of financial statements (South African Institute of Chartered Accountants (SAICA), 1990), to employee reporting is examined.

3.2 THE OBJECTIVES OF EMPLOYEE REPORTING

The objectives of employee reporting stem from a need to meet the employees’ desire for and use of financial information and, to a lesser extent, the needs of the employees’ representatives, trade unions. The following objectives are frequently cited in academic studies.

(a) To meet the employees’ need for information

Employees have a need for information which must be met (Laughlin & Gray, 1988:309). According to Hilton (1978:23-24), employees require information on their employment prospects, their working environment and information about the future.

The corporate report (Institute of Chartered Accountants in England and Wales (ICAEW), 1975) states that general purpose annual reports will not meet all the needs of the employee user group

and their needs may be more suitably met by means of special purpose reports at site or plant level. It would thus seem that employee reporting would meet the employees' need for information not obtainable from the annual report which is aimed primarily at other stakeholders such as the investor and creditor group.

Lyall (1982:246) identified that employees require information on job security, company performance and wealth sharing. Not all this information is disclosable and therefore it is not usually found in general purpose annual reports. Craig and Hussey (1982:4,7) also argue that employees have the same rights as shareholders to information and that management has an ethical responsibility to meet the employees' right and demand for information.

(b) To improve employee - employer relationships

Employee - employer (management) relationships are improved as employee reporting is said to provide a channel of communication (Glautier & Underdown, 1997:377; Macintosh, 1984:43). Foley and Maunders (1977:28) believe that information directed towards employees improves job performance through feedback and increases motivation. Furthermore, employees should then have a better understanding of the company's affairs and as a result morale will improve (p.29).

(c) To increase employees' participation in management

Employee reporting may increase employees' participation in management (Macintosh, 1984:43) and as a result, the efficiency of the enterprise will increase (Foley & Maunders, 1977:29). Disclosure of information to employees is seen as part of a strategy to move the enterprise towards what is considered desirable participation and if participation already exists, the disclosure of information is a condition of this participation. This should also improve the stability and efficiency of the enterprise.

(d) To improve the image of the company

Employee reporting may improve the public relations image of the company (Glautier & Underdown, 1997:377; Hilton, 1978:17; Macintosh, 1984:44). The effects of employee reporting extend beyond the firm through increased readership of the employee report. Furthermore, knowledge that the firm is producing an employee report may enhance the image of the company as being a progressive employer sensitive to the needs of its employees.

(e) Other objectives

Other objectives include the notion that voluntary disclosure may be a means of avoiding unionisation (Foley & Maunders, 1977:35), the socialist objective that the extension of information to employees may help employees' control and employees' self management en route to a change in the basis of ownership (that is, industrial democracy) (p.33) and the idea that social accountability possibly begins with the employee group and culminates in a full social audit (p.35).

An objective of employee reporting is also to provide information for collective bargaining. Although this has been required in the United Kingdom (UK) by law (Employment Protection Act of 1975) since 1975, this is a recent development in South Africa (Labour Relations Act, 66 of 1995).

Usually a distinction is made between information required by all employees and that required by a trade union (that is, the provision of information for collective bargaining). Trade unions would require information for use in the process of wage and other negotiations whereas an employee would require financial and other information for the purpose of decision-making. This objective is therefore not a primary objective of employee reporting.

Overall, the above objectives of employee reporting have in common the disclosure of information to employees to meet their various needs. Employers also benefit from disclosing the information as a channel of communication is opened which improves the enterprise's efficiency or the social image of the enterprise.

The following section of this chapter examines the factors providing the impetus for the development of employee reporting in the United States of America (USA), the UK and Europe with particular emphasis on those factors which have influenced employee reporting in South Africa.

3.3 THE DEVELOPMENT OF EMPLOYEE REPORTING

Employee reporting is not a new phenomenon (Chua, 1993:1; Lewis, Parker & Sutcliffe, 1984a; Parker, Ferris & Otley, 1989:132). The development of employee reporting was influenced by different social and cultural factors existing in different countries.

Lewis et al. (1984a) conducted an analysis of a sample of literature published in the USA between 1919 and 1979. One of the objectives of their analysis was to determine whether any socio-economic factors influenced the general pattern of interest in employee reporting. They found, *inter alia*, that the literature on employee reporting was published almost exclusively in the USA prior to 1972 and that the following four factors occurred simultaneously with periods of high interest in employee reporting. These were the application of new technology in the workplace, increased merger activity, anti-union sentiment and economic recession and/or fears of such a recession (p. 280 - 281). Lewis et al. argue that these four factors were influential in promoting and contributing to the interest in employee reporting in the USA. A feature of the development between 1919 to 1979 has been a cyclical pattern of high interest and then disinterest. Subsequent to 1973, interest in employee reporting in the USA declined but increased in the UK and also Australia (p. 285) which may indicate that the factors which caused an interest in employee reporting in the USA were now present in the UK and Australia.

Although Roberts (1990) focussed on the broad area of social accounting, she notes that the interest in social accounting in the early 1970s in the USA was linked to a period of rapid economic growth and full employment which led to calls for companies to report not only on the financial results of their activities, but also the social impact of their activities. Subsequently, less interest was shown in social reporting due to the change in the economic climate leading to inflation, unemployment and a slowdown in economic growth (p. 1). However, the subsequent decline was such that many Americans are unaware of the strong interest which existed in employee reporting in the USA (Parker et al., 1989:133).

Hussey (1981a: 12 - 13) traces employee reporting practices in the UK to the 19th century and suggests that its development was probably in relation to profit-sharing schemes. During and subsequent to the second world war the incidence of providing information to employees increased but the most dramatic growth took place in the early 1970s with the provision of financial information in an employee report.

Gray et al. (1996:96) also see the 1970s in the UK as the decade for a major increase in the "social responsibility" debate, especially for employees and trade unions. They attribute this to important changes in labour law, the strengthening positions of employees and trade unions and the employees' right to information. However, unemployment, the repealing of certain labour

law, and the movement of manufacturing industries to countries where labour legislation was less onerous, saw a decline in the power of trade unions. On a positive note, attempts to include employees as shareholders (employee share ownership schemes) and legislative requirements regarding employment of the disabled, race and sex equality and the requirement to consult and inform employees were prevalent in the 1980s.

According to Purdy (1981a:327), the societal changes providing the impetus towards financial information to employees in the UK were the general pressure for greater company disclosure (such as the Companies Act requirements and The corporate report (ICAEW:1975)), the practice and problems connected with industrial relations (for example, the Industrial Relations Act of 1971), the emergence of industrial democracy (the influence of trade unions) and an awareness of other countries' information provisions (for example those of other European countries).

In Europe, social accounting developed more in response to employee and trade union demands, rather than in response to public concern for the social consequences of companies' activities (Roberts, 1990:1). According to Mathews and Perera (1991:214), the widespread belief in Continental Europe has been that employees have a right to know what is happening in the large enterprises and disclosure procedures have been mandatory. Thus in Europe, disclosures were concerned more with companies' employee related disclosures (Dierkes, 1979; Gröjer & Stark, 1977; Hussey, 1978; Jaggi, 1980; Schrueder, 1979, 1981). Gray et al. (1996:96) comment that the development of the 'bilan social' in France and the Social Charter of the European Union (EU) is indicative of a different approach to employee policies compared to that of the UK, USA, New Zealand and Australia where employee rights were subject to attempts to remove them from the political agenda.

By the mid 1980s, interest in corporate social responsibility seemed to wane probably as a result of the conservatism of the accounting profession and the concern with the economic performance of the UK and the USA by their respective governments and the rising popularity of "green accounting" (Jones, 1995:62-65).

In contrast to developments in employee reporting overseas, South Africa has lagged behind (Everingham, 1994:5). Everingham suggests a number of reasons why employee reporting at

that stage had progressed so slowly in South Africa.

- (a) There are no legislative requirements to communicate with the employees.
- (b) Only recently have various initiatives by the accounting profession in South Africa focused on reporting to a wider group.
- (c) Differences in literacy and language amongst the employees of most South African companies are particular problems of the South African environment.

A fourth reason may have been the South African political environment. Before the 1994 elections, which saw the African National Congress (ANC) take over as the ruling government, black employees probably viewed their workplace as an extension of the apartheid system and saw little distinction between capitalism and apartheid (Beaty & Harari, 1987:98). Faced by such in-built hostility on the part of employees to concepts such as ownership, capitalism and profits, it was not unexpected that any attempt to promote employee reporting may have been viewed with distrust.

The elections in 1994 ended the Nationalist Party's forty-six years in power. As a result of their policy of separate development (apartheid), black employees in South Africa were a disenfranchised group which had attempted to use the power of trade unions as a means of being heard. Sanctions, strict foreign exchange policies, disinvestment, inflation and strikes called by the trade unions became the parameters within which business operated. Since 1994 some of these factors have disappeared or decreased yet the South African economy, an emerging market, is still characterised by high unemployment, low productivity, and trade union activity. Employee reporting as a communication tool between management and employees should be more important now.

In South Africa, the development of employee reporting is probably as a result of the emerging interest in corporate social responsibility, various research studies and professional pronouncements, and the influence of trade unions. These three factors are examined in more detail in the following section.

3.3.1 The influence of corporate social responsibility

Corporate social responsibility (CSR) has evolved as a result of the changing social environment in which enterprises operate. Historically, the primary responsibility of the firm was to provide

a maximum financial return to its shareholders and therefore it became necessary to report to the shareholders on the stewardship of managers (Glautier & Underdown, 1997:374). Thus the main focus in accounting has been concerned with the reporting to investors (shareholders and lenders) while the interests of any other groups associated with the firm were ignored.

The changing social environment has led financial accounting towards a role which emphasises its social importance. The need of a capitalist society to attract savings and thus provide the savers (that is, the investors) with reliable and relevant information in order to make efficient investment decisions, resulted in the legal requirements of financial reporting. However, the needs of a changing society have led to increased recognition that employees have a legitimate right to financial information (p.6) and that companies have a social role (Beesley & Evans, 1978:15-19).

This shift from a purely economic orientation of a firm to one which needs to reconcile the economic orientation with a social orientation occurred mainly in the 1970s in both the UK and the USA (Jones, 1995:58). An umbrella term used to describe this new responsibility of economic entities is CSR.

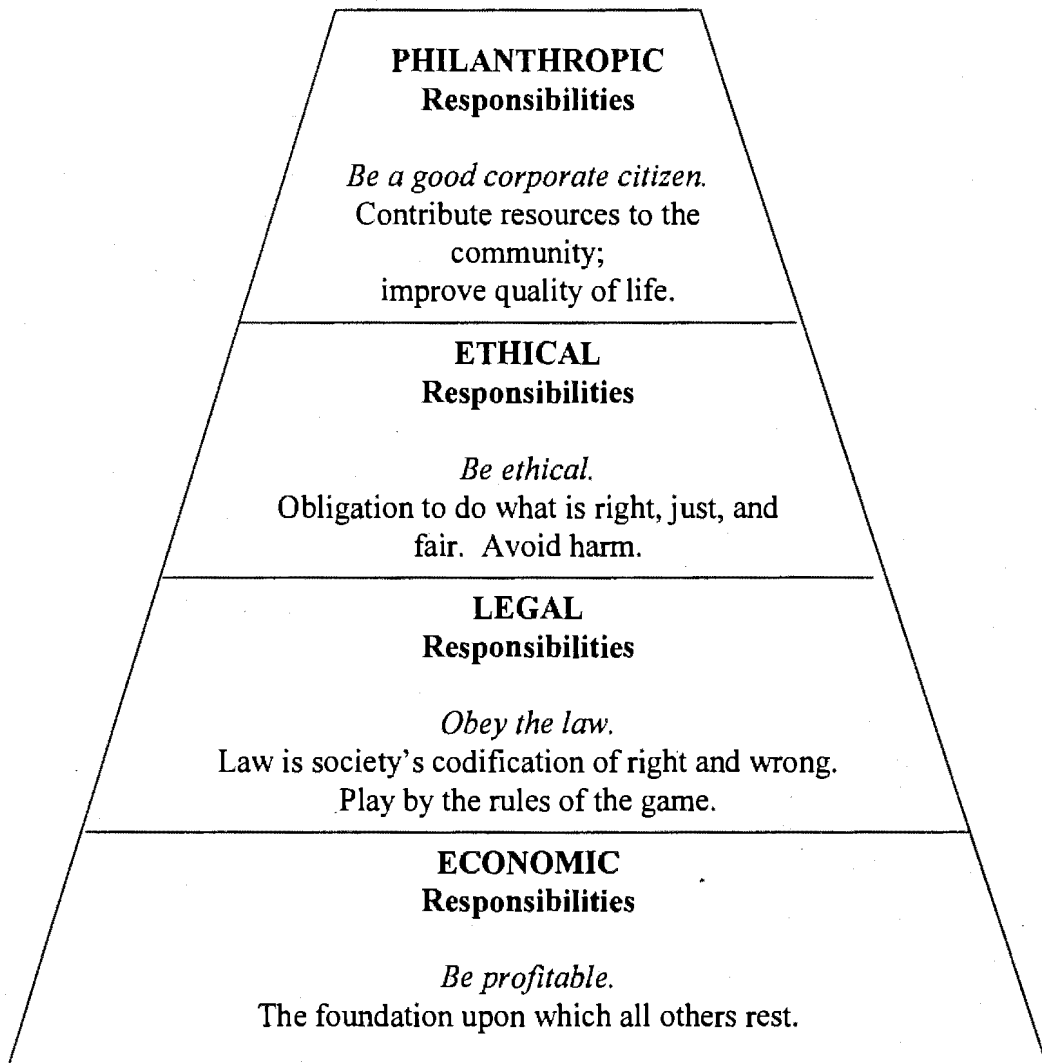
Carroll (1991:40) suggests that each enterprise has four social responsibilities which constitute total CSR, namely economic, legal, ethical, and philanthropic responsibilities. These four responsibilities are shown by Carroll (p.42) in what he terms is the pyramid of CSR. This pyramid of CSR is shown in figure 3.1.

Economic responsibilities, the foundation upon which the other responsibilities rest, are to be profitable. Legal responsibilities are laid down by society and are the rules within which the enterprise must operate. "Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights" (p.41). Philanthropic responsibilities are those responsibilities which an enterprise accepts in response to the expectation of society to be a good corporate citizen (p.42).

Carroll (p.43) comments also that the word "social" is vague and that the word "stakeholder" is more appropriate as it personalises the social responsibilities by naming specific societal

members to whom the firm should be responsible. Gray et al. (1996:45) define a stakeholder as “any human agency that can be influenced by, or can itself influence, the activities of the organisation in question”.

Figure 3.1 The pyramid of corporate social responsibility



Source: Carroll (1991:42).

Stakeholder management can thus be considered a process by which the claims and expectations made on management by the various stakeholder groups are reconciled with management's own objectives and should ensure that the firm's primary stakeholders achieve their objectives while the needs of the other stakeholders are also satisfied (Carroll, 1991:43).

Stakeholder management requires a firm to pose five questions to fully capture stakeholder management (p.44).

These are:

1. Who are the stakeholders?
2. What are their stakes?
3. What opportunities or challenges are presented by the stakeholders?
4. What corporate social responsibilities does the firm have to its stakeholders?
5. What strategies, actions, or decisions should the firm take to best deal with these responsibilities?

Carroll suggests the 'stakeholder/responsibility matrix' shown in figure 3.2 for use by management. By moving through each cell of the matrix, a descriptive and analytical data base is developed which may then be used for purposes of stakeholder management.

Figure 3.2 Stakeholder/responsibility matrix

Types of CSR

Stakeholders	Economic	Legal	Ethical	Philanthropic
Owners				
Customers				
Employees				
Community				
Competitors				
Suppliers				
Social Activist Groups				
Public at large				
Others				

Source: Carroll (1991:44).

If only one cell is considered, and that is that of employees and ethical responsibility, a moral management would treat employees as a human resource to be treated with dignity and respect. Management should adopt a consultative/participative management style. The rights of employees to due process, privacy, freedom of speech, and safety are considered in all decisions (p.46).

The foundation of the pyramid of social responsibility is to be profitable. If shareholders cannot earn an acceptable return on their funds, they will not invest and this will result in no growth in commercial or industrial activity. Furthermore, if there is no profitability in a company, none of the other stakeholders would have any enduring interest. The enterprise must therefore achieve a balance between striving for growth and dealing fairly with its stakeholders. Employees have a large interest in the enterprise's operations and activities. A well balanced mechanism in which employees can participate in management is needed, whilst taking into account differences and similarities in interests between employees and management (Institute of Directors in Southern Africa, 1994:2).

Gray, Owen and Maunders (1987:ix) define corporate social reporting as:

the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon an assumption that companies *do* have wider responsibilities than simply to make money for their shareholders.

In South Africa, CSR received its first public mention in 1972 (Strüwig, 1994:2) and gained momentum after the 1976 uprising, but came across to the target groups as a tactic of business to attempt to calm the community's anger in order to ensure continued profits (Rantla, 1986:462). Further impetus was provided by the Sullivan Code of Principles by foreign-controlled companies and the European Economic Union (EEC) Code of Conduct (Everingham, 1994:1; Strüwig, 1994:79-81).

Because of South Africa's political history and attempts by trade unions and the private sector to bring about political change, CSR is inextricably linked with politics in South Africa.

A number of studies (Abratt & Urdang, 1985; Havenga, Coetzee & Visagie, 1991; Hooper, 1983; Konar, 1989; Levin, 1987; Louw, 1990; Orpen, 1987:89-96; Strüwig, 1994; Wagenaar, 1979) have been undertaken in South Africa in this area.

To show how attitudes towards CSR have changed over this period of time, two of these studies are examined in more detail. The first is Wagenaar (1979) whose study attempted to determine the attitudes of business leaders and the community towards social responsibility. His findings, summarised briefly, were that the concept of social responsibility was accepted as part of business strategy and that business leaders expected that pressure for socially responsible behaviour would increase in the future. The community had greater expectations of social responsibility than business leaders, but did not expect companies to undertake social responsibility to the detriment of profitability. The community expressed a lack of trust in business, as well as a lack of information about businesses' purposes in the economic system. Strüwig's (1994) research, which was carried out while the expectations of a change in Government were dominant, reveals a political dimension to CSR. In Strüwig's study, both trade union management and the boards of directors expressed positive attitudes towards the acceptance and implementation of CSR. However, trade unions generally expressed dissatisfaction with the fact that employees are not consulted before social responsibility strategies are implemented. Strüwig suggests that companies need to change from a paternalistic attitude to a participative management strategy. Trade unions will continue to provide employees with political leadership and negotiate on their behalf to alleviate their social problems. Thus the workplace will become increasingly politicised "which will not change until employees have reached a certain level of education, and until the economy has grown efficiently" (p. 248).

Strüwig (p.249) further suggests that companies focus their social responsibility activities firstly on employees and their dependants. She (p.250) notes that trade unions increasingly require companies to disclose the nature and extent of their social responsibility strategies in order to provide some qualitative measure of a company's social responsibility performance. A first step would be an attempt to meet the informational needs of the employees.

To summarise this section, the role of the enterprise in society is becoming more important. The "general public" (including, amongst others, trade unions and environmentalists) have been the

most rapidly growing group of users (Bedford, 1973:65). To meet this new responsibility, an enterprise should attempt to reconcile the needs of the stakeholders with management's own objectives. One stakeholder group is the employee user group. In South Africa, reporting to employees should be more important now in view of this country's unique political background. The impetus for corporate social reporting, which would include employee reporting, has been provided by the interest in CSR.

Certain research studies and professional pronouncements also had their origin in the interest in reporting to a wider group of stakeholders. These are discussed next.

3.3.2 The influence of research studies and professional pronouncements

The second impetus for employee reporting came as a result of research studies and professional pronouncements which attempted to define users and their uses of financial reports. One of these was The corporate report issued by the Accounting Standards Steering Committee (ASSC) of the ICAEW in 1975. This report re-examined the scope and aims of published financial reports in the light of modern needs and conditions. The corporate report took the viewpoint that

there is an implicit responsibility to report publicly (whether or not required by law or regulation) incumbent on every economic entity whose size or format renders it significant... We consider the responsibility to report publicly (referred to later as public accountability) is separate from and broader than the legal obligation to report and arises from the custodial role played in the community by economic entities (ICAEW, 1975:15).

By significant, The corporate report suggests that it would be an organisation which commands human or material resources on such a scale that the community as a whole would be affected in a significant economic way by the results of its activities.

Thus, in the same way there exists a stewardship relationship between shareholders (investors) and management, so too do other relationships exist of a financial and non-financial nature. The resources of manpower, management and organisational skills, energy and materials are all competed for by economic entities and community owned assets and facilities are used. Therefore, because of the interdependence of all social groups, these enterprises are then "involved in the maintenance of standards of life and the creation of wealth for and on behalf of the community" (p. 15).

The corporate report (p.21) suggests that the rights of the employee group to information is as a result of their personal ties with the employer. As the reporting entity has a responsibility for the future livelihood and prospects of its employees then employees require information in assessing the security and prospects of employment. The information needs of the employee group are unlikely to be fully met by general purpose corporate reports and a special purpose report, such as an employee report, would contain the other information they require.

In other words, general purpose corporate reports may contribute to meeting the information needs of employees which are similar to the other user groups. The corporate report suggests that evaluating managerial performance, efficiency and objectives, estimating the future prospects of the firm and confirming the reliability of the information provided are information needs which may be met by the general purpose corporate report but any other information needs would be met by a special purpose report (p.22). An employee report would be an example of such a special purpose report.

South Africa, linked culturally and historically with the United Kingdom, was exposed to the viewpoints in The corporate report and also the conceptual framework project of the International Accounting Standards Committee (IASC). AC 000 - Framework for the preparation and presentation of financial statements, was issued by SAICA in 1990. This framework, which was issued by the IASC and adopted by SAICA, sets out the concepts that underlie the preparation and presentation of financial statements for external users. AC 000 includes employees as users of financial statements. Discussion Paper (DP) 12 - Meeting the financial reporting needs of users of financial statements in South Africa, issued by SAICA in March 1994 identified the need for reporting to a wider interest group, the stakeholders. DP 12 classifies stakeholders into three groups:- primary stakeholders are those with an ownership interest in the company which, under the Companies Act of 1973, as amended, have a legal right to information, secondary stakeholders are those with a financial but not an ownership interest in a company and tertiary stakeholders are those without a direct financial interest but are affected, or believe themselves to be affected, by the way in which the company's resources are managed.

This was followed by The King report on corporate governance which was issued in November 1994 by the Institute of Directors in Southern Africa. The King Committee on Corporate Governance was formed at the instance of the Institute of Directors in Southern Africa. It

obtained support from the South African Chamber of Business, the Chartered Institute of Secretaries and Administrators, SAICA, the Johannesburg Stock Exchange (JSE) and the South African Institute of Business Ethics. Its formation followed the issue of The Cadbury report (Committee on the Financial Aspects of Corporate Governance, 1992 (the Cadbury Committee)) in 1992 in the United Kingdom on the financial aspects of corporate governance which is simply the system by which companies are directed and controlled. The King Committee on Corporate Governance's terms of reference were much wider than those of the Cadbury Committee as they included the matters investigated by the Cadbury Committee as well as a Code of Ethical Practice for business enterprises in South Africa. The King Committee was also required to take into account the special circumstances prevailing in South Africa such as the emergence of a new class of entrepreneurs being members of the disadvantaged communities.

The King report on corporate governance classified stakeholders into three groups. These are shareholders, parties who contract with the company and parties who have a non-contractual nexus with the company. The report gives an employee as an example of a contracting party. The report recognises the wider reporting function companies need to address and proposes a “dynamic participation approach” in that directors’ reports

should be directed at all stakeholders and should consequently address matters of concern and interest to all stakeholders. Society now expects greater accountability from companies in regard to their non-financial affairs, for example, in relation to their employees and to the environment. Statutes compel the stewardship of directors towards the shareholder, but statutory reports aside, the other stakeholders cannot be overlooked (p.17).

The King report on corporate governance recommends that corporations should develop their own system of worker participation that will assist in developing practices that lead to the effective sharing of relevant information to enable employees to gain a better understanding of the corporation for which they work (p.7).

The King report on corporate governance (p.17) states that in the context of a report to all stakeholders, the following matter which relates specifically to the employees should be addressed: “Employment, such as staffing levels, skills levels, new jobs created, retrenchments, affirmative action policy, unionisation, training programmes, etc.”

In its Code of Corporate Practices and Conduct, The King report on corporate governance states it is the board of directors' duty to report to the stakeholders and that material matters of significant interest and concern to all stakeholders should be addressed in order to provide a meaningful overview of the enterprise's activities (p.33).

Although compliance is voluntary, paragraph 8.52 of section 8 of the JSE listing requirements requires listed companies to disclose in their annual report, the extent of their compliance or non-compliance with the Code for financial years commencing on or after 1 July 1995. As a result, SAICA issued a series of guidance documents of which one was entitled Stakeholder communication in the annual report (SAICA, 1997a). A list of the items on which commentary should be made included employment and social responsibility. Employment issues on which stakeholders would be interested in information were listed as

staffing levels,
skills levels,
new jobs created,
retrenchment policy and occurrences during the period,
affirmative action policy,
unionisation,
wage negotiations in progress,
training programmes and other investments in staff proficiency,
productivity levels, and
employee benefits such as retirement benefits, medical benefits,
housing, family education and staff loans (p. 11).

SAICA is also providing an impetus towards meeting the information needs of employees. As a result of the harmonisation program, SAICA re-issued AC 116 - Employee benefits (SAICA, 2000a) based on the standard on employee benefits issued by the IASC, IAS 19 (Revised) (IASC, 1998b). AC 116 (SAICA, 2000a) identifies five categories of employee benefits: short-term employee benefits (such as salaries and wages), post-employment benefits (such as pensions and medical care), other long-term employee benefits (such as long service or sabbatical leave), termination benefits and equity compensation benefits and requires disclosures for post-employment benefits and equity compensation benefits. Other disclosures are required by other accounting statements. For example, staff costs are disclosable in terms of AC 101- Presentation of financial statements (SAICA, 1998) and information about employee benefits for key management personnel is required by AC 126 - Related party disclosures (SAICA, 2000b). These statements were issued or re-issued directly as a result of the harmonisation program.

In this section, a number of studies were highlighted as providing an impetus for employee reporting. The corporate report was included in view of its emphasis on accountability and its proposal for an employee report. In South Africa, AC 000 (SAICA, 1990), DP12 (SAICA, 1994), The King report on corporate governance (Institute of Directors in Southern Africa, 1994), and the guidance document, Stakeholder communication in the annual report (SAICA, 1997a) have emphasised the employee as a stakeholder and the provision of information which an employee may desire. The following section examines the influence of trade unions on employee reporting.

3.3.3 The influence of trade unions

The third impetus for employee reporting was provided by trade unions and their influence on labour legislation. The corporate report identified information for the purpose of collective bargaining as an information need of employees (ICAEW, 1975:21) although this would be required by the trade union which represents the employee. In the UK, this right of trade unions to information formally became law with the passing of the Employment Protection Act of 1975.

In 1970 the Labour Government's White Paper stated that "if employee representatives are to participate with management on equal terms in the extension of collective bargaining and consultation at company or plant level, they will need adequate information to allow them to form independent judgement on management proposals, policies and decisions" (Steele, 1987: 12). Although this was not formally incorporated until 1975, companies began to prepare employee reports in anticipation of the legislation being promulgated.

In South Africa, there have been two legislative actions which are aimed at increasing employees' rights and at addressing any imbalances caused by the previous government. These are:

(a) The Labour Relations Act (66 of 1995)

In terms of this Act, an employer must disclose to a trade union representative all relevant information that will allow the trade union representative to perform effectively the functions outlined in the Act. The Act does not require the employer to disclose information in certain circumstances, such as information that is legally privileged and should a dispute arise, conciliation follows, if necessary by arbitration by the Commissioner. The Act also provides for the establishment of a workplace forum where there are more than 100 employees.

Furthermore an employer must disclose to the workplace forum all relevant information that will allow the workplace forum to engage effectively in consultation and joint decision-making. Again certain information is not required to be disclosed and should a dispute arise the Commissioner for Conciliation, Mediation and Arbitration will be required to resolve the issue.

(b) The Employment Equity Act (55 of 1998)

The aim of this Act is to outlaw discrimination in the workplace and reverse discrimination resulting from the apartheid legacy. Employers and employees through a consultative process are required to prepare an employment equity plan. A report on the progress a company has made is required to be published in the annual report.

As a result of these legislative changes, it is possible that the number of companies publishing employee reports will increase in order to open this valuable channel of communication and inform employees on what progress has been made. It will also be necessary to educate employees that profitability is a necessary foundation in the pyramid of CSR before the concept of capitalism is accepted.

Although the above discussion on the development of employee reporting has been placed in a mainly South African context, chapter 4, which focuses on the status of employee reporting globally will provide further insight on the development of employee reporting in specific countries. To provide further understanding of employee reporting the importance of employee reporting is examined.

3.4 THE IMPORTANCE OF EMPLOYEE REPORTING

The importance of employee reporting is that it meets the informational needs of the employee user group. Employees, like investors, may be assumed to be utility maximisers and that utility is determined by expected returns from and the risk attached to employment (Gray & Maunders, 1980:8). Thus, employees require information to assist them in forecasting the future values of these parameters (Maunders, 1981:176). According to Maunders (p.175), employees require information to assist them in making participation decisions and effort decisions. Participation decisions concern whether to join, remain with or leave an enterprise or role within it, whereas effort decisions are those which, assuming participation, employees make regarding what quantity and quality of labour services to supply to the enterprise. Alexander (1973) sees an

enterprise's success depending on management's ability to develop and use the capabilities of its employees and therefore it is in the interest of both parties for the employees' need for information to be met (Chua, 1993:3).

Maunder (1981) attempts to identify the nature of the information which an employee may require. For employees, returns would be earnings from employment and risk may be earnings or job security (p.175). In this case, employees will need information to assist them in forecasting the future values of the returns and risk. Maunder identifies information on forecasting expected earnings as being firstly information which investors would use to forecast expected security earnings and the risk attached thereto, secondly, labour force information such as the levels and patterns of employment, the structure and distribution of the employee's rewards for the whole enterprise, and thirdly, labour force information for separate divisions or plants (p.178). For forecasting the risk that the employees' earnings may be below expected earnings, that is, earnings or job security, Maunder identifies three sources of risk: company risk, job risk and individual risk. For company risk, Maunder suggests that employees would have the same requirements as investors. For job risk, which is possible disappearance or downgrading of the employee's role in the enterprise, information on company risk would be relevant as well as information on management plans, forecasts and person power plans. For individual risk, which is the possibility that for personal reasons the employee is unable to fill any jobs, information on health and safety matters would be relevant. Maunder (p.180) also suggests that employees may be affected by non-financial factors. Thus information on the physical quality of the work environment and any welfare and fringe benefits would be relevant.

The above analysis attempts to rationalise the information which an employee would require and thus should appear in an employee report. Bollom (1984) lists a number of items which could appear in an employee report. These are shown in figure 3.3.

Similar lists have been provided by other authors (for example, Parker et al., 1989:135).

Figure 3.3 Possible employee report information

Productivity

- Number of overdue orders
- Employee absenteeism
- Number of defective products
- Machine breakdown time
- Output per man hour
- Value added per employee
- Wages and salaries as a percentage of sales

Morale

- Turnover
- Absenteeism
- Job satisfaction/dissatisfaction data
- Career mobility patterns/promotions

Wages and benefits

- Wages and benefits by job classification and shift
- Incentive pay information
- Costs of fringe benefits (insurance, pensions, medical, etc.)
- Cost of living information for the affected employees
- Comparisons of wages and benefits to other workers

Safety

- Health and safety (noise and toxicity levels, accidents)

Employee development

- Utilization of company-sponsored educational programs

Demographic

- Number of employees
- Age and sex distribution
- Minority representation
- Local unemployment levels

Company performance

- Simplified financial statements
 - a. Balance sheet
 - b. Income statement
 - c. Funds statement
- Comparative information
 - a. Internal comparisons of data over time
 - b. External comparisons of data nationally or internationally

Figure 3.3 continued**Sharing the wealth**

- How sales or value added was spent and/or distributed
- Return on net worth
- Common stock price growth
- Dividend growth
- Wages and benefits growth

The organization's outlook

- Projected income statements
- Projected cash flow statements
- Cost structure of the firm-breakeven point
- Head-count reductions
- Plant closings

The above information would be disaggregated by business subunits of interest to particular groups of employees.

Source: Bollom (1984:54).

Concluding this section, the importance of employee reporting arises from the fact that it meets the informational needs of employees. Various items of information have been proposed as being of importance to employees. This information is not generally found in general purpose annual reports and thus provides the rationale for the need for employee reporting which is examined next.

3.5 THE NEED FOR EMPLOYEE REPORTING

Employees, although not legally entitled to the statutory annual report, may have access to it in their workplace. The corporate report (ICAEW, 1975) has suggested that the statutory annual report will not meet all the informational needs of employees. Furthermore, employees may find the statutory annual report too formal and too number-orientated (Bollom, 1984:54). Information which may be of interest to employees is not included in annual reports as this information is not required by statute. Thus, employees do not find the information they require in annual reports (p.54).

Webb and Taylor (1980:31) assert that the rigidity found in statutory produced annual reports is not suitable to the flexible communicative style required for employees and an employee report

is necessary to meet the specific informational needs of the employee group.

Although an employee report is necessary to meet the specific informational needs of the employees, various arguments for and against employee reporting may also be found in academic literature.

3.6 ARGUMENTS FOR EMPLOYEE REPORTING

A number of arguments for employee reporting may be found in the relevant literature. One attempt to place these in various groupings is that of Maunders (1981) who divides the major arguments for employee reporting into three areas. The first area is where reporting to employees influences employees' behaviour in some specific context, the second is where the influence is on the employees' attitudes, more generally or of a longer-term nature and thirdly, various reasons in which the behaviour of the employees is not of a direct concern.

Maunders (p. 173 - 174) suggests these may be shown as follows:

- (a) Influencing employee behaviour
 - (i) Positive motivation effects are possibly:
 - Using good news for stimulation and/or discouraging emphasis of bad news.
 - Greater job satisfaction is provided through feedback and a feeling of participation.
 - (ii) In trade union - management negotiations:
 - Company factors are taken into account in negotiations.
 - Fairness is demonstrated in the allocation of resources.
- (b) Influencing employee attitudes
 - (i) To assist employees in understanding the relevance of company performance and the employees' role in relation to company performance. This may
 - create more goal congruence between employees and management,
 - lower any resistance to changes, and
 - create an understanding of company controls and organisational disciplines.
 - (ii) To influence employee - management relationships by creating or inducing positive feelings towards management. This may
 - facilitate joint consultation and integrative bargaining, and

- foster “attitudinal structuring” in collective bargaining (Walton & McKersie, 1965:4).

c) Miscellaneous reasons

- (i) To satisfy the employees’ ‘right’ as stakeholders to know information about the company.
- (ii) To influence other stakeholders by showing social responsibility and/or industrial relations skills.
- (iii) As part of the social reporting of the company.

Maunder (1981:175) acknowledges that this list is probably not exhaustive and that it is probably not internally mutually exclusive. Furthermore, these arguments are only applicable if the information is relevant to the employees and thus has the potential to affect employee decisions.

Glautier and Underdown (1997:376) contend that the main aim of employee reporting is to promote goal congruence and thereby improve communications and the employees’ understanding of the management of the enterprise.

3.7 ARGUMENTS AGAINST EMPLOYEE REPORTING

Bollom (1984) identifies certain disadvantages of employee reporting. The first is that the information may be misunderstood by employees and second, that employees may consider it as management propaganda. Glautier and Underdown (1997:377) raise this possibility too, suggesting that employees may only be given what management wants them to know. Bollom (1984:55) suggests that both of these possible disadvantages could be counteracted through the use of employee information sessions and by obtaining feedback from the employees on the usefulness of the employee report. A third disadvantage is that the information may aid competitors. Bollom suggests that such information would not be disclosed and notes that this problem has not arisen in countries where employee reporting is required. A fourth disadvantage is information on plans and prospects may lead to litigation by shareholders or employees. However, this disadvantage exists anyway should financial forecasts be published. The final disadvantage is that disclosure of information may reduce the bargaining powers of management. Bollom suggests that this is a short term disadvantage and in the longer term, an advantage may be increased co-operation between management and employees. Furthermore, if the information

is not supplied, trade unions may incorrectly estimate the information. A fifth disadvantage is that the desire to simplify the information may lead to misinformation rather than to information (Glautier & Underdown, 1997:377).

3.8 EMPLOYEE REPORTING AND THE CONCEPTUAL FRAMEWORK

Chapter 2 of this study attempted to place the topic “employee reporting” within the various approaches to the formulation of accounting theories on which financial reporting may be based. In the regulatory approach, mention was made of the conceptual framework which is embodied in AC 000 (SAICA, 1990) and that employees are included in the seven groups of users identified in AC 000. While the conceptual framework itself is not an approach to the formulation of an accounting theory, the framework is a “constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function and limits of financial accounting and financial statements” (Lunt, 1981:125). As such, AC 000 provides a framework in terms of the objectives and qualitative characteristics of financial reporting which are relevant to employee reporting, although the framework itself is concerned only with general purpose financial statements.

Paragraph 12 of AC 000 (SAICA, 1990) states that the “objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions”. Everingham (1992:347) comments that it would be surprising if the needs of all the user groups could be met by a balance sheet, income statement and a cash flow or funds statement and that a distinction should be made between sophisticated and unsophisticated users. In listing the users and their information needs, AC 000 (SAICA, 1990:para .9) includes employees and states their information needs as follows:

Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

AC 000 (SAICA, 1990:para .10) acknowledges that all the information needs of users cannot be met by financial statements. Those information needs that are common to investors who provide the risk capital to the enterprise may be met by the financial statements.

AC 000 also identifies four qualitative characteristics which make the information provided in financial statements useful to users. These characteristics and their relevance to employee reporting are as follows:

(a) Understandability. Information must be readily understandable by users. Users are assumed “to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence” (para 25).

While sophisticated users may fit the above profile, this may not be true of unsophisticated users such as employees. A research study (Mitchell, Sams & White, 1981b) which tested the ability of Scottish employees’ understanding and use of financial information found a lack of understanding. Everingham (1992:347) suggests that probable problems with understandability may be overcome by a different form of financial reporting, the production of an employee report. Booysen and Koen (1995:18) suggest that “[e]mployees holding positions of authority in the organisation should understand the report and be able to answer any questions pertaining to it”.

Statement of Financial Accounting Concepts (SFAC) No. 2 (Financial Accounting Standards Board (FASB), 1980) in its summary of principal conclusions, comments on understandability as follows:

Information cannot be useful to decision makers who cannot understand it, even though it may otherwise be relevant to a decision and be reliable. However, understandability of information is related to the characteristics of the decision maker as well as the characteristics of the information itself and, therefore, understandability cannot be evaluated in overall terms but must be judged in relation to a specific class of decisions makers.

As employee reporting is directed to the employee user group, then the information which forms part of employee reporting must be understandable by the employee user group. Schuitema (1990:272) considers understanding the information as one of four fundamental principles in an employee reporting strategy, the other three being sharing of information, a focus on a common value of wealth creation, and accountability.

(b) Relevance. Information must be relevant to the decisions of the users. Relevant information has both a predictive and a confirmatory role and the relevance of information is

affected by its nature and materiality. It was discussed previously (see section 3.4) that employees need information to assist them in forecasting the future values of earnings from employment and any risks (for example, job security) (Maunder, 1981:175). Thus information relevant to returns and risks which affect the employee would form part of employee reporting as this type of information is not found in the balance sheet, income statement and cash or funds flow statement which AC 000 (SAICA, 1990) envisages meets the informational needs of users.

(c) Reliability. Reliable information requires that “it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent” (para .31).

Employee reporting may provide relevant information but this information must be reliable in nature and presentation to be useful. Reliability could be underpinned by an independent audit (Everingham, 1992:348) although Hatton (1989:142) remarked that the “literature would suggest little benefit from the inclusion of an audit opinion”. However, Everingham (1992:348) comments that if there is no audit opinion, it is important that the figures in the employee report articulate with those in the audited financial statements. Booyesen and Koen (1995:18) suggest that the figures are based on audited results. However, if the figures in the employee report cannot be compared to audited financial statements, the employee report should be audited to ensure its credibility and integrity (p.19). The neutrality or freedom from bias of the information presented to employees is of importance as the users of this information will be employees who may feel that the information presented by the employers (management) is being manipulated to prevent, for example, wage demands. Struckmann (1993:10 - 11) suggests that the concept of prudence, in that a degree of caution in making judgements in the preparation of the information, is a critical factor in ensuring reliability. Furthermore, if preparers of employee reporting are required to exercise judgement, full disclosure would remove any suspicion of bias (p. 11). Substance over form, neutrality, prudence and completeness are all related to reliability.

(d) Comparability. Users must be able to compare financial information through time and between different enterprises. Thus consistency of measurement and presentation of financial information is necessary. Comparability is equally applicable to employee reporting.

AC 000 (SAICA, 1990) also considers the constraints on relevant and reliable information,

timeliness and the balance between benefit and cost. Users must receive the information on a timely basis in order for the information to be relevant. This does mean that often some transactions are reported before all aspects are known which impairs reliability. In achieving this balance, the overriding consideration is to best meet the user's information needs. Likewise there exists a balance between the benefits derived from the information and the costs of providing the information and a general rule is that the benefits should exceed the costs although the costs may not necessarily be borne by those users who enjoy the benefits.

The King report on corporate governance (Institute of Directors in Southern Africa, 1994:18) makes reference to the quality of information to stakeholders and suggests that the information must be prompt, relevant, open or transparent, have substance over form and truth and fair presentation.

Summarising this section on employee reporting and the conceptual framework, while the financial statements envisaged by AC 000 (SAICA, 1990) may not meet all the needs of the employee user group, the qualitative characteristics contained in AC 000 are nevertheless pertinent to employee reporting. Booysen and Koen (1995:19) similarly agree that preparation of employee reports should be guided by the qualitative characteristics.

3.9 SUMMARY

This chapter provided further insight into the nature of employee reporting. This was done by firstly considering the objectives of employee reporting. The primary objective is to meet the employees' needs for information with a subsidiary objective to provide a channel of communication between the employer and the employee. The development of employee reporting was also examined. Factors influencing the development of employee reporting in the USA and the UK were identified and three of these factors, (corporate social responsibility, research studies and professional pronouncements, and the influence of trade unions), were examined in more detail with particular reference to the South African context.

With regards to corporate social responsibility, a number of South African studies have documented an increasing trend in such disclosures (Barnard & De Villiers, 2000; De Villiers, 1997; De Villiers & Vorster, 1997). The impetus provided by professional pronouncements may have increased with the current emphasis on the harmonisation of the South African accounting

statements with those of the IASC. Finally, the position of trade unions has strengthened following the election of the new government in 1994 and the passing of the Labour Relations Act of 1995 and the Employment Equity Act of 1998.

The importance of employee reporting was also examined. Its importance is that it meets the informational needs of employees who require an employee report to meet their need for specific information. Arguments for and against employee reporting were also examined. Although the arguments were presented using literature sources not in a South African context, an examination of the South African studies (discussed in chapter 5) will provide further insight into this area. Finally, the relevance of the conceptual framework which is embodied in AC 000 (SAICA, 1990) was examined with the conclusion that the preparation of employee reports should be guided by the conceptual framework.

This chapter has thus expanded on the topic “employee reporting” and has provided useful background information for the next chapter which examines the current status of employee reporting elsewhere in the world and South Africa.

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CHAPTER 4

THE CURRENT STATUS OF EMPLOYEE REPORTING

- 4.1 Introduction
- 4.2 Reporting to employees - a global view of employee reporting regulations and practices
- 4.3 Summary
- 4.4 List of sources

4.1 INTRODUCTION

The previous chapter provided insight into the concept “employee reporting” by examining the nature of employee reporting. Employee reporting is not a new concept in financial reporting and many countries have had more experience with employee reporting than currently found in South Africa. The development of employee reporting was also examined and the analysis revealed that employee reporting has developed differently as a result of dissimilar influences in certain countries.

The objective of this chapter is to examine employee reporting regulations and practices in the major western countries. In order to gain a better understanding of the topic, other related regulations and practices are also examined as employee reporting is sometimes dealt with as a sub area in the broader context of either social responsibility accounting or human resource regulations and disclosures.

The countries selected are the United States of America (USA), Canada, the United Kingdom (UK), Australia and New Zealand, the Western European countries and South Africa. The USA and the UK are selected as employee reporting has developed in different ways due to the different socioeconomic-political influences in those countries. An interesting feature is that notwithstanding their close proximity, USA and Canada have a different emphasis on what constitutes corporate social responsibility. Australia and New Zealand are chosen because in many respects, like South Africa, they tend to follow UK practices. The Western European countries are covered in their position as members of the European Union (EU) and in light of their own individual initiatives. The developments in South Africa, introduced in chapter 3, are expanded. The International Accounting Standards Committee (IASC) has also contributed to

the disclosure of certain employee related information in financial statements, and as to South Africa is a member country, these contributions are relevant. Further international influences discussed are those of the United Nations (UN), the International Labour Organization (ILO), the Organization for Economic Co-operation and Development (OECD) and the International Confederation of Free Trade Unions (ICFTU).

Although employee reporting is usually defined as a separate report addressed to employees, such a separate report is currently not mandatory in any country, although France and the UK do have mandated social disclosures (Freedman & Stagliano, 1992:118). As a result, this chapter will review the regulations regarding employment reporting (information about employment) as well as any tentative moves to promote or formalise employee reporting.

4.2 REPORTING TO EMPLOYEES – A GLOBAL VIEW OF EMPLOYEE REPORTING REGULATIONS AND PRACTICES

This section reviews the current status of employee reporting regulations and practice and provides insight into the nature of employee reporting. In order to examine employee reporting practices, a wider view is taken of employee reporting and thus practices involving the disclosure of employment information or human resources are included when relevant.

4.2.1 United States of America

Employee reporting in the USA is not emphasised as a separate topic but is rather part of the broader concept of social responsibility. Interest in social responsibility concerns is usually dated from Bowen (1953) who identified a separate possibility for responsibility for an enterprise and its managers (Gray, Owen & Adams, 1996:92). Epstein, Flamholtz and McDonough (1976:24) signal the 1960s for the emergence of a new social conscience. By the late 1960s, the social responsibility debate was in the forefront in the USA (Gray et al., 1996:92).

Linowes (1972), a practising accountant, saw a link between social responsibility and accounting and suggested the preparation of a “socio-economic operating statement” to be published in the enterprise’s annual report. This covered three categories of disclosure; relations with people, relations with environment and relations with product (Gray et al., 1996:98 - 99). Gray et al. (p.98) describe Linowes’ work as “seminal” and response from the accounting profession

followed.

The American Institute of Certified Public Accountants (AICPA), the National Association of Accountants (NAA) and the American Accounting Association (AAA), have encouraged research and publications in the field of social reporting (Gray, Owen & Maunders, 1987:23). For example, an employee-related area of reporting which became popular in the 1970s was Human Resource Accounting (HRA). HRA attempts to place a value on the employees of an organisation. This initiative was taken up by the AAA which issued the Report of the committee on human resource accounting (AAA, 1973) and a report entitled Report of the committee on social costs (AAA, 1975) which identified the disclosure of certain employee information as relevant to the development of social accounting (Dierkes & Preston, 1977:4). A further report was The measurement of corporate social performance issued by the AICPA in 1977. However, these reports had little effect on either practice or accounting regulation (Gray et al., 1996:100).

According to Preston, Rey and Dierkes (1978), the USA has given little attention to the issues of employees and their working environment except where they relate to sex and race discrimination. Historically, USA firms have emphasised humanitarian and community roles (Preston, 1981:258). An example of this is the Sullivan Principles which called for a certain code of conduct in relation to the treatment of black workers by companies doing business in South Africa (Patten, 1990). Consumerism, equal rights and the ecological movement received more attention in the USA than employee issues (Gray et al., 1996:144), and particularly in the 1980s, social responsibility was more community orientated although customer concern has been an issue since the 1960s (p. 96). Further impetus for corporate social reporting in the USA was provided by the USA Department of Commerce which published in 1979, a report entitled Corporate social reporting in the United States and Western Europe (Heard & Bolce, 1981:251). Cowen and Segal (1981:13) suggest that the information disclosed (product safety, health and safety, environmental control and equal opportunities) is reflective of government regulatory requirements.

Efforts to develop a constitution for financial accounting and reporting by the Financial Accounting Standards Board (FASB) resulted in the issue of Statement of Financial Accounting Concepts No. 1 - Objectives of financial reporting by business enterprises (FASB, 1978). In this document, the objective of financial reporting is specified as providing information that is

useful to present and potential investors, creditors and other users in making rational investment, credit, and similar decisions. However, employees were not specifically mentioned. A reason for the lack of specific requirements relating to employee reporting may be cultural in that the USA has enjoyed an “open society” with “freedom of information” (Gray et al., 1987:25) and information is more freely available in the USA compared to other similar countries. This arises out of the Labour-Management Relations Act of 1947 and its interpretation. Providing certain information to trade unions by employers has been accepted as part of bargaining “in good faith” and is available on demand by trade union negotiators (Gilling, 1975:29; Gray et al., 1987:25). This is also manifested in the expression “the public’s right to know” (McComb, 1978:50) and public pressure has resulted in social disclosures in the USA.

A study conducted by Anderson and Frankle (1980) in the USA found that social disclosures by companies in their 1972 annual reports are reacted to positively by markets. Thus voluntary social performance information has an impact on the market and economic resources may be allocated in the markets to those firms which socially disclose (p. 477). As social disclosures would include information on employees these findings may have provided impetus for increasing social disclosures.

A further initiative in the USA was the launch in 1992 of Businesses for Social Responsibility which commits member organisations to a social responsibility (including the workplace) to be treated equal to, and connected with, profitability (Gray et al., 1996:145,148). In the mid 1990s, Stone (1995) reports membership to be more than 880 companies (Gray et al., 1996:148).

The predominant emphasis in the 1990s has been environmental disclosure, and research has also tended to move away from community, ethical and employee issues (p. 145). Thus while broad social reporting is no longer at the forefront, the USA is probably the world leader in financial environmental reporting (p. 152).

Although there are currently no statutory requirements regarding employee reporting as such, human resource disclosures are found in the annual reports of companies. These are shown in table 4.1.

The KPMG (1993) survey in table 4.1 shows that human resources disclosures had dwindled

remarkably by 1993. Included in table 4.1 is also a reference to Canadian practice which is nil in 1993. The Canadian practices are discussed next.

Country	USA	USA	USA	Canada
Survey	Ernst & Ernst (1978)	Guthrie & Parker (1990)	KPMG (1993)	
Date year	1977	1983	1993	
Sample size	500	50	88	98
Sample criteria	Fortune 500 companies	Largest listed companies <hr/> Corporate annual report only	In largest 100 <hr/> Questionnaire Survey	
% of sample making disclosures on:				
Environment	50	53	67	68
Energy	53	43	-	-
Human Resources	42	75	-	-
Products	29	35	-	-
Community involvement	29	63	-	-
Others	22	0	-	-
% of sample disclosing > 1 page	14	26	-	-
% of sample using separate booklet	1	10	16	23
Source: Gray Owen & Adams (1996:148).				

4.2.2 Canada

As Canada is geographically and politically close to the USA, Canadian practices on corporate social responsibility (CSR) are similar to the USA (Gray et al., 1996:144). Canadian CSR practice in the 1970s developed similarly to the USA experience (p.145).

Due to environmental, historical, legal and political differences between the USA and Canada (Belkaoui, 1992:209), Canada embarked on its own conceptual framework project. In 1980, the Canadian Institute of Chartered Accountants (CICA) published Corporate reporting: its future evolution (Stamp, 1980) (referred to as The Stamp report) which examined the various problems and conceptual issues faced by Canadian accounting standard-setters (Belkaoui, 1992:209 - 210).

The relevance of The Stamp report to this study is that in identifying the objectives of corporate financial reporting, accountability was identified as the first major objective and this was extended to all types of users. According to Belkaoui (1992:211) accountability is a broader concept in Canada than in the USA and the range of users is also broader in Canada than those considered by the FASB (1978). The range of Canadian users includes employees (past, present and potential) and labour unions (present) (Belkaoui, p.211).

Although The Stamp report was an opinion document (p. 213), it nevertheless provides a basis for comparison for differences between the USA and Canada. Whereas the FASB's (1978) objective of financial reporting is directed at investors and creditors, The Stamp report shows a different perspective.

During the 1980s, Gray et al. (1996:145) suggest that Canadian social reporting developed in innovative and creative ways which reflected less concern with litigation concerning disclosure and a reflection of a changing Canadian social order. Canadian social reporting had emphasised more the status of employees and their working environment compared to USA social reporting (p. 144). Since the 1980s, Canadian social disclosures have been more concerned with environmental disclosures. Currently, there are no requirements for the provision of employee reporting in Canada.

In summary, corporate social reporting in North America is currently focussed on environmental reporting and the close geographical and political ties Canada enjoys with the USA has brought Canadian practice closer to the USA practice than Western Europe or the UK.

Providing a contrast to the North American experience, employee reporting regulations and practices in the UK are reviewed next followed by some of the European countries. Employee-related reporting is mainly a UK and European occurrence (p. 112). This is highlighted in the following discussion.

4.2.3 United Kingdom

The UK has followed a legalistic approach and to a certain extent has been influenced by its membership of the EU, the UN and the OECD. Developments in the 1960s came about mainly as the result of trade union initiatives (Jackson-Cox, Thirkell & McQueeney, 1984:253). The UK

legislation pertinent to social reporting (and thus employee reporting) is as follows:

- (a) The Industrial Relations Act of 1971. This Act gave trade unions the right to request information for the purposes of collective bargaining. The Act was repealed in 1974 before this became operative but it was then embodied in the Employment Protection Act of 1975 (Hussey, 1981b:6).
- (b) The Health and Safety at Work Act of 1974. This requires factory inspectors and employers to keep employees informed about hazardous substances used in the workplace. The Act also provides for future regulations requiring disclosure in the directors' report of arrangements for the safety, health and welfare of employees and for protecting other persons whose health and safety may be affected as a result of these employees' activities. These reporting requirements were repeated in the Companies Act of 1985 although no regulations have yet been made (Gray, Kouhy & Lavers, 1995:94; Gray et al., 1987: 39 - 40).
- (c) The Employment Protection Act of 1975. Trade unions have certain rights to financial information for purposes of collective bargaining (Foley & Maunders, 1977:15).
- (d) The Employment Act of 1982. Companies with more than 250 employees are required to disclose in the Directors' report how employee involvement has been encouraged. This requirement is also found in the Companies Act of 1985, Schedule 7.
- (e) The Companies Act of 1985. The disclosure requirements in (b) and (d) above were consolidated as well as requiring disclosure of various other relevant employee information such as statistical data on employee numbers, earnings and costs, and for companies employing over 250 employees, information on disabled employees.

The above legislation relates to disclosures affecting employees and highlights the fact that rights to information are found in a number of statutes. The Official Secrets Act compounds this problem by fostering a climate of secrecy. However, in the 1973 White Paper on Company Law Reform, an overriding emphasis was placed on openness in company affairs. The White Paper suggested that the performance of the company in regard to the health and safety of its employees, the number of consumer complaints and how they were dealt with, and its conduct

of industrial relations may be required to be reported on by the directors (Gray et al., 1987:41).

The White Paper was followed by the Companies Bill in 1973 which identified four main areas for social information disclosure:

- Labour turnover
- Personnel and employment policies
- Arrangements for protecting the health and safety of employees and public
- Compliance with consumer protection legislation.

The fall of the Conservative Government resulted in the lapsing of the bill in March 1974. However, this probably reflected current opinion and in 1973 the Confederation of British Industry (CBI) in their publication, The responsibilities of the British public company, suggested that Government legislate encouragement for companies to recognise the various duties and obligations arising from the company's relationships with its various stakeholders. These views invariably affected the accounting profession (p. 42) and in 1975, The corporate report (ICAEW, 1975), the result of a re-examination of the scope and aims of published financial reports, was underpinned by a basic philosophy of "public accountability" (Gray et al., 1987:43). The corporate report included employees amongst the user groups and it suggested that additional statements such as, amongst others, a value added statement, an employment report and a statement of corporate objectives may satisfy the information needs of the users. The value added statement became popular with large companies in the 1970s and emphasised employees as part of the team generating value added. However, interest in the value added statement as a statement of interest to employees subsequently declined in the 1980s (Nobes & Parker, 1998:115).

Although the above regulations do not provide for a separate employee report, certain of these disclosures would probably meet some of the employees' information needs. The corporate report recommended that employment reports contain the following information (ICAEW, 1975:52):

- (a) Numbers employed, average for the financial year and actual on the first and last day.
- (b) Broad reasons for changes in the numbers employed.
- (c) The age distribution and sex of employees.

- (d) The functions of employees.
- (e) The geographical location of major employment centres.
- (f) Major plant and site closures, disposals and acquisitions during the past year.
- (g) The hours scheduled and worked by employees giving as much detail as possible concerning differences between groups of employees.
- (h) Employment costs including fringe benefits.
- (i) The costs and benefits associated with pension schemes and ability of such schemes to meet future commitments.
- (j) The cost and time spent on training.
- (k) The names of unions recognised by the entity for the purpose of collective bargaining and membership figures where available or the fact that this information has not been made available by the unions concerned.
- (l) Information concerning safety and health including the frequency and severity of accidents and occupational diseases.
- (m) Selected ratios relating to employment.

This report would be of use not only in judging efficiency and productivity but would also provide significant information concerning the personnel policies and industrial relations record of the enterprise (p. 53).

Voluntary disclosure of employment information relating to UK companies' practices in South Africa proposed by the UN, was implemented in the UK in 1978.

Nobes and Parker (1998:115) comment that few British companies publish an employment report, but rather provide employment data, some of which is statutory (such as, average number of employees) and some voluntary. However, the amount of information has declined during the 1980s with increased attention being paid to environmental accounting.

The actual reporting practice in the UK with regards to employee reporting is examined by reference to prior studies. These are shown in table 4.2.

Table 4.2 indicates that by 1982, approximately 60% of UK companies surveyed were producing a separate employee report. The lack of data after this date may be explained by the increased attention paid to environmental reporting rather than employee reporting. Nobes and Parker state however that employee reports "are quite common and typically take the form of a simplified version of the annual report which is often circulated to shareholders as well as to employees" (1998:115).

Table 4.2 UK companies producing employee reports

	BIM* (1957)	Smith (1975)	Marsh & Hussey (1979)	Skerratt (1981)	Lyall (1982)
Number of respondents	160	391	1 033	239	100
Percentage producing employee reports	56%	57%	41%	61%	60%

Source: Adapted from Chua (1993: 11).
*British Institute of Management

A comparison of UK employee disclosure with other Western European countries is shown in table 4.3. Employee reporting in Western European countries is examined next.

4.2.4 Western Europe

Developments in employee reporting in Western Europe have been influenced by debate on the status of labour and its position in the enterprise (Gray et al., 1987: 26). The EU to which most Western European countries belong has been concerned with employees' conditions of work and their rights within the workplace for many years. As summarised by Gray et al. (1996:188), "the Treaty of Rome (1957) through the Single European Act (1986) to the Community Charter of Fundamental Rights of Workers (1989) (the Social Charter) and the Treaty on European Union (1992) (the Maastricht Treaty)" have provided recommendations and regulations covering matters such as working conditions, health and safety, and other related issues, and other initiatives encouraging full employment and job-creation. An initiative to make disclosure procedures mandatory and provide for the clear definition of employee rights was the proposed Directive issued in 1980 named the Vredeling proposals after the Dutch Commissioner who sponsored them (Hussey, 1984:75). The Vredeling proposals concerned employee representation in all companies with over 1 000 employees. This representation is achieved through enhanced information and consultation rights for works councils, by employees electing representatives to the board of directors or through employee representation controlled by collective agreements (Gray et al., 1987:37). The Vredeling proposals also give information rights to employees of companies with at least 1 000 employees in the EU. In terms of these, enterprises have an obligation to provide employees with (a) financial information, (b) likely business development,

(c) sales and production, (d) likely person-power trends; and (e) investment prospects. Furthermore management must inform employee representatives of any possible action likely to have important consequences for employees and to consult them within 30 days before implementation of such actions.

These proposals were heavily amended (Hussey, 1984:75) and a new draft appeared in 1983. However, the Vredeling proposals remain unadopted (Nobes & Parker, 1998:84) apparently as they were too prescriptive and did not receive sufficient or unanimous support from the EU member states (Purdy, 1990:34). Freedman and Stagliano (1992:112) describe the Vredeling proposals as “politically unacceptable” and that any disclosures in terms of these proposals tend to be voluntary and vary within and between countries.

A draft Fifth Directive concerning the structure, management and audit of companies also contains an attempt by the European Commission to improve employee involvement in companies. However, according to Evans, Taylor and Holzmann (1994:97), the Fifth Directive was withdrawn in the early 1980s as a result of its proposals for a two-tiered board of directors and substantial worker participation and although it has been reviewed in some proposals, many issues remain unresolved.

A further directive, the European Works Council Directive, which all members (excepting the UK) were required to incorporate into their national law by 22 September 1996 requires European multinational companies to consult their employees on a number of issues and disclose information on the company’s performance. Gray et al. (1996:188) suggest that the above Directive not only provides directly for employee-related disclosures but also highlight areas of concern. They postulate that future legislation may require further reporting on employee-related areas.

An initiative of the European accounting profession in 1983 was a report of the social working paper of the Union Européenne des Experts Comptables, Economiques et Financiers (UEC) which suggested a standardised structure for social reporting and that social accounts should be independently audited (p. 189). This structure, which is shown in figure 4.1 has not been widely adopted (p. 190).

Concluding this discussion on initiatives of the EU and the European accounting profession, these regulations or initiatives may aid the EU's goal to harmonise employment conditions in the EU, while an indirect effect has been the disclosure in a number of European companies' annual reports of areas where harmonisation has not taken place (p.188).

Figure 4.1 Standardised structure for social reporting

1. **A summarised statement** An outline of the most significant aspects of the social performance of the enterprise over the year together with a statement of principal objectives and review of prospects for the following year.
2. **A social report** To be composed solely of quantitative indicators, the precise nature of which is not specified, in the following nine areas:

<ol style="list-style-type: none"> (a) Employment levels (b) Working conditions (c) Health and safety (d) Education and training (e) Industrial relation (f) Wages and other employee benefits (g) Distribution of value added (h) Impact on the environment 	}	The relationship between the enterprise and the workforce
<ol style="list-style-type: none"> (i) The enterprise and external parties (shareholders and other providers of capital, local and national government, customers and suppliers) 	}	The relationship between the enterprise and society
3. **Notes to the accounts** Explaining where necessary the methods and principles used in calculating the figures appearing in the social report, giving full information on any changes of method and indicating the effect of the change on the results shown, and defining terminology used.

Source: Gray, Owen & Adams (1996:189).

Although the EU has influenced employee reporting, not all Western European countries have a similar approach to employee reporting. The following section examines some of the EU countries in more detail.

4.2.4.1 France

France has adopted a legalistic approach to social reporting. Strikes and riots in 1968 led to a

fresh consideration of the social responsibilities and role of French enterprises (Gray et al., 1987:27). In 1970, the French Employers National Council (CNPF) acknowledged the importance of human resources management leading to the regular voluntary issue of social reports concerned to a large extent with employment issues. An initiative by the French government in setting up a working party to generate proposals for enterprise reform culminated in the publication of The Sundreau report (Gray et al., 1996:199). Although the report's recommendations were broadly based, the relationship between the enterprise and employees was the main issue and concerned improvement in working conditions and employee consultation and information rights. An annual social balance sheet (the bilan social) was proposed dealing with social and working conditions. This was made law in 1977 whereby companies with more than 250 employees were required to publish social balance sheets in 1979. This was extended to companies employing more than 300 employees in 1982.

Information to be included in a social balance sheet is required to be listed under the following headings for the current and two preceding years:

- number employed
- wages and fringe benefits
- health and safety conditions
- other working conditions
- education and training
- industrial relations
- other matters relating to the quality of life (Gray et al., 1987:28).

Social balance sheets are prepared by management and are not required to be audited. Prior to publication, a draft social balance sheet is presented to the Works Council for consideration and opinion. Management may or may not take into account the opinion of the Works Council. According to Gray et al. (1987:28), social balance sheets often consist of 40 to 50 pages of statistical analysis of employment data. Any employee requesting a copy receives one and shareholders and other interested parties may also obtain copies. It is possible however this legalistic approach represents a focus on a restricted range of indicators and this may stifle future experimentation in this area (p. 29).

The legalistic approach of France may be contrasted with a voluntary approach adopted by Germany.

4.2.4.2 Germany

In Germany, the approach to social reporting has been primarily voluntary in nature. German companies have reported on company-employee relations in their annual reports in a separate “social” section for many years (p. 29). Schreuder (1979) comments that Germany, although initially influenced by America has found its own path both theoretically and practically. Indeed, Schreuder states that compared to other European countries, “Germany has probably produced the largest collection of elaborate, theoretically well-grounded models of corporate social reporting” (p.109). Employee participation in corporate decision making and the supply of relevant information to them or their representatives is regulated by a number of laws (Brockhoff, 1979:78). Brockhoff (p. 79) found that in a survey of 296 company annual reports published mainly in 1973, 205 contained a separate social section.

Gray et al. (1996) identify three different approaches in the production of early German social reports. The first approach was where attempts were made to link corporate expenditure to specific societal benefits. Gray et al. call this a “broadly based and partially integrated cost-benefit reporting system” (p. 198). In 1972, STEAG AG, an Essen-based energy company prepared a social balance sheet which focussed on the whole societal environment and not just the employee group, and this has paved the way for more companies to prepare social balance sheets (Gray et al., 1987:29). Difficulties experienced with this concept of reporting was quantifying social benefits and that social costs or negative consequences of activities are omitted (Dierkes, 1979:92 – 93). A second approach was an extension of the employee-orientated social report which included more information, mostly descriptive, on the social aspects of the company’s activities. The third approach is described as by Gray et al. (1996:198) as “[c]orporate goal accounting and reporting in which quantitative indicators are used wherever possible to describe the attainments of corporate objectives in areas of social performance and promotion of general public welfare”.

Jaggi (1980:36) reports that Shell’s German subsidiary, Deutsche Shell AG, is providing a model for social disclosures for other enterprises. Most (1977:167) described the Deutsche Shell AG report as an indication of things to come.

Other influences of social reporting cited by Gray et al. (1996:198) have been “the Business and Society Foundation (established by business leaders to study important social developments

affecting the business community); the Social and Behavioural Science Division of the Battelle Institute; and the government-sponsored International Institute for Environment and Society". A further influential group was the Study Group on Practical Aspects of Social reporting which, established by seven leading companies, developed in 1977 the following structure for the contents of such reports:

- A social report, providing primarily verbal descriptions of goals, actions taken and achievements in area of social concern.
- A value-added statement, indicating the company's contribution to GNP and its distribution among the various stakeholders.
- A social account, providing a quantitative presentation of all measurably societally orientated corporate expenditures and revenues (p. 198 - 199).

Despite this, Ullmann (1979:129) discloses that there was little interest among the interested parties and only trade unions reacted, firstly in a hostile manner, suggesting that social reporting was window dressing and subsequently, positively by entering into discussions with management as to the objectives of social reporting. A social reporting working party of the Deutsche Gewerkschaftsbund published in 1979 a set of ten indicators for inclusion in social reports which included mainly employment issues but also environmental pollution and corporate contribution to societal goals (p. 130).

Currently, certain disclosures such as wages and salaries, social security and other pension costs, are required in terms of their commercial code. Furthermore, in terms of the Institut Der Wirtschaftsprüfer's RS HFA 1 para. 24 matters relating to the company's personnel should be addressed in the management report. In broad terms, information on the employee situation, the structure of the expense related to personnel, the social benefits provided by the company, information on pre- and post-qualification education opportunities and expenditure and health protection and works protection is required to be disclosed.

To summarise, in France and Germany, the focus is on employee welfare and industrial relations for external reporting. In Sweden, corporate reporting has a similar focus. However, unlike France and Germany, in Sweden, social information is important for internal decision-making.

4.2.4.3 Sweden

In Sweden, the information relevant to employee reporting has been in the area of industrial

relations and employee welfare (Gray et al., 1996:202). Such information is seen as being useful to management for the objective of observing and possibly adjusting performance. Prior to 1975, no debate by either the public or the profession had taken place regarding the social role of companies and there were no published social reports (Gröjer & Stark, 1977:349). Gröjer and Stark initiated a research program on social accounting in 1975 and prepared a social report for a Swedish company. Since the late 1970s, trade unions, through the incorporation of provisions in co-determination agreements, have the right to use accountants (employee consultants) to access relevant information (Gray et al., 1996:202).

Social reporting in Sweden is focussed almost entirely on employee welfare and industrial relations. An example of this is AB Volvo which has developed a social accounting model which provides an initial account of the social and economic effects of personnel turnover and absenteeism. As personnel turnover increases costs for the company, attempts were made to quantify financially these effects and also savings if preventative methods improving working conditions were designed. This was extended to include the effect on the community and the Government (p. 202 - 203).

4.2.4.4 Other European countries

In the Netherlands, social reporting first surfaced in 1959, with the publication of a social report by a chemical company, Gist-Brocades. The 1960s saw more examples of this by a few companies but in the 1970s, social reporting gained impetus (Schreuder, 1981:295). These are voluntary and directed towards employees. Trade union representatives sit on the government backed Council for Annual Reporting. Furthermore companies are legally required to disclose various financial and person-power information to Works Councils (Gray et al., 1987:36). The 1971 Act on Works Councils, has encouraged such reporting but it remains mainly voluntary (Nobes & Parker, 1998:163). Nobes and Parker also state that these reports are supported by the employers' federations and seem to be acceptable to employees as a means of communication.

Belgium has tended to follow the Netherlands and companies are required to provide various information to works councils (Lawrence, 1996:89). Burne (1978:42) comments that Belgium companies have progressed from annual to quarterly employee reports. Delmot's (1983) study indicates that an increasing number of Belgium companies provide social data, usually non-financially quantified and concerning issues of employment, in their annual reports as well as

separate social reports for their employees (Gray et al., 1987:37).

In Switzerland and Spain cases of social reporting have been noted but purely as a result of single initiatives (p. 37).

A comparison of Western European employee disclosure patterns is shown in table 4.3.

Country	Germany		Sweden		France		Switzerland		Netherlands		UK	
	Roberts (1991)	Adams et al. (1995)	Roberts (1991)	Adams et al. (1995)	Roberts (1991)	Adams et al. (1995)	Roberts (1991)	Adams et al. (1995)	Roberts (1991)	Adams et al. (1995)	Roberts (1990)	Adams et al. (1995)
Survey												
Data year(s)	1988 or 1989	1992	1988 or 1989	1992	1988 or 1989	1992	1988 or 1989	1992	1988 or 1989	1992	1987	1992
Sample size	40	25	15	25	25	25	15	25	15	25	15	25
Any employee disclosure	95%	100%	60%	100%	76%	100%	60%	100%	53%	100%	-	100%
Separate employee section	-	92%	-	24%	-	52%	-	44%	-	36%	53%	20%
Employee appreciation	-	88%	-	36%	-	84%	-	92%	-	88%	73%	88%
Pay and benefits	-	100%	-	96%	-	96%	-	84%	-	100%	-	100%
Breakdown of numbers	-	100%	-	100%	-	92%	-	96%	-	96%	-	88%
Recruitment redundancies	-	100%	-	88%	-	64%	-	84%	-	84%	-	80%
Training	-	88%	-	40%	-	76%	-	56%	-	76%	40%	60%
Communication/consultation	-	64%	-	24%	-	36%	-	28%	-	60%	80%	96%
Health and safety	40%	64%	0%	24%	12%	32%	20%	16%	33%	52%	33%	56%
Trade unions	-	36%	-	0%	-	16%	-	16%	-	32%	0%	16%
Mean page length of disclosure	-	3.36	-	1.56	-	1.68	-	1.41	-	1.65	-	2.04

Source: Gray, Owen & Adams (1996:191).

Although table 4.3 shows that all companies in the samples are making some employee disclosures, an examination of the actual disclosures reveals that most were qualitative, and

disclosures on areas such as health and safety were very low. The usefulness of much of these disclosures is therefore brought into question (Gray et al., 1996:190,193).

Adams, Hill and Roberts (1995:42) comment that in their study a number of German companies made particularly detailed and relevant employee-related disclosures. Furthermore, in their later analysis (1998) of mean levels of disclosure across each country, they confirm that German companies tend to disclose the most with regard to total social reporting (that is, environmental, employee and ethical disclosures). With regard to employee information, the UK sample is ranked second in terms of the total number of employee information items. However, Swedish companies show a preference for quantified information and disclose more than the UK sample with respect to the number of quantified employee information items (1998:12). Adams et al. (p. 17) also found significant differences in the amount and type of information disclosed by companies from different countries.

In conclusion, Gray et al. (1996:203) comment that the trend in reporting on employee issues in Europe is less than expected and that since the 1970s there have been few significant developments other than the Social Charter and the Agreement on Social Policy. Providing a contrast with the UK and the selected European countries, developments in Australia and New Zealand are discussed next.

4.2.5 Australia and New Zealand

Employee reporting proliferated in Australia in the 1970s and 1980s although there is evidence of experimentation by individual companies in the 1950s and 1960s (Chua, 1993:9). The close association Australia has with the UK has resulted in the exposure of Australian companies to UK developments in employee communications (Craig & Hussey, 1982:5). The trade union movement was also in favour of employee reporting (p.6). The Confederation of Australian Industry issued a booklet entitled Involving employees in the enterprise: a guide to employers and Enterprise Australia issued a booklet entitled A guide to employee annual reports in 1977 (Mathews & Perera, 1991:216). These developments were however private sector initiatives and at governmental level there is no comparable legislation to that of the UK (p.216). Furthermore, the professional accounting bodies have not issued any guidance on the issue. Employee reporting in Australia has thus developed on a "piecemeal voluntary basis" (Webb & Taylor, 1980:30).

Webb and Taylor reported in 1980 that approximately 15% of publicly-listed companies produce a separate employee report and that about 120 large to medium-size companies issue employee reports in Australia.

Although Australia does not have specific requirements regarding employee reporting, the current requirements for reporting employee entitlements are contained in AASB 1028, entitled Accounting for employee entitlements issued in 1994. Australia is also undergoing a process of international harmonisation which will see AASB 1028 revised in accordance with the applicable international standards.

Employee reporting in New Zealand, although connected culturally and socially to the UK and thus exposed to The corporate report (ICAEW, 1975) has developed in an unstandardised manner and is not widespread (Chua, 1993:9). Some institutional support came from the Chamber of Commerce in the 1970s which has an annual award for the Best Report to Staff and has also published a booklet on How and why to report business results to employees (Mathews & Perera, 1991:216). Mathews and Perera describe employee reporting in New Zealand as the "least developed".

Two surveys which indicate the trend in employee reporting practice in New Zealand are those of Firth and Smith (1984) and Chua (1993). These results are shown in tables 4.4 and 4.5.

Table 4.4 Employee reporting practice in New Zealand

Currently issue employee reports	38	(22,1%)
Issue annual report to staff	15	(8,7%)
Communicate financial information to employees via house bulletin or staff newsletter	<u>11</u>	<u>(6,4%)</u>
SUB-TOTAL	64	(37,2%)
Do not currently issue but planning to do so in future	8	(4,7%)
Do not issue employee reports	94	(54,7%)
Have previously issued employee reports but since discontinued practice	<u>6</u>	<u>(3,4%)</u>
TOTAL	<u>172*</u>	<u>(100,0%)</u>

* Includes overseas public listed companies.
Excludes companies with virtually no employees.

Source: Firth & Smith (1984: 5).

Table 4.5 The extent of employee reporting - New Zealand

	No. of Companies	%
Reporting to staff		
• in a separate report	3	4,0
• in staff magazine, newsletter, or newspaper	9	12,2
• in separate section of annual report	-	-
Do not use employee reports	61	82,4
Have discontinued the practice	<u>1</u>	<u>1,4</u>
	74*	100,0
	==	====

*Excludes companies with less than five employees, those being wound up or in receivership, delisted companies, or those declining to participate.

Source: Chua (1993:13).

The Firth and Smith (1984) survey found that 37,2% of 172 companies had some written communication with their employees, whereas the Chua (1993) survey shows this to be only 16,2%. When considering only the issue of separate employee reports, the Firth and Smith (1984) survey found 22,1% of the responding companies issue separate employee reports as compared to 4% in the Chua (1993) survey. The Chua (1993) survey thus indicates that employee reporting in New Zealand is on the decline. Chua (p. 24) suggests that the decline of employee reporting coincides with the New Zealand economic recession and that the economy has been affected by privatisation, deregulation and the 1987 share market crash. As a result, business failures have increased, and firms have implemented cost-saving measures which may mean employee reporting, as it is not required by law, is not a priority. Furthermore, companies are concerned about the confidentiality of the information.

Surveys of corporate social reporting in Australia and New Zealand reveal further information about the incidence of employee related disclosures.

A comparison of surveys on corporate social reporting in Australia and New Zealand is shown in table 4.6.

Table 4.6 Surveys of corporate social reporting in Australia and New Zealand

Country	Australia					New Zealand	
Survey	Trotman (1979)			Pang (1982)	Guthrie and Parker (1990)	Robertson (1978)	Hackston and Milne (1996)
Data year	1967	1972	1977	1980	1983	1975-6	1992
Sample size	100				50	100	47
Sample criteria	Largest			70 largest plus 30 at random	Largest	Largest	
% of sample making disclosures	26	48	69	79	56	54	83
% of sample making disclosures on:							
Environment	6	18	35	19	21	17	23
Energy	1	0	10	12	4	3	6
Human resources	17	30	43	61	93	50	79
Products	3	3	4	18	0	3	41
Community involvement	5	19	23	23	29	8	30
Others	5	13	34	20	18	2	19

Source: Gray, Owen & Adams (1996:157).

The study conducted by Hackston and Milne (1996:100) showed that New Zealand companies, consistent with companies from the USA, UK and Australia, make most social disclosures on human resources, followed by disclosures on the environment and community. Disclosures in New Zealand tend to be narrative and good news and are on average about three-quarters of a page in an annual report.

4.2.6 South Africa

Employee reporting in South Africa can be traced back to 1960. A survey by Meijers (1993) revealed that the first employee report was published in that year with the second only in 1971, and by 1985, only 10 out of 188 were producing employee reports. This is in contrast to the countries examined previously, where literature suggests that employee reporting achieved its height of popularity in the 1970s elsewhere (Hussey, 1981b; Lewis, Parker & Sutcliffe, 1984a).

Although South Africa has currently no regulatory requirements regarding employee reporting, the previous chapter examined a number of influences on employee reporting in South Africa. Pronouncements from the South African Institute of Chartered Accountants (SAICA) and the Institute of Directors in Southern Africa include:

- (a) AC 000 - Framework for the preparation and presentation of financial statements (SAICA, 1990),
- (b) Discussion Paper (DP) 12 - Meeting the financial reporting needs of users of financial statements in South Africa (SAICA, 1994),
- (c) The King report on corporate governance (Institute of Directors in Southern Africa, 1994), and
- (d) Stakeholder communication in the annual report (SAICA, 1997a).

A regulatory impetus for the disclosure of employee related information has come about as a result of the harmonisation program whereby South Africa is aligning its accounting standards with those of the IASC. For example, IAS 1 (IASC, 1997) has been adopted as AC 101 - Presentation of financial statements (SAICA, 1998). Companies are now required to disclose staff costs and either the number of employees at the end of the period or the average for the period. Further details of the IASC requirements are discussed in section 4.2.7.1.

From a legal perspective, the Labour Relations Act of 1995 and the Employment Equity Act of 1998 may increase awareness of employee reporting.

Moreover, impetus for employee reporting has come from the reporting awards. The Financial Mail (FM) reporting award, which commenced in 1964 and has as its aim the identification of the best annual report, also rewards companies for disclosure of employee related information. This award is now known as the FM/Ernst & Young Award.

In the 1996 rules, a maximum of 6 (out of a total score of 190) were allocated to the inclusion of an employment report in the annual report.

The actual list of information required, according to the markplan, is set out in table 4.7.

Table 4.7 Markplan for employment report

(six marks)

No employment report	0
*One mark will be awarded per item mentioned below with a maximum of six marks.	
Employment Report includes:	
Number of employees divided into occupational categories	1
Total wage bill divided into occupational categories	1
Labour turnover rates, the average number of years the staff have been with the organisation, the number of staff members with say five or more years of service, or proposed redundancy provisions	1
Training facilities provided for training of own employees, such as number of employees trained, cost of training programmes as claimed for taxation purposes and a brief comment about progress made and future developments	1
Housing facilities provided for employees or the provision of subsidised housing loans to staff members	1
Any other fringe benefits provided, such as medical aid schemes, feeding schemes, sports and recreation facilities provided, after service benefits, provision of bursaries to children of employees, safety measures etc.	1
Brief comment on matters concerning trade unions, wage negotiations, labour relations and related matters and pension policy	1
Number or percentage of disabled persons employed	1
Equal employment opportunity policy	1
Commitment to community involvement	1
Family benefits, eg maternity leave, creches on site and day care centres for old and young	1
Affirmative action iro colour and gender or physically handicapped	1
Job creation	1
Quantitative: Budgeted figures or expenditure per item as a percentage of net income.	1

Source: FM/Ernst & Young annual accounts award: updating the rules (1996:82).

SAICA's annual reporting award for employee reports provided further impetus. In September 1991, SAICA announced the commencement of the CA/Anglo Alpha Employee Report Award (CA/Anglo Alpha Employee Report Award, 1991). The objective of the award is to "encourage companies to focus more strongly on their employees which, in turn, will help to foster a positive

working environment" (p. 261). A detailed markplan was published which was divided into five categories: (1) philosophy and plans, (2) financial data, (3) employee information, (4) ownership and management, and (5) presentation. The markplan used for the 1997 competition is shown in table 4.8.

Table 4.8 CA/Anglo Alpha Employee Report Award markplan

	Max.
1. Philosophy and Plans	
1.1 Statement of corporate philosophy/values, aims and objectives (reference to social responsibility desirable)	3
1.2 Future prospects and plans (products, capital expenditure, etc)	<u>3</u>
TOTAL	6 =
2. Financial Data	
2.1 Turnover	1
2.2 Value added	2
2.3 Value Added Statement explained	3
2.4 Amount paid to employees	2
2.5 Interest	1
2.6 Taxation	1
2.7 Dividends	1
2.8 Retained for expansion	1
2.9 Comparatives to value added statement	1
2.10 Profit	1
2.11 Cash position	2
2.12 Capex	1
2.13 Divisional data, if applicable - general	1
- quantified	2
2.14 Data per employee	2
2.15 Review of results	1
2.16 Reasons for trends	<u>1</u>
TOTAL	24 ==
3. Employee Information	
3.1 Profile of employees - by location, category	2
3.2 Wage levels	2
3.3 Minimum wage	1
3.4 Staff turnover - overall	1
- retrenchments	1
- dismissals	1
3.5 Benefits to which staff entitled - general	1
- housing	1

Table 4.8 continued

3.6	Union representation, industrial relations data, IR action	3
3.7	Safety in the work place	2
3.8	Aids policy/education	1
3.9	Training	2
3.10	Output and productivity data (physical)	2
3.11	Pension and provident fund information	2
3.12	Environmental issues discussed	2
3.13	Social responsibility	
3.13.1	External to the company	2
3.13.2	Internal to the company	2
3.14	Affirmative action	
	- planned	1
	- achieved	<u>1</u>
	TOTAL	30
		==
4.	Ownership and Management	
4.1	Nature of business	2
4.2	Profile of shareholders	2
4.3	Employee share schemes, if applicable	2
4.4	Board of directors and senior management per division, where applicable	3
4.5	Information as to directors' remuneration	<u>1</u>
	TOTAL	10
		==
5.	Presentation	
5.1	Clarity and simplicity of language, including explanation of terminology	3
5.2	Use of more than one language, appropriate to work force	2
5.3	Pictorial illustrations	2
5.4	Comparative information generally	2
5.5	Summarised historical data (3-5 years) i.e. turnover, profit	3
5.6	Information clearly located (i.e. not on piecemeal basis)	2
5.7	Overall impression, including excellence of presentation, overall consistency, absence of obvious errors or distortion	<u>6</u>
	TOTAL	20
		==
6.	Other relevant information, including use of other media/evidence of integrated communication, and general impact	<u>10</u>
	TOTAL MARKS	100
		===

Source: SAICA (1997b).

The 1997 competition drew a total of 18 entries with the South African Breweries (SAB) Limited's 1998 Beer Division's employee report taking first place with the runners up being Bell Equipment Limited, Samancor Limited and Engen Limited. Merit awards went to Modern Autohouse and Murray and Roberts Materials.

These employee reports are lengthy documents. The SAB's 1998 employee report has a total of 57 pages and contains a review of the year by the managing director, a cash value added statement and although there is not a summarised balance sheet or income statement, an explanation is given of profit and turnover. The report also contains information on brand performance, efficiency, community relations, corporate social investment, environmental education, retirement benefits and industrial relations. The Bell Equipment Limited's employee report was a total of 19 pages in B2 size and contained a value added statement and an income statement. Other salient features included an interview with the group managing director, information on employee benefits, training, sponsorships and safety and health. Both reports contained detailed information about employee share option schemes.

Although only two employee reports were examined, both were of a high standard and contained detailed information which employees would find useful.

The actual incidence of employee reporting in South Africa is examined by referring to research studies. Meijers' (1993) survey of listed companies revealed that 32 (15,5%) out of 206 respondent companies were issuing an employee report. With regards to the disclosure of employee related information in the annual report, De Villiers' (1997) survey revealed that 39% out of 606 companies disclosed their employment policies in the annual report itself.

Although employees have been emphasised as stakeholders or users in a number of publications issued by SAICA, there have not been any formal attempts to impose employee reporting regulations on South African companies. However, impetus for the disclosure of employee-related information is provided by the harmonisation program which is resulting in South African standards being aligned with those of the IASC. Thus, international regulations, discussed next, are influencing South African reporting practice.

4.2.7 International regulations

The globalization of world economies has meant that enterprises are often subject to external influences. Initiatives from a variety of international organisations that are relevant to this study are as follows.

4.2.7.1 International Accounting Standards Committee

Although the IASC has no specific requirements regarding an employee report, its contribution to employee reporting has been in the inclusion of employees as a user group in its conceptual framework. Other contributions are found in other International Accounting Standards (IAS).

The IASC (1998b) revised IAS 19 - Employee benefits in February 1998 replacing the previous IAS 19 which was approved in 1993. The relevance of IAS 19 to this study is that it requires certain disclosures in the annual report of certain employee benefits and the South African statement, AC 116 - Employee benefits (SAICA, 2000a) is based on it.

IAS 19 is briefly discussed in section 3.3.2 in chapter 3. IAS 19 identifies five categories of employee benefits:

- (a) short-term security benefits,
- (b) post-employment benefits,
- (c) other long-term benefits,
- (d) termination benefits, and
- (e) equity compensation benefits.

The objective of the statement is to prescribe the accounting and disclosure for employee benefits. This information is relevant to the employee user group and would probably also appear in an employee report. Although recognition and measurement principles are provided in respect of short-term security benefits, no specific disclosures are required for short-term employee benefits. With regards to post-employment benefits (defined contribution plans), although recognition and measurement principles are prescribed, disclosure of only the expense is required. For post-employment benefits (defined benefit plans), recognition and measurement principles are prescribed together with detailed disclosure requirements (para. 120). There are no specific disclosure requirements for other long-term benefits, although recognition and measurement principles are prescribed for termination benefits. However, with regards to other long-term employee benefits, the statement does refer to the possibility that disclosures may be

necessary in terms of other standards, such as IAS 8 (IASC:1993b). Detailed disclosures are required for equity compensation benefits (IASC, 1998b).

In addition to these disclosures, other IAS also require disclosures which relate to employees.

These are:

IAS 1 (Revised) - Presentation of financial statements

Staff costs to be disclosed and either the number of employees at the end of the period or the average for the period (IASC, 1997).

IAS 2 - Inventories

Inclusion of certain employee benefits with the cost of inventories (IASC, 1993a).

IAS 8 (Revised) - Net profit or loss for the period, fundamental errors and changes in accounting policies

An expense arising from a long-term employee benefit or termination benefit may be of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period (IASC, 1993b).

IAS 10 (Reformatted) - Contingencies and events occurring after the balance sheet date

- (a) information about contingencies arising from post-employment benefit obligations to be disclosed;
- (b) uncertainty about the number of employees who will accept an offer of termination benefits (IASC, 1994a).

IAS 16 (Revised) - Property, plant and equipment.

Inclusion of certain employee benefits within the cost of property, plant and equipment (IASC, 1998a).

IAS 24 (Reformatted) - Related party disclosures

- (a) Employee benefits for key management personnel to be disclosed,
- (b) Related party transactions with post-employment benefit plans,
- (c) Post-employment benefits for key management personnel,
- (d) Information about other long-term employee benefits for key management personnel,
- (e) Termination benefits for key management personnel,
- (f) Disclosure of equity compensation benefits to key management personnel (IASC, 1994b).

4.2.7.2 United Nations

Although the UN has attempted to encourage codes of practice, it has had no obvious impact on corporate social reporting (Gray et al., 1996:129). The interest of the UN evolved as a result of the multinational enterprises operating worldwide and particularly in less developed and newly industrialised countries. Gray et al. (1996:189) suggest that foreign-owned multinational enterprises should be held accountable for their social and environmental effects in the host country to ensure some degree of control.

The United Nations Centre on Transnational Corporations (UNCTC) stated in 1982 that:

..... the very limited coverage of non-financial information constitutes an important gap in the existing reporting practices of transnational corporations. Non-financial reporting is as important as financial reporting in appraising the operations of transnational corporations and their contribution to the countries and communities in which they operate. Non-financial reporting is, furthermore, required by public authorities both at the national and regional levels and by labour and other interested parties, such as consumer groups and environmentalists concerned with specific aspects of the activities of transnational corporations ... There is evidence, nevertheless, that non-financial information has been increasingly reported by corporations, reflecting an awareness of their social responsibility (UNCTC, 1982:15).

In 1984 the UNCTC published a list of minimum financial and non-financial items for disclosure in general purpose reports of multinational corporations (Gray et al., 1996:159). The financial item list included labour and employment, production, investment programme, environmental measures and transfer of technology. The labour and employment list included policies regarding corporate labour relations and recognition of trade unions and the average number of employees broken down by demographic and line of business segment. For individual members only, a description of training programmes is required.

The following were included as recommended disclosures:

- Policy with regard to complaints and dispute settlement mechanisms
- Number employed by function broken down to show number of woman and nationals
- Number of employees under contract and those hired as casual labour
- Average hours worked per week
- Labour turnover
- Absenteeism
- Accident rate
- Description of health and safety standards (p.160).

According to Gray et al. the UN met considerable difficulties in reaching consensus on these items and the lists were not developed further.

4.2.7.3 International Labour Organization

The ILO through its Recommendation 129 issued in 1974 provides for extensive information disclosure to employees (Cooper and Essex, 1977:201). This recommendation suggests that the information should include all relevant information relating to the enterprise and its future prospects and those of the employees (p. 201 - 202).

4.2.7.4 Organization for Economic Co-operation and Development

This organization, whose 24 members are relatively industrialised non-communist countries in Asia, Europe, North America and Australia, issued a Declaration on International Investment and Multinational Enterprises in 1976 (Belkaoui, 1994:67). This document, in an annex, suggested certain items to be disclosed, one of which is the disclosure of the average number of employees in each geographical area (p. 248).

4.2.7.5 International Confederation of Free Trade Unions

This organization requires the disclosure of employee related data as part of its requirements for public accountability (p. 248).

4.3 SUMMARY

This chapter has reviewed the current status of employee reporting on a global basis by examining various initiatives and regulations in certain countries.

The discussion on employee-related regulations has highlighted the 1970s as the decade for the emergence of social reporting. Since then, interest in social reporting has declined and interest in environmental accounting has become more important (Mathews, 1997:505). Mathews (1998:3) suggests that despite references by accountancy bodies to a wider group of stakeholders, the accounting profession seems still to be concerned with reporting to investors and creditors.

While the USA and Canada are geographically and politically close, their corporate social reporting has developed differently with the focus in the USA being more on consumerism, the general public and the environment while Canada is focused more on the status of employees and

their working environment. However, in contrast to the USA, industrial relations issues have influenced developments in Europe (Burchell, 1980:24) and the UK. In the UK there are mandatory requirements but there have been no new initiatives since the 1970s. In Western Europe there have also been few initiatives since the 1970s such as the Social Charter and the Agreement on Social Policy (Gray et al., 1996:203). Only mandatory requirements such as the French bilan social are firmly entrenched and France is described as being ahead of most other countries in the area of employee related disclosures (Mathews & Perera, 1991:214), although the survey by Adams et al. (1995; 1998) would suggest that German companies are now disclosing more. As the EU moves towards further unification, more uniform standards for social disclosures may result. Freedman and Stagliano (1992:120) state that there is "an obvious need for development and acceptance of a transcendent ideology of social reporting". Providing a contrast to the EU countries, Australian and New Zealand reporting practices for employee reporting were examined next. The discussion revealed that Australia and New Zealand do not have any formal employee reporting requirements. In South Africa, employee reporting is encouraged by the accounting profession and while there have been no attempts to make a separate employee report mandatory, the harmonisation program and recent legislative changes, may provide an impetus for employee reporting.

Internationally, membership of the IASC means that those member countries and/or those countries seeking to harmonise their own standards with those of the IASC will disclose certain employee-related matters. Thus the IASC and other international bodies have provided an influence on employee related disclosures.

In conclusion, there exist no regulations relating to the production of a separate employee report. However, certain information relevant to employees is disclosable in the annual report itself or may be found in other reports such as an employment report or a social report. This chapter has examined the current status of employee reporting with reference to the regulatory requirements and practice found in certain countries. As such this chapter provides a platform for the following chapter which examines significant prior research on employee reporting.

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CHAPTER 5**SIGNIFICANT PRIOR RESEARCH ON EMPLOYEE REPORTING**

- 5.1 Introduction
- 5.2 The desirability of employee reporting
- 5.3 Presentation and contents of employee reports
- 5.4 The desirability of attesting to published employee reports
- 5.5 Summary
- 5.6 List of sources

5.1 INTRODUCTION

The objective of this chapter is to examine significant prior research on employee reporting. This discussion is restricted to published research findings or those which have been undertaken as part of degree programs.

This chapter provides both the background and introduction to the empirical part of this study. As this study focuses on employers' and public accountants' attitudes towards employee reporting in South Africa and examines the desirability of employee reporting, the form and contents of employee reports, and auditor involvement with employee reporting, this chapter classifies the empirical research studies according to the above mentioned issues.

As employee reporting is also part of the broader description of "social accounting" some of the research studies which follow are not entirely confined to employee reporting. Relevant research on "social accounting" is also included in order to provide a comprehensive view of the relevant issues. Not every aspect of the research studies is discussed as only those areas which are relevant to this particular study are addressed.

5.2 THE DESIRABILITY OF EMPLOYEE REPORTING

Research on the desirability of employee reporting is subdivided into four areas; the need for employee reporting, reasons for and against reporting to employees, employees' requested and managements' recommended information disclosures, and employees' understanding of employee reporting. Although this study is concerned with the viewpoints of employers and

public accountants, research from the employees' point of view is included in order to provide a balanced view of the relevant research.

5.2.1 The need for employee reporting

The foremost approach to determining the desirability of employee reporting is establishing whether there is a need for it from the viewpoint of employees and/or employers (management). Although this is closely related to studies which determine the reasons for and against reporting to employees, this section identifies those studies which posed a specific question to determine either the employees' or managements' attitudes towards the desirability of employee reporting.

The first study addressing this specific issue is that of Mitchell, Sams and White (1981a; 1981b). This exploratory study gathered data from management by means of two structured interviews; the first one dealing with the inter-relationship of industrial relations and employee disclosure, and the second one dealing with the disclosure of financial information to employees (1981a:110). Of the four participant Scottish firms, three firms were providing employee reports while in the fourth firm, only oral financial disclosures by the company chairman to the departmental heads were made with any further dissemination of the information being the departmental heads' responsibility. Mitchell et al. found the managerial respondents unanimously in favour of disclosing some financial information to the employees (p.110). From the employees' perspective, Mitchell et al. (1981b) interviewed 85 employees ranging from middle-management, office and clerical staff and shop floor staff. They found the demand for financial information by all four firms to be moderate (p.152). Indeed, the employees did not wish or expect the company to provide detailed disclosures. Instead, the employees favoured the current policy of financial disclosure followed by their firms which may explain why there was only a moderate demand for financial information. The majority of the employees were used to receiving information and did not expect to receive more.

This study may be contrasted with that of Macintosh (1984) who investigated employee reporting from both an employee and employer perspective in Canada. Two repetitions of the questionnaire were carried out; in the first, 252 questionnaires were distributed from which 107 usable responses were obtained, and in the second 418 questionnaires were distributed at a different firm from which 134 usable replies were received. Macintosh also mailed 133 questionnaires to accounting executives (employers) of manufacturing concerns with 40 or more

employees. Of 133 questionnaires mailed out, 119 usable replies were received (89,4% response rate) (p. 100).

With regards to the desirability of employee reporting, Macintosh posed the following question:

Which one of the following answers do you believe best describes the importance of providing employees with information on the operations and activities of their employer companies? ...

- (a) Extremely important
- (b) Important
- (c) Not necessary but desirable
- (d) A waste of time (p.91)

The responses to this question are shown in table 5.1.

<u>Importance</u>	Management Survey		Employee Survey 1		Employee Survey 2	
	No.	%	No.	%	No.	%
Extremely important	20	16,8	36	33,6	64	47,8
Important	45	37,8	57	53,3	58	43,2
Not necessary but desirable	43	36,2	10	9,4	10	7,5
Waste of time	<u>11</u>	<u>9,2</u>	<u>4</u>	<u>3,7</u>	<u>2</u>	<u>1,5</u>
	119	100,0	107	100,0	134	100,0
	====	=====	====	=====	====	=====

Source: Excerpt from Macintosh (1984:119).

Table 5.1 indicates that although there is considerable support by employees for the provision of information to them, management do not share this attitude to the same extent. Macintosh also analysed the data to establish whether or not any relationship existed between the attitudes towards the provision of information to employees and the age or level of management (1984:120). The results of this indicated that while the age of the respondents did not yield any further information, the higher the level of management, the more importance the respondents attached to employee reporting. These results are shown in table 5.2.

Table 5.2 Macintosh (1984) study
Relationship between level of management and
importance of providing employees with information

		Level of Management				Total
		Top	Middle	Lower	No response	
<u>Importance of providing employees with information</u>						
Extremely important	No.	6	13	1	-	20
	(%)	(30,0)	(21,1)	(2,9)		(16,8)
Important	No.	12	20	12	1	45
	%	(60,0)	(32,8)	(34,3)		(37,8)
Not necessary but desirable	No.	2	22	17	2	43
	(%)	(10,0)	(36,1)	(48,5)		(36,1)
Waste of time	No.	-	6	5	-	11
	(%)	—	(9,8)	(14,3)	—	(9,3)
		20	61	35	3	119
		==	==	==	==	===

Source: Excerpt from Macintosh (1984:121).

Macintosh concludes this section of his study by stating that “the samples from the three surveys show that, in general, attitudes differ substantially between management and employees, and that groups of employees differ considerably from one another” (1984:120-121).

A South African point of view is provided by the research studies of Anderson (1987), Carson (1988), Struckmann (1993) and Booysen (1993).

Anderson (1987) interviewed a trade unionist as part of his study although its main focus was a postal questionnaire addressed to a random sample of industrial companies listed on the Johannesburg Stock Exchange (JSE). The interview was conducted with the then administrator of the National Union of Clothing Workers (SA). The objective of the interview was “to establish the reaction of organised labour to the concept of an employee report and to discuss the use of and contents of such a report” (p.63). In summary, the administrator supported the concept of an employee report and considered it to be useful at plant level in the negotiating process and that it would assist in the education of union representatives and shop stewards as to the meaning

and significance of financial information (p.64). Although specific contents were not discussed, it was felt that the report should contain fairly detailed information of both a financial and non-financial nature (p.65). The administrator also put forward the viewpoint that

Any simplification or "decodification" of information could be obtained by making use of the union's own accountants and auditors. These people would also be responsible for explaining the significance of the information to negotiators and would thus be an essential part of the education process. The report should give sufficient information to assist in the negotiation of not only wages, but also retrenchments, sick leave etc. (p.65 - 66).

Carson (1988), through a translator, interviewed 11 mine workers in order to determine the information types preferred by employees. With regards to the desirability of the information, all 11 employees interviewed wanted information (p.51).

Struckmann (1993) based his research on the framework constructed by Lewis, Parker and Sutcliffe (1984b). The population for Struckmann's survey was defined as all employees on the weekly and monthly permanent staff payrolls at one company in the Western Cape region. The population was thus 2 752 employees who were stratified according to age, gender and type of job (1993: 38). A usable sample of 347 employees formed the basis for his study. Struckmann commenced his research by first determining whether or not employees wanted information about their employment. A total of 342 employees responded affirmatively (98,6%) (p.45).

Booyesen's (1993) research was directed at developing a framework for employee reporting in South Africa. In order to determine the relevancy, acceptability and content of the employee report, a questionnaire was directed to seven trade unions and followed up with discussion sessions. Booyesen asked all participating trade unions whether employee reporting was essential? All replied in the affirmative (p.120). All seven saw trade unions as (currently) representing the uninformed employee in the area of financial reporting (p.122) and all seven did not see the financial information needs of the employee being currently satisfied in financial statements and/or financial reporting in South Africa (p.123). All seven agreed that there should be a standard framework for employee reporting (p.127).

To summarise, these South African studies have indicated that there is a demand or need for information by employees and that it is seen as desirable from an employee's perspective.

Concluding this section on examining the desirability of employee reporting from the viewpoint that there is a need for employee reporting, all the studies cited established that this need does exist. The Mitchell et al. (1981a) study did however find that while management were unanimously in favour of disclosing some financial information to employees, demand for information from the employees' perspective was moderate.

A further approach to determine the desirability of employee reporting is to examine the reasons for and against reporting to employees.

5.2.2 Reasons for and against reporting to employees

In order to determine the desirability of employee reporting, an examination of the reasons why employers and employees consider such information relevant provides further useful insight.

5.2.2.1 Reasons for and objectives of producing an employee report

The first attempt to investigate employee reporting in Britain was undertaken by the British Institute of Management (BIM) in 1957. This study is reported upon in Hussey and Marsh (1983). The BIM study covered 253 companies with a response rate of 160 companies of which 56% (89 companies) provided employees with financial information. In this survey, a number of advantages were identified which are shown in table 5.3. Although the BIM (1957) study singled out the main advantage of reporting to employees as identifying more with the employer, a large number of companies did not respond to this question.

**Table 5.3 British Institute of Management (1957) study
Advantages of giving financial information**

<u>Advantages</u>	No. of firms	%
Identification of interest with employer	63	39,0
To help understanding of company and economic affairs	34	21,0
To stop rumours and remove misconceptions	33	20,0
To improve workmanship	13	8,0
Moral obligation	9	6,0
Profit sharing is received with more enthusiasm	4	2,5
No advantages	4	2,5
Good public relations	3	2,0
To help cut costs	1	0,6
No answer given	75	47,0

N = 160

Source: Hussey & Marsh (1983:61).

The Marsh and Hussey (1979) study followed more than 20 years after the BIM study. This study involved a request to subscribers to the Company Secretary's Review to submit employee reports. This produced 400 documents of which 302 fell within the definition of an employee report used by Marsh and Hussey. A questionnaire was sent to these 302 companies of which 236 replied. A shorter questionnaire was sent to the 6 888 remaining subscribers, generating 1 033 respondents. These responses were used to establish the practices and policies of British companies to employee reporting. The results of the question asking the 236 companies what their prime objectives were in producing an employee report are shown in table 5.4 and show some similarities with the responses in the BIM study in table 5.3.

The Craig and Hussey (1980) study which examined the Australian practices regarding employee reports, posed a similar question. As part of the survey, 112 companies were asked why they issued an employee report. These results are shown in table 5.5.

As the responses which could be chosen by the respondents are the same as those of the Marsh and Hussey (1979) study, a comparison is possible. In both studies, the response "to involve employees more in the affairs of the company" is ranked substantially higher than other possible responses followed by "to encourage a sense of responsibility".

**Table 5.4 Marsh and Hussey (1979) study
Objectives of producing an employee report**

<u>Objectives</u>	No. of responses	%
To involve employees more in the affairs of the company	199	84,3
To encourage a sense of responsibility	109	46,2
To discharge the proper responsibilities of the company	99	41,9
To enable the market situation to be better appreciated	51	21,6
To motivate employees towards higher productivity	33	14,0
To moderate high wage demands	9	3,8
Other objectives	27	11,4

Note: Since more than one answer was possible the figures given do not add up to 100%.

N = 236

Source: Hussey & Marsh (1983:61).

**Table 5.5 Craig and Hussey (1980) study
Objectives in producing an employee report**

<u>Objectives</u>	<u>%</u>
To involve employees more in the affairs of the company	42
To encourage a sense of responsibility	19
To discharge the proper responsibilities of the company	11
To enable the market situation to be better appreciated	11
To motivate employees towards higher productivity	8
To moderate high wage demands	3
Other	6

Source: Craig & Hussey (1982:9).

A study in 1981 by Purdy whereby he interviewed 28 senior British executives provides further insight on this matter. Twenty-five of the companies represented by these executives were producing an employee report. Although some of these companies had extensive unionisation, the employee reports had been produced as a management initiative, or because they had an "open" management style, or because top management wanted to influence employees by putting management's view across of the company's operation (p.331-333).

The Mitchell et al. (1981a) study found that employee disclosure was motivated by change within the organisation or the poor condition of communication or both. Other factors were that employee disclosures were the general trend towards greater disclosure, that employees had a right to information and management a moral obligation to meet this right, and that the morale of the employees would be raised and trade union negotiators would be "educated" (p.110).

The study of Macintosh (1984) in Canada examined this from both an employer and employee perspective. His results are shown in table 5.6.

Table 5.6 shows considerable agreement amongst the respondents that the main reasons why companies should report to their employees were to improve employee - employer relationships, to demonstrate an open approach to management, and to increase employees' understanding of the company's operations and activities.

Firth and Smith's (1984) study carried out in New Zealand involved sending 318 standard form

	Management Survey %	Employee Survey 1 %	Employee Survey 2 %
<u>Respondents who strongly agreed or agreed</u>			
To improve employee-employer relationships	87,4	91,0	90,1
To demonstrate an open approach to management	84,8	82,0	73,3
To increase employees' understanding of the company's operations and activities	84,8	95,0	90,2
To reduce the influence of trade unions or labour representatives	32,0	22,1	20,3

Source: Excerpt from Macintosh (1984:122).

letters to the company secretary of most companies listed on the New Zealand Stock Exchange in November 1982 and to certain major overseas private companies operating in New Zealand. Replies were received from 190 companies (p.5). The results of this study were reported in 1984 in a document entitled Reporting to employees (Firth & Smith, 1984). Some aspects of the study were subsequently published later by Smith and Firth (1986; 1987).

The results of Firth and Smith's (1984) New Zealand study of employers' objectives in issuing employee reports are shown in table 5.7.

<u>Objectives</u>	Average Rank (Out of 5)	Overall Rank
To encourage a sense of responsibility in the workforce	3,27	3
To discharge the responsibilities of the company	2,35	5
To enable the firm's position to be better appreciated	3,94	2
To motivate employees towards higher productivity	2,89	4
To motivate employees more in the affairs of the company	4,06	1
To moderate wage demands	1,35	7
To respond to union requests for information	1,25	8
To prevent rumours and gossip	2,10	6

Source: Smith & Firth (1987:55).

These results which were published in 1987 show that three objectives were ranked highly. Smith and Firth (1987:56) comment that an area of commonality in these three objectives is “one of educating employees about how their company operates so that employees will be more likely to take a positive and responsible interest in the operations of their employer”.

The Peel, Pendlebury and Groves (1991) study examined whether the evidence of share ownership/profit sharing schemes impacted on the methods and perceived uses or objectives of communicating financial information to employees. Questionnaires were sent to 443 United Kingdom (UK) owned listed companies in the 1987/88 Times Top 1 000 and 180 (41%) usable responses were obtained. Although the aim of this study was primarily to establish possible links between share-ownership schemes and financial reporting to employees, the study established how companies were communicating financial information to employees and companies' reasons for communicating financial information to employees. In order to reach their conclusions, the researchers divided the companies into three categories; companies with all-employee schemes, companies with no employee schemes and privatised companies.

Of interest to this study are the following conclusions.

- (a) Ninety-six percent of both privatised and companies with all-employee schemes had regular procedures for providing employees with financial information as opposed to 86% of the companies with no all-employee scheme.
- (b) Companies with all-employee schemes more frequently use a variety of other non-written methods to communicate financial information to their employees compared to companies without all-employee schemes.
- (c) The most frequently reporting practices used in providing information to employees were firstly newsletters/magazines or periodic reports, secondly, presentations, thirdly, employee reports and lastly, team briefing.
- (d) The main reason for privatised companies to provide financial information to employees was “to involve employees more in company affairs”. Ranked equal second was “to increase commitment/loyalty of employees”, “to motivate employees towards higher productivity”, “to improve employees' financial awareness of company affairs”, “to improve employees' understanding of financial issues”, and “to make employees more profit conscious”. The other two groups ranked “to increase commitment/loyalty to employers” first, with the other reasons listed above, excluding “to improve

understanding of financial issues”, highly ranked too. The reason “to improve understanding of financial issues” was not highly ranked by the other two groups. However Peel et al. (p.125) conclude that there appears to be broad agreement between the three groups on the comparative importance of each criterion.

The South African studies of Anderson (1987) and Meijers (1993) also address this issue.

Anderson's (1987) study included a postal questionnaire survey addressed to a random sample of 55 industrial companies listed on the JSE. Thirty three responses were received. The results of one aspect of Anderson's study, namely management's objectives behind the production of the report where companies were producing a separate employee report, are shown in table 5.8.

<u>Objectives</u>	Number of Agreements	% of total
a) Meeting the information needs of employees	12	92
b) Motivation	10	77
c) Improving communication with employees	12	92
d) The publication of corporate objectives	9	69
e) Improving productivity	4	31
f) Assisting in management planning	1	8
g) Improving industrial relations	10	77
h) Improving public relations	7	54

Source: Anderson (1987:16).

Anderson's study was undertaken in 1987 and he contends that as employee reporting was at that time a relatively new development, objectives which scored poorly may only be acknowledged in the future (1987:19).

A more recent South African study which also addressed this aspect is that of Meijers' (1993), whose study was a questionnaire survey addressed to all companies listed on the JSE with the exclusion of holding companies which had no employees. This left a population of 594 companies from which 188 usable replies were obtained (response rate - 31,7%) (p.69). The results of this part of Meijers' questionnaire, namely why companies originally decided to produce an employee report, and companies' prime objectives in producing an employee report,

are shown in tables 5.9 and 5.10. Table 5.9 shows most companies decided to issue employee reports on their own initiative. Presumably, this initiative was driven by the need to achieve the objectives shown in table 5.10.

Table 5.9 Meijers (1993) study
The major reasons given by companies for issuing an employee report

<u>Reasons</u>	No.	%
The company acted on its own initiative	25	78
Other companies produce a report	5	16
Employees requested the report	3	9
Trade unions requested the report	3	9
Policy from the parent company	2	6
The need for communication	2	6
As a result of employee share schemes	1	3
The launch of the Anglo Alpha Employee Report Award	1	3
The changing political environment	<u>1</u>	3
Total	43	
N = 32	==	

Of the 32 companies which issue an employee report, a number gave more than one reason. The above percentages have been calculated on the sample of 32 and not on the 43 responses.

Source: Meijers (1993:77).

Table 5.10 Meijers (1993) study
The major objectives given by companies for producing an employee report

<u>Objectives</u>	No.	%
To educate employees on the affairs of the company	25	22
To create a sense of belonging within the company	23	21
To involve employees more in the affairs of the company	21	19
To improve the company's public relations image	10	9
To encourage a sense of responsibility	9	8
To motivate employees towards higher productivity	9	8
To discharge the proper responsibilities of the company	7	6
Other	<u>8</u>	7
Total	112	
N = 32	==	

Of the 32 companies which issue an employee report, a number gave more than one reason. The above percentages have been calculated on the 112 responses and not on the sample of 32.

Source: Meijers (1993:78).

The Anderson (1987) and Meijers (1993) studies identify meeting the informational needs of the users and making employees feel part of the company as the main reasons for issuing an employee report.

Providing a perspective from the employees' point of view is the South African study of Struckmann (1993). His analysis of why employees were demanding information is shown in table 5.11.

<u>Reasons</u>	No. of employees	Percentage
It makes me feel part of the company	236	69
To make decisions about my employment	300	88
To learn about the company and what it does	214	63
It shows that the company cares about its employees	216	63

N = 342
Source: Struckmann (1993:46).

Table 5.11 highlights decision-making as the most important reason for requiring information with feelings of identification with the company second. Struckmann (1993) also analysed the employees' reasons for demanding information using age categories (p. 64) and gender (p.68). Decision-making remained the most important reason. Comparing the results of Struckmann's (1993) study to those of Anderson (1987) and Meijers (1993) confirms a similarity in that employees require information for decision-making purposes and wish to feel part of the company.

In summary, the UK studies (BIM, 1957; Marsh & Hussey, 1979; Peel, Pendlebury & Groves, 1991) highlighted making employees feel more part of the company as the main advantage or objective of producing an employee report. This is confirmed by the Australian study of Craig and Hussey (1980). The Macintosh (1984) Canadian study highlighted the main reason why companies should report to their employees as being "to improve employee-employer relationships". This is not totally inconsistent with the objective of making employees feel part of the company. The Firth and Smith (1984) New Zealand study which examined employers' objectives in issuing employee reports, ranked "to motivate employees more in the affairs of the

company” first. This objective is also consistent with making employees feel more part of the company. Other reasons why companies report to their employees is because of management initiative (Meijers, 1993; Purdy, 1981), to demonstrate an “open management style” (Macintosh, 1984; Purdy, 1981) and to facilitate change and/or improve communication (Anderson, 1987; Mitchell et al., 1981a).

The South African studies of Anderson (1987) and Meijers (1993) identified two main objectives for producing an employee report from the employers’ perspective. These were that employees require information and that they are part of the company. The South African study of Struckmann (1993) conducted from an employee’s perspective indicated that information is required for decision-making and employees wish to feel part of the company.

A limitation of making the above comparisons is that the questions or choice of responses differ in the surveys and this impedes comparability. However, the studies which were conducted from both an employee and an employer perspective confirm that the objectives or advantages from both perspectives are similar.

5.2.2.2 Reasons for not producing an employee report

A number of survey studies addressed the issue of why companies are not producing an employee report.

The results of the Marsh and Hussey (1979) study carried out in the United Kingdom and replicated in Australia by Craig and Hussey (1982) are shown in table 5.12. This table indicates that companies not producing employee reports are doing so mainly because they are too small and it would involve confidential information. Also ranked highly in the Marsh and Hussey (1979) study is that the information would be misunderstood and in the Craig and Hussey (1982) study, the view that it would be too expensive.

In New Zealand, Firth and Smith (1984) asked respondents to rank the relative importance of specific factors in their decision to not issue employee reports. (Refer to table 5.13.) The view that information would be misunderstood was the main reason chosen by employers for not issuing employee reports. In joint second place were the reasons that confidential information would be involved and that cost outweighs any benefits.

Table 5.12 Marsh and Hussey (1979) study and Craig and Hussey (1982) study
Reasons given by companies for not issuing an employee report

Reasons	Marsh and Hussey (1979)			Craig and Hussey (1982)		
	No.	%	Rank	No.	%	Rank
We are too small	215	22,7	1	37	18	1
Confidential information would be involved	129	13,6	2	19	9	3
Information would be misunderstood	111	11,9	3	11	5	5=
Financial information is the business of the shareholder	82	8,8	4	9	5	5=
Our employees are not interested	72	7,6	5	17	8	4
It would be too expensive	68	7,2	6	22	11	2
It would be contrary to the policy of our parent company	62	6,5	7	7	4	7
Employees have no right to such information	19	2,0	8	0	0	8
Other	<u>189</u>	19,9	-	<u>80</u>	<u>40</u>	-
Total	<u>947(a)</u>			<u>202</u>	<u>100(b)</u>	

- (a) Of the 605 companies which did not issue an employee report, a number gave more than one reason. The percentages have been calculated on the 947 individual reasons given and not on the sample size of 605.
- (b) Percentages have been calculated on the 202 individual reasons given and not on the sample size of 174.

Source: Hussey and Marsh (1983:80) and Craig & Hussey (1982:24).

Table 5.13 Firth and Smith (1984) study
Employers' reasons for not issuing employee reports

Reasons	Weighted Average	Rank
Never considered it	1,67	10
Our company is too small	2,07	9
Confidential information would be involved	2,48	2=
Our employees would not be interested	2,12	7
Information would be misunderstood	2,53	1
Financial information is the business of shareholders	2,08	8
Contrary to company policy or parent company policy	2,17	6
Employees have no right to such information	2,42	4
Confidential information could be leaked to competitors	2,40	5
Cost outweighs any benefits	2,48	2=

Source: Firth and Smith (1984:9).

Providing a South African perspective, the results of the studies of Anderson (1987) and Meijers (1993) are shown together in table 5.14.

<u>Reasons</u>	Anderson %	Meijers %
Information would be misunderstood	28	6,3
Financial information is the business of the shareholder	17	5,9
Confidential information would be involved	11	4,1
It would be too expensive	11	8,6
Our employees are not interested	6	6,3
Employees receive information via alternative channels		33,9
We are too small in size		16,7
It has never been considered		4,1
It is unnecessary to give employee financial information		3,6
Other	27	10,4

Source: Adapted from Anderson (1987:24) and Meijers (1993:75).

While Anderson's (1987) respondents highest ranked item was that information would be misunderstood, this was not highly ranked in the Meijers (1993) study. Instead Meijers' respondents ranked first the reason that employees received information via alternative channels followed by the reason that the company was too small in size. Meijers' results indicate a shift away from the reason that information would be misunderstood to the reason that employees receive information via alternative channels. This may indicate that management is recognising the employee as having a right to information and that they are using alternative channels to distribute the information. An interesting similarity between the Marsh and Hussey (1979) study, the Craig and Hussey (1982) study and the Meijers (1993) study is the high rank of the item "we are too small in size".

To summarise, these studies do not indicate one main reason for companies not to issue employee reports. Confidentiality, misunderstanding, the lack of rights of employees to such information and the cost of employee reports are factors which were ranked fairly high by all the respondents. In the Meijers (1993) study, the reason that employees receive information via alternative channels was the highest ranked reason but it was not a reason proposed in the other studies which were examined.

The previous studies examined the desirability of employee reporting by investigating whether a demand for information exists and by establishing the perceived advantages and disadvantages of employee reporting and managements' objectives in issuing an employee report. The next section examines the desirability of employee reporting with reference to employees' and employers' attitudes to disclosure within employee reports.

5.2.3 Employees' requested and management's recommended information disclosures

Studies investigating employees' requested information disclosures have been conducted both in South Africa and elsewhere.

Examining firstly the overseas studies, relevant studies are as follows:

Hussey (1979), reported upon in Macintosh (1984), interviewed 238 employees who were already receiving information to ascertain which information they considered important. As the purpose of this study was to determine the reaction of employees to employee reports, it was more concerned with communication of information rather than the contents and presentation of employee reports (Macintosh, 1984:51).

Mitchell, Sams and White (1981a; 1981b) interviewed 85 employees and 18 managers of four companies in Scotland as part of an examination of employee disclosure policies.

Firth and Smith (1984) presented a sample of employees and employers with a set of information disclosures which they were asked to rank.

Craig and Hussey (1982) analysed 1 207 questionnaires and interviewed 231 employees during 1979 and 1980. The purpose of the questionnaire was to determine the readership interest in and understanding of employee reports (see section 5.2.4). The interviews were used to determine the attitudes of employees towards the disclosure of certain information items.

Schreuder's (1981) study was based on an analysis of 1 347 completed postal questionnaires and 240 interviews with employees at five companies in the Netherlands. The aim of this study was to determine the reaction of employees to the voluntary issue of social reports by companies. The results of these studies are shown in table 5.15.

Table 5.15 Hussey (1979) study, Mitchell, Sams and White (1981a;1981b) study, Firth and Smith (1984) study, Craig and Hussey (1982) study, and Schreuder (1981) study

Recommended and requested information disclosures

	Hussey (1979)	Mitchell, Sams and White (1981a, 1981b)		Firth and Smith (1984)		Craig and Hussey (1982)	Schreuder (1981)
	Employees	Employees	Management	Employees	Management	Employees	Employees
Sample Size	238	85	18	n/a	n/a	231	1 587
Information	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Profits/Income statement	-	1	1	8	3	-	-
Future plans and policies	1	9	4=	1	1	1	-
Financial information	2	-	-	-	-	9	5
Financial position/ liquidity	-	7=	2=	11	5/11	-	-
"How the company is doing"	-	2	-	-	-	-	-
Turnover/Orders	3	3	2=	-	-	-	-
Pay and conditions of employment	5	4	-	-	-	4	2
Organisational details	4	-	-	-	-	6=	4
Capital investment plans	-	5	4=	15	8	-	-
Return on capital employed	-	-	6=	-	-	-	-
Segmented financial results	-	6	6=	-	-	-	-
Production costs	-	7=	-	-	-	-	-
Employment statistics/ personnel	6	-	-	3	6	6=	10
Productivity/ New products	7	-	-	2	4	5	-
Health and safety	8	-	-	-	-	8	-
Safety/Accident information	-	-	-	12	9	-	1
Chief executive's report	-	-	-	9	2	-	-
Marketing information	-	-	-	6	7	-	-
Training	-	-	-	5	10	2	-
Ownership	-	-	-	13	13	-	-
Staff news	-	-	-	10	15	-	-
Pension information	-	-	-	7	12	-	3
Community news	-	-	-	14	16	-	-
Value added statement	-	-	-	-	14	-	-
Fringe benefits	-	-	-	4	17	3	-
Health & social services	-	-	-	-	-	-	7
Training & education	-	-	-	-	-	-	6
Work consultation	-	-	-	-	-	-	8
Labour representation	-	-	-	-	-	10	9

Source: Hussey (1979:32), Mitchell et al. (1981a:111; 1981b:152), Firth & Smith (1984:8,10), Craig & Hussey (1982:92) and Schreuder (1981:302).

Looking firstly at employees' attitudes towards requested information disclosures, table 5.15 shows the preference for disclosure of future plans and policies in the Hussey (1979), Firth and Smith (1984) and Craig and Hussey (1982) studies. Employees in the Mitchell et al. (1981b) study preferred information on profitability. A possible reason for this apparent inconsistency is that the respondents in the Mitchell et al. (1981b) study may have regarded information on profitability as a surrogate for assessing the company's future plans and policies (Struckmann, 1993:22) and their choice of "how the company is doing" as second, is for them a means of assessing the company's profitability. The preference of the employees in the Schreuder (1981) study is for non-financial information. Safety information, pay and conditions of employment, pension information and organisational details are all ranked before financial information. As Schreuder's study was carried out in the Netherlands, employees may have been used to receiving financial information from other sources. Employees in the Mitchell (1981b) study and the Firth and Smith (1984) study ranked the balance sheet (described as financial position/liquidity) fairly low.

Table 5.15 also allows some comparisons between the employees' requested information disclosures and managements' recommended information disclosures to be made. In the Mitchell et al. (1981a) study, management assigned more significance to quantitative information and information on pay and conditions of employment (ranked fourth by the employees) was not ranked at all by management. In the Firth and Smith (1984) study, management ranked income statement information third (ranked only eighth by the employees) and the chief executive's report second (ranked ninth by the employees).

A further study which contrasts employees' and employers' disclosure preferences is the Canadian study of Macintosh (1984). The results of this part of his study are shown in table 5.16.

The Macintosh study shows the employees' area of interest to be information concerning job security (in particular, future plans and policies), financial information, conditions of employment and the company's organisation structure. The accounting executives showed a difference in attitude towards the information and the employees' interests were considered only to be the future plans and policies of the company, the levels of plant utilization, the effects of economic conditions on business operations, and the cost and nature of benefits of the wage

settlement (Macintosh, 1987:46). The Macintosh study concluded “that there were considerable differences in the attitudes of accounting executives and employees towards what information would be of interest to employees” (1987:47).

Table 5.16 Macintosh (1984) study Summary of responses to the survey questionnaires establishing the areas of interest to employees	Agreement by respondents		
	Survey of Accounting Executives %	Employee Survey 1 %	Employee Survey 2 %
	<u>Areas of interest to employees</u>		
<i>For assessing their job security:</i>			
Objectives of carrying on business	36,1	85,9	90,2
Future plans and policies	68,9	93,4	97,0
Levels of plant utilization	52,1	86,9	84,5
Outstanding work orders	40,4	68,3	68,7
Effects of economic conditions on business operations	52,1	81,7	90,1
<i>Financial information:</i>			
Assets, liabilities and equities	13,6	86,9	81,7
Sales by product or department	26,9	73,7	82,3
Departmental or product costs	16,0	71,1	82,3
Total profits, the amounts paid out in taxes, as interest or as dividends, or reinvested in the business	44,6	73,8	82,3
<i>Conditions of employment:</i>			
Cost and nature of benefits of the wage settlement	57,1	83,0	87,9
Training schemes and pension rights	46,2	92,5	89,4
Employment statistics	21,8	91,4	84,7
Trade union or labour representation	44,1	80,6	72,3
<i>Organizational structure:</i>			
Location and organizational structure	27,8	82,2	80,2
Line responsibility within the company	36,1	85,9	79,7
Source: Macintosh (1987:47).			

A number of South African studies have examined employees' requested and employers' recommended disclosures.

Carson (1988) constructed a list of information types into five groups based on Maslow's five hierarchical need levels. Eleven respondents were asked to rank the items in each group

according to his preferences. Due to language difficulties, groups of items were split into 'threes' and then ranked on that basis and certain items were deleted as the concepts were difficult for the employees to understand.

A summary of Carson's results is shown in table 5.17 where the three highest scoring items are listed under each need category.

Table 5.17 Carson (1988) study
Information needs: the three highest ranking items in each section

Physiological needs (total of nine needs)

- Retirement and disability information
- Wage increase: CPI
- Retrenchment benefit information

Safety needs (total of nine needs)

- Safety comparison of this mine to other mines
- Expenditure on occupational health training
- Surface to underground injury comparisons

Social needs (total of six needs)

- Total number of employees
- Names and faces of management

Esteem needs (total of six needs)

- Training possibilities
- Promotion opportunities

Self-actualization needs (total of ten needs)

- Community involvement
- Price paid to mine for each kg mined
- Details of new members of workforce

Source: Carson (1988:52).

Limitations of Carson's research were interviewer subjectivity, translation bias, the small number of employees interviewed and the question process (deleting items, ranking in threes and interviewing in pairs) (1988:58 - 59). However, if a comparison is made to table 5.18 where results of other South African surveys are presented, information on retirement/retrenchment benefits and training possibilities are ranked highly in the other surveys particularly when comparing to the information needs of manual and factory workers.

Terhoven, in 1986, evaluated human resource disclosure with a view to the preparation of an employee report. Terhoven's research report attempted

[t]o ascertain the attitude of:

- (a) management regarding their responsibility to report to employees and the information reported;
- (b) unions regarding their reasons and requirements for the information reported to them (1986:3).

(Terhoven used unions as a proxy for the employee group (1986:38).)

The companies in the population were in the Retail and Wholesale Sector of the JSE (total 23). Management were either interviewed with the aid of an interview questionnaire or asked to fill in a reply questionnaire (total response eight). For the unions, only personal interviews were considered due to the problems in accessing the appropriate persons at union or shop steward level (1986:40 - 41). A total of six union representatives in the Cape Town region were approached for interviews of whom three granted interviews (p.53).

Terhoven's results are not ranked. However, the five most important types of employee information from a union perspective were pension details, benefits received, training provided, hours worked and number of employees (1986: 61). These are shown in table 5.18. The five least important types of employee information from a union perspective were employee morale, sales per employee, value added per employee, average remuneration and donations made (p. 62). From the trade unions' perspective, the information would provide greater evidence for use in the collective bargaining process. The companies also chose benefits received and training provided as important information items together with company objectives, education assistance and bonus schemes. The companies agreed with the trade unions that information on average remuneration was unimportant. The other four items ranked as unimportant were location of employment, sex categories, age-analysis and directors' wealth (p.62).

Kagan (1992) surveyed 112 employees of three firms. The employees consisted of management and skilled and semi-skilled employees. The questionnaire required 65 responses of which most required a choice between 'Yes', 'No' and 'Do not know'. Questions 1 - 10 examined employees' attitudes towards employee reporting. Questions 11 - 64 examined the presentation and contents of an employee report. Questions were also included in order to examine employees' understanding of various financial expressions. Question 65 asked employees to list other

information they would like to see in an employee report. The results of Kagan's survey are shown in table 5.18.

The Struckmann (1993) study required employees to tick from a list of 39 information items those they required with the option of adding to the list. The information was divided into five categories - financial performance and position, financial outlook, corporate outlook, staff information and social performance (p. 49). Examining firstly the average number of votes per category, Struckmann's results showed that the highest average votes was in the social performance category and that this coupled with the fact that the most popular item was "what are the company's aims" gives rise to the possibility that in South Africa, employees are concerned more with the socio-economic role of the company (p.50). Writing in 1993, before the first democratic elections in South Africa in 1994, Struckmann contends that employees were concerned with the political role of companies to use economic leverage to oppose apartheid. The individual information items which employees demanded in the Struckmann study are shown in table 5.18.

The final South African study which is also found in table 5.18 is that of an internal survey conducted in the Murray and Roberts (M&R) group in 1992 and reported upon by Everingham (1994). Everingham reports that 720 questionnaires were distributed amongst employees within the group with a response rate of approximately 50% being achieved. Employees in the survey were categorised as either "clerical" or "factory". The first 11 items in ranking, in terms of the factory workers' preferences, are shown in table 5.18. (Not all items ranked by the clerical employees are shown.)

Table 5.18 allows some comparisons to be made even though a major factor inhibiting comparability is that of terminology. For example, Kagan (1992:73) had as a separate item "Staff benefits available e.g. medical aid schemes". Struckmann (1993:101) had as two separate categories, "Staff benefits available to employees" and "Health benefits offered to employees". This problem affecting comparability is also apparent when an examination of financial information offered to employees is made. Everingham (1994:13) comments that in the M & R survey the category "Financial information" was treated as a single item and unfortunately was not put into more sub-categories.

TABLE 5.18 Terhoven (1986) study, Kagan (1992) study, Struckmann (1993) study, and M&R study (Everingham (1994))
Ranking of employee disclosure preferences

<u>Information item</u>	Terhoven (1986)	Kagan (1992)	Struckmann (1993)			M & R Everingham (1994)	
	Unions Rank	Rank	Manual Rank	Supervisor Rank	Manager Rank	Factory Rank	Clerical Rank
Pension and provident fund information	1=	3=	10	7=	9=	9	11
Staff benefits available	1=	2	2	2	17=	2	6
Training facilities available	1=	1	17	4	14=	6	12
Hours worked	1=						
Number of employees	1=	22=					
Information about facilities		3=					
Housing for employees						1	8
Social responsibility/ community projects		5	26=	27	14=		
Employee share incentive schemes		6	12	19=	20=		
Safety prevention measures		7					
Last years figures/past results		8	31=	32=	25=		
Company's aims and objectives		9=	1	3	4=	8	4
Net profit		9=	3	1	2		
Financial information						5	1
Cash and its use		9=					
The environment		9=					
Future plans		13=				4	2
Who owns the company		13=	35	32=	34=		
Output and productivity		15					
Value Added		16=	31=	28=	32		
What company owns and owes		16=	25/38	30=/32=	25=/34=		
Sales - division		18					
Divisional financial information		19=	22	9=	9=		
Average wage level/minimum wages		19=	16	35	25=		
The board of directors		21					
Locations of company in SA		22=					
Sales - Total		22=	28=	17=	25=		
Net profit of division		22=					
Company philosophy		26=					
Company's products		26=					
Senior management (division)		26=	33	32=	25=		
What management do		26=					
Accident numbers/details		30=	21	29=	38=		
Total salaries and wages		30=					
Industrial relations data		32					
Directors' remuneration		33					
Employees resigned/fired		34	39	37=	38=		
Union representatives		35	36	39	34=		
Message from chief executive/ directors			18=	9=	6=	3	7
Details of bursaries			4	7=	9=		
Health benefits			5=	9=	14		

Table 5.18 continued Information item	Terhoven	Kagan	Struckmann			M & R	
	Unions Rank	Rank	Manual Rank	Supervisor Rank	Manager Rank	Factory Rank	Clerical Rank
How has inflation affected the company			5=	5=	9=		
Dividends paid to shareholders			7	15=	9=		
Details of customer complaints			8	19=	6=		
Bonus schemes available to employees			9	19=	6=		
How many employees were promoted			11	5=	20=		
Details of donations made by the company			13	15=	20=		
New stores			14	13=	3		
General staff news			15	25=	17=		
How many employees received training			18=	25=	25=		
How much will be spent on new assets			20	9=	17=		
Estimated profits for next year			23	13=	1		
Will more machines be used			24	19=	20=		
Details of this year's wage negotiations			25=	17=	25=		
New products			28	19=	20=		
How does the company hire new employees			30	28=	33		
Estimated sales for next year			34	19=	4=		
New employees			37	37=	37		
Affirmative action						7	15
Group employee philosophy						10	3
Future plans of each operating group						11	5

Source: Adapted from Terhoven (1986:61), Kagan (1992:79), Struckmann (1993:92), and Everingham (1994:13).

An examination of the rankings indicates that information on staff benefits is a priority with most employees with the exception of those in the manager category of Struckmann (1993) and the clerical category of M & R (Everingham, 1994). An explanation for this is given by Everingham (1994) who commented on the difference in the M & R rankings stating that "a higher percentage of the clerical workers will be Whites who already would enjoy many of the benefits available to staff, or be more aware of them than workers on the factory floor or construction site; this is further reflected by the comparatively low level of interest shown by clerical workers in training/education, and affirmative action" (p.13).

Struckmann (1993:60) also commented on the demand for information by the manual staff. While the supervisors had a similar demand, they were also interested in information on training

schemes and promotions whereas the managers' selection reflects the need for forward looking segmented information. Struckmann noted that while all three groups had identified similar decisions as important, the information each group required to make their decisions varied considerably (p.61).

The final study in this section is that of Booyesen (1993). Booyesen's study, aimed at developing a framework for employee reporting in South Africa, based on responses by seven trade unions, provides useful information on employees' disclosure preferences from the trade unions' perspectives. This study is included in this chapter as the trade union leaders saw themselves as the representatives of the uninformed employees in South Africa. The trade union respondents were asked to respond to a question asking what the financial information needs of an uninformed user (employee) are. However, not one respondent answered the question but rather made reference in their answer to another question which asked the respondent to list the financial information which should be covered within the employee report. This question was thus completed with the aid of interviews and while a ranking is not made, certain items were agreed upon by all six trade unions (with one making only comments) to be of importance to the employee and should appear in an employee report.

Table 5.19 is a summary of information items to which all trade unions agree should definitely be contained in an employee report. A further 34 information items were also considered by most of the trade unions as information which should be in an employee report (p.141).

In conclusion, this section on employees' requested information disclosures and managements' recommended information disclosures examined studies carried out overseas and in South Africa.

The overseas studies generally showed a preference by the employees for information on future plans and policies (Hussey, 1979; Craig & Hussey, 1982; Firth & Smith, 1984; Macintosh, 1984). This preference was also shown by management in the Firth and Smith (1984) and Macintosh (1984) surveys. Information on profits/income statement was ranked first by both employees and management in the Mitchell et al. (1981a; 1981b) surveys. One possibility for this difference is that the respondents in the Mitchell et al. surveys viewed the income statement and "how the company is doing" as a means of assessing the company's future plans and policies. Schreuder's (1981) study showed a preference for non-financial information by the employees.

However, employees who are already receiving financial information, may not rank financial information highly.

Table 5.19 Booyesen (1993) study
Items agreed upon by six trade unions

General matters

- Current year's results and commentary
- Expected results for next year and commentary

Definitions, descriptions and explanations

- What is meant by profits

Ratios and their interpretation

Ownership and management

Financial information concerning the achievements of the enterprise

- Net profit after taxation
- Directors' compensation
- Gross salaries and wages
- Cash portion
- Capital expenditure
- New investments made

Employee information - financial and general

- Safety in the work place - commentary and/or quantification
- External social report - review and/or quantification
- Profile of employees - salary levels

Trade union information

- Number of wage agreements concluded
- Trade union representation - number of members

Source: Booyesen (1993:138 - 140).

The South African survey of Struckmann (1993) showed a preference for information on the company's aims and objectives and also for staff benefits available. Only the manager group in Struckmann's survey ranked "estimated profits for next year" first. The disparity in the rankings in the South African surveys are partially explained by differences in the employment levels of the employees. It must be remembered, therefore, that comparability between surveys is affected by the differences in terminology used in the surveys, the different employment levels of the employees and possibly, educational levels too.

The next section examines the desirability of employee reporting by evaluating studies which have attempted to ascertain employees' understanding of employee reporting.

5.2.4 Employees' understanding of employee reports

For employee reporting to be useful to the employee user group, the information must be understandable by that group. Understandability is one of the qualitative characteristics of financial information and the target group in this instance is the employee group.

Studies which attempted to establish the readership interest in and understanding of employee reports are those of Hussey (1979), Pound (1980), Mitchell et al. (1981b) and Craig and Hussey (1982).

The study by Hussey (1979) examined the extent of readership, interest in, and understandability of employee reports by job classification and by age group. This was gauged by analysing specific questions on these issues. These summarised results are shown in tables 5.20 and 5.21. Analysing these issues firstly in terms of job classification (table 5.20) showed expected high responses from managerial personnel with a steady decrease to the lower levels. The results of the analysis by age group (table 5.21) are similar to the results of the analysis by job classification for the extent of readership and interest in employee reports, but inconclusive with regards to the ease of understanding.

Table 5.20 Hussey (1979) study
Readership, interest in, and understandability of employee reports
by job classification

	Read all or most of report %	Interest in report %	Ease of understanding of report %
Managerial	94	94	96
Professional/Technical	79	85	90
Supervisory	81	85	82
General clerical	64	75	76
Skilled	75	77	79
Semi-skilled	80	73	74
Unskilled	61	69	60
Mean	76	80	80

Source: Macintosh (1984:55).

**Table 5.21 Hussey (1979) study
Readership, interest in, and understandability of employee reports
by age group**

	Read all or most of report %	Interest in report %	Ease of understanding of report %
50 +	84	85	83
41 - 50	78	82	84
31 - 40	81	82	82
21 - 30	67	75	80
16 - 20	52	62	70
Mean	72	77	80

Source: Macintosh (1984:56).

Pound (1980:779) examined the readability of Australian company employee reports by using the Flesch readability formula. He concluded that the narrative presentations found in employee reports are not helpful for effective communication.

Another study which examines understandability of financial information by employees is that of Mitchell et al. (1981b). These results were also discussed in Mitchell, Sams, Tweedie and White (1980). This was the third aspect which Mitchell et al. (1981b) investigated. (The other two aspects were the types of information firms should disclose and the method and presentation of disclosure.) Respondents were provided with the balance sheet and income statement of a fictitious company and were asked to comment on its financial position and performance (p.153).

The results of the analysis of respondents showed that most respondents experienced difficulty in understanding the financial reports. Mitchell et al. suggest that this may be as a result of a lack of understanding of accounting terminology. To investigate this, respondents were asked to explain their understanding of several accounting terms. The results of this are shown in table 5.22.

The results in table 5.22 show a generally poor understanding of accounting terminology. Further investigations into the respondents' understanding of accounting procedures showed poor

Table 5.22 Mitchell, Sams and White (1981b) study**Employees' understanding of accounting terminology**

	No. of erroneous understanding	Vague understanding	Reasonable understanding
Profit	33	17	20
Depreciation	34	18	18
Dividend	34	28	8
Value added	66	1	3
Current assets	55	13	2
Share capital	55	9	6
Reserves	39	30	1

N = 70

Source: Mitchell et al. (1981b:153).

understanding too. Mitchell et al. (1981b) suggest that further effort is required by employers to achieve actual communication rather than perceived communication of financial information to employees. They also suggest the use of educational programs and simplification of the information may help this lack of understanding (p.154). A subsequent case study investigation by Mitchell, Sams and White (1982) confirmed that many employees have comprehension problems with regards to employee reports.

The final study in this section is that of Craig and Hussey (1982). This study examined the readership of employee reports from a number of perspectives. They examined receipt levels of employee reports, retention levels of the employee reports and the extent of the employees' readership, interest and understanding of employee reports. Their analysis of the claimed levels of readership analysed by occupational classification revealed that the management group comprised the group with the greatest proportion of readership, followed by the professional/technical/supervisory group, and lastly the clerical and manual group. Analysis of age suggested that levels of readership increase as employee age increases (p.86). An analysis of interest levels showed that 60% of the respondents found the employee report interesting and that managers, who had the highest level of readership, also had the highest level of interest. With regard to the understanding of the employee report, these results analysed by occupational classification are shown in table 5.23.

Table 5.23 represents the employees' personal evaluation of their understanding of the employee

Table 5.23 Craig and Hussey (1982) study
Ease of understanding of financial information analysed by occupational classification

Occupational classification	Responding Employees	Very easy %	Quite easy %	Quite difficult %	Very difficult %
Manager	85	47	52	1	0
Professional/Technical/Supervisory	220	32	53	14	1
Clerical	355	22	57	20	1
Manual	<u>307</u>	<u>24</u>	<u>58</u>	<u>16</u>	<u>2</u>
Total	967 ^t	27	56	16	1
	==	==	==	==	==

t = No response: 240

Source: Craig & Hussey (1982:87)

report and Craig and Hussey (1982) suggest that this may represent an optimistic bias. They note that many employees do not understand simple mathematical concepts and accounting terminology and that employee reports do not satisfactorily explain the significance of certain items or express amounts in magnitudes to which employees can relate (p.88).

The Peel, Pendlebury and Groves (1991:1) study also investigated the influence on the perceptions and understanding of employees of financial information published by their company in the context of privatisation and the growth of share-ownership schemes. Their research was carried out using a questionnaire addressed to employees in a public entity which had been recently privatised and employees in a company which was still nationalised. In summary, their research revealed the following, namely:

- (a) Employee share ownership by itself did not lead to a superior performance in their financial awareness test.
- (b) For external sources of information, both groups of employees read the financial pages of the daily press.
- (c) For internal sources of information, the most widely read was the company periodical newsletter.
- (d) Financial information in the annual reports were studied slightly more diligently than non-financial information.
- (e) The annual reports were considered to be "of some use" regarding pay and conditions,

job security and other matters of general interest (p. 35,38,43).

The Peel and Pendlebury (1999) follow-up survey which was conducted only in the company which originally was nationalised but was now privatised provided results consistent with that of the previous study.

In summary, these studies have examined the desirability of employee reporting with reference to employees' understanding of such reports. Although the studies cited are studies carried out overseas, their relevance to this study is that where South African employees have similar educational levels to their overseas counterparts, similar levels of understanding may be expected. However, in South Africa, educational levels currently differ between the different race groups and thus the majority of employees may find understanding the employee reports difficult. This was noted by Macintosh (1984:193) who suggested that imaginative and innovative reporting would be required to cope not only with different educational levels but also with the different languages. Craig and Hussey (1982:21) also commented on the language problem. Their questioning of 71 Australian responding companies which issued employee reports showed that just over 50% of the companies concerned made no special arrangements to ensure that employees who were unable to read English could understand the information in the employee report. This has implications for South Africa and efforts to ensure understanding of the information by employees must be at the forefront of any employee reporting attempts by companies.

5.2.5 Summary of research findings

This section has discussed the desirability of employee reporting using research which established whether there is a need for employee reporting, examined the reasons for and against reporting to employees and examined the attitudes of employees and employers to information disclosures. Finally, research which attempted to gauge the employees' understanding of employee reporting was examined.

The research dealing with the need for employee reporting determined this by posing a specific question to determine the employees' and employers' attitudes towards the desirability of employee reporting. The cited studies established that this need exists.

Research examining the reasons for and against reporting to employees in general revealed similar items in the reasons provided by the studies. However, comparisons are difficult due to differences in the wording of the responses which may have been chosen by the respondents.

The research which examined the attitudes of employees and employers to information disclosures was presented in a tabulated form where possible to aid comparability. The research indicates that there when financial information is demanded, information on profitability is highly ranked. When non-financial information is demanded, information on health and safety or staff benefits is requested. Differences between the information requested by employees and the information recommended by management as relevant to employees are also apparent. These differences are confirmed by the Macintosh (1984) study.

Research dealing with the understandability of the information by employees revealed that there is a lack of understandability by employees which would need to be addressed by companies which wish to ensure that their employee reporting attempts are meaningful.

The next section of this chapter examines the studies which investigated the presentation and contents of employee reports.

5.3 PRESENTATION AND CONTENTS OF EMPLOYEE REPORTS

This section of the chapter reviews empirical studies relating to the presentation and contents of employee reports. These studies were either conducted by survey research which ascertained the opinions of the target groups to the presentation and contents of employee reports, or were actual examination studies which investigated the actual content of employee reports. In the discussion of the examination studies, studies which investigated the disclosure of employee related information in the annual report itself are included in order to provide a comprehensive viewpoint of what disclosures are being made specifically for the employee user group.

5.3.1 Survey studies

These studies determined the opinions of companies on a number of issues relating to the presentation and contents of employee reports and other forms of reporting to employees. The main thrust of these studies was the method of giving financial information to employees. Certain studies also attempted to use the size of the company or employee numbers to determine whether

or not size had anything to do with the fact that information was made available to employees.

5.3.1.1 The British Institute of Management (BIM, 1957 and Smith, 1975) studies

The BIM (1957) study is the earliest attempt to investigate employee reporting in Britain (Hussey & Marsh, 1983:67). As previously discussed in section 5.2.2.1, the study covered 253 companies with a response rate of 160 companies of which 56% (89 companies) provided employees with financial information. The survey addressed a number of issues and the survey included all methods of providing financial information and did not relate only to employee reports. The results of part of this survey are shown in tables 5.24 and 5.25.

Table 5.24 indicates that most companies which were providing information to employees were doing so informally through the company magazine and committee meetings. Table 5.24 also indicates that the use of the shareholders' annual reports was also popular with 55% of the companies providing the employees with such a report and 28% of companies providing the employees with an employee report. It must however be noted that this sample represented best practice rather than existing practice (p.70). With regard to the actual content given, the information was financial in nature.

<u>Method</u>	Percentage of companies using
Personal contact with employees through supervisors	26
Company magazine	56
Annual report as issued to shareholders	55
Publications especially designed for employees	28
Annual report with illustrations and diagrams	27
Committee meetings	55
Wall charts	11
Works handbooks	9
Film and film strips	3
Pay envelope inserts	3
N = 89	

Source: Hussey & Marsh (1983:70).

**Table 5.25 British Institute of Management (1957) study
Contents of information given**

<u>Topic</u>	Percentage of companies giving information
Forecast of future trading position	70
Profit and loss account	64
Balance sheet	52
Sales analysis	52
Reserves	49
Economic information about industry in general	49
New assets	45
Sales turnover	43
Return on capital employed	36
Cost of employee services	36
New machinery costs	36
Labour costs	33
Depreciation	30
Product costs	28
Analysis of unit selling price	20
Added value	15
N = 89	

Source: Hussey & Marsh (1983:73).

The BIM (1957) survey also investigated the size of company providing financial information to employees. This part of the survey revealed that firms giving financial information were most likely to be public (74%) and have more than 1 000 employees (59%). In contrast, of the 23 private companies providing financial information, 16 companies (70%) had less than 1 000 employees (Hussey & Marsh, 1983:68). Of the 89 companies providing financial information, 16 had profit sharing schemes (p.68).

At this time, the BIM estimated that probably less than 20% of companies in the UK were giving financial information to employees but indications were that the percentage was increasing (p.68).

A second survey was commissioned by the BIM in 1975 and reported on by Smith (1975). This second study is also reported upon in Hussey and Marsh (1983). The 1975 survey covered 391 companies of which 57% provided all individual employees with financial information, 17% provided some employees with financial information and 26% made no regular provision for

providing individual employees with financial information (p.67). The results of this survey are shown in table 5.26.

<u>Method</u>	Regularly %	Occasionally %	Never %
House journals free of charge	52	8	41
House journals on sale	2	-	98
Notice boards	66	20	14
Written communication direct to individuals	52	17	31
Briefing groups	51	16	33
General meetings of employees	30	6	64
Special report	22	4	75

N = 391
Source: Hussey & Marsh (1983:71).

Although the 1957 and the 1975 studies are not comparable (the 1975 BIM survey presented the "method" question in a different form), the 1975 survey indicates an increase in the issue of special reports over the 1957 survey. According to Hussey and Marsh (p. 73), the second BIM survey analysed the percentage of content that 29 house journals allocated to specific topics over a period of six months. Although approximately half of the journals disclosed financial and other matters, only 1,1% of space was allocated to specific financial information.

In summary, comparing these two surveys is difficult as they are based on different samples and the 1957 survey was circulated to 76 firms believed to be giving financial information to employees and to 177 firms whose practices were not known, thus the survey was weighted in favour of firms believed to be giving information. Furthermore the questions differed and descriptions of the means of communication were not well defined. However, the analysis indicates that the main developments have taken place mainly amongst the larger companies (p. 68).

5.3.1.2 The Norkett (1976) study

The Norkett (1976) study reported upon in Marsh and Hussey (1983) investigated the principal method used by companies to provide financial information to employees. He used a sample of 151 companies drawn from Britain's most important employers as listed in the Daily

Telegraph Guide to British Employers. His results are shown in table 5.27.

<u>Method</u>	Percentage of companies using
Special employee report	43,3
Company magazine	39,3
Notice board	9,0
Other methods	8,4
ALL METHODS	100,0
N = 151	

Source: Hussey & Marsh (1983:71).

Examination of table 5.27 shows employee reports to be the most popular method of providing employees with information followed closely by company magazines.

5.3.1.3 The Firth and Smith (1984) study

The Firth and Smith (1984) study was performed by sending out 318 letters requesting information about employee reports to every company listed on the New Zealand Stock Exchange (as at November 1982) and to a selection of major private overseas companies operating in New Zealand. Replies from 190 companies were received. The number of companies issuing employee reports is shown in table 5.28. This table also shows that the principal method of

	No.	%
Currently issue employee reports	38	(22,1%)
Issue annual report to staff	15	(8,7%)
Communicate financial information to employees via house bulletin or staff newsletter	<u>11</u>	<u>(6,4%)</u>
SUB-TOTAL	64	(37,2%)
	==	====
Do not currently issue but planning to do so in future	8	(4,7%)
Do not issue employee reports	94	(54,7%)
Have previously issued employee reports but since discontinued practice	<u>6</u>	<u>(3,4%)</u>
TOTAL	172*	(100,0%)
	====	====

* Includes overseas public listed companies.
Excludes companies with virtually no employees.
Source: Firth & Smith (1984:5).

communicating to employees where communication is taking place is by the use of an employee report. According to table 5.29, the principal method of distributing the employee report is to hand it out to the employees at work.

<u>Method of distribution</u>	Percentage
Posted to employees at home	27%
Individually handed out to employees at work	57%
Made available in workplace	13%
Given out in wage packets	3%
Handed out at special meeting	-
Handed out via union	-

Source: Firth & Smith (1984:8).

5.3.1.4 The Macintosh (1984) study

Macintosh (1984:141) carried out some exploratory research into the preferred methods of providing employees with information. The results of this part of his study are shown in table 5.30.

	Management Survey	Employee Survey 1	Employee Survey 2
<u>Respondents who strongly agreed or agreed</u>			
	%	%	%
Special report to employees	45.4	86.5	83.3
Part of company newspaper	46.4	77.5	78.9
Showing of films	37.0	59.4	73.4
Part of the annual report	6.7	54.5	59.7
Talks by management	45.4	75.2	72.1

Source: Macintosh (1984:142).

Macintosh comments that the employees consider the employee report to be the most effective method of communication. However, in general, the employees showed more enthusiasm than management towards all the methods of presenting information (p.142). Including information in the annual report was considered the least effective method of presenting information to employees by all the respondents.

5.3.1.5 The Anderson (1987) study

Anderson's (1987) study was conducted in South Africa. A questionnaire was sent to 55 listed industrial companies chosen on a purely random basis from the JSE handbook. Thirty-three responses were received of which 13 produced an employee report. Of these 13 companies, eight companies prepared a separate employee report, two stated that their employee report was part of the annual financial statements while three stated that the employee report was part of a house journal. Companies were asked to indicate whether or not their employee report contained certain information. The information items and a summary of the responses are shown in table 5.31.

<u>Information</u>	Number of replies	% of total
Narrative review	12	92
Divisional or product-line information	7	54
Value added statement	12	92
Trend analysis	4	31
Some form of income statement information	8	62
Highlights statement	12	92
Balance sheet	6	46
Organisational structure or locational information	8	62
Employment information	7	54
Capital expenditure information	6	46
Cash or funds flow statement	5	38
Geographic analysis of sales/profits	2	15
Future prospects	8	62
Shareholder analysis	4	31
Pension information	4	31
Product information	4	31
Health and safety information	3	23

Source: Anderson (1987:45).

5.3.1.6 The Meijers (1993) study

Meijers' (1993) questionnaire survey provides insight into how companies communicate with their employees and also the principal method used in communicating financial information. These results are shown in tables 5.32 and 5.33. Meijers comments that although companies may use an employee report to communicate financial information to their employees, the principal method of communication may be through other communication channels (p.80).

Table 5.32 Meijers (1993) study
Method of companies' communication with employees

<u>Method</u>	No.	%
Notice boards	150	80
Written communication	125	66
House journals	123	65
Briefing groups	118	63
General meetings for employees	95	51
Special reports	41	22
Video	8	4
None	<u>4</u>	2
Total	664	
N = 188	===	

Of the 188 companies which returned a questionnaire, a number gave more than one method of communication. The above percentages have been calculated on the 188 sample size and not on the 664 responses received.

Source: Meijers (1993:80).

Table 5.33 Meijers (1993) study
Principal method used in communicating financial information

<u>Method</u>	No.	%
Annual shareholders report	57	30
Notice boards	50	27
Company magazines	37	20
Employee report	23	12
Business broadcast	6	3
Video	4	2
General meetings, other reports, none, special meetings, Shop stewards, letters to employees	<u>11</u>	<u>6</u>
N = 188	188	100
	===	===

Source: Meijers (1993:80).

5.3.2 Actual examination studies

These studies provide empirical evidence on the actual presentation and disclosure practices on employee reporting. The studies concentrated on either employee reports or employee related disclosures in annual reports.

5.3.2.1 The Norkett (1976) study

Norkett (1976) analysed 159 employee reports and examined the contents and preparation thereof (Hussey & Marsh, 1983:74). His results are shown in table 5.34. A large percentage of the reports were devoted to providing the employee with financial information with less emphasis on diagrammatic presentations.

		Percentage of reports
<u>Types of statement</u>	Income Statement	92
	Balance sheet	87
	Funds flow statement	29
	Value added statement	18
<u>Techniques</u>	Bar diagrams	56
	Pictograms	35
	Pie diagrams	26
	Graphs	17
	Comic strips	3
	Quiz	3
N = 159		
Source: Hussey & Marsh (1983:74).		

5.3.2.2 The Marsh and Hussey (1979) study

The Marsh and Hussey (1979) study is based on an examination of 302 documents which were received as a result of a request made in the Company Secretary's Review for subscribers to send in their companies' employee reports for analysis. The results of their examination are shown in tables 5.35, 5.36 and 5.37.

<u>Diagrammatic presentation</u>	Number of Employee reports	%
Bar charts	201	66,6
Illustrations	136	45,0
Pie charts	105	34,8
Line graphs	49	16,2
Cartoons	24	7,9
N = 302		
Note: The total is not 100% because some reports used a combination of presentation. Source: Hussey & Marsh (1983:81).		

Table 5.36 Marsh and Hussey (1979) study
Frequency of financial statements

<u>Financial statement</u>	Number	%
Financial highlights	233	77,2
Added value	123	40,7
Balance sheet	117	38,7
Source and application	77	25,5
Profit and loss account	76	25,2
N = 302		

Note: The total is not 100% because some reports showed more than one statement.
 Source: Hussey & Marsh (1983:83).

Table 5.35 shows that diagrammatic presentations were favoured in most reports and table 5.36 shows that, in the majority of reports, the financial highlights statement was the most frequently disclosed statement. The value added statement was also a popular addition with the income statement surprisingly coming in last. Hussey and Marsh (1983:84) comment that they believe this is not due to a reluctance to disclose this information but rather indicates a concern that the information may be misunderstood. Table 5.37 shows the provision of non-financial information in the employee reports.

Table 5.37 Marsh and Hussey (1979) study
Non-financial information

<u>Subject</u>	Number of reports	%
Marketing	147	48,7
Personnel	126	41,7
Organisational	121	40,1
Products	80	26,5
Capital expenditure	53	17,5
Employee benefits	53	17,5
Ownership of company	37	12,2
Future plans	32	10,6
Health and safety	27	8,9
Community relations	7	2,3

Note: Total is not 100 per cent because some reports showed more than one type of information.

Source: Hussey & Marsh (1983:85).

5.3.2.3 The Skerratt (1981) study

The Skerratt (1981) survey was carried out by sending questionnaires to 300 companies requesting, amongst others, a copy of any simplified and/or employee reports produced in association with the annual reports included in the survey. Although this analysis is of simplified reports rather than specific employee reports, it is nevertheless of interest to this study as its aim would be to provide information to users other than shareholders. The results of the survey are shown in tables 5.38 and 5.39. Table 5.38 shows the results of the request for a copy of any simplified/employee report and table 5.39 shows an analysis of the principal contents of these simplified reports.

Table 5.38 Skerratt (1981) study
Issue of simplified reports

	1980/81		1979/80
	Number	%	%
<u>Separate simplified reports produced</u>			
Employee report (notes 2 and 3)	146	61	63
Shareholder report	1	1	0
Employee and shareholder report	2	1	3
Copy of report not obtained	<u>20</u>	<u>8</u>	<u>3</u>
	169	71	69
No separate report produced	<u>70</u>	<u>29</u>	<u>31</u>
	239	100	100
Information not obtained	<u>61</u>	===	===
	<u>300</u>		
	===		

Notes:

1. The above all relate to reports which correspond in date to the annual report included in the main survey but which were not physically attached to the latter - although they were often enclosed separately therewith (52 companies (1979/80:62) provided the information that the employee report was sent to shareholders as a matter of course).
2. In 10 of these cases, no company-wide employee report was produced, so one "typical" divisional report is included in the sample.
3. 55 companies stated in their employee reports that the full annual report was available on request, whilst another 22 companies indicated on the questionnaire that the full annual report was sent to employees as a matter of course.

Source: Skerratt (1981:213).

Table 5.39 Skerratt (1981) study
Principal contents of simplified reports

	1980/81		1979/80	
	Number of Companies	Percent of sample	Number of Companies	Percent of sample
Narrative review	153	97	164	94
Divisional or product-line information	121	77	132	75
Value added statement	87	55	97	55
Highlights statement	85	54	84	48
Trend analysis	77	49	89	51
Employment information	66	42	54	31
Capital expenditure information	65	41	53	30
Profit and loss account or sales revenue distribution statement	62	39	88	50
Organisational structure or locational information	50	32	59	34
Balance sheet	47	30	69	39
Geographic analysis of sales/profits	42	27	47	27
Future prospects	40	25	30	17
Cash or funds flow statement	39	25	52	30
Product information	30	19	20	11
Employee training	21	13	n/a	n/a
Health and safety information	21	13	18	10
Pensions information	19	12	21	12
Effects of inflation	16	10	n/a	n/a

Note: A highlights statement represents an abbreviated report and is similar to a historical summary of the financial results. Its intention is to provide results "at a glance" and further amplification of these results would be found in the profit and loss account/income statement and balance sheet.

Source: Skerratt (1981:214).

5.3.2.4 The Mitchell, Sams and White (1981a) study

This study, which involved four Scottish companies, investigated the financial disclosure of the employee reports issued by three of the companies (the fourth company made only oral disclosures). The contents of the employee reports are shown in table 5.40. From this table it can be seen that accounting information forms a major portion of the disclosures. Regular meetings were also held in order to discuss the performance and prospects of each company.

Table 5.40 Mitchell, Sams and White (1981a) study**The main contents of employee financial reports**

	Firm A (Finance)	Firm B (Retail)	Firm C (Engineering)
Chairman's review (narrative)	✓	✓	✓
Income statement	✓	✓	✓
Statement of financial position	-	✓	✓
Fund flow statement	-	✓	✓
Use of sales income	-	✓	✓
Past year trends in key figures (e.g. sales, profits, wages)	✓	✓	✓
Detailed wage cost information	✓	✓	✓
Details of share capital	✓	✓	-
The effects of inflation on profits	✓	-	-

Source: Mitchell, Sams & White (1981a:111).

5.3.2.5 The Lyall (1982) study

The Lyall (1982) study was conducted by comparing a check-list of 17 items compiled by using earlier writers' attempts to identify those items most likely to satisfy the needs of employees. A random sample of 100 companies chosen from The Times 1 000 and a copy of the latest employee report was requested from each. A total of 60 reports were received.

The information check-list is shown in table 5.41 and the results of the survey are shown in table 5.42.

Table 5.42 indicates that the most frequently disclosed item was profitability. However, Lyall (1982) comments that the amount of detail varied considerably for each item. For instance profitability may be reported by supplying a detailed income statement, a summary income statement, or a one-line item. Lyall therefore attempted to weight the items according to whether the information was a detailed statement, an abridged statement or selected figures. These results are also shown in table 5.42 where the value added statement receives the highest ranking. Lyall also investigated any possible links between profitability and employee disclosure levels and whether or not companies in heavy industries provide more information than companies in light industries. No significant differences were found in either investigation (p.247).

**Table 5.41 Lyall (1982) study
Information checklist**

- A. Job security
1. Profitability
 2. Product development
 3. Sales development
 4. Financial resources
 5. Budgets/long range plans
 6. Order levels
 7. Exports
 8. Divisional information
 9. Manpower information
 10. Cash flow (present)
 11. Cash flow (future)
 12. Research and development expenditure
 13. Capital investment levels
- B. Company performance
14. Production costs (profitability)
 15. Selling and distribution costs (divisional information)
 16. Administration/management costs
- C. Wealth sharing
17. Value-added (capital information)

Source: Lyall (1982:246).

**Table 5.42 Lyall (1982) study
Ranking of items by frequency of disclosure**

<u>Item</u>	Rank	Number of companies disclosing item	Weighted value of information given
Profitability	1	57	68
Value-added	2	43	99
Divisional information	3	29	29
Financial resources	4=	21	47
Capital investment	4=	21	23
Manpower requirements	6	14	15
Product development	7=	13	16
Sales development	7=	13	15

Source: Lyall (1982:247).

5.3.2.6 **The Parker (1977) study**

Parker (1977) carried out a limited survey of 92 major Australian companies to determine the significance of the provision of financial information to employees. He received replies from 74 companies of which 25 companies were reporting their 1976 financial performance to employees.

Although this study did not provide detailed information of what information companies were reporting to their employees, a review of the article reveals that the methods employed to provide employees with information included, besides a special year end report to be issued to employees, the use of simplified accounts, commentary in staff newspapers/journal, an audio-visual program, videotaped interviews and other methods.

The actual contents of the employee reports were discussed by referring to specific annual employee reports. Items included were balance sheets, income statements, funds statements and information about company history, products and organizational structure.

5.3.2.7 **The Webb and Taylor (1980) study**

The Webb and Taylor (1980) study examined 81 published employee reports in Australia. They comment that diversity in practice occurs not only between firms but also from one year to the next for the same firm (p.32). Interviews with the responsible Australian executives revealed that this occurs due to the financial illiteracy of the employees and to overcome it, firms select different themes to emphasise each year and vary the amount of financial detail disclosed over time.

The extent of inclusion of the items of information is shown in table 5.43. In this table, the prevalence of the value added statement is shown followed by a simplified balance sheet. However, the diversity in content was a distinguishing feature of this sample.

Table 5.43 Webb and Taylor (1980) study
Extent of inclusion of items of information

	Included	Excluded
Reference to organization objectives	35%	65%
A simplified balance sheet	47%	53%
A funds (or cash flow) statement	12%	88%
How sales or value-added was spent and/or distributed	100%	-
Comparative financial information with more than one previous year	24%	76%
Statistical data about production or services rendered	19%	81%
Data about shareholders	30%	70%
Information on the organization's future outlook	15%	85%

Source: Webb & Taylor (1980:32).

5.3.2.8 The Craig and Hussey (1982) study

The Craig and Hussey (1982) study, undertaken in Australia, was conducted by mailing 857 extensive questionnaires in late 1979 in two stages. The first stage involved distributing 113 questionnaires to companies known to be issuing employee reports. The second stage involved issuing a further 744 questionnaires to companies whose practices regarding the issuance of employee reports were unknown. The response rate was 40% (345 replies) and revealed that 171 (49,6%) responding companies were issuing an employee report.

The results of the survey relevant to this section are shown in tables 5.44 and 5.45.

Table 5.44 Craig and Hussey (1982) study
Frequency of various financial statement presentations

<u>Statement</u>	Number	%
Profit and loss	52	81
Balance sheet	31	48
Funds	11	17
Value added	9	14

Note: Total is not 100% because some reports showed more than one statement.

N = 64

Source: Craig & Hussey (1982:35).

Table 5.45 Craig and Hussey (1982) study
Frequency of non-financial information disclosure

<u>Information concerning</u>	Number	%
Marketing	57	89
Personnel	54	84
Organisation	35	55
Capital expenditure	33	52
Products and service	29	45
Company ownership	27	42
Future plans	20	31
Health and safety	20	31
Community relations	17	27
Employee benefits	14	22

Note: Total is not 100% because some reports included more than one type of information.
 N = 64

Source: Craig & Hussey (1982:39).

Craig and Hussey (1982:35) comment that table 5.44 shows an infrequent presentation of the value added statement in comparison to the UK position. However, the profit and loss statement is ranked first similar to other surveys. Craig and Hussey also comment that the financial statement presentations were often misleading or that two statements had been combined without adequate explanation. With regard to the frequency of non-financial information disclosure, marketing followed by personnel information were the two most popular items.

5.3.2.9 The Firth and Smith (1984) study

The Firth and Smith (1984) survey examined a sample of employee reports from 49 reasonably large New Zealand companies. The financial statements included in the employee reports

Table 5.46 Firth and Smith (1984) study
Financial statements included in employee reports

<u>Types of statements</u>	Number	Percentage
Profit and Loss or Income Statement	42	85,7%
Balance sheet	35	71,4%
Funds statement	8	16,3%
Value added statement	9	18,4%

Source: Firth & Smith (1984:6).

examined are indicated in table 5.46. The popularity of the income statement as well as the balance sheet is evident. According to Firth and Smith (1984:6) inclusion of a value added statement and a funds statement, together with an income statement may confuse employees who find it difficult to reconcile the statements to each other. Firth and Smith found that most reports supplemented the financial information with explanations and pie and bar graphs.

Disclosures of other financial information in employee reports are shown in table 5.47.

	Percentage
Divisional financial results	20,4%
Sales analysis	34,7%
Sales budget figures	6,1%
Rates of return on capital assets	24,5%
CCA or inflation adjusted financial results	12,2%
Information to assist readers understanding accounting and accounting policies	14,3%
Financial details of capital expenditure/expansion plans	18,4%

Source: Firth & Smith (1984:6).

Non-financial disclosures in employee reports were varied between firms. These disclosures are shown in table 5.48.

	Percentage
Corporate objectives	8,2%
Future trading/market conditions	42,9%
New products/production plans	14,3%
Research and development activities	14,3%
Product review	6,1%
Divisional/section activity	55,1%
Senior management/directors	55,1%
Chairman's report	87,8%
Company ownership	10,2%
History of firm	6,1%
Community/social affairs or involvement	12,2%

Source: Firth & Smith (1984:7).

The chairman's report was included in nearly all the employee reports. According to Firth and Smith (1984:6) this was in some cases taken from the published annual report. The employee reports were also analysed to determine the extent of the disclosure of staff/employment related information. Table 5.49 shows that such information was not disclosed to any great extent.

Table 5.49 Firth and Smith (1984) study
Disclosure of staff/employment related information

<u>Items disclosed</u>	<u>Percentage</u>
Absenteeism rates	2,0%
Labour turnover	2,0%
Labour disputes	14,3%
Persons employed	40,8%
Future employment plans	-
Details of age of employees	12,2%
Accidents	8,2%
Days lost by accident	10,2%
Safety prevention programmes	10,2%
Pension schemes	32,7%
Education and training schemes	22,4%
Fringe benefit schemes	24,5%
Trade union representation	4,1%

Source: Firth & Smith (1984:7).

Firth and Smith (1984:7) also found that the information provided was generally aggregated and that there was little additional disclosure above that found in the annual report. Furthermore, few companies provided any explanations to assist the employees to understand what the figures mean and there was little future-orientated information.

5.3.2.10 The Tonkin and Skerratt (1991) study

This survey was carried out by examining the 43 employee reports which were submitted to the Accountancy Age/Industrial Society Simplified Reporting Awards 1990. These were classified as shown in table 5.50.

The highlights statement is popular as by reducing the amount of information, it becomes more understandable. This study also examined the types of graphical presentations used for financial information. The vertical bar chart was the most popular form of graphical presentation (1991:129). This survey concluded however that the lack of explanations of the terms used may have caused difficulties in understanding for the unsophisticated user.

Table 5.50 Tonkin and Skerratt (1991) study
Types of financial statement

Number of companies	43
	==
Type of statement	%
Highlight statement	63
Historical summary	58
Profit and loss account	40
Added value statement	19
Sources and application of funds	12
Balance sheet	9
	==

Source: Tonkin & Skerratt (1991:118).

5.3.2.11 The Chua (1993) study

This New Zealand study was a document survey in the form of a content analysis of all available employee reports and annual reports for the years 1988, 1989 and 1990. A total of 160 companies were approached for information of which 12 companies sent in both their employee reports and annual reports, and 62 companies sent in only their annual reports.

Chua's (1993) results are shown in tables 5.51 to 5.53. Four methods of employee reporting were used. These were a separate employee report, staff magazines, newsletters or newspaper. This is shown in table 5.51.

Table 5.51 Chua (1993) study
The extent and presentation of employee reports

	Number of Companies	%
Reporting to staff:		
• in a separate report	3	4,0
• in staff magazine, newsletter or newspaper	9	12,2
• in separate section of annual report	-	-
Do not use employee reports	61	82,4
Have discontinued the practice	<u>1</u>	<u>1,4</u>
Total	74*	100,0
	==	====

* Excludes companies with less than five employees, those being wound up or in receivership, delisted companies, or those declining to participate.

Source: Chua (1993:13).

The information content of these methods of employee reporting is shown in table 5.52.

Table 5.52 Chua (1993) study
Information content of employee reports and related matters

	Instances	%
<i>Financial information:</i>		
Financial highlights	4	33,3
Statement of financial position	3	25,0
Value added	3	25,0
Productivity	3	25,0
Segmental information	2	16,7
Income statement	1	8,3
Others	6	50,0
<i>Non-financial information:</i>		
New projects/developments	10	83,3
Chairperson's address	9	75,0
Divisions and business units	8	66,7
Community support	6	50,0
Company history	5	41,7
Corporate objectives	4	33,3
Organisational structure	4	33,3
Future outlook	4	33,3
World operations	3	25,0
Safety	2	16,7
Environment	2	16,7
Employee relations		
scholarships and awards	12	100,0
personnel (movements)	11	91,7
training	8	66,7
social events	8	66,7
work related activities	8	66,7
benefits	5	41,7
employee shareholding	3	25,0
inviting employee to communicate	3	25,0
industrial relations	3	25,0
Fun, games and humour	4	33,3
N = 12		

Source: Chua (1993:14).

With regard to financial information, the financial highlights statement was most popular with the income statement trailing in at last position for statements. Non-financial disclosures were varied and are shown in the latter half of table 5.52.

Chua (1993) also investigated the disclosure of employee-related information in annual reports. These results are shown in table 5.53.

	Instances		
	1988	1989	1990
<i>Financial information:</i>			
Comparative data (financial summary, trend)	30	33	31
Financial highlights	31	31	32
Cashflow statements	7	32	62
Segmental data	9	10	13
How value added/sales is distributed	6	3	3
Labour costs (sales/profit per employee)	1	2	3
Value added statements	2	1	1
Simplified balance sheet	1	1	1
<i>Non-financial information:</i>			
Total number of employees	22	22	23
Analysis of number employed:			
geographic and/or functional	3	6	6
staff turnover	5	9	4
Total remuneration	5	6	4
Education and training	5	5	6
Welfare details:			
employee shareholding	31	33	30
loans to employee	15	13	13
other benefits (pension, bonus)	8	6	8
Organisational structure	13	16	15
Corporate objectives (related to employees)	8	6	5
Community relations	6	6	9
Industrial relations	4	4	3
Environmental details	2	4	3
Safety details	1	1	1
Employees as one of top 20 shareholders	4	4	4
Total number of companies	(67)	(67)	(67)

Source: Chua (1993:19).

Table 5.53 indicates the popularity of comparative data and the financial highlights statements. The increase in the cash flow statements and segmental data was attributed to changing professional requirements (Chua, 1993:19). Non-financial information was generally found in the chairperson's review. According to Chua (p.20), the amount of employee-related disclosure

depended on the nature of the business and philosophy of management.

These studies may be contrasted with the South African studies which follow.

5.3.2.12 The Terhoven (1986) study

The results of Terhoven's 1986 investigation into employee-related information provided by 18 companies in publicly available information (annual report, interim report and employee report) is shown in table 5.54. Terhoven suggests that disclosure of pension fund information was most probably as a result of an exposure draft on retirement benefits issued by the South African Institute of Chartered Accountants (SAICA) at that time. However, Terhoven was of the opinion that the disclosures were not detailed enough and the information would have been made more useful if comparative information had been included too.

**Table 5.54 Terhoven (1986) study
Disclosure of employee related information**

<u>Information</u>	<u>Rank</u>
Number of employees	1
Pension fund details	2
Production ratios	3
Value added statement	4

Source: Terhoven (1986:49).

5.3.2.13 The Meijers (1993) study

Meijers examined 22 employee reports received as a result of a request in a questionnaire survey.

The financial information and non-financial information content of the employee reports he examined are shown in table 5.55. These results show the popularity of the value added statement as a component of employee reports in South Africa with a resultant de-emphasis on the other financial statements. Non-financial information covered a broad area with the chairman's statement receiving the most emphasis.

	Yes	
	No.	%
<i>Financial information:</i>		
Value added statement	19	86
Highlights of the year	12	54
Divisional performance	11	50
Shareholder information	9	41
Profit and loss statement	3	14
Balance sheet	3	14
Cash flow statement	2	9
Sales per employee	2	9
<i>Non-financial information:</i>		
Statement by the Chairman/MD	21	95
Industrial relations	14	64
Employee benefits	14	64
Product news	14	64
Training and development	13	59
Number of employees in the company	13	59
Statement of aims of the business	13	59
The future	13	59
Community relationships	12	54
Company philosophy	11	50
Statement of aims of the report	8	36
Environment	7	32
Organogram of the company	3	14
Personal stability profile	3	14
N = 22		

Source: Meijers (1993:87).

5.3.2.14 The Department of Accounting, University of Pretoria

The Department of Accounting at the University of Pretoria is researching employee reporting on an ongoing basis and will be publishing a research report annually (Bogiages, Koen & Vorster, 1994:4). The objective of these studies "is to establish accounting practices in South Africa with regard to employee reporting, and to set achievable reporting standards in accordance with the current accounting model, thereby trying to foster improved disclosure" (p.4). The surveys were performed by preparing a checklist which was adapted from Roberts (1990) for South African circumstances.

(a) The Bogiages, Koen and Vorster (1994) study

This survey is based on the annual reports of the top companies according to three publications, namely the Financial Mail, Business Week and Finance Week (total of 165 companies with 1992 year-ends).

(b) The Steyn and Vorster (1995) study

The Steyn and Vorster (1995) study includes the annual reports for the 1993 year ends of the top 100 companies from the Financial Mail, Business Times and Finance Week (total of 168 companies).

A summary of the results of the first two studies is shown in table 5.56.

<u>Information</u>	Bogiages, Koen & Vorster (1994)		Steyn & Vorster (1995)	
	Ranking	Frequency of disclosure	Ranking	Frequency of disclosure
Number of employees	1	66,7%	1	66,0%
Policy notes regarding structured training	5	38,2%	2	65,5%
Value added statement	2	59,4%	3	63,1%
Policy notes regarding labour relations	4	38,8%	4	45,2%
Executive director entrusted with social responsibility	13	0,6%	5	31,6%
Mission statement regarding employees	3	41,8%	6	29,2%
Policy notes regarding housing	7	15,8%	7	29,2%
Policy notes regarding health and safety	8	12,7%	8	28,0%
Notes on employment policy	6	29,7%	9	22,0%
Separate employee report in AFS	12	6,7%	10	13,7%
Labour turnover	10	9,7%	11	12,5%
Separate social responsibility report in AFS	9	10,9%	12	11,9%
Policy notes regarding termination of employment	11	7,3%	13	3,6%
Absenteeism	14	0,0%	14	0,05%

Source: Adapted from Steyn & Vorster (1995:68).

(c) The De Villiers and Vorster (1997) study

This survey covers all companies listed on the JSE and as a result holding and subsidiary companies may be included leading to some double-counting which may result in an overly optimistic picture (1997:6). Companies with 1995 year ends were used and comparatives were

published as well.

(d) The De Villiers (1997) study

This survey follows a similar procedure. Companies with 1996 year ends were used.

The summarised results of the above two surveys are shown in table 5.57.

	De Villiers & Vorster (1997)				De Villiers (1997)	
	1994		1995		1996	
	Rank	%	Rank	%	Rank	%
Notes on employment policy	1	38%	1	40%	1	39%
Number of employees	2	35,6%	3	34,7%	2	38%
Policy notes regarding structured training	3	34%	2	38%	3	36%
Value added statement	4	33%	4	33%	4	34%
Policy notes regarding labour relations	5	25%	5	31%	5	25%
Mission statement regarding employees	6	22,3%	7	21,2%	6	23%
Health and safety information	7	21%	6	23%	7	19%
Policy notes regarding housing	8	10%	8	12,5%	8	12%
Executive director entrusted with social responsibility	9	3,2%	10	2,8%	9	5,8%
Policy notes regarding termination of employment	11	2%	9	5%	10	3%
Labour turnover rate disclosed	10	2,5%	11	2,7%	11	2,2%
Absenteeism rate	12	0%	12	0,2%	12	0,5%

Source: Adapted from De Villiers & Vorster (1997) and De Villiers (1997).

Although the surveys do not necessarily include the same companies in each year due to various listings, de-listings and the fact that some companies changed the date of their year-end resulting in an annual report not being published in a particular calendar-year (De Villiers & Vorster, 1997:6), the amount of disclosure has remained fairly static. The decrease in the amount of disclosure from table 5.56 to table 5.57 is most likely because table 5.56 is based on the top companies (whereas table 5.57 is based on all listed companies) and disclosure practices in top companies are often better than in the lower ranked companies.

5.3.2.15 The Roberts (1990) study

Roberts (1990) examined the disclosure practices of 200 of the largest companies in the world, focussing on value added reporting, employee information, energy statements and environmental information. These companies had headquarters in 28 different countries and the aim of the study was to determine the types of information in relation to the above issues that companies typically disclosed to their shareholders in the annual report. These reports were issued in 1987. A summary of the results relating to employee information is shown in table 5.58.

Table 5.58 Roberts (1990) study
Disclosure practices of employee information in 200 world-wide companies

	North America		Australia/NZ		Africa		Japan		Asia		UK		France/Germany		Benelux		Rest of EC		Rest of Europe		Total	
	No 40	%	No 15	%	No 11	%	No 19	%	No 15	%	No 15	%	No 30	%	No 20	%	No 17	%	No 18	%	No 200	%
Disclosure of appreciation for employees' efforts																						
Chairman's appreciation	23	57	10	67	7	64	3	16	9	60	11	73	15	50	9	45	5	29	9	59	101	51
No statement	17	43	5	33	4	36	16	84	6	40	4	27	15	50	11	55	12	71	9	50	99	49
Provision of a clearly defined employee section																						
Clearly defined employment section	4	10	4	27	4	36	-	-	2	13	8	53	22	73	14	70	5	29	7	39	70	35
No section	36	90	11	73	7	64	19	100	13	87	7	47	8	27	6	30	12	71	11	61	130	65
Disclosure of employee policies																						
Statement made relating to:																						
Personnel policies	4	10	2	13	6	55	-	-	2	13	3	20	4	13	-	-	-	-	1	6	22	11
Trade Unions or Labour relations	3	7	1	7	9	82	-	-	3	20	-	-	11	37	7	35	1	6	7	39	42	21
Consultation or communication	-	-	1	7	1	9	-	-	2	13	12	80	4	13	4	20	-	-	3	17	27	14
Labour relations and strikes																						
Trade Union or labour relations	3	7	1	7	9	82	-	-	3	20	-	-	11	37	7	35	1	6	7	39	42	21
Strike days lost	3	7	3	20	5	45	1	5	1	7	-	-	1	3	2	10	1	6	-	-	17	8
Health and Safety																						
Policies	4	10	3	20	4	36	-	-	2	13	5	33	5	17	8	40	2	12	1	6	34	17
No. accidents	4	10	2	13	2	18	-	-	2	13	-	-	4	13	4	20	1	6	-	-	19	9
Days lost	2	5	1	7	-	-	-	-	1	7	-	-	-	-	-	-	2	12	1	6	7	4

Table 5.58 continued

	North America		Australia/NZ		Africa		Japan		Asia		UK		France/Germany		Benelux		Rest EC		Rest Europe		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Redundancies																						
Policies	9	22	-	-	1	9	-	-	-	-	-	-	3	10	1	5	-	-	1	6	15	8
Number	5	12	1	7	1	9	-	-	-	-	-	-	4	13	4	20	4	25	2	11	21	11
Cost	2	5	-	-	1	9	-	-	1	7	-	-	1	3	-	-	-	-	-	-	5	3
Training																						
Policies	3	7	2	13	7	64	-	-	4	27	6	40	18	60	5	25	5	29	5	28	55	28
Number	-	-	2	13	5	45	-	-	2	13	2	13	18	60	3	15	4	24	3	17	39	20
Cost	-	-	1	7	2	18	-	-	-	-	-	-	7	23	1	5	1	6	-	-	12	6
Employee satisfaction																						
Labour turnover	-	-	1	7	1	9	-	-	-	-	-	-	2	7	-	-	-	-	1	6	5	3
Absenteeism	-	-	1	7	-	-	-	-	-	-	1	7	-	-	2	10	-	-	1	6	5	3
Disclosure of the number of employees																						
Year end number	30	75	11	73	9	83	15	79	8	53	-	-	29	97	18	90	15	88	14	78	149	75
Employee costs																						
Total	13	22	2	13	6	65	-	-	6	40	8	53	26	87	18	86	12	71	15	83	106	53
Wages	3	7	6	40	-	-	-	-	7	47	15	100	14	47	14	67	5	31	8	44	72	36
Pensions	32	80	3	20	1	9	12	63	7	47	15	100	15	50	13	62	-	-	3	17	101	51
Other	3	7	2	13	-	-	-	-	4	27	15	100	13	43	11	55	4	24	-	-	52	26

Source: Adapted from Roberts (1990:12,13,14,15,16,18,19,20,21,24).

Only a summary of Roberts' findings is shown in table 5.58. Roberts commented that the quantity and quality of employee related disclosures varied substantially. Companies from mainland Europe were more likely to provide a separate employment section. Companies in the UK, although appearing to provide much information, were mainly complying with the minimum disclosures required by law. Countries with the least amount of disclosures were Japan, followed by the United States of America (USA) if information on minorities is ignored. With regard to specific disclosures, low levels of disclosure are found with regards to training and health and safety, areas which indicate to the employee that the company is intent on pursuing good industrial relations. The disclosure is also particularly poor with regard to disclosure of employee costs. This study is thus interesting as it provides some measure against which South African disclosures may be compared.

5.3.2.16 The Adams, Hill and Roberts (1995) study

The Adams, Hill and Roberts (1995) study examined the disclosure of social information in the annual reports and financial statements of 150 of the largest European companies. This study concentrated on only the voluntary information contained in the annual reports and ignored any separate employee reports. The summarised results of the main types of information are shown in table 5.59.

	Netherlands		Sweden		Switzerland		France		Germany		UK		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Number cos. giving any information	25	100	25	100	25	100	25	100	25	100	25	100	150	100
Of which:														
Employee section	9	36	6	24	11	44	13	52	23	92	5	20	66	44
Employee appreciation	22	88	9	36	23	92	21	84	22	88	22	88	119	79
Pay and benefits	25	100	24	96	21	84	24	96	25	100	25	100	144	96
Breakdown numbers	24	96	25	100	24	96	23	92	25	100	22	88	143	95
Recruitment/ redundancies	21	84	22	88	21	84	16	64	25	100	20	80	125	83
Training	19	76	10	40	14	56	19	76	22	88	15	60	99	66
Communication/ consultation	15	60	6	24	7	28	9	36	16	64	24	96	77	51
Health & safety	13	52	6	24	4	16	8	32	16	64	14	56	61	41
Trade unions and pay awards	8	32	-	-	4	16	4	16	9	36	4	16	29	19
Length (pages)	1.65		1.56		1.41		1.68		3.36		2.04		1.95	

Source: Adams, Hill & Roberts (1995:26).

This study also provided detailed disclosures of the different types of information falling under each of the main types listed in table 5.59. Adams et al. commented that the amount of disclosure was quite detailed. Health and safety information, together with trade unions, and pay awards information was generally poor and information of a quantified nature was lacking. Differences between companies and countries were apparent. However, German companies tended to provide detailed relevant disclosures.

5.3.3 Summary of research findings

Empirical evidence on certain aspects relating to the presentation and contents of employee

reports was discussed in this section. Empirical evidence on the disclosure of employee related information in annual reports was also included in order to provide a comprehensive viewpoint of what disclosures are being made for the employee user group. Some conclusions are as follows:

(1) With regards to the methods of giving financial information to employees, no one method is identifiable as the most popular in each circumstance. Company magazines, notice boards, committee meetings and briefing groups seem equally popular and while some companies do issue employee reports, this is generally not the most common method of communicating information to the employees.

(2) With regards to the content of employee related disclosures, this has been researched from the viewpoint of the contents of a separate employee report or employee related disclosures within the annual report. The following conclusions emerge:

- (a) The survey studies of the contents of employee reports do not show any obvious preferences for any particular item of disclosure. Financial and non-financial information was provided with a greater emphasis on financial information.
- (b) The examination studies provided evidence on both the contents and presentation of employee reports. Techniques such as bar charts and pie diagrams are used to convey the message to the employees.
- (c) The examination studies of employee reports or simplified reports varied in the actual detail of contents provided. A financial highlights statement is a popular part of the contents. Information on profitability and in some instances, value added, is also provided.
- (d) With regards to non-financial information, it is only possible to make general comments. For instance, information on the company similar to that found in the annual report was usually provided. Information on specific employee related matters seemed to be low.
- (e) The examination studies of employee related disclosures found in annual reports generally concluded that the quality and quantity of information varied but overall low levels of disclosures were made.

(3) The studies indicate that the regulations of each country may influence the amount of disclosures made.

The foregoing conclusions are general. Comparability between surveys is not a clear-cut issue and some surveys may have been undertaken with different objectives in mind.

The final part of this chapter examines empirical research concerning the desirability of attesting to published employee reports.

5.4 THE DESIRABILITY OF ATTESTING TO PUBLISHED EMPLOYEE REPORTS

Research on the desirability of attesting to published employee reports is restricted to three research studies; one by Benjamin, Stanga and Strawser (1977) carried out in the USA, the second by Anderson (1980) who carried out his research in Australia, but adapted his questionnaire from that of Benjamin, Stanga and Strawser and the third by Konar (1989) whose research was carried out in South Africa. Although these three studies focussed on social responsibility disclosures, their relevance to this study is with regard to the question of attestation and the connection of employee reporting with corporate social responsibility.

5.4.1 The Benjamin, Stanga and Strawser (1977) study

The objective of this study was to ascertain the attitudes of certified public accountants (CPA) regarding certain aspects of social reporting by firms. A questionnaire was sent to a random sample of 200 CPAs selected from the 1974 mailing directory of the American Institute of Certified Public Accountants (AICPA). A response rate of 38,5% meant that 77 usable replies were received (1977:19). The CPAs were asked to either agree or disagree with a number of statements concerned with corporate social responsibility. As this current study is only concerned with employee reporting, not all the statements are shown in table 5.60. The statements and responses shown indicate that just over half the respondents agreed that a need exists to develop information systems for the reporting of corporate social responsibility and more CPAs agreed that companies should be encouraged to include this information in their annual reports. However, respondents did not feel companies should be required to include such information in their annual report.

With regards to the content of the information, respondents did not agree that the information should be restricted to either quantitative or financial terms. With regards to the attestation of this information, the majority of the respondents did not feel that there is a need for attestation or that it is desirable for the CPA to be involved in the process of corporate social disclosures

(p.20).

	Agree	Neutral	Disagree
There exists a need to develop information systems for the reporting of corporate social performance.	50,7	9,0	40,3
Companies should be <i>encouraged</i> to include information on corporate social responsibility in their published annual reports.	58,6	12,7	28,7
Companies should be <i>required</i> to include information on corporate social responsibility in their published annual reports.	16,9	3,8	79,3
Information on corporate social responsibility should be restricted so as to include <i>only</i> data which can be expressed in <i>quantitative</i> terms.	28,6	19,4	52,0
Information on corporate social responsibility should be restricted so as to include <i>only</i> data which can be expressed in <i>financial</i> terms.	22,1	14,3	63,6
Within the next ten years there will be a need for the Certified Public Accountant to attest to the fairness of the information on social responsibility presented in annual reports.	19,5	6,4	74,1

Source: Excerpt from Benjamin, Stanga & Strawser (1977:21).

5.4.2 The Anderson (1980) study

Anderson's mail questionnaire was sent to a random sample of 150 chartered accountants of which 39 usable responses were received from 147 delivered questionnaires. Responses relevant to this particular study are shown in table 5.61.

Table 5.61 shows that less than half the respondents agreed that there exists a need to develop information systems for the reporting of corporate social performance, whereas almost 70% agreed that companies should be encouraged to include such information in their published annual reports. With reference to the contents of the information, respondents were not in favour in limiting the information to data expressed in either quantitative or financial terms. With regard to the final question disclosed in the table, only two respondents agreed to the statement

that within ten years there will be a need for them to attest to the fairness of social responsibility disclosures in the annual report. This survey reveals that at that time the majority of chartered accountants considered it undesirable to be involved in corporate social responsibility disclosures.

Table 5.61 Anderson (1980) study

Percentage responses to the statements on social responsibility disclosures

	Agree	Disagree	Neutral
There exists a need to develop information systems for the reporting of corporate social performance	41,0	38,5	20,5
Companies should be encouraged to include information on corporate social responsibility in their published annual reports	69,2	23,1	7,7
Companies should be required to include information on corporate social responsibility in their published annual reports.	10,3	69,2	20,5
Information on corporate social responsibility should be restricted so as to include only data which can be expressed in quantitative terms	18,0	61,5	20,5
Information on corporate social responsibility should be restricted so as to include only data which can be expressed in financial terms	7,7	74,3	18,0
Within the next ten years there will be a need for the Chartered (Public) Accountant to attest to the fairness of the information on social responsibility presented in annual reports	5,1	76,9	18,0

Source: Excerpt from Anderson (1980:15).

5.4.3 The Konar (1989) study

Part of the Konar study was an attempt to determine the attitudes of the South African accounting profession to the accounting, reporting and attestation of corporate social responsibility disclosures (1989:203). A questionnaire was sent to those chartered accountants who audited the Top 100 industrial companies based in and around Johannesburg. Of 120 questionnaires handed out, 86 usable questionnaires were obtained for the first 15 statements, and 85 for the remainder of the statements. Relevant statements and results are shown in table 5.62.

With regard to the role of the public accountant with respect to corporate social performance, the Konar study revealed the following (refer to table 5.63) which are of relevance to this study.

Table 5.62 Konar (1989) study
Public accountants' attitudes towards corporate social performance

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There exists a need to develop information systems for the reporting of corporate social performance.	3,5%	60,5%	25,5%	9,3%	1,2%
Companies should be <u>encouraged</u> to include information on corporate social responsibility in their published annual reports.	15,1%	62,8%	10,5%	9,3%	2,3%
N = 86					
Companies should be <u>required</u> to include information on corporate social responsibility in their published annual reports.	1,2%	35,3%	24,7%	32,9%	5,9%

N = 85

Source: Excerpt from Konar (1989:303).

Table 5.63 Konar (1989) study
Role of the public accountant with respect to corporate social responsibility information

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The public accountant is the most qualified to assume primary responsibility and authority in the development of a corporate social performance information system.	1,2%	6,0%	17,9%	54,8%	20,1%
Within the next five years there will be a need for the Chartered (Public) Accountant to attest to the fairness of the information on social responsibility presented in annual reports.	0,0%	13,1%	21,4%	41,7%	23,8%
Associating with social reports would expose the CA(SA) to undue legal liability.	11,8%	29,8%	29,8%	25,0%	3,6%
I could attest to a statement showing expenditures on social items if all items were rands and I could perform the usual audit tests.	11,9%	73,8%	10,7%	2,4%	1,2%

N = 84

Source: Excerpt from Konar (1989:308).

Respondents disagreed with the notion that the public accountant is the most qualified person to develop a corporate social performance information system. With regards to the attestation question, disagreement was chosen by the majority of the respondents. The statement that “associating with social reports would expose the CA(SA) to undue legal liability” was agreed to by 41,6% of the respondents with only 28,6% disagreeing. However, the last statement indicates that public accountants are agreeable to performing the attest function if the information was quantifiable in rands and the normal audit tests could be performed.

5.4.4 Summary of research findings

This section presented empirical evidence relating to the desirability of public accountants attesting to corporate social responsibility disclosures. Although this current study is concerned with employee reporting, these studies were included because of the connection of employee reporting with corporate social reporting.

These studies also considered certain other aspects of the role of the public accountant with regard to social responsibility information and these findings were included in the tables presented.

With regards to whether a need exists to develop information systems for the reporting of corporate social performance and that companies should be encouraged to include such information in their published reports, all three studies show similar results. With regards to the statement ascertaining opinions as to whether companies should be required to include such information in their annual reports, while the Benjamin et al. (1977) and Anderson (1980) studies had similar responses, Konar’s (1989) study shows substantially more agreement with this statement, although responses for all three studies tended towards disagreement. The Benjamin et al. (1977) and Anderson (1980) studies agreed that information should not be restricted to only quantifiable or financial data. Responses to the three studies indicated disagreement with the statement that there will be a need in the future for the public accountant to attest to the fairness of the published social responsibility information. The Konar (1989) study probed this issue further. Just over 40% of the respondents felt that associating with social reports would expose the public accountant to undue legal liability. However, respondents indicated willingness to perform the attest function if items were in rands and the usual audit tests could be performed.

In conclusion, these studies focussed on corporate social disclosures and the possible role of the public accountant. Although these studies indicate that at that time there was disagreement that there would be a need for the public accountant to attest to such disclosures, this current study focuses on only the published employee report and as such, research on a specific more focussed aspect may provide further evidence of public accountants' attitudes in this area.

5.5 SUMMARY

This chapter has examined significant prior research relating to employee reporting. The areas of research examined were arranged in order to provide evidence on the desirability of employee reporting and the desirability of attesting to published employee reports. Research investigating the desirability of employee reporting was further arranged to provide evidence on whether there is a need for employee reporting, the reasons for and against reporting to employees, employees' requested and managements' recommended information disclosures and employees' understanding of employee reports.

With regards to the desirability of employee reporting, research studies cited revealed that from both an employee and employer perspective there is general agreement that employees should receive information for decision making.

Research on the understanding of financial information indicates however that a lack of understanding by employees may impede the usefulness of the information to the employee group. Research on employees' requested and managements' recommended information disclosures showed some similarities and also revealed that employees in different employment levels may request different information disclosures. However, comparing research results is hindered due to different variables in the studies.

With regards to the desirability of attesting to published employee reports, the studies cited, although they did not specifically relate to employee reporting but to corporate social responsibility disclosures, did not indicate that such attestation is desirable.

The following chapters empirically investigate employee reporting in South Africa and provide further insight on the issues which have been discussed in this chapter.

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CHAPTER 6**THE METHODOLOGY USED TO ESTABLISH THE ATTITUDES
OF THE SELECTED TARGET GROUPS TOWARDS EMPLOYEE REPORTING**

- 6.1 Introduction
- 6.2 Research objectives and hypotheses
- 6.3 Rationale for selection of target groups
- 6.4 Research method used
- 6.5 The survey questionnaires
- 6.6 The response rate
- 6.7 Data preparation
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- 6.10 Limitations of the research
- 6.11 Summary
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6.1 INTRODUCTION

The previous chapter examined research studies which have been carried out in South Africa and certain overseas countries on those issues of employee reporting which are of relevance to this study. Most overseas research was carried out mainly in the 1980s with the South African research carried out from the late 1980s to the mid 1990s. Despite this research, little empirical investigation into the desirability of employee reporting from the viewpoint of employers has been undertaken and the desirability of employee reporting from the public accountants' perspective has not been investigated. To provide a useful addition to the existing body of knowledge on employee reporting in South Africa, the objective of the next section of this study is to investigate the attitudes of employers and public accountants towards three areas relevant to employee reporting. These are (1) the desirability of employee reporting, (2) the form and contents of an employee report, and (3) the desirability of public accountant involvement with published employee reports.

This chapter describes the methodology used to determine the desirability of employee reporting in South Africa. The methodology is based on survey research. Fink (1995a:1) defines a survey

as “a system for collecting information to describe, compare, or explain knowledge, attitudes and behaviour”. A survey thus involves various tasks (Fink, 1995a:78-80; Oppenheim, 1992:7-8). To investigate employee reporting in South Africa, the following tasks or steps have been used.

- (1) Identification of the study’s aims and the hypotheses to be investigated.
- (2) Selection of target groups.
- (3) Selection of research method and preparation of the survey instrument.
- (4) Pre-test the instrument.
- (5) Administration of the survey.
- (6) Organization of the data.
- (7) Analysis of the data.
- (8) Interpretation of the results of the survey.
- (9) Making of conclusions and recommendations on the basis of the research findings.

Steps (1) to (7) are covered in this chapter, step (8) is covered in chapter 7 and step (9) is covered in chapter 8.

6.2 RESEARCH OBJECTIVES AND HYPOTHESES

The previous chapters examined employee reporting in general in order to provide a sound theoretical basis for the empirical research which follows. The objective of this research is to determine the attitudes of employers and public accountants towards employee reporting in South Africa and to determine what a comparison of these two analyses may reveal with reference to the form and contents of employee reports which would serve as a basis for possible future regulation.

This research will enhance knowledge of employee reporting in South Africa and will provide some guidance to the South African Institute of Chartered Accountants (SAICA) by investigating the form and contents of employee reports.

To achieve the research objective, the study was conducted in two parts using two research methods. The first part of the study documented in chapters 2 to 5, used archival research to provide the study with a solid theoretical and financial reporting foundation. Furthermore, the objectives, development and importance of employee reporting, including arguments for and against employee reporting, the current status of employee reporting regulations and practice

internationally and in South Africa were established. Previous international and South African research was reviewed and classified. This background review was essential to provide a basis for the survey research which is documented in the remainder of this study. This review also assisted in the formulation of the research hypotheses, in establishing the contents of the questionnaire and in providing a basis for the comparison of the results of this study with those documented previously.

This chapter introduces the second research method which is survey research. The survey method is a self-administered questionnaire which will provide data to analyse the attitudes of employers and public accountants towards the desirability of employee reporting, the form and contents of employee reports and auditor involvement with published employee reports. A comparison of the attitudes of the two target groups will enhance knowledge of the subject in South Africa, provide some justification for extending the traditional reporting framework in South Africa to employee reporting, provide some guidance to the SAICA by investigating the form and contents of employee reports, and serve as a basis for further South African research on the issues concerned.

To guide the research, the following research question was established: What are the attitudes of employers and public accountants towards the desirability of employee reporting, the form and contents of employee reports, and public accountant involvement with published employee reports?

To direct the investigation, the above research question was formulated into the following hypotheses:

- H1: There is a difference between the attitudes of employers and public accountants towards the desirability of employee reporting.
- H2: There is a difference between the attitudes of employers and public accountants towards the desirability of public accountant involvement with published employee reports.

These hypotheses enable the investigation to be properly directed (Kerlinger, 1986:19-20; Oppenheim, 1992:7-8) and "provide a framework for the organisation of the resulting conclusions and recommendations" (Saenger, 1991:248).

In order to provide further understanding and knowledge of the topic, the research examined certain aspects of the above two hypotheses in greater detail.

With regards to H1, the research examined

1. the reasons why companies should or should not report to employees, and
2. the method companies should use to report to their employees, namely:
 - (1) the form employee reporting should take, and
 - (2) the importance of disclosing specified information in an employee report.

With regards to H2, the research examined

1. the reasons why the public accountants' examination and reporting duty should or should not be extended to include published employee reports, and
2. the examination and reporting obligation the public accountant should assume with regard to published employee reports.

These issues provide a wider view of the attitudes of the respondents towards the desirability of employee reporting and the desirability of the public accountants' involvement with published employee reports.

The above hypotheses, or substantive hypotheses (Kerlinger, 1986:189), require translation into testable hypotheses. To do this, use is made of the null hypothesis which "is a statistical proposition which states, essentially, that there is no relation between the variables (of the problem)" (p.189). Restating the above hypotheses (H1 and H2) as null hypotheses, the following were formulated:

- H0: There is no difference between the attitudes of employers and public accountants towards the desirability of employee reporting.
- H0: There is no difference between the attitudes of employers and public accountants towards the desirability of public accountant involvement with published employee reports.

Having established the null hypotheses, the level of significance for the statistical testing was selected. Using the chi-squared test, a significance level of 0,05 was chosen as this is usually regarded as significant (Martins, Loubser & Van Wyk, 1996:324; Rubin & Babbie, 1997:503; Schuman & Presser, 1996:15).

Although the use of the null hypotheses will allow significant statistical differences to be established or establish that there are no such differences, the dynamics of what has caused these differences or the nature of these dynamics is not pursued in this study. As this research is providing a detailed study of employers' and public accountants' attitudes towards employee reporting in South Africa, this research may be used as a basis for exploring these dynamics in the future.

The prior discussion has elaborated on the research objectives and hypotheses. The next section considers the rationale for the selection of the target groups.

6.3 RATIONALE FOR SELECTION OF TARGET GROUPS

This study examines the attitudes of employers and public accountants towards employee reporting in South Africa. Employers were chosen as they represent the providers and preparers of employee reports. Public accountants were chosen as they would attest to the reliability of the published employee report to the employees and are currently associated with the attest function regarding the annual financial statements.

The employers are represented by the financial managers of the 1999 Financial Mail Top 300 listed industrial companies. The names of these companies are listed in appendix A. These companies are all listed on the Johannesburg Stock Exchange (JSE). Each financial manager was sent a questionnaire. The Top 300 companies are ranked according to their adjusted total assets, and all are listed in the industrial sector of the JSE. As such, these companies represent various sections of the industrial sector which will enable these results to be generalised to the industrial sector and tentatively, to all listed companies on the JSE. Furthermore, these companies have substantial numbers of employees and would be aware of the issue of employee reporting. Lastly four of these companies are represented in the top 10 companies in a survey of 100 JSE listed companies sponsored by Ernst & Young to encourage excellence in financial reporting (Iscor scoops financial reporting award, 1999:12). Two of these companies are also represented in the first six companies in the 1997 SAICA/Alpha Limited's Employee Report Award (Employee Report Award, 1998:40). The financial managers of these companies would be aware of employee reporting and would therefore present knowledgeable opinions on employee reporting in South Africa.

To represent the public accountant group, the public accountant firms responsible for the audits of the Top 300 companies were selected. This information was sourced from McGregor's who owns whom (McGregor, 1999a). The names of the public accountant firms responsible for the audits of the Top 300 companies are listed in appendix A. A summary of the names of the public accountant firms and the number of companies audited either individually or jointly with other public accountant firms is listed in appendix B.

To determine the responsible public accountant involved in the audit of each company, telephonic contact was made with each audit firm. This resulted in a target group of 225 public accountants who were mostly in the position of partner in their respective firms. These firms represent the largest audit firms in South Africa and with their international links and through their clients' own employee reporting efforts are aware of the issues associated with employee reporting. The public accountants should therefore present authoritative opinions on employee reporting in South Africa.

The attitudes of these two groups towards employee reporting are examined to establish their position on the desirability of employee reporting, its form and contents, and public accountant involvement with published employee reports. Furthermore, the relationship between their attitudes is examined to determine any reasons for any differences in their attitudes towards employee reporting in South Africa.

These two target groups were not chosen by statistical sampling but from the population of all listed companies and all Chartered Accountants (SA). Choice of the target groups was based on reasoned judgement regarding the characteristics of the total population and the survey's needs (Fink, 1995d:9-10). However, the listed companies are the Top 300 industrial companies in the Financial Mail 1999 survey and research documented in chapter 5 has often used top companies as the target group. The public accountants are mostly partners in the largest audit firms in South Africa. Choice of the target groups was also influenced by:

- (1) The competency of the respondents to provide information (Rubin & Babbie, 1997:193). Both target groups are competent to provide information and should be able to do so reliably.
- (2) The ability to identify the groups and their addresses (Saenger, 1991:252).
- (3) The ability to cover the two target groups by means of a postal questionnaire (p.252).

- (4) The ability to increase the response rate to the postal questionnaire as response rates are often low (p.253).

Having selected the target groups, the research method used to determine the attitudes of the target groups is described next.

6.4 RESEARCH METHOD USED

This study has been conducted in two parts, and two research methods have been used. To provide a theoretical background to the study, archival research was used in chapters 2 to 5. This second part of the study which is documented in chapters 6 to 8 uses survey research to investigate the desirability of employee reporting in South Africa.

According to Kerlinger (1986:376) survey research "studies large and small populations (or universes) by selecting and studying samples chosen from the populations to discover the relative incidence, distribution, and interrelations of sociological and psychological variables". Another description of survey research is provided by Fink (1995c:1) who defines surveys as systems for collecting information. Fink lists six features of survey information systems.

- (1) The system must have specific, measurable objectives. This objective of this study is to determine (a) the attitudes of employers and public accountants towards the desirability of employee reporting and (b) their attitudes towards the desirability of public accountant involvement with published employee reports. These objectives will be measurable as a result of formulating the research hypotheses into null hypotheses.
- (2) The system must have a sound research design. The research design is to test the attitudes of employers and public accountants towards employee reporting in South Africa.
- (3) The survey system should embody a sound choice of population or sample. In this study the financial managers of the Top 300 listed industrial companies were chosen to represent the employers and the public accountants involved in the audit of the Top 300 companies were chosen to represent the public accountant group.
- (4) The survey should use a reliable and valid instrument. Data for surveys is usually collected by use of personal interviews, panel interviews, postal questionnaires or telephone questionnaires. In this study the self-administered postal questionnaire is used.

- (5) There should be appropriate analysis of the data.
- (6) There should be accurate reporting of the survey results.

This survey uses a self-administered postal questionnaire as the target groups are respondents who are assumed to be knowledgeable about employee reporting. Employee reporting is a high profile topic in South Africa and with the current emphasis on employee rights, the respondents can be assumed to be familiar with employee reporting. The topic is also one that can be reasonably covered in a questionnaire and is amenable to study (Bourque & Fielder, 1995:30).

However, self-administered postal questionnaires are subject to certain disadvantages (Bourque & Fielder, 1995:14,19; De Vaus, 1996:108-111; Kerlinger, 1986:387; Oppenheim, 1992:102).

These disadvantages are as follows:

- (1) There may be a low response rate leading to a consequent bias. Bourque and Fielder (1995:15) note that a 20% response rate is all that can be expected. Contrary to that, Rubin and Babbie (1997: 352) state that a response rate of 50% is considered adequate for analysis and reporting, 60% is considered good and 70% is considered very good.
- (2) There is no control over who responds to the questionnaire, the order in which the questions are answered and whether or not that person "consults" with colleagues when completing it.
- (3) There is no opportunity to correct any misunderstandings.
- (4) The use of sampling is subject to sampling error.

In view of these shortcomings, steps were taken to ensure that they were minimised. For example, the target groups are sophisticated sub-populations who are aware of the topic and are competent to answer the questions. The questionnaires were pre-tested to avoid any biases which may have been included in the wording and set-out of the questionnaire. Coding errors were avoided through a checking of the administrative coding and data. Capture errors were avoided by double punching the data. Lastly, test programmes were used which identify values which are not possible in order to avoid data processing errors.

The preceding discussion has described those factors which were considered to ensure the research method used was well-grounded. The questionnaires used are described in the following section.

6.5 THE SURVEY QUESTIONNAIRES

The survey questionnaires were designed to achieve the research objective and obtain additional information. The following section describes in detail the content and lay-out of the questionnaires, the reasons for question choice, the covering letter, the pre-testing of the questionnaires and the distribution of the questionnaires to the two target groups.

6.5.1 Content and lay-out

The questionnaires were designed to cover three areas; the desirability of employee reporting, the form and contents of an employee report and auditor involvement with published employee reports. The contents of the questions in the questionnaire were composed mainly from accounting literature and prior research studies on employee reporting. This has the advantage that it will be possible to compare the results of this study with other relevant studies. With regard to the question dealing with the contents of the employee report, these items were derived mainly from the CA/Anglo Alpha Employee Report Award mark plan (SAICA,1997b).

In order to ensure that the questionnaire would provide the researcher with usable data, the questionnaire was examined to ensure that the questions would provide reliable and valid data (Fink, 1995c:14). Reliability in relation to a questionnaire means that the measuring instrument, the questionnaire, provides consistent results; that is, the probability of obtaining the same results again (Kerlinger, 1986:405; Oppenheim, 1992:144). Methods of measuring reliability are described in Oppenheim (p.160) and Fink (1995e:8-29). However, as the target groups are sophisticated sub-populations of all listed industrial companies or all Chartered Accountants, reliability was expected and methods of measuring reliability were not used.

It is also necessary for the questionnaires to have validity, in other words, the degree or ability to measure what it sets out to measure (Fink. 1995e:33; Oppenheim, 1992:160). One method of approaching validity is to examine the contents of the questionnaire, that is, content validity. In view of the straightforwardness of the questions, and the reasonableness of the responses to the questionnaire, it was concluded that the questionnaires possessed validity. The other methods of approaching validity, as described in Kerlinger (1986:417-421), Oppenheim (1992:160-162) and Fink and Kosecoff (1996:49-50), were not pursued.

The two questionnaires covered the same areas in order to be able to establish the relationship between the opinion of the two target groups. Both questionnaires required background information from the respondents and this was the only difference in the two questionnaires apart from the heading which indicated to which target group the questionnaire was addressed. The background question was placed at the end of the questionnaire as it was considered to be of a personal nature and had it been placed earlier may have affected the respondents' answers to the initial question (Fink & Kosecoff, 1996:44; Foddy, 1993:113) or may reduce the probability that the questionnaire is completed and returned to the researcher (Bourque & Fielder, 1995:57).

The questionnaires contained different types of purposeful questions to provide more interest for the respondents. The questionnaire comprised mostly closed questions, but to establish rapport with the respondents, an "other (please specify)" category was included. Closed questions have the advantage that standard answers are produced which can be analysed statistically (Fink, 1995b:33). The section dealing with the contents of an employee report was covered with a five-point scale question of not at all important to very important. The list of possible contents was sub-divided into various categories of disclosure. Only one of these sub-categories necessitated going onto a second page and because of this, the questionnaire was printed on single pages to facilitate ease of answering by the respondents. A grid question was used in the section dealing with public accountant involvement with published employee reports. The questions and the choice of responses were kept short and wording was checked to ensure that the wording did not lead the respondents in their answers or project personal biases. It was also necessary to insert branching instructions in certain places in the questionnaire.

The questionnaires were compiled and pre-coded with the aid of the Department of Computer Services at the University of South Africa. The questionnaires were photocopied onto six single pages and stapled in the left hand corner. Although the questionnaire was six pages long, because of the straightforwardness of the questions and the use of predominantly closed questions, the researcher did not see that the length of the questionnaire would affect the response rate. In order to enable follow-up letters to be sent, each questionnaire was pre-coded with a number which corresponded either to the list of the Top 300 industrial companies or to the list of the names of the public accountants who were responsible for the audit of the Top 300 industrial companies.

In concluding this section, although the questionnaire examines employers' and public accountants' attitudes to employee reporting, attitude scales were only inserted in one question in order to facilitate the answering of the questionnaire and to facilitate comparison of these results with prior research on employee reporting.

The next section discusses in detail the reasons for the question choice.

6.5.2 Reasons for question choice

The questionnaire covered three main areas; namely, questions concerning the desirability of employee reporting, questions concerning the form and contents of an employee report and questions concerning auditor involvement with published employee reports. In both questionnaires, a question requesting some background information from the respondents was also included. Each area is examined more fully in the following sections.

6.5.2.1 Questions dealing with the desirability of employee reporting

Before pursuing what form employee reporting should take and the contents thereof, it is necessary to establish whether there is a need for employee reporting in South Africa. To determine this, the two groups were asked the following question:

Should companies report to employees?

YES	NO
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This essential question, established at the beginning of the questionnaire, determined the attitudes of the respondents towards the desirability of employee reporting in South Africa.

If the respondents endorsed the viewpoint that employee reporting is desirable, this would

- (1) support the viewpoint that financial information is relevant to employees and should be provided to employees for their decision making, and
- (2) provides justification for extending the traditional reporting framework to employees.

If respondents endorsed the viewpoint that employee reporting is not desirable, although this would be contrary to research conducted overseas and in South Africa, it would nevertheless describe current attitudes towards the employee reporting in South Africa.

In order to pursue the desirability of employee reporting further, respondents were next asked to select reasons why companies should or should not report to their employees. It is necessary to determine these reasons in order to provide a proper understanding of the attitudes of the respondents towards the desirability of employee reporting. These reasons selected by the respondents can also be compared to the results of prior studies in order to provide confirmatory evidence that the reasons selected are valid. The two questions dealing with the reasons why companies should or should not report to employees were as follows:

Why should companies report to employees?

- a. **To improve employee-employer relationships**
- b. **To demonstrate a more open approach to management**
- c. **To increase employees' financial understanding of the company's operations and activities**
- d. **To reduce the influence of trade unions or other labour representatives**
- e. **To motivate employees towards greater productivity**
- f. **To increase employees' understanding of the free market system**
- g. **To meet the company's responsibilities towards stakeholders**
- h. **Other (please specify)**

Why should companies NOT report to employees?

- a. **Employees are not able to understand the information**
- b. **Employees are not entitled to the information**
- c. **Employees are not interested in the information**
- d. **Confidential information may be disclosed outside the company**
- e. **Wage demands may intensify**
- f. **Costs would exceed any benefits**
- g. **Employees receive information via alternative channels**
- h. **Other (please specify)**

The alternatives given in the above reasons were selected from the reasons most cited in the relevant literature and prior research studies. More than one reason could be chosen and any other reasons not listed could also be given by the respondents if necessary.

6.5.2.2 Questions dealing with the form of employee reporting and the contents of an employee report

The relevant literature and prior research studies both overseas and in South African described a variety of practices for the form that employee reporting could take as well as the contents thereof. Respondents were asked firstly their views on what form employee reporting should take and their attitudes towards disclosing certain information in an employee report. Responses to these issues would:

- (1) provide information of the form employee reporting should take assuming that it is desirable to report to employees,
- (2) provide some guidance to SAICA should employee reporting be regulated in the future, and
- (3) provide a basis for comparing South African recommended disclosure practices for employee reporting with those recommended in prior research studies.

The two questions dealing with the form and contents of an employee report were phrased as follows:

What form should employee reporting take?

- a. **A separate employee report issued annually**
- b. **Part of a company magazine**
- c. **Part of the annual report**
- d. **Regular meetings**
- e. **Other (please specify)**

Only one alternative was to be selected in the above question. Provision was also made for any other form which the respondent may have preferred.

With regard to the contents of an employee report, the attitudes of the respondents were tested by means of the following question:

How important is it to disclose the following information in an employee report?

Philosophy and plans	Not at all important		Very important		
	1	2	3	4	5
Company's aims and objectives					
Company's philosophy (values, social responsibility etc.)					
Future prospects and plans					
Forecasts of profits					
New products					
Future capital expenditure					
Nature of business/company's products					
Ownership and management:					
Group structure					
Who owns the company					
Profile of shareholders					
Employee share schemes, if applicable					
Senior management for each division					
What management do					
The board of directors					
What directors do					
Directors' remuneration					
Financial data:					
Summarised balance sheet					
Summarised income statement					
Summarised cash flow statement					
Value added statement					
Value added statement explained					
Comparatives to value added statement					

	Not at all important			Very important	
	1	2	3	4	5
Chief executive's report					
An explanation of the financial results					
Reasons for trends					
Revenue/Turnover					
Amount paid to employees					
Interest expense					
Taxation expense					
Dividends paid and proposed					
Profits retained for expansion					
Profit after tax					
Cash position					
Current capital expenditure					
Divisional data - if applicable - general					
- quantified					
Data per employee					
Donations made					
Employee information:					
Profile of employees - by location					
- by category					
Wage levels					
Minimum wages					
Union representatives					
Details of this year's wage negotiations					
Details of strikes/stoppages					
Details of productivity					

	Not at all important			Very important	
	1	2	3	4	5
Staff turnover - overall					
- hired					
- retrenchments					
- resigned					
- dismissals					
Benefits to which staff are entitled - general					
- health					
- housing					
- training					
- bursaries available					
Training facilities					
The number of employees who received training					
Safety prevention measures					
Accident numbers/details					
Aids policy/education					
Bonus schemes available to employees					
General staff news					
Affirmative action philosophy - planned					
- achieved					
Social responsibility/community projects					
- external to the company					
- internal to the company					
The company and the environment					
Pension and provident fund information					
Other (please specify)					

This list of possible contents was compiled by using a combination of the requested information needs of employees in prior research studies and the mark plan from the CA/Anglo Alpha Employee Report Award (SAICA,1997b).

Respondents were asked to indicate the strength of their attitudes towards the importance of disclosing the information on a five point scale of not all important to very important. Provision was also made for the specification of other types of information.

6.5.2.3 Questions dealing with public accountant involvement with employee reporting

Connected to the desirability of employee reporting is public accountant involvement with employee reporting. Attesting to the reliability of the information will enhance the information in the eyes of employees. Currently, there is no audit requirement with regard to employee reporting and only those items of information which are required to be disclosed either in terms of statute or generally accepted accounting practice are attested to by public accountants in the annual report

To examine these issues, respondents were tested on the following.

- (1) The desirability of extending the public accountants' examination and reporting duty to include published employee reports.

This was tested by means of the following question:

Should the public accountant's examination and reporting duty be extended to include published employee reports?

YES	NO
-----	----

- (2) The reasons why the public accountants' examination and reporting duty should or should not be extended to include published employee reports.

These two questions included reasons cited in prior research studies and that of Saenger (1991). Respondents were requested to choose as many of them as they felt necessary. Provision was also made for other alternatives to be specified. These two questions are:

Why should the public accountant's examination and reporting duty be extended to include published employee reports?

- a. To ensure the reliability of the information
- b. Public accountants are competent to examine and report on the information
- c. To prevent competition from other groups or individuals for this service
- d. To prevent purposely under-reporting of information
- e. Other (please specify)

Why should the public accountant's examination and reporting duty not be extended to include published employee reports?

- a. Increase in audit costs
- b. Lack of appropriate accounting and auditing standards
- c. Exposure to trade union action
- d. Accountant's responsibility is to report only to shareholders
- e. Other (please specify)

The reasons why the public accountant should or should not become involved with employee reporting were examined in order to determine the presumptions relating to the attestation of published employee reports and to establish any similarity with those reasons chosen by South African respondents and the cited prior research studies. The role of the public accountant with published employee reports needs to be established after due consideration of the reasons for and against such involvement.

- (3) The examination and reporting obligation the public accountant should assume with regard to published employee reports

The respondents' attitudes regarding this issue were tested by the following question:

What examination and reporting obligation should the public accountant assume with regard to published employee reports?

	Examination obligation	Reporting obligation
a. Conformity with published annual report		
b. Conformity with Companies Act and GAAP		
c. Only to data which can be expressed in quantitative or financial terms		
d. Conformity to any guidelines set by SAICA		
e. Other (please specify)		

The alternatives represent some of the examination and reporting obligations identified in prior studies and are also alternatives relevant to financial reporting in South Africa. Respondents were asked to indicate whether the obligation to the duties specified should be an examination obligation or a reporting obligation or both.

Respondents were questioned on these issues in order to serve as a basis for extending the public accountants' role towards published employee reports and to provide a basis for any professional pronouncements in this area.

6.5.2.4 Background questions

Both target groups were asked to provide background information. This information was of a limited nature but could be used for analysis purposes to provide additional information on the attitudes of employers and public accountants towards employee reporting.

The employers were questioned on their experience in a managerial position by means of the following question:

How many years have you been in a managerial position in a listed South African company?

- a. 1 - 10 years
- b. 11 - 20 years
- c. More than 20 years

This information was cross-tabulated with all the questions in the questionnaire in order to provide additional information on the attitudes of employers towards those issues included in the questionnaire.

The public accountants were questioned on their experience as a practising chartered accountant by means of the following question:

How many years have you been practising as a chartered accountant (CA(SA))?

- a. 1 - 10 years
- b. 11 - 20 years
- c. More than 20 years

This information was cross-tabulated with all the questions in the questionnaire in order to provide additional information on the attitudes of public accountants towards those issues included in the questionnaire.

Provision was also made in the questionnaire for a code based on the Standard Industrial Classification (SIC) codes of the various companies. This information was cross-tabulated with all the questions in the questionnaire in order to provide more information on the attitudes of employers towards the desirability of employee reporting, its form and contents, and the desirability of public accountant involvement with published employee reports.

6.5.3 Covering letter

Each questionnaire was sent with a covering letter from the researcher. This letter (refer to appendix C for an example of the letter) emphasised:

- (1) the importance of the research in the area of corporate financial reporting,
- (2) the nature of the topic under investigation,
- (3) the importance of the respondent's opinion to the accuracy and reliability of the survey results,
- (4) the simplicity of the questionnaire which would therefore make it easy to complete,
- (5) the confidentiality of the information, and
- (6) the person to whom any enquiries about the questionnaire could be directed.

The letter did not offer anonymity to the respondents as this has no significant effect on response rates (Cooper & Emory, 1995:284). However, confidentiality was assured which was likely to improve the honesty and quality of the responses, encourage participation in the survey and improve the sample's representativeness (De Vaus, 1996:337). Furthermore, knowing who the respondents were, enabled the researcher to send out follow-up letters and additional questionnaires which increased the response rate.

The letters to the financial managers began with an impersonal greeting. Research on personalization of the mailing suggests that this has no noticeable advantage in terms of response rates (Cooper & Emory, 1995:283). The letters to the public accountants began with a personal greeting as the names of the accountants concerned had been established earlier when the audit

firm(s) responsible for the audit of the Top 300 industrial companies were identified. All the questionnaires were sent out in English.

Although the questionnaire was six pages in length, as studies have shown no significant difference in response rates due to the effect of questionnaire length and size (p.283- 284), the questionnaire was photocopied on single pages and stapled in the left hand corner. The covering letter was kept separate necessitating the inclusion of a number on each questionnaire in order to identify it once returned for the purpose of follow-up letters. A reply-paid envelope was also included in order to increase the response rate (p.283).

6.5.4 Pre-testing

Pre-testing was accomplished by distributing the questionnaire which surveyed the attitudes of the public accountants to ten colleagues who were either in the Centre for Accountancy, at the University of Natal, Pietermaritzburg, or the School of Accounting and Finance at the University of Natal, Durban. It is important to perform pre-testing as it enables the researcher to see how well their questions or instructions are understood and the correct question sequence is also validated (Bourque & Fielder, 1995:89). As pre-testing should be conducted on representative members of the intended target population (p.89), all the pre-test participants were Chartered Accountants (SA) and their academic and practical knowledge of auditing and financial reporting allowed them to suggest changes which improved the questionnaire.

The questionnaire addressed to the financial managers of the Top 300 listed industrial companies was not pre-tested due to the similarity in the format and wording of this questionnaire compared to the other. Furthermore, the financial managers were most likely to have an accounting qualification similar to that of the public accountant target group.

6.5.5 Distribution of questionnaires

The questionnaires were distributed by the researcher to the two target groups. The addresses of the Top 300 industrial companies were obtained from the May - August 1999 McGregor's Johannesburg Stock Exchange digest update. The addresses of the public accountants were obtained from the Public Accountants' and Auditors' Board's (PAAB) List of registered accountants and auditors at 31 March 1999.

The questionnaires were posted in October 1999, followed by two follow-up postings in November 1999 and January 2000. The follow-up postings consisted of the entire original posting together with a brief letter of reminder (refer to appendix C for an example of the letter). Table 6.1 shows the details of each posting.

Posting	Target group		
	<u>Financial Managers</u>	<u>Public Accountants</u>	<u>Total Number</u>
	<u>Number</u>	<u>Number</u>	
First	300	225	525
Second	223	161	384
Third	192	141	333
Total	715	527	1242

Although these follow-up postings increased the response rate, research indicates that there is a possible decline in the follow-up responses which should not be ignored when considering research results (Moser & Kalton, 1985:266).

6.6 THE RESPONSE RATE

The overall response rate was 44%, with a 42% response rate in respect of the financial managers and a 47% response rate in respect of the public accountants.

Posting	Sub-population					
	<u>Financial managers</u>		<u>Public accountants</u>		<u>Total</u>	
	<u>(300)*</u>		<u>(225)*</u>		<u>(525)</u>	
	Number	%	Number	%	Number	%
First	77	26	64	29	141	27
Second	31	10	20	9	51	10
Third	19	6	21	9	40	7
Total	127	42	105	47	232	44

* size of sub-populations.

According to Oppenheim (1992:106), non-response may indicate that there is a possibility of bias in the sample. However, the response rates shown in table 6.2 are considered acceptable as the distributions of the responding companies analyzed by industry groups indicate no significant bias in the sample companies and the responding public accountants represent a sample from a homogenous population insofar as the respondents were all chartered accountants and mostly partners in their respective firms. Furthermore, when comparing this response rate to studies conducted elsewhere (Konar, 1989:243-244), this is a comparable response rate. Bias is therefore not considered to affect the statistical results which are reported in chapter 7.

6.7 DATA PREPARATION

The collected data was edited by the researcher before data capturing by the Department of Computer Services at the University of South Africa. The editing process involved scrutinising each questionnaire to ensure that the data recorded in each questionnaire was usable. The editing was done according to the following criteria:

- (1) relevance, that all questions had been understood,
- (2) completeness, that all sections had been filled in as requested,
- (3) legibility, and
- (4) understandability (Martins, Loubser & Van Wyk, 1999:297-298).

All the questionnaires were used. The pre-coding, which took place when the questionnaires were being compiled, required computer codes for the respondent's answers to be included in the layout of the questionnaire. Care was taken to ensure that the respondents could not be confused in their responses. Data-capturing was then undertaken by the Department of Computer Services once all questionnaires had been sent to them by the researcher.

6.8 DATA PROCESSING

The Head of the Department of Accounting at the University of South Africa assisted the researcher in registering the study as a departmental project with the Department of Computer Services at the University of South Africa. The questionnaires were thus processed by the Department of Computer Services. For the analysis of the data, the program SPSS Rel.9.0 for Windows (1999) was used. This software system is a comprehensive statistical analysis and data management system. The information in each questionnaire was then entered on a disk memory in the mainframe computer at the University of South Africa. The data was cross-tabulated or

analysed according to

- (1) the two sub-populations, and
- (2) the background information of the two sub-populations to provide more information on the issue concerned and to determine whether any significant relationships exist between the two sub-populations.

The results of this step are summarised and discussed in chapter 7.

6.9 THE STATISTICAL PRESENTATION AND ANALYSIS OF THE DATA

Fink (1995f:1) describes statistics as "the mathematics of organizing and interpreting numerical information". A more detailed definition by Kerlinger (1986:175) states that "[s]tatistics is the theory and method of analysing quantitative data obtained from samples of observations in order to study and compare sources of variances of phenomena, to help make decisions to accept or reject hypothesized relations between the phenomena, and to aid in making reliable inferences from empirical observations". This definition highlights the major purpose of statistics which is to aid in inference-making. Thus, in order to either accept or reject the null hypotheses of this study and to draw inferences from the data, various statistical methods were used which are described in more detail in the following sections.

6.9.1 Statistical presentation of the data

To summarize the data, a measure of central tendency was used. The measure of centrality chosen was the arithmetic mean which is the ordinary average and is defined as $\sum \chi/n = (\chi_1 + \dots + \chi_n)/n$ (Cooper & Weekes, 1983:3).

6.9.2 Statistical analysis of the data

To test the null hypothesis, an appropriate statistical test must be chosen. This generally involves considering the number of samples involved in the test, if two or more samples are involved, whether the individual cases are independent or related and whether the measurement scale is nominal, ordinal, interval, or ratio (Cooper & Emory, 1995:444). This research investigates the relationship between two independent sub-populations and the measurement scale is nominal as there is no ordering to the values (Cooper & Weekes, 1983:38). Choosing tests may also be facilitated by a decision tree or on the basis of a flow diagram such as that shown in Martins, Loubser and Van Wyk (1996:323). Consideration of these issues resulted in the selection of the Chi-squared test of independence. This technique tests for significant

differences between the observed distribution of data among the two sub-populations and the expected distribution based upon the null hypothesis (p.342).

The formula for Chi-squared (χ^2) test of independence is

$$\chi^2 = \sum_i \sum_j \frac{(O_{ij} - E_{ij})^2}{E_{ij}} \quad \text{in which}$$

O_{ij} = the observed number of cases categorized in the ij^{th} cell, and

E_{ij} = the expected number of cases under the null hypothesis to be categorized in the ij^{th} cell (Cooper & Emory, 1995:451).

The question in the survey dealing with the contents of an employee report required the respondents to score items according to their degree of agreement or disagreement about the importance of the item. The scores of the items were summed, and to establish the importance of the item, the important and very important scores were combined and in this way an overall score for the importance of each item was obtained. The items were then ranked on the basis of their scores.

6.10 LIMITATIONS OF THE RESEARCH

Before concluding this chapter, it is necessary to discuss limitations of the research as these impact on the research results.

Firstly, this study has used archival and survey research, and in particular with regards to survey research, a self-administered questionnaire. As the limitations of these research methods were discussed earlier in the study, these limitations are not restated here.

In the second place, the target groups were not chosen using probability sampling methods, but were selected from a population of all listed companies and all Chartered Accountants (SA). The use of a probability sampling method would have more likely resulted in a sample representative of the entire population and thus the results could be generalised to the populations from which the target groups were selected. According to Saenger (1991:274), this practice is accepted as a practical necessity by some statisticians and this practice is used by accounting researchers elsewhere. This is evident also from the research studies examined in chapter 5 where groups

were chosen on the basis of certain criteria from a population. Thus, as the target groups were selected from populations with identifiable characteristics (for example, all listed companies and all chartered accountants), the results reported in the following chapter may be representative of the total populations.

The third limitation is that the first question in both questionnaires required a yes/no response. Respondents answering 'no' were then required to answer one further question before returning the questionnaire. It was therefore a possibility that respondents may have answered 'no' in order to avoid having to complete the questionnaire. This point was investigated by Saenger (p.275) who also had a 'yes/no' first question. Her investigations led her to believe that this was not a problem and was subsequently confirmed. The low level of 'no' responses by the respondents in this current survey confirm this. Both target groups were authoritative leaders in commerce and industry, and auditing respectively, and could be expected to answer the questionnaire in a truthful manner.

A fourth possible limitation is the response rate. Although there are no norms for response rates, in view of the homogeneity of both groups and the response rates reported by Konar (1989), the researcher is of the opinion that the response rate does not pose a problem.

Fifthly, the statistical tests performed in the analysis of the data were comparatively simple. The objective of selecting such tests was to enable relevant analyses to be obtained from the data which were comparable to previous studies and to act as a foundation for further research.

These limitations should therefore be borne in mind when examining the results which are reported upon in the following chapter.

6.11 SUMMARY

This chapter documented the methodology used to establish the attitudes of the selected target groups towards employee reporting in South Africa. This research was undertaken as little empirical research into the desirability of employee reporting from the viewpoint of employers and their attitudes towards employee reporting exists in South Africa. Furthermore, the desirability of employee reporting from the viewpoint of practising chartered accountants has yet to be investigated. This research thus extends existing knowledge and provides new information

on the topic of employee reporting.

The research used a self-administered postal questionnaire addressed to the two target groups to ascertain their attitudes towards employee reporting. The compilation of the questionnaires was discussed thoroughly in this chapter as the questionnaires were essential to attain the objectives of the research.

This chapter also described the distribution of the questionnaires and the response rates which were obtained after two follow-up mailings. The returned questionnaires were edited by the researcher and the data-capturing and processing was performed by the Department of Computer Services at the University of South Africa. The selection of the statistical tests was described and finally the chapter discussed possible limitations of the research.

The following chapter documents and evaluates the results of the research which was brought about by the methodology described in this chapter.

6.12 LIST OF SOURCES

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CHAPTER 7

PRESENTATION AND ANALYSIS OF THE RESEARCH FINDINGS

- 7.1 Introduction
- 7.2 Background data
- 7.3 The desirability of employee reporting
- 7.4 The form and contents of employee reports
- 7.5 Public accountant involvement with published employee reports
- 7.6 Overall assessment of the research findings
- 7.7 Summary
- 7.8 List of sources

7.1 INTRODUCTION

The preceding chapter detailed the research methodology used to determine the desirability of employee reporting in South Africa. In this chapter the analysis of the data obtained from the questionnaires is presented. This analysis is presented in an orderly manner that corresponds with the three main sections in the questionnaires and also enables the attitudes of the two target groups towards the desirability of employee reporting, the form and contents of employee reports, and public accountant involvement with employee reporting to be ascertained. This is to enable the research objective described in the previous chapter to be met and the null hypotheses previously formulated to be tested. In addition, comparisons between this analysis and prior research documented in chapter 5 can be made.

In order to interpret the results, each question is firstly presented showing the responses of the two target groups individually and then cross-tabulated with the background information. A limitation is that in some instances, the groups are very small and care should be taken when interpreting those results as regards their ability to be representative of the information. The analysis is presented as rounded off percentages in order to simplify the tables (Saenger, 1991:280).

7.2 BACKGROUND DATA

There was a background question in each questionnaire and in addition, provision was made in the questionnaire addressed to employers for a code based on the Standard Industrial

Classification (SIC) code of each responding company. The SIC code was cross-tabulated with the data in the employers' questionnaire and the background information was cross-tabulated with the data in both questionnaires in order to provide additional information on the two groups and to expand the analysis of their attitudes towards the desirability of employee reporting.

The background question in the questionnaire addressed to the employers dealt with the length of time they have been in a managerial position in a listed South African company. The purpose of this question was to determine whether any relationship existed between their managerial experience and their attitudes towards the various items included in the questionnaire.

Table 7.1 shows that 65% of the responding employers have 10 or less years of experience in a managerial position, 27% have 11-20 years of experience and only 8% have more than 20 years experience. This is an interesting result and may reflect the shortage in South Africa of more senior financial managers as a result of emigration. This also confirms Saenger's research in which she noted a trend in the business community to promote young executives to senior positions (p.281).

Table 7.1 Responding employers according to length of time in a managerial position in a listed South African company

<u>Length of time in a managerial position</u>	<u>Respondents</u>	
	<u>Number</u>	<u>%</u>
1 - 10 years	83	65
11 - 20 years	34	27
More than 20 years	10	8
Total	127	100

The employers' questionnaire was also classified according to the SIC code. This was done in order to determine whether the field of activity in which the employers are engaged had any influence on their attitudes towards employee reporting and the other issues included in the questionnaire. Table 7.2 shows the classification of the responding companies according to the SIC code.

Table 7.2 Responding companies according to SIC code

<u>Field of activity</u>	<u>Respondents</u>	
	<u>Number</u>	<u>%</u>
Construction	14	11
Manufacturing	66	52
Retail and wholesale	17	13
Transportation and warehousing	7	6
Information	7	6
Accommodation and food services	8	6
Other ¹	8	6
Total	127	100

Note:
1. Includes development stage, redevelopment, services, and education and staffing.

Table 7.2 shows that the majority (52%) of the responding employers were in the manufacturing sector with the retail and wholesale, and construction industries following in second (13%) and third (11%) place respectively. The companies in the remaining four categories were evenly spread (6%). The responding employers are thus spread throughout the seven categories used for this analysis. Comparing this analysis to that of Saenger (p.282), this is a fairly common pattern of distribution for studies of this type. As the responding companies were chosen from the 1999 Top 300 list of the Financial Mail, their responses may be considered representative of the various fields of activities of the companies and also the industrial sector of the Johannesburg Stock Exchange (JSE).

The background question in the public accountants' questionnaire dealt with the length of time the responding public accountants have spent as practising chartered accountants (CA(SA)). The objective of this question was to determine whether any relationship existed between their experience as chartered accountants and their attitudes towards employee reporting and its related matters which were examined in the questionnaire. Table 7.3 shows the classification of the responding public accountants according to the length of time they have spent as practising chartered accountants.

Table 7.3 shows a fairly even distribution of respondents between the three groups of experience which were specified in the questionnaire. This result again confirms the trend noted by Saenger (p.281) that younger executives are being promoted to senior positions. For example, Saenger's study showed 28% of practising chartered accountants had only 1 – 10 years of experience. This study shows that this percentage has increased as now 33% of

practising accountants have 10 or less years of experience.

Table 7.3 Responding public accountants according to length of time in accounting profession

<u>Length of time in accounting profession</u>	<u>Respondents</u>	
	<u>Number</u>	<u>%</u>
1 - 10 years	35	33
11 - 20 years	34	32
More than 20 years	36	35
Total	105	100

The respondents were mainly partners in leading South African audit firms (refer to appendix B) and as a result would be aware of employee reporting through either the literature on the topic or through their clients' employee reporting efforts. Their responses may therefore be considered representative of the accounting profession in South Africa as a result of their position in the audit firm and their knowledge on the topic.

The background questions and the classification of the responding companies according to the SIC code were thus included in the questionnaire in order to provide additional information on the attitudes of the two target groups towards employee reporting in South Africa. In concluding this section, an interesting result was that an examination of tables 7.1 and 7.3 shows that in total, 118 of the 232 respondents had 10 years or less experience (51%). The respondents are thus relatively youthful to have such senior positions.

The following sections present and analyse the data obtained from the questionnaires by first comparing the responses of the two target groups and then by analysing the responses according to the background information.

7.3 THE DESIRABILITY OF EMPLOYEE REPORTING

The desirability of employee reporting was examined by establishing whether or not there was a need for employee reporting and the reasons why companies should or should not report to employees. The results of this part of the questionnaire are discussed below.

7.3.1 The need for employee reporting

The first question in the questionnaire established whether or not there was a need for

employee reporting in South Africa. This question was posed to both target groups in order to test the null hypothesis that there is no difference between the attitudes of employers and public accountants towards the desirability of employee reporting in South Africa.

The results of the analysis of this question are shown in table 7.4. This table shows that although there is agreement by the respondents that employee reporting is desirable, there is a difference in the attitudes of the respondents on this issue and that the null hypothesis is rejected at the 0.05 level of significance ($p = 0.001$). Examination of the table reveals that 92% of the total respondents supported the desirability of employee reporting and only 8% disagreed that there is a need for employee reporting. As far as the employers were concerned, 125 employers (98%) were in favour of employee reporting and only 2 employers were not in favour of employee reporting. With regards to the public accountants, 89 public accountants (85%) supported the desirability of employee reporting and 16 public accountants were not in favour of employee reporting.

These results provide support for those companies which are supplying their employees with financial and other information and for those employees who require such information. Employers are interacting with their employees on a day to day basis and are probably more aware of the advantages of employee reporting. Public accountants on the other hand would not share this attitude to the same extent as they would be approaching the employee-employer relationship from a different perspective.

Table 7.4 Desirability of employee reporting according to sub-population group

	<u>Employers</u>		<u>Public accountants</u>		<u>Total</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Yes	125	98	89	85	214	92
No	2	2	16	15	18	8
Total	127 ¹	100	105 ¹	100	232 ¹	100

Notes:

1. Number of respondents.
2. Results of Chi-squared test:

Calculated Chi-square	=	14.994
Degrees of freedom	=	1
Level of significance (p)	=	0.001

Comparison of these results with the studies documented in chapter 5, where there was

support for employee reporting by management, employees and trade unions (Mitchell, Sams & White, 1981a; 1981b; Macintosh, 1984; Anderson, 1987; Carson, 1988; Struckmann, 1993; Booyesen, 1993), provides further evidence on the desirability of employee reporting. This current study has focused on the desirability of employee reporting from the viewpoint of employers and public accountants and although both groups are in favour of employee reporting, the support by the employers for employee reporting is almost unanimous. As this is the only study dealing with the attitudes of public accountants towards employee reporting, this study has provided new information on the desirability of employee reporting.

The cross-tabulation of the background information and the SIC code in respect of the employers provides additional information on the attitudes of the employers towards the desirability of employee reporting. These cross-tabulations are shown in tables 7.5 to 7.6.

Only 2 employers were not in favour of employee reporting. One employer had 1-10 years experience in a managerial position and the other employer had 11-20 years experience. All employers with more than 20 years experience supported the desirability of employee reporting.

Table 7.5 Desirability of employee reporting according to length of time in a managerial position

	<u>Length of time in a managerial position</u>							
	<u>1-10 years</u>		<u>11-20 years</u>		<u>More than 20 years</u>		<u>Total</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Yes	82	99	33	97	10	100	125	98
No	1	1	1	3	-	-	2	2
Total	83 ¹	100	34 ¹	100	10 ¹	100	127 ¹	100

Note:

1. Number of respondents.

As the employers were almost unanimously in favour of employee reporting, table 7.5 does not show any material differences in the attitudes of the employers when compared to the length of time in a managerial position. As the employers in this survey were all financial managers, it is not surprising that they have similar attitudes towards the desirability of employee reporting. These results are similar to that of Macintosh (1984) which were

documented in chapter 5. Analysis of his results indicated that while the age of his respondents did not yield any further information, the higher the level of management, the more importance the respondents attached to employee reporting. The table may however indicate that employers with more than 20 years experience show more support for employee reporting than those employers with less than 20 years experience.

Interpretation of the results by cross-tabulating the employers' responses towards the desirability of employee reporting with the SIC code is shown in table 7.6. As a result of the high affirmative reply towards the desirability of employee reporting, this cross-tabulation reveals little additional information. Only 2 employers replied in the negative and an examination of table 7.6 shows that one employer was in the manufacturing field and the other employer was in the "other" field. As a result of having only eight companies in the "other" field, the "no" response of one employer translates into only an 88% affirmative response which could lead to the incorrect interpretation that there is less support for employee reporting in that field. However, because of the small number of companies in that particular field and the fact that the group which replied in the negative is very small, no meaningful information is revealed by table 7.6.

The results of the cross-tabulation of the public accountants' responses towards the desirability of employee reporting with their background information are shown in table 7.7.

Table 7.7 shows that 86% of public accountants with 1 – 10 years experience as practising chartered accountants support the desirability of employee reporting, 91% of public accountants with 11 – 20 years experience support the desirability of employee reporting and 78% of public accountants with more than 20 years experience support the desirability of employee reporting. Overall, accountants with less than 20 years experience show more support for employee reporting than accountants with more than 20 years experience. This is in contrast to the employers where there was more support for employee reporting by the employers who had more than 20 years of managerial experience. This may indicate that public accountants with less than 20 years experience are more aware of the topic of employee reporting. Much of the literature concerning employee reporting appeared in the 1980s and the younger accountants would be more aware of the issues involved. A further reason may be that the more experienced accountants are more concerned with their professional duties and as employee reporting is not part of the information that is required to

Table 7.6 Desirability of employee reporting according to field of activity of companies

	Field of activity														Total	
	<u>Construction</u>		<u>Manufacturing</u>		<u>Retail and wholesale</u>		<u>Transportation and warehousing</u>		<u>Information</u>		<u>Accommodation and food services</u>		<u>Other²</u>			
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Yes	14	100	65	98	17	100	7	100	7	100	8	100	7	88	125	98
No	-	-	1	2	-	-	-	-	-	-	-	-	1	12	2	2
Total	14 ¹	100	66 ¹	100	17 ¹	100	7 ¹	100	7 ¹	100	8 ¹	100	8 ¹	100	127 ¹	100

Notes:

1. Number of respondents.
2. Includes development stage, redevelopment, services, and education and staffing.

Table 7.7 Desirability of employee reporting according to experience as a practising chartered accountant

	<u>Length of time in accounting profession</u>							
	<u>1 – 10 years</u>		<u>11 – 20 years</u>		<u>More than 20 years</u>		<u>Total</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Yes	30	86	31	91	28	78	89	85
No	5	14	3	9	8	22	16	15
Total	35 ¹	100	34 ¹	100	36 ¹	100	105 ¹	100

Note:

1. Number of respondents.

be audited, it may be considered less important than other developments in financial reporting which do form part of the attest function.

To provide further evidence on the desirability of employee reporting, the reasons why companies should or should not report to employees were also investigated. These reasons are discussed in the following section.

7.3.2 The reasons why companies should or should not report to employees

To provide a proper understanding of the attitudes of the respondents towards the desirability of employee reporting, the respondents, who had agreed that employee reporting is desirable, were asked to indicate their reasons why companies should report to employees. The reasons why companies should report to employees according to each sub-population group are shown in table 7.8.

Examination of the table shows agreement between the respondents of both target groups with regards to the ranking of the reasons provided in the questionnaire as to why companies should report to employees. Table 7.8 shows that the reason that was ranked first by both the employers and the public accountants was to improve employee-employer relationships. This reason was ranked first by 82% of the employers and by 79% of the public accountants.

Comparing this result to the studies documented in chapter 5 provides collaboration of the results obtained in the cited research although comparison is hampered due to the differences in wording used by the different surveys. However, improving employee-employer relationships was the main reason identified in the Macintosh (1984) study which was not

inconsistent with the reason of making employees feel more part of the company, identified by the United Kingdom studies (British Institute of Management (BIM),1957; Marsh & Hussey, 1979; Peel, Pendlebury & Groves,1991) and the reason of motivating employees more in the affairs of the company identified as the main reason by the New Zealand study of Firth and Smith (1984) as important. Likewise, the South African studies of Anderson (1987), Meijers (1993) and Struckmann (1993) highlighted similar reasons as important.

Table 7.8 Reasons why companies should report to employees according to sub-population group

Reason	Employers (125) ¹		Public accountants (89) ¹		Total (214) ¹	
	%	Rank	%	Rank	%	Rank
	a. To improve employee-employer relationships	82	1	79	1	80
b. To demonstrate a more open approach to management	65	3	64	3	64	3
c. To increase employees' financial understanding of the company's operations and activities	77	2	71	2	74	2
d. To reduce the influence of trade unions or other labour representatives	10	7	11	7	11	7
e. To motivate employees towards greater productivity	61	4	57	4	59	4
f. To increase employees' understanding of the free market system	35	6	20	6	29	6
g. To meet the company's responsibilities towards stakeholders	46	5	43	5	45	5
h. Other						
- For transparency and morale	2	8	-	-	1	8
- To assist in strategic planning	1	9	1	8	1	8
- To educate about globalisation	-	-	1	8	-	-

Notes:

1. Total 'Yes' responses from table 7.4.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

The reason ranked second, that of increasing the employees' financial understanding of the company's operations and activities, was supported by 77% of the employers and by 71% of the accountants. This reason was also ranked highly by Macintosh (1984) and was ranked second by the BIM (1957) study. The Anderson (1987) and Meijers (1993) studies of employers' objectives of providing an employee report ranked similar reasons highly too. The Struckmann (1993) study of employees' needs indicated that employees require information for decision making. This may be met by employee reports if such reports increase the

employees' financial understanding of the company's operations and activities and thus provide information for decision making.

The demonstration of a more open approach to management was ranked as the third most important reason why companies should report to employees. It was supported by 65% of the employers and by 64% of the accountants. The Marsh and Hussey (1979), Craig and Hussey (1980) and Firth and Smith (1984) studies ranked as first the reason to involve employees more in the affairs of the company. This reason was also ranked highly by Macintosh (1984). The Anderson (1987) study ranked the improvement of industrial relations as the second most important reason.

The above reasons all have a similar theme, that of improving the relationship between employer and employee and have all been ranked highly in the relevant studies. Macintosh (1984: 156-157) considers all three reasons to be connected in one way or the other to the company's communication process. This would then tie up with the human relations and human resources approach to management where employers report to employees as part of the overall communication process as opposed to the traditional approach where communication is limited to only that necessary to ensure tasks are satisfactorily completed (p.149).

The reason ranked fourth overall was the motivation of employees towards greater productivity. This was supported by 61% of the employers and by 57% of the accountants. This reason was not ranked higher than fourth in the studies examined in chapter 5. Productivity is a high profile topic in South Africa and it would seem that employee reporting is perceived as a factor which may promote productivity.

The fifth reason that was supported by the respondents was meeting the company's responsibilities towards stakeholders. This was supported by 46% of the employers and by 43% of the accountants. The employees are but one of the stakeholder groups and as such would require information for decision-making. The other stakeholders would more likely be better served by other reports specifically aimed at a particular stakeholder group. There is thus only limited support for this reason. However, some support for this reason was highlighted in the cross-tabulations that follow and therefore it is included in the discussion.

The remaining reasons shown in table 7.8 received less support from the respondents. The reason to increase the employees' understanding of the free market system was ranked sixth with 35% of the employers and 20% of the accountants supporting this reason. Only 10% of the employers and 11% of the accountants supported the reason of reducing the influence of trade unions and other labour representatives. This provides an interesting comment on Booyesen's (1993) research in which trade unions supported a standard framework for employee reporting. This current research (and that of Macintosh (1984)) shows that from the employers' and accountants' perspectives, employee reporting is not seen as reducing the influence of trade unions or other labour representatives. Thus while employers, public accountants and trade unions support the notion of employee reporting, it will not affect the relationship which already exists between companies and the trade unions. As these latter reasons received little support from the respondents, they are not investigated any further in this study.

A number of other reasons were provided by the respondents. These reasons emphasised transparency, the need to boost the confidence and morale of the employees and the need to create a sense of belonging. Employee reporting should also be educational and employees could be informed as to the impact globalisation may have on the company and to obtain employees' support for any strategic planning which the company may undertake.

In order to provide further information on the reasons why companies should report to employees, the reasons supported by the two sub-populations were cross-tabulated with the relevant background information and the SIC code. The results of these cross-tabulations are shown in tables 7.9 to 7.11.

Table 7.9 analyses the reasons why companies should report to employees according to the length of time the employer has been in a managerial position. The ranking of the employers with 1 – 10 years of managerial experience corresponds with the overall pattern which would indicate that managerial experience has an influence on the reasons why companies should report to employees which were supported by the respondents. This table also shows that while employers with 1 – 10 years and more than 20 years of managerial experience ranked the reason to improve employee-employer relationships first, employers with 11 – 20 years experience ranked this reason second. The reason to increase the employees' financial understanding of the company's operations and activities was instead ranked first by

employers with 11 – 20 years experience and second by the other two groups of employers. There thus seems to be agreement between the employers as to the primary and secondary reasons for producing an employee report although the rankings are not identical.

Table 7.9 Reasons why companies should report to employees according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(82) ¹		(33) ¹		(10) ¹		(125) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. To improve employee-employer relationships	85	1	70	2	90	1	82	1
b. To demonstrate a more open approach to management	67	3	61	3	60	4	65	3
c. To increase employees' financial understanding of the company's operations and activities	78	2	73	1	80	2	77	2
d. To reduce the influence of trade unions or other labour representatives	12	7	9	6	-	-	10	7
e. To motivate employees towards greater productivity	62	4	61	3	50	5	61	4
f. To increase employees' understanding of the free market system	34	6	30	5	60	4	35	6
g. To meet the company's responsibilities towards stakeholders	40	5	55	4	70	3	46	5
h. Other								
- For transparency and morale	2	8	-	-	-	-	2	8
- To assist in strategic planning	1	9	-	-	-	-	1	9

Notes:

1. Total 'Yes' responses from table 7.5.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

With regards to the third reason why companies should report to employees, namely, to demonstrate a more open approach to management, while the employers with less than 20 years experience supported this as the third reason, employers with more than 20 years experience placed this reason fourth and meeting the company's responsibilities towards stakeholders was instead ranked third. Overall, it was noted previously that this latter reason was not supported by the respondents. Motivating the employees towards greater productivity was ranked fourth by employers with 1 – 10 years experience, third by employers with 11 –

20 years experience, and only fifth by employers with more than 20 years experience.

These results would suggest that managerial experience has some effect with regards to the first four reasons why companies should report to employees. Employers with less than 20 years experience supported the same four primary reasons although with slightly different rankings. Employers with more than 20 years experience have slightly different preferences with regards to the third reason. It was stated previously that the reason of meeting the company's responsibilities towards stakeholders was ranked third by employers with more than 20 years experience. It was however ranked only fifth by employers with 1 - 10 years experience and fourth by employers with 11 - 20 years experience. This may indicate that with more managerial experience, a wider view of the enterprise is taken and that these employers are more aware of other stakeholder groups.

The reasons why companies should report to employees according to the field of activity of companies are shown in table 7.10.

Examination of the five primary reasons identified according to the support by the employers companies reveals a similarity in ranking throughout the different fields of activity. For example, companies in the construction, manufacturing, retail and wholesale, accommodation and food services, and other fields supported the overall first reason of improving employee-employer relationships as the primary reason for reporting to employees. Companies in the transportation and warehousing, and information fields showed a preference for the overall second reason of increasing the employees' financial understanding of the company's operations and activities. This reason was also ranked equal first by the manufacturing, and retail and wholesale industries, and third by the accommodation and food services, and other fields. Demonstrating a more open approach to management also received support as did motivating the employees towards greater productivity. There is also agreement in most fields of activity that meeting the company's responsibilities towards stakeholders has some importance, and in some instances, this is ranked equal with increasing the employees' understanding of the free market system. These last two reasons had an overall ranking of fifth and sixth respectively. It is only in the other field that meeting the company's responsibilities towards stakeholders is ranked above motivating the employees towards greater productivity. This reason also had support from the employers with more than 20 years experience which was shown in table 7.9. It thus has a certain level of support in the

Table 7.10 Reasons why companies should report to employees according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(14) ¹		(65) ¹		(17) ¹		(7) ¹		(7) ¹		(8) ¹		(7) ¹		(125) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
a. To improve employee-employer relationships	93	1	75	1	76	1	86	2	86	2	100	1	100	1	82	1
b. To demonstrate a more open approach to management	64	3	58	2	76	1	57	3	57	4	88	2	86	2	65	3
c. To increase employees' financial understanding of the company's operations and activities	71	2	75	1	76	1	100	1	100	1	75	3	57	3	77	2
d. To reduce the influence of trade unions or other labour representatives	14	6	9	6	6	5	-	-	29	5	25	5	-	-	10	7
e. To motivate employees towards greater productivity	71	2	54	3	71	2	86	2	71	3	75	3	29	5	61	4
f. To increase employees' understanding of the free market system	21	5	40	5	41	4	14	4	57	4	25	5	14	6	35	6
g. To meet the company's responsibilities towards stakeholders	50	4	49	4	47	3	14	4	57	4	38	4	43	4	46	5
h. Other																
- For transparency and morale	-	-	-	-	-	-	-	-	14	6	-	-	14	6	2	8
- To assist in planning	-	-	-	-	6	5	-	-	-	-	-	-	-	-	1	9

Notes:

1. Total "Yes" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.
4. Detailed responses to the question appear as appendix E.

other field but due to the variety of companies that make up this field, any reason advanced for such support would be speculation.

From the above discussion, it can be concluded that little additional information was obtained from this particular cross-tabulation although it was interesting to note support for the reason of meeting the company's responsibilities towards stakeholders from the construction and information fields in particular.

Table 7.11 analyses the reasons why companies should report to employees according to the accountants' length of time in the accounting profession. This table shows strong agreement in all three groups that the five primary reasons are supported. Accountants with 1 - 10 years experience placed the reason of increasing the employees' understanding of the company's operations and activities as the primary reason with 73% support and improving employee-employer relationships second with 70% support. Younger accountants may be more conscious of the need of employees to be more involved in the company and to have a financial understanding of the company's operations and activities. Demonstrating a more open approach to management was also ranked more highly by accountants with 1 - 10 years experience in comparison to accountants with more than 20 years experience which may indicate that the younger accountants have more awareness of the need to involve employees in the activities of the business. Motivating employees towards greater productivity was supported by accountants with 11 - 20 years experience (4th) and by accountants with more than 20 years experience (2nd). This would suggest that accountants with more than 10 years experience see employee reporting not only as a communication tool but also capable of providing some motivation towards improving the productivity of the employees. Meeting the company's responsibilities towards stakeholders received 40% support from accountants with 1-10 years experience, 52% support from accountants with 11-20 years experience and 36% support from accountants with more than 20 years experience. Examination of the rankings however reveals that this reason is ranked more highly by the accountants with 1 - 10 years experience. From this it can be inferred that accountants with 10 or less years of experience may see employee reporting as a communication tool and therefore may have a greater awareness of the needs of employees for information. Accountants with more than 10 years experience and in particular those with 20 years experience see employee reporting as

possible of providing motivation of the employees towards greater productivity.

Table 7.11 Reasons why companies should report to employees according to experience as practising chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(30) ¹		(31) ¹		(28) ¹		(89) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. To improve employee-employer relationships	70	2	84	1	82	1	79	1
b. To demonstrate a more open approach to management	70	2	65	3	57	4	64	3
c. To increase employees' financial understanding of the company's operations and activities	73	1	74	2	64	3	71	2
d. To reduce the influence of trade unions or other labour representatives	13	6	3	7	18	7	11	7
e. To motivate employees towards greater productivity	47	3	58	4	68	2	57	4
f. To increase employees' understanding of the free market system	17	5	19	6	25	6	20	6
g. To meet the company's responsibilities towards stakeholders	40	4	52	5	36	5	43	5
h. Other								
- To assist in strategic planning	-	-	-	-	4	8	1	8
- To educate about globalisation	-	-	-	-	4	8	1	8

Notes:

1. Total 'Yes' responses from table 7.7.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

Providing a contrast to the respondents' reasons why companies should report to employees are the reasons respondents chose as to why companies should not report to employees.

Table 7.12 shows the reasons why companies should not report to employees according to the sub-population groups. It must be noted that only 2 employers (out of 127) did not support the desirability of employee reporting in contrast to 16 accountants (out of 105). The employers rejected the need for employee reporting with the reason that employees receive information via alternative channels receiving 100% support. This is in contrast to the public accountants who ranked this reason sixth with only 31% support, and instead ranked the

Table 7.12 Reasons why companies should not report to employees according to sub-population group

Reason	Employers		Public accountants		Total	
	(2) ¹		(16) ¹		(18) ¹	
	%	Rank	%	Rank	%	Rank
a. Employees are not able to understand the information	-	-	50	3	44	3
b. Employees are not entitled to the information	-	-	63	2	56	2
c. Employees are not interested in the information	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	50	2	75	1	72	1
e. Wage demands may intensify	50	2	44	4	44	3
f. Costs would exceed any benefits	-	-	38	5	33	5
g. Employees receive information via alternative channels	100	1	31	6	39	4
h. Other						
- Impractical for majority of businesses which are small or owner-managed	-	-	6	7	6	6

Notes:

1. Total "No" responses from table 7.4.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

reason that confidential information may be disclosed outside the company first with 75% support. Furthermore, the public accountants ranked as second the reason that employees are not entitled to the information (63%) and that employees are not able to understand the information (50%) as third. These latter two reasons were not chosen by the employers. There are thus different points of view by the employers and the public accountants as to the reasons why companies should not report to employees. The employers are of the opinion that as the employees receive information via alternative channels and as wage demands may intensify or confidential information may be disclosed outside the company, there is no reason to report to employees. In contrast, the public accountants have adopted a legalistic point of view emphasizing the confidentiality of the information, and that employees are not entitled to the information. This latter reason and the reason that employees are not able to understand the information were not supported by the employers. It is surprising the reason of lack of understanding was not supported by the employers, as in South Africa, employees

do have different educational levels and this could hamper the employee reporting efforts of companies.

The reason that costs would exceed any benefits was supported only by the accountants. The reason that employees are not interested in the information was rejected by both sub-population groups. Clearly employees are interested in the information but presumably can receive it via alternative channels. Only the accountants provided additional reasons why companies should not report to employees and this was that it is impractical for the majority of businesses which are small or owner-managed.

Comparing these results to the studies documented in chapter 5 is not straight-forward due to the differences in reasons put forward by the respective studies. The reason that employees receive information via alternative channels was ranked first in the Meijers (1993) study but was not a proposed reason in the Firth and Smith (1984) study, which instead placed first the reason that information would be misunderstood. The reason that confidential information may be disclosed outside the company which was ranked equal second in this study, was ranked equal second in the Firth and Smith (1984) study together with the reason that cost would outweigh any benefits. The Anderson (1987) study shows some agreement with the reasons chosen by the public accountants. In summary, the studies examined in chapter 5 emphasized confidentiality, the possibility of misunderstanding by the employees, the non-entitlement of employees to this information and the cost involved. While these reasons have been emphasized by the public accountants as important, the employers have emphasized that employees receive information via alternative channels as the primary reason to not report to employees. This would confirm the findings of Meijers (1993) study which was also directed at listed companies in South Africa.

To provide further information on the reasons why companies should not report to employees which were chosen by the respondents, the reasons were cross-tabulated with the background information and the SIC code. The results of these cross-tabulations are shown in tables 7.13 to 7.15.

Table 7.13 analyses the reasons why companies should not report to employees according to

the length of time the employer has been in a managerial position.

Table 7.13 Reasons why companies should not report to employees according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(1) ¹	(1) ¹	(1) ¹	(1) ¹	(-) ¹	(-) ¹	(2) ¹	(2) ¹
	%	Rank	%	Rank	%	Rank	%	Rank
a. Employees are not able to understand the information	-	-	-	-	-	-	-	-
b. Employees are not entitled to the information	-	-	-	-	-	-	-	-
c. Employees are not interested in the information	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	-	-	100	1	-	-	50	2
e. Wage demands may intensify	-	-	100	1	-	-	50	2
f. Costs would exceed any benefits	-	-	-	-	-	-	-	-
g. Employees receive information via alternative channels	100	1	100	1	-	-	100	1

Notes:

1. Total "No" responses from table 7.5.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

It was noted previously that only 2 employers disagreed that employee reporting is desirable. One employer had been in a managerial position for 1 – 10 years and the other had between 11 – 20 years of managerial experience. Both employers agreed that employees receive information via alternative channels and thus there is no need for employee reporting. In addition, the employer with 11 – 20 years of managerial experience also chose the possibilities that confidential information may be disclosed outside the company and wage demands may intensify.

This may indicate that with more managerial experience, more reasons become apparent to the employers to not report to employees. The analyses of the employers according to their managerial experience thus adds very little additional information to the analysis.

Table 7.14 Reasons why companies should not report to employees according to field of activity of companies

Reason	Field of activity														Total	
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²			
	⁽⁻⁾ ¹		⁽¹⁾ ¹		⁽⁻⁾ ¹		⁽⁻⁾ ¹		⁽⁻⁾ ¹		⁽⁻⁾ ¹		⁽¹⁾ ¹		⁽²⁾ ¹	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
a. Employees are not able to understand the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b. Employees are not entitled to the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c. Employees are not interested in the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	-	-	100	1	-	-	-	-	-	-	-	-	-	-	50	2
e. Wage demands may intensify	-	-	100	1	-	-	-	-	-	-	-	-	-	-	50	2
f. Costs would exceed any benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
g. Employees receive information via alternative channels	-	-	100	1	-	-	-	-	-	-	-	-	100	1	100	1

Notes:

1. Total "No" responses from table 7. 6.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.
4. Detailed responses to the question appear as appendix E.

Table 7.15 Reasons why companies should not report to employees according to experience as practising chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(5) ¹		(3) ¹		(8) ¹		(16) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. Employees are not able to understand the information	60	2	67	2	38	3	50	3
b. Employees are not entitled to the information	60	2	33	3	75	1	63	2
c. Employees are not interested in the information	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	100	1	100	1	50	2	75	1
e. Wage demands may intensify	60	2	67	2	25	4	44	4
f. Costs would exceed any benefits	40	3	67	2	25	4	38	5
g. Employees receive information via alternative channels	20	4	33	3	38	3	31	6
h. Other								
- Impractical for majority of businesses which are small or owner-managed	-	-	-	-	13	5	6	7

Notes:

1. Total "No" responses from table 7.7.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

Examining the results of the cross-tabulation of the employers' reasons why companies should not report to employees with the field of activity of the company (refer to table 7.14) shows that the two employers who disagreed with the desirability of employee reporting were in the manufacturing and other fields. However, the table does not add any more information to the analysis as the employers were in agreement that employees receive information via alternative channels. The employer in the manufacturing field provided the additional reasons that confidential information may be disclosed outside the company and that wage demands may intensify.

Table 7.15 shows the results of the cross-tabulation of the public accountants' responses with their experience as a practising chartered accountant. This table shows some similarity between the accountants with 1 – 10 years and 11 – 20 years of experience as to the reasons why employers should not report to employees with 100% agreement that confidential

information may be disclosed outside the company. Ranked equal second with 60% support by the accountants with 1 - 10 years experience were the reasons that employees are not able to understand the information, employees are not entitled to the information and that wage demands may intensify. The accountants with 11-20 years experience ranked equal second with 67% support the reasons that employees are not able to understand the information, wage demands may intensify and costs would exceed any benefits. The public accountants with more than 20 years experience took a legalistic viewpoint and ranked as first the reason that employees are not entitled to the information (75%) with the reason that confidential information may be disclosed outside the company second (50%). Only one accountant provided an additional reason why companies should not report to employees. This accountant, with more than 20 years experience, stated that "formal reporting is very impractical for [the] vast majority of small businesses including owner-managed".

Overall, this table indicates that accountants with more than 20 years in the accounting profession support different reasons why companies should not report to employees compared to accountants who have 20 years or less experience in the accounting profession. Another inference is that support for the reason that employees receive information via alternative channels seems to increase with an increase in experience.

7.3.3 Synthesis of research findings on the desirability of employee reporting

From the above analysis, the following observations can be made:

- (1) There is a difference in the attitudes of employers and public accountants towards the desirability of employee reporting. Although employee reporting was regarded as desirable by both target groups, the extent to which this attitude is shared is different. Employee reporting was supported by 98% of the employers and by only 85% of the public accountants. This research has thus confirmed previous research studies supporting the desirability of employee reporting and has also provided empirical evidence that there is support for employee reporting from the viewpoint of the public accountant.
- (2) In view of the overwhelming support for employee reporting, the background information did not yield much additional information on the desirability of employee reporting. However, it was noted that

- (a) employers with more than 20 years experience provide more support for employee reporting, and
 - (b) public accountants with less than 20 years experience provide more support for employee reporting.
- (3) The primary reasons why companies should report to employees are, in order of preference,
- (a) to improve employee-employer relationships,
 - (b) to increase employees' financial understanding of the company's operations and activities,
 - (c) to demonstrate a more open approach to management,
 - (d) to motivate employees towards greater productivity, and
 - (e) to meet the company's responsibilities towards stakeholders.
- (4) The primary reasons why companies should not report to employees are, in order of preference,
- (a) confidential information may be disclosed outside the company,
 - (b) employees are not entitled to the information,
 - (c) wage demands may intensify and employees are not able to understand the information, and
 - (d) costs would exceed any benefits.
- (5) A comparison of these research findings to those documented in chapter 5 provides support for the findings presented thus far.
- (6) These research findings with regards to the public accountants' attitudes towards employee reporting provides new information on this area in South Africa.

This section of the chapter has shown that employee reporting is desirable. It is therefore necessary to examine what form employee reporting should take and what should be the contents of an employee report.

7.4 THE FORM AND CONTENTS OF EMPLOYEE REPORTS

The objective of this part of the research was to provide information on the attitudes of employers and public accountants towards (1) the form employee reporting should take, and (2) what should be the contents of an employee report. No hypothesis testing was undertaken

here and cross-tabulations of the background data and the SIC code are not presented in respect of (2) above due to the substantial number of items listed as the possible contents of an employee report.

7.4.1 The form to be used for employee reporting

The question dealing with this issue listed a number of alternatives from which respondents were required to choose only one. However, some respondents chose more than one alternative. Twenty-two employers chose more than one alternative and eight public accountants chose more than one alternative. Respondents choosing a combination of forms are shown as a separate item in the tables dealing with the form of employee reporting. Table 7.16 shows the responses to the question dealing with the form of employee reporting according to sub-population group.

Table 7.16 Form to be used for employee reporting according to sub-population group

<u>Form</u>	<u>Employers</u> <u>(125)¹</u>		<u>Public accountants</u> <u>(89)¹</u>		<u>Total</u> <u>(214)¹</u>	
	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>
a. A separate employee report issued annually	20	2	44	1	30	1
b. Part of a company magazine	17	4	12	4	15	3
c. Part of the annual report	10	5	17	2	13	5
d. Regular meetings	32	1	16	3	25	2
e. Other						
- A combination of above forms	18	3	9	5	14	4
- Presentations	2	6	2	6	2	6
- Monthly, quarterly or bi-annual circulars	2	6	-	-	1	7

Notes:

1. Total "Yes" responses from table 7.4.
2. Detailed responses to the question appear as appendix E.

Table 7.16 shows that overall a separate employee report issued annually is considered the most desirable form of employee reporting. However, employers ranked regular meetings first (32%), followed secondly by a separate employee report issued annually (20%) and third by a combination of employee reporting strategies (18%). This is in contrast to the public

accountants who ranked a separate report issued annually first (44%), part of the annual report second (17%) and regular meetings third (16%). It may be inferred from this that public accountants are used to providing information in a report whereas employers would probably be more flexible in providing information internally to their employees. A number of respondents indicated that employee reporting would best be served by using a combination of the forms provided in the question. While no particular combination of the forms chosen was ranked more highly than the others, it is interesting to note that of the 22 employers who prefer a combination of employee reporting strategies, 19 employers indicated that regular meetings must form part of the overall strategy. Of the 8 accountants who preferred a combination of reporting forms, 6 accountants indicated that regular meetings must form part of employee reporting. From the employers' perspective, it can be inferred that employees are not seen as a separate user group outside the company as are the shareholders who require their right to information to be legislated. The employees are part of the company and their need for information can be satisfied more informally and more regularly by management. This would confirm the comments made earlier in this chapter that employee reporting is an important communication tool and from the employers' point of view, this communication should take place on a regular basis.

The studies documented in chapter 5, which examined the form and contents of employee reports, examined how companies were giving financial information to employees either by way of a questionnaire survey or by an actual examination study. It was noted however that most companies use more than one method to communicate financial information to employees. (See for example, Hussey and Marsh (1983); Firth and Smith (1984) and Meijers (1993).) The study by Macintosh (1984) provided exploratory research on the attitudes of accounting executives and employees on the effectiveness of different methods of reporting to employees. The results of this study are contrary to those of Macintosh whose respondents ranked a special report to employees as the most effective form, followed by part of a company newspaper and by talks by management (p.142 – 143).

In order to provide further information on the form to be used for employee reporting, the responses were cross-tabulated with the background information and the SIC code. The results of these cross tabulations are shown in tables 7.17 to 7.19.

Table 7.17 shows the results of the cross-tabulation of the form to be used for employee reporting with the employer's length of time in a managerial position. Regular meetings were ranked first by all 3 groups. Employers with 1 – 10 years experience supported a separate employee report issued annually second (21%) and part of a company magazine third (20%). Employers with 11 – 20 years of managerial experience chose a combination of forms second (24%) and a separate report issued annually was ranked third (15%). Employers with more than 20 years experience did not show an overall preference as a separate employee report issued annually, regular meetings and a combination of employee reporting forms were all ranked equally first, with part of a company magazine ranked second. In summary however, it may be stated that all employers view regular meetings as the most desirable form to be used for employee reporting. The table also shows less support for part of a company magazine with more experience. The popularity of a separate report issued annually by employers with more than 20 years experience may indicate that with more experience, employers may take a more formal viewpoint on the method to be used to satisfy the needs of employees for information.

Table 7.17 Form to be used for employee reporting according to length of time in a managerial position

Form	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(82) ¹		(33) ¹		(10) ¹		(125) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. A separate employee report issued annually	21	2	15	3	30	1	20	2
b. Part of a company magazine	20	3	12	4	10	2	17	4
c. Part of the annual report	11	5	9	5	-	-	10	5
d. Regular meetings	32	1	33	1	30	1	32	1
e. Other								
- A combination of above forms	13	4	24	2	30	1	18	3
- Presentations	2	6	3	6	-	-	2	6
- Monthly, quarterly or bi-annual circulars	1	7	3	6	-	-	2	6

Notes:

1. Total "Yes" responses from table 7.5.
2. Detailed responses to the question appear as appendix E.

Table 7.18 Form to be used for employee reporting according to field of activity of companies

<u>Form</u>	<u>Field of activity</u>															
	<u>Construction</u>		<u>Manufacturing</u>		<u>Retail and wholesale</u>		<u>Transportation and warehousing</u>		<u>Information</u>		<u>Accommodation and food services</u>		<u>Other²</u>		<u>Total¹</u>	
	(14) ¹ %	Rank	(65) ¹ %	Rank	(17) ¹ %	Rank	(7) ¹ %	Rank	(7) ¹ %	Rank	(8) ¹ %	Rank	(7) ¹ %	Rank	(125) ¹ %	Rank
a. A separate employee report issued annually	29	1	18	3	24	2	-	-	29	2	25	1	14	3	20	2
b. Part of a company magazine	14	2	14	4	24	2	57	1	-	-	13	2	14	3	17	4
c. Part of the annual report	-	-	9	5	12	3	-	-	43	1	13	2	-	-	10	5
d. Regular meetings	29	1	31	1	41	1	43	2	29	2	25	1	29	2	32	1
e. Other																
- A combination of above forms	29	1	20	2	-	-	-	-	-	-	25	1	43	1	18	3
- Presentations	-	-	5	6	-	-	-	-	-	-	-	-	-	-	2	6
- Monthly, quarterly or bi-annual circulars	-	-	3	7	-	-	-	-	-	-	-	-	-	-	2	6

Notes:

1. Total "Yes" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Detailed responses to the question appear as appendix E.

The results of the cross-tabulation showing the form to be used for employee reporting according to field of activity of companies are shown in table 7.18.

A strong preference is shown for regular meetings across all fields of activity with the exception of the transportation and warehousing, information and other fields. The transportation and warehousing field placed part of a company magazine first (57%) followed secondly by regular meetings (43%). The information field ranked part of the annual report first (43%), followed secondly by regular meetings (29%) and a separate employee report issued annually (29%). The other field preferred a combination of forms (43%), followed secondly by regular meetings (29%). Thus there is strong support for regular meetings as the preferred form of employee report in all fields of activity. A separate employee report issued annually also received strong support across most sectors with the exception of the transportation and warehousing and other fields. Likewise, a combination of employee reporting strategies received strong support amongst almost all the fields with the exception of the retail and wholesale, transportation and warehousing, and information fields. In view of the support for the different forms across the fields of activity, no inferences can be made from this analysis.

Table 7.19 shows the results of the cross-tabulation of the form to be used for employee reporting according to the respondents' experience as a practising chartered accountant. All accountants were in favour of a separate employee report issued annually as the primary form to be used for employee reporting. The accountants with 1 – 10 years and 11 – 20 years experience ranked part of the annual report second, in contrast to the accountants with more than 20 years experience who ranked regular meetings as second and part of the annual report as fifth. There is thus strong agreement between the accountants with less than 20 years experience as to the primary and secondary form to be used for employee reporting with the accountants with more than 20 years experience showing support for regular meetings as the secondary form. It is also interesting to note the support for presentations by accountants with less than 10 years experience. This presumably would be similar to meetings where questions could be asked.

In summary, there is support for regular meetings by the employers and for a separate employee report issued annually by the accountants. There is thus a difference in opinion on

Table 7.19 Form to be used for employee reporting according to experience as practising chartered accountant

Form	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(30) ¹		(31) ¹		(28) ¹		(89) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. A separate employee report issued annually	37	1	42	1	54	1	44	1
b. Part of a company magazine	7	5	16	3	14	3	12	4
c. Part of the annual report	23	2	23	2	4	5	17	2
d. Regular meetings	17	3	13	4	18	2	16	3
e. Other								
- A combination of above forms	10	4	6	5	11	4	9	5
- Presentations	7	5	-	-	-	-	2	6

Notes:

1. Total "Yes" responses from table 7.7.
2. Detailed responses to the question appear as appendix E.

this issue by these two groups. Employers see reporting to employees as a communication tool which cannot be done on an annual basis. Thus regular meetings would meet the need of management to keep the lines of communication open. Accountants on the other hand are aware of the reporting obligation to shareholders and are familiar with the vehicle of an annual report to provide information to shareholders and they would prefer to satisfy the need for employee reporting through a separate employee report issued annually. However, even shareholders receive information more often than annually and therefore it would probably be necessary for the employees to receive information more often than once a year.

7.4.2 The contents of an employee report

The next question in this part of the questionnaire dealt with the disclosure of specific information in an employee report. A list of items was provided in the questionnaire and respondents were asked to rank them on a scale from 1 (not at all important) to 5 (very important). In order to obtain a ranking of the information items and also to aid in comparing these results to the studies documented in chapter 5, the items ranked "important" and "very important" were collapsed into one score and a percentage ranking was thus obtained. The results of these rankings are shown in table 7.20.

Table 7.20 Importance of disclosure of information in an employee report according to sub-population group

	<u>Employers</u>			<u>Public accountants</u>			<u>Total</u>		
	<u>(125)¹</u>			<u>(89)¹</u>			<u>(214)¹</u>		
	<u>No.</u>	<u>%</u>	<u>Rank</u>	<u>No.</u>	<u>%</u>	<u>Rank</u>	<u>No.</u>	<u>%</u>	<u>Rank</u>
<u>Philosophy and plans:</u>									
Company's aims and objectives	120	96	1	80	90	1	200	93	1
Company's philosophy (values, social responsibility etc.)	112	90	2	73	82	5	185	86	2
Future prospects and plans	100	80	4	76	85	3	176	82	3
Forecasts of profits	36	29	41	30	34	32	66	31	35
New products	83	66	13	54	61	15	137	64	14
Future capital expenditure	36	29	41	25	28	35	61	29	37
Nature of business/company's products	91	73	7	54	61	15	145	68	11
<u>Ownership and management:</u>									
Group structure	74	59	17	53	60	16	127	59	17
Who owns the company	64	51	23	53	60	16	117	55	20
Profile of shareholders	32	26	42	37	42	28	69	32	34
Employee share schemes, if applicable	85	68	11	73	82	5	158	74	6
Senior management for each division	90	72	8	65	73	8	155	72	7
What management do	86	69	10	63	71	9	149	70	9
The board of directors	71	57	19	65	73	8	136	64	14
What directors do	70	56	20	62	70	10	132	62	16
Directors' remuneration	19	15	44	25	28	35	44	21	39
<u>Financial data:</u>									
Summarised balance sheet	55	44	29	61	69	11	116	54	21
Summarised income statement	86	69	10	66	74	7	152	71	8
Summarised cash flow statement	49	39	33	47	53	22	96	45	26
Value added statement	67	54	21	50	56	19	117	55	20
Value added statement explained	78	62	16	57	64	13	135	63	15
Comparatives to value added statement	60	48	26	38	43	27	98	46	25
How inflation affects the company	52	42	30	45	51	24	97	45	26
Chief executive's report	80	64	15	63	71	9	143	67	12
An explanation of the financial results	101	81	3	75	84	4	176	82	3
Reasons for trends	83	66	13	50	56	19	133	62	16
Revenue/Turnover	78	62	16	47	53	22	125	58	18
Amount paid to employees	78	62	16	62	70	10	140	65	13
Interest expense	46	37	35	27	30	34	73	34	33
Taxation expense	47	38	34	28	31	33	75	35	32
Dividends paid and proposed	38	30	40	27	30	34	65	30	36
Profits retained for expansion	61	49	25	46	52	23	107	50	23
Profit after tax	56	45	28	43	48	26	99	46	25
Cash position	68	54	21	48	54	21	116	54	21
Current capital expenditure	45	36	36	28	31	33	73	34	33
Divisional data, if applicable -general	56	45	28	33	37	31	86	40	30
-quantified	44	35	37	28	31	33	72	34	33
Data per employee	55	44	29	44	49	25	99	46	25
Donations made	31	25	43	19	21	36	50	23	38
<u>Employee information:</u>									
Profile of employees -by location	52	42	30	37	42	28	89	42	28
-by category	50	40	32	38	43	27	88	41	29
Wage levels	36	29	41	44	49	25	80	37	31
Minimum wages	41	33	39	51	57	18	92	43	27
Union representatives	33	26	42	34	38	30	67	31	35
Details of this year's wage negotiations	57	46	45	51	57	18	108	50	23
Details of strikes/stoppages	58	46	45	58	65	12	116	54	21
Details of productivity	92	74	6	77	87	2	169	79	4

	<u>Employers</u>			<u>Public accountants</u>			<u>Total</u>		
	<u>(125)¹</u>			<u>(89)¹</u>			<u>(214)¹</u>		
	<u>No.</u>	<u>%</u>	<u>Rank</u>	<u>No.</u>	<u>%</u>	<u>Rank</u>	<u>No.</u>	<u>%</u>	<u>Rank</u>
Staff turnover - overall	58	46	45	53	60	16	101	47	24
- hired	45	36	36	34	38	30	79	37	31
- retrenchments	51	41	31	36	40	29	87	41	29
- resigned	47	38	34	33	37	31	80	37	31
- dismissals	50	40	32	36	40	29	88	41	29
Benefits to which staff are entitled									
- general	86	69	10	65	73	8	151	71	8
- health	87	70	9	65	73	8	152	71	8
- housing	84	67	12	63	71	9	147	69	10
- training	88	70	9	63	71	9	151	71	8
- bursaries available	80	64	15	65	73	8	145	68	11
Training facilities	96	77	5	66	74	7	162	76	5
The number of employees who received training	82	66	13	58	65	12	140	65	13
Safety prevention measures	82	66	13	63	71	9	145	68	11
Accident numbers/details	66	53	22	49	55	20	115	54	21
Aids policy/education	80	64	15	54	61	15	134	63	15
Bonus schemes available to employees	81	65	14	73	82	5	154	72	7
General staff news	68	54	21	30	34	32	98	46	25
Affirmative action philosophy									
- planned	72	58	18	50	56	19	122	57	19
- achieved	72	58	18	52	58	17	124	58	18
Social responsibility/community projects									
- external to the company	64	51	23	50	56	19	114	53	22
- internal to the company	72	58	18	53	60	16	125	58	18
The company and the environment	62	50	24	56	63	14	118	55	20
Pension and provident fund information	90	72	8	69	78	6	159	74	6
Other									
- External factors affecting company performance	1	1	46	-	-	-	1	-	41
- Medical scheme and benefits	1	1	46	-	-	-	1	-	41
- An explanation of the need to pay directors higher salaries	1	1	46	-	-	-	1	-	41
- Budgets	-	-	-	1	1	37	1	-	41

Notes:

1. Total "Yes" responses from table 7.4.
2. Detailed responses to the question appear as appendix E.

Seventy information items were provided, with the exclusion of the other category. Only the items which obtained an overall support of at least 50% are discussed below. The discussion which follows is thus limited to those items that received an overall ranking from 1 (93%) to 23 (50%). These items are discussed separately in their categories in the following sections.

7.4.2.1 Philosophy and plans

Five items received an overall support of 50% or more. These items were, in decreasing importance, (and with the overall rankings in brackets);

- Company's aims and objectives (1),
- Company's philosophy (values, social responsibility etc.) (2),
- Future prospects and plans (3),
- Nature of business/company's products (11), and
- New products (14).

Examination of employer and accountant support for the disclosure of these items shows agreement with most of the rankings of these items with the exception of the nature of business/company's products which was ranked important or very important by 73% of the employers and by only 61% of the accountants. Another interesting observation is the lack of support by both employers and accountants for the forecast of profits and future capital expenditure. While the former is considered desirable disclosure (Saenger,1991:284), these respondents did not consider it an important item of information for employees.

Although there are some differences in terminology, a comparison can be made of these results to the results of the studies documented in chapter 5. Information on the company's future plans and policies received support from employees in the Hussey (1979) study, from management in the Mitchell, Sams and White (1981b) study, from employees and management in the Firth and Smith (1984) study and from employees in the Craig and Hussey (1981) study. The Macintosh (1984) study showed support for information on the objectives of carrying on business and the future plans and policies by employees although there was only support for the latter by the accounting executives (management). In the South African study of Struckmann (1993), the company's aims and objectives was supported by employees, but more so by the more qualified employees. Only the Struckmann study investigated the items related to future operations. Estimated profit for next year was ranked more highly by employees depending on the level of employment (and in fact was ranked first by management) whereas the item will more machines be used was only given some support in his survey. In the Kagan (1992) study, some support for this item was shown. Future plans was ranked highly in the Murray and Roberts (M & R) (Everingham, 1994) study and received some support in the Kagan (1992) study. Company philosophy and plans received only some support in the Kagan (1992) study.

In summary, this study provides further evidence that these items are ranked as highly important to employees. The only change, which is perhaps not surprising in view of the current emphasis on employee rights and social responsibility is that information on the

company's philosophy was ranked second overall in this study compared to a ranking of 26th (out of 35) in the Kagan (1992) study, the only study in which it appeared as a separate item.

7.4.2.2 Ownership and management

The items ranked highly here are, in decreasing importance (and with the overall ranking in brackets),

- Employee share schemes, if applicable (6),
- Senior management for each division (7),
- What management do (9),
- The board of directors (14),
- What directors do (16),
- Group structure (17), and
- Who owns the company (20).

An examination of the employers' and accountants' opinions on these items listed above show similar support with some exceptions. Who owns the company, a profile of the shareholders, employee share schemes, the board of directors, what directors do and directors' remuneration were all considered more important by the accountants (in comparison to the employers). A reason for this is that, with the exception of directors' remuneration where legislative requirements have been increased, this information is already freely available within the company should the employees wish to access this information and thus these items were not highly ranked by the employers.

In comparison to the studies documented in chapter 5, organizational details were ranked 4th (out of 8) by employees in the Hussey (1979) study, and 6th (out of 10) by employees in the Craig and Hussey (1981) study and 4th (out of 10) by employees in the Schreuder (1981) study. The Macintosh (1984) study showed a high level of support for location and organizational structure and line responsibility within the company by the employees with very little support for those two items by management. In the South African studies, the item who owns the company received support in the Kagan (1992) study but was not ranked highly by any of the respondents in the Struckmann (1993) study. Senior management and what management do were not supported by either the Kagan or Struckmann studies. The studies thus do not show any consistent support for the items and in this study, these items were ranked in the top 20 (out of 70) items. This study has therefore ranked these items fairly highly and it would seem that the support for some items are contrary mainly to the

Struckmann study. An obvious difference in the studies is that the Struckmann study was targeted at employees and employees may not use such information for decision-making or may already know this information. If the employees in the Struckmaan study had already known this information they would probably rank such information lower than other information they may consider equally important but to which they do not have access. Nevertheless, this study has shown support for these items in line with other studies (Hussey, 1979; Schreuder, 1981; Macintosh, 1984).

7.4.2.3 Financial data

This category contained 23 items of which only 10 items were supported by at least 50% of the respondents. The items ranked highly here are, in decreasing importance, (and overall ranking in brackets),

- An explanation of the financial results (3),
- Summarised income statement (8),
- Chief executive's report (12),
- Amounts paid to employees (13),
- Value added statement explained (15),
- Reasons for trends (16),
- Revenue/Turnover (18),
- Value added statement (20),
- Summarised balance sheet (21), and
- Profits retained for expansion (23).

Comparing the choices of the employers and the accountants, an interesting feature is that out of the 23 items, the accountants ranked 15 of these items more highly than the employers implying that accountants place more weight on financial information than the employers do. Some of these items are ranked substantially higher. For instance, the summarised balance sheet received a ranking of 11th by the accountants, whereas the employers ranked this item 29th. Similarly, the summarised cash flow statement, how inflation affects the company, the chief executive's report, the amount paid to employees, and dividends paid and proposed were ranked substantially higher by the accountants compared to the employers. A reason for this is that accountants are used to auditing financial information for decision-making purposes whereas management are approaching the information from an employers' perspective.

A comparison of these results to the studies documented in chapter 5 reveals the following. Information on profits/income statement was ranked highly by employees and management in the Mitchell et al. (1981a;1981b) studies and by management in the Firth and Smith (1984) study but not by employees. Financial information was ranked highly by employees in the Hussey (1979) study but ranked 9th out of 10 by employees in the Craig and Hussey (1981) and 5th out of 10 by employees in the Schreuder (1981) study. Information on the financial position/liquidity was ranked highly by management in the Mitchell et al. (1981b) study but not by employees in the Mitchell et al. (1981a) study. The chief executive's report was ranked 2nd (out of 17 items) by management in the Firth and Smith (1984) study but only 9th by the employees. Financial information was ranked highly by the employees in the Macintosh (1984) study contrary to the accounting executives.

In the South African studies, financial information was ranked highly by employees in the Struckmann (1993) study, and in the M & R (Everingham,1994) study, financial information was ranked more highly by the more qualified employees compared to the less qualified employees. Other items which could be classified under financial information did not score highly. Indeed, items such as value added, average wage levels/minimum wages and sales were not highly rated. A reason for this may be that employees may feel that this information is more relevant to the shareholders whose return from the company (dividends) is dependant on the operations of the company.

In summary, explanations of the financial results and a summarised income statement are considered important items of information, and this confirms the importance attached to these items in the cited studies.

7.4.2.4 **Employee information**

The following items, ranked in decreasing importance, received a ranking overall of at least 50%.

- Details of productivity (4),
- Training facilities (5),
- Pension and provident fund information (6),
- Bonus schemes available to employees (7),
- Benefits to which staff are entitled
 - general (8),
 - health (8),

- housing (10),
- training (8),
- bursaries available (11),
- Safety prevention methods (11),
- The number of employees who received training (13),
- Aids policy/education (15),
- Social responsibility/community projects – internal to the company (18),
- Affirmative action philosophy
 - achieved (18), and
 - planned (19).

Fifteen items (out of 31) received an overall support of at least 50%. Examination of the above list shows that these items are mainly those that impact directly on the employees. Benefits, training facilities, safety measures, bonus schemes, pension and provident fund information represent the return to the employees for the human capital they have provided to the company. On average, there is more support for these items by the public accountants compared to the employers. The emphasis on productivity is surprising in view of the earlier observation that the reason that companies should report to employees in order to motivate employees towards greater productivity was only ranked fourth overall by the respondents.

Comparing these results to the studies cited in chapter 5 shows the following. Only in the Schreuder (1981) study was there a preference for employment information as opposed to financial information. A reason for this may have been that the study was carried out in the Netherlands, and the employees were used to receiving financial information from other sources. Employees in the Macintosh (1984) study ranked information on the conditions of employment far higher than the accounting executives. As far as the South African studies are concerned, this type of information was ranked highly by employees in the Kagan (1992) study, the lower levels of employees in the Struckmann (1993) study and the factory rank of employees in the M & R (Everingham, 1994) study. A reason given for this difference in attitudes amongst the employees in South Africa is that possibly the higher echelons of employees are already enjoying certain benefits and are aware of them, whereas the lower levels of employees may be unaware of them and would therefore require information on these benefits.

In summary therefore, the respondents consider employee information to be an important part of the employee report.

7.4.3 Synthesis of research findings on the form and contents of employee reports

It can be inferred from the previous analysis that:

- (1) Employers support the form of employee reporting to be regular meetings whereas accountants support the annual issuance of an employee report.
- (2) The primary forms for employee reports are, in order of decreasing importance,
 - (a) a separate employee report issued annually,
 - (b) regular meetings,
 - (c) part of a company magazine, and
 - (d) a separate report issued annually together with a company magazine, annual report disclosures and regular meetings.
- (3) Items which were ranked from 1 to 10 by the total respondents in the survey are, in order of decreasing importance,
 - (a) company' aims and objectives,
 - (b) company's philosophy,
 - (c) future plans and prospects / explanation of the financial results,
 - (d) details of productivity,
 - (e) training facilities,
 - (f) pension and provident fund information / employee share schemes,
 - (g) bonus schemes available to employees/ senior management for each division,
 - (h) summarized income statement / benefits to which staff are entitled (general, health and training),
 - (i) what management do, and
 - (j) housing benefits.
- (4) The information was placed in four categories. The first category (philosophy and plans) showed similar support for the information by both employers and accountants. However, accountants in general placed more emphasis on ownership and management items (the second category) and financial data (the third category) when compared to the employers. Public accountants also placed more emphasis on employee information (the fourth category).
- (5) There are difficulties in comparing these results to the studies cited in chapter 5 mainly because of terminology differences and the items selected for testing.

However, a general comment is that this study confirms that there is less support for information which is already available from other sources.

- (6) The background information had some influence on the opinions of the respondents towards the form of employee reporting. Generally, the respondents in each sub-population group were supportive of the average response for their group.

The previous sections have confirmed that employee reporting is desirable and have also provided information on the form it should take and the contents thereof. The following section now considers whether or not auditor involvement is desirable with published employee reports.

7.5 PUBLIC ACCOUNTANT INVOLVEMENT WITH PUBLISHED EMPLOYEE REPORTS

The third and last part of the questionnaire attempted to ascertain the attitudes of employers and public accountants towards auditor involvement with published employee reports. The first question in this section established whether or not the public accountants' examination and reporting duty should be extended to include published employee reports. The question was posed to both target groups in order to test the null hypothesis that there is no difference between the attitudes of employers and public accountants towards auditor involvement with published employee reports in South Africa. This part of the questionnaire also established the reasons for extending or not extending the public accountants' examination and reporting duty to include published employee reports and if there was auditor involvement with published employee reports, what examination and reporting obligation should the public accountant assume. The following sections consider each of these aspects.

7.5.1 The desirability of extending the public accountants' examination and reporting function to include published employee reports

The desirability of extending the public accountants' examination and reporting function to include published employee reports was established by asking both target groups whether or not they agreed with such an extension of the public accountants' duties. The results of the analysis of this question are shown in table 7.21.

This table shows that there is agreement in the attitudes of the respondents on the issue that with respect to published employee reports, these reports should not form part of the public

accountants' examination and reporting function. The null hypothesis is therefore accepted at the 0.05 level of significance ($p = 0.918$). Thus, while the first hypothesis showed that although there was support for employee reporting, the level of support for employee reporting was not shared to the same extent. The results of this second question show that the level of rejection for auditor involvement with published employee reports is equally strong for both groups. The table shows that 79% of the employers and 80% of the accountants agree that it is not desirable for the public accountants' examination and reporting function to be extended to include published employee reports.

Table 7.21 Desirability of public accountant involvement with published employee reports according to sub-population group

	Employers		Public accountants		Total	
	Number	%	Number	%	Number	%
Yes	26	21	18	20	44	21
No	99	79	71	80	170	79
Total	125 ¹	100	89 ¹	100	214 ¹	100

Notes:

1. Total "Yes" responses from table 7.4.
2. Results of Chi-squared test:

Calculated Chi-square	=	0.011
Degrees of freedom	=	1
Level of significance (p)	=	0.918

The rejection of public accountant involvement with published employee reports provides support for the employers that the form of employee reporting should rather be regular meetings followed by a published employee report. However, in view of the support by the accountants for the preferred form to be a separate employee report issued annually, it is surprising that this group has rejected any involvement with it from an auditing perspective.

Comparing this result to the studies documented in chapter 5 shows some similarities. Although public accountant involvement with employee reports was not directly addressed by these studies, the following comments are relevant. In the Benjamin, Stanga and Strawser (1977) study, there was 74,1% disagreement by the respondents that there will be a need for the Certified Public Accountant to attest to the fairness of the information on social responsibility presented in annual reports. In the Anderson (1980) study, it was reported that 76,9 % of the respondents disagreed with the statement that within the next 10 years there will be a need for the Chartered (Public) Accountant to attest to the fairness of the

information on social responsibility presented in annual reports. Likewise, the Konar (1989) study found that 75,5% of respondents showed disagreement with a similar statement although 85,7% agreed that they could attest to a statement showing expenditures on social items if all items were rands and they could perform the usual audit tests. It can therefore be stated that there is a reluctance by public accountants to extend their attest function beyond their current obligations.

The cross-tabulation of the background information and the SIC code in respect of employers provides additional information on the attitudes of the respondents towards the desirability of public accountant involvement with published employee reports. These cross-tabulations are shown in tables 7.22 to 7.24.

Table 7.22 Desirability of public accountant involvement with published employee reports according to length of time in a managerial position

Form	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	Number	%	Number	%	Number	%	Number	%
Yes	17	21	7	21	2	20	26	21
No	65	79	26	79	8	80	99	79
Total	82 ¹	100	33 ¹	100	10 ¹	100	125 ¹	100

Note:

1. Total "Yes" responses from table 7.5.

Table 7.22 shows that the employers show similar levels of support for the rejection of public accountant involvement with published employee reports. The level of opposition for employers with 1 – 10 years and 11 – 20 years of experience was 79% and it was 80% for employers with more than 20 years experience.

The desirability of public accountant involvement with published employee reports according to the field of activity of the companies is shown in table 7.23. Companies in the manufacturing field show the highest level of opposition at 86%, followed by the construction field at 79%, accommodation and food services at 75%, retail and wholesale, transportation and warehousing, and the other field at 71% and lastly, information at 57%. A possible reason for this is that the fields which show the highest levels of opposition are those more likely to have higher numbers of employees and more experience with employee reports. However, this is conjecture and would need to be explored by further study.

Table 7.23 Desirability of public accountant involvement with published employee reports according to field of activity of companies

	<u>Field of activity</u>														<u>Total</u>	
	<u>Construction</u>		<u>Manufacturing</u>		<u>Retail and wholesale</u>		<u>Transportation and warehousing</u>		<u>Information</u>		<u>Accommodation and food services</u>		<u>Other²</u>		<u>Number</u>	<u>%</u>
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Yes	3	21	9	14	5	29	2	29	3	43	2	25	2	29	26	21
No	11	79	56	86	12	71	5	71	4	57	6	75	5	71	99	79
Total	14 ¹	100	65 ¹	100	17 ¹	100	7 ¹	100	7 ¹	100	8 ¹	100	7 ¹	100	125 ¹	100

Notes:

1. Total "Yes" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.

The desirability of public accountant involvement with published employee reports according to experience as a practising chartered accountant is shown in table 7.24. Although there is no clear pattern, it appears that accountants with more than 20 years experience show more rejection for public accountant involvement with published employee reports (82%) than accountants with 20 years or less years of experience. Accountants with 1 – 10 years experience rejected public accountant involvement with 80% support, and accountants with 11 – 20 years experience rejected public accountant involvement with 77% support.

Table 7.24 Desirability of public accountant involvement with published employee reports according to experience as practising chartered accountant

	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	Number	%	Number	%	Number	%	Number	%
Yes	6	20	7	23	5	18	18	20
No	24	80	24	77	23	82	71	80
Total	30 ¹	100	31 ¹	100	28 ¹	100	89 ¹	100

Note:

1. Total "Yes" responses from table 7.7.

Having established that the two sub-population groups oppose public accountant involvement with published employee reports, it is necessary to establish the reasons for their attitudes.

7.5.2 The reasons why the public accountants' examination and reporting duty should or should not be extended to include published employee reports

To provide further information on why the respondents supported or rejected the desirability of public accountant involvement with published employee reports, the underlying reasons for their attitudes were also investigated.

The reasons supporting the involvement of the public accountant with published employee reports according to sub-population group are shown in table 7.25. This table shows that the rankings of the reasons according to each sub-population group are identical except for the other reasons provided by the respondents. The primary reason for involving public accountants with published employee reports was to ensure the reliability of the information. This was supported by 92% of the employers and 89% of the accountants. The second reason chosen was to prevent purposely under-reporting of information. However, this had substantially less support by the respondents with only 58% of the employers and 67% of

public accountants supporting this reason. In third place was the reason that public accountants are competent to examine and report on the information with 31% support from the employers and 28% support from the accountants. There was very little support for the reason to prevent competition from other groups or individuals for this service. It may be that in South Africa, accountants are already overburdened with work due to a skills shortage and do not want to involve themselves with another attest function.

Table 7.25 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to sub-population group

Reason	Employers (26) ¹		Public accountants (18) ¹		Total (44) ¹	
	%	Rank	%	Rank	%	Rank
a. To ensure the reliability of the information	92	1	89	1	91	1
b. Public accountants are competent to examine and report on the information	31	3	28	3	30	3
c. To prevent competition from other groups or individuals for this service	8	4	6	4	7	4
d. To prevent purposely under-reporting of information	58	2	67	2	61	2
e. Other						
- To improve information to all stakeholders	4	5	-	-	2	6
- To ensure the credibility of the information	4	5	6	4	5	5

Notes:

1. Total "Yes" responses from table 7.21.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

Tables 7.26 to 7.28 show the results of the cross-tabulation of the reasons supporting public accountant involvement with the background information. Examining firstly table 7.26 which shows the reasons supported by the employers according to length of time in a managerial position, all employers support ensuring the reliability of the information as the primary reason with 94% support by employers with 1 – 10 years experience, 100% support by employers with 11 – 20 years experience and 50% support by employers with more than 20 years experience. There were only 2 employers in this last group and they also gave 50% support to the reason that public accountants are competent to examine and report on the information. The employers with 1 – 10 years experience ranked the reason to prevent purposely under-reporting of information second with 76% support. This reason was also ranked second by the employers with 11 – 20 years experience (29%) who also ranked as second the reason that public accountants are competent to examine and report on the information (29%). This latter reason was ranked third by the employers with 1 – 10 years

experience (29%). Only the employers with 1 – 10 years experience chose the prevention of other groups or individuals for this service as a reason with 12% support.

Table 7.26 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1 – 10 years		11-20 years		More than 20 years		Total	
	<u>(17)¹</u>		<u>(7)¹</u>		<u>(2)¹</u>		<u>(26)¹</u>	
	%	Rank	%	Rank	%	Rank	%	Rank
a. To ensure the reliability of the information	94	1	100	1	50	1	92	1
b. Public accountants are competent to examine and report on the information	29	3	29	2	50	1	31	3
c. To prevent competition from other groups or individuals for this service	12	4	-	-	-	-	8	4
d. To prevent purposely under-reporting of information	76	2	29	2	-	-	58	2
e. Other								
- To improve information to all stakeholders	6	5	-	-	-	-	4	5
- To ensure the credibility of the information	-	-	14	3	-	-	4	5

Notes:

1. Total "Yes" responses from table 7.22.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

Examination of table 7.27 where the field of activity of the companies is cross-tabulated to the reasons opposing public accountant involvement with published employee reports, provides little new information. Ensuring the reliability of the information was the primary reason across all fields of activity. The reasons ranked second and third overall are ranked either second or third according to field of activity with the exception of the other field where the reason to prevent purposely under-reporting of information is ranked equal first. However, these groups are very small and no significance should be attached to these differences in rankings. Preventing competition from other groups or individuals for this service was supported by only the construction and accommodation and food services fields.

With regards to the public accountant group, table 7.28 shows that the ranking of the reasons supporting public accountant involvement with published employee reports for each group of

Table 7.27 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(3) ¹		(9) ¹		(5) ¹		(2) ¹		(3) ¹		(2) ¹		(2) ¹		(26) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
a. To ensure the reliability of the information	100	1	89	1	80	1	100	1	100	1	100	1	100	1	92	1
b. Public accountants are competent to examine and report on the information	67	2	22	3	20	3	50	2	33	3	50	2	-	-	31	3
c. To prevent competition from other groups or individuals for this service	33	3	-	-	-	-	-	-	-	-	50	2	-	-	8	4
d. To prevent purposely under-reporting of information	67	2	56	2	40	2	50	2	67	2	50	2	100	1	58	2
e. Other																
- To improve information to all stakeholders	-	-	-	-	20	3	-	-	-	-	-	-	-	-	4	5
- To ensure the credibility of the information	-	-	-	-	-	-	-	-	-	-	50	2	-	-	4	5

Notes:

1. Total "Yes" responses from table 7. 23.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.
4. Detailed responses to the question appear as appendix E.

accountants corresponds with the overall ranking. The table also indicates that only public accountants with more than 20 years experience provided any support for the reason to prevent competition from other groups or individuals for this service. This may indicate that the older accountants view themselves as the only body capable of providing such a service.

Table 7.28 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to experience as practising chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(6) ¹		(7) ¹		(5) ¹		(18) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank
a. To ensure the reliability of the information	83	1	86	1	100	1	89	1
b. Public accountants are competent to examine and report on the information	17	3	29	3	40	3	28	3
c. To prevent competition from other groups or individuals for this service	-	-	-	-	20	4	6	4
d. To prevent purposely under-reporting of information	67	2	57	2	80	2	67	2
e. Other								
- To ensure the credibility of the information	-	-	14	4	-	-	6	4

Notes:

1. Total "Yes" responses from table 7.24.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

The reasons why the public accountants' examination and reporting duty should not be extended to include published employee reports were also investigated. The reasons supported by the employers and the public accountant groups are shown in table 7.29. The respondents also gave a number of additional reasons against public accountant involvement which have been disclosed in appendix D.

The reason ranked first by both groups was that involvement of public accountants in published employee reports would cause an increase in audit costs. This was supported by 67% of the employers and 65% of the accountants. In second place was the viewpoint that the accountant's responsibility is to report only to shareholders with 51% of the employers and 58% of the accountants supporting this reason. In third place overall and ranked third by the employers (36%) and accountants (44%) was the reason that there is a lack of appropriate

Table 7.29 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to sub-population group

Reason	Employers (99) ¹		Public accountants (71) ¹		Total (170) ¹	
	%	Rank	%	Rank	%	Rank
a. Increase in audit costs	67	1	65	1	66	1
b. Lack of appropriate accounting and auditing standards	36	3	44	3	39	3
c. Exposure to trade union action	6	5	7	4	6	5
d. Accountant's responsibility is to report only to shareholders	51	2	58	2	53	2
e. Other						
- It is a management function	13	4	6	5	10	4
- It should be optional	3	8	3	6	3	7
- Costs exceed benefits	5	6	6	5	5	6
- Outside auditors' expertise	4	7	7	4	5	6
- Report is too subjective to audit	1	9	1	7	1	8

Notes:

1. Total "No" responses from table 7.21.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

accounting and auditing standards. When looking at the overall fourth reason which is that employee reporting is a management function, and which is also a reason supplied by the respondents, this was ranked fourth by the employers (13%) and fifth by the accountants (6%). Although support for this reason is low, it is nevertheless of interest in light of the comments made by the respondents regarding the form of employee reporting. Employers suggested that it would best be met by regular meetings. Employers would therefore see employee reporting as part of the ongoing management practices of the company and that there is no need for auditor involvement.

A final comment is that the accountants ranked exposure to trade union action as fourth (7%) whereas the employers ranked this as fifth (6%). This shows that employers attach less importance to the published employee report as a tool for dealing with trade unions compared to the accountants. This also ties in with the lack of support for the reason that employee reporting is desirable as it reduces the influence of trade unions or other labour representatives.

Tables 7.30 to 7.32 show the results of cross-tabulating the reasons supported by the respondents against public accountant involvement with published employee reports according to the background information.

Table 7.30 shows overall support by the different levels of experience of the employers for the primary reason that public accountant involvement with published employee reports will increase audit costs. Second overall, that the accountant's responsibility is to report only to shareholders was also second with employers with 1 – 10 years experience (48%), equal first with employers with 11 – 20 years experience (62%), and second with employers with more than 20 years experience (38%). The third reason overall was that there is a lack of appropriate accounting and auditing standards. This was ranked third by employers with 1 – 10 years experience (46%), equal second by employers with 11 – 20 years experience (19%) and fourth by employers with more than 20 years experience (13%). The fourth reason overall was that employee reporting is a management function. This was ranked fourth by the employers with 1 – 10 years experience (11%), third by employers with 11 – 20 years

Table 7.30 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(65) ¹	(26) ¹	(8) ¹	(99) ¹	%	Rank	%	Rank
a. Increase in audit costs	68	1	62	1	75	1	67	1
b. Lack of appropriate accounting and auditing standards	46	3	19	2	13	4	36	3
c. Exposure to trade union action	6	5	8	5	-	-	6	5
d. Accountant's responsibility is to report only to shareholders	48	2	62	1	38	2	51	2
e. Other								
- It is a management function	11	4	15	3	25	3	13	4
- It should be optional	3	6	-	-	13	4	3	8
- Costs exceed benefits	2	7	15	3	-	-	5	6
- Outside auditors' expertise	2	7	12	4	-	-	4	7
- Report is too subjective to audit	2	7	-	-	-	-	1	9

Notes:

1. Total "No" responses from table 7. 22.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

experience (15%) and third by the employers with more than 20 years experience (25%). The accountants with more than 20 years experience have mainly focused on the fact that there will be an increase in audit costs – a very practical reason for rejection, whereas the accountants with 20 or less years of experience have focused on a variety of reasons.

The reasons against public accountant involvement with published employee reports according to the field of activity of companies are shown in table 7.31. The overall primary and secondary reasons, namely (1) there would be an increase in audit costs and (2) the accountant's responsibility is to report only to shareholders are similarly either first or second in each field of activity. It is interesting to note that in all fields with the exception of the information field, the reason that it is a management function was proposed by the companies. Exposure to trade union action was only supported by the manufacturing and the accommodation and food services fields which would support the previous comments made that employee reporting is not seen as a tool for deflecting trade union action. Also, the manufacturing and accommodation and food services fields may have large numbers of employees and therefore may have had more experience with trade union activity. In summary, the rankings of the first five reasons for opposing public accountants involvement with published employee reports in the manufacturing field agrees to the overall rankings of these reasons which would indicate that the field of activity has an influence on these reasons.

The reasons supported by the accountants against public accountant involvement with published employee reports according to the accountants' length of time in the accounting profession is shown in table 7.32. The primary reason overall, that it will increase audit costs, is supported by the accountants with 1 – 10 years experience (63%) and those with 11 – 20 years experience (75%). The accountants with more than 20 years experience ranked this reason second (57%) and instead ranked first the reason that the accountant's responsibility is to report only to shareholders (65%). This would substantiate previous comments made that the accountants with more than 20 years experience have a legalistic attitude towards employee reporting. The reason ranked third, namely that there is a lack of appropriate accounting and auditing standards has similar support from all the accountants. Only accountants with 20 years or less experience provided limited support for the reason that it may result in exposure to trade union action. It is worth mentioning that it was only the accountants with 20 or less years of experience who supplied the reason that it is a

Table 7.31 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(11) ¹		(56) ¹		(12) ¹		(5) ¹		(4) ¹		(6) ¹		(5) ¹		(99) ¹	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
a. Increase in audit costs	64	1	68	1	67	2	80	1	50	1	83	1	40	2	67	1
b. Lack of appropriate accounting and auditing standards	27	2	38	3	33	3	40	3	50	1	50	3	20	3	36	3
c. Exposure to trade union action	-	-	7	5	-	-	-	-	-	-	33	4	-	-	6	5
d. Accountant's responsibility is to report only to shareholders	64	1	41	2	75	1	60	2	25	2	67	2	60	1	51	2
e. Other																
- It is a management function	18	3	11	4	8	4	20	4	-	-	33	4	20	3	13	4
- It should be optional	-	-	4	6	-	-	-	-	25	2	-	-	-	-	3	8
- Costs exceed benefits	9	4	7	5	-	-	-	-	-	-	-	-	-	-	5	6
- Outside auditors' expertise	-	-	7	5	-	-	-	-	-	-	-	-	-	-	4	7
- Report is too subjective to audit	-	-	-	-	-	-	-	-	25	2	-	-	-	-	1	9

Notes:

1. Total "No" responses from table 7.23.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.
4. Detailed responses to the question appear as appendix E.

Table 7.32 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to experience as practising chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(24) ¹	(24) ¹	(24) ¹	(24) ¹	(23) ¹	(23) ¹	(71) ¹	(71) ¹
	%	Rank	%	Rank	%	Rank	%	Rank
a. Increase in audit costs	63	1	75	1	57	2	65	1
b. Lack of appropriate accounting and auditing standards	58	2	42	3	30	3	44	3
c. Exposure to trade union action	13	4	8	5	-	-	7	4
d. Accountant's responsibility is to report only to shareholders	50	3	58	2	65	1	58	2
e. Other								
- It is a management function	8	5	8	5	-	-	6	5
- It should be optional	-	-	4	6	4	4	3	6
- Costs exceed benefits	8	5	4	6	4	4	6	5
- Outside auditors' expertise	8	5	13	4	-	-	7	4
- Report is too subjective to audit	-	-	-	-	4	4	1	7

Notes:

1. Total "No" responses from table 7.24.
2. Respondents could indicate more than one reason.
3. Detailed responses to the question appear as appendix E.

management function. It was commented previously that these accountants may be more aware of the need for strong lines of communication between the employers and the employees and that employers may already be providing information on an informal basis to their employees.

7.5.3 The examination and reporting function the public accountant should assume with regard to published employee reports

Respondents who were in favour of public accountant involvement with published employee reports were asked to indicate what examination and reporting obligation the public accountant should assume with regard to published employee reports. Table 7.33 shows the examination and reporting obligation according to sub-population group.

Table 7.33 shows that the primary obligation supported by the respondents was that the public accountant should first have a duty with regards to the conformity of the employee report with the published annual report (82%), and secondly, that there is conformity to any guidelines set by the South African Institute of Chartered Accountants (SAICA) (66%).

Overall third, was that the public accountant should have an obligation only to data that can be expressed in financial or quantitative terms (50%). Ranked fourth at 48% was conformity with the Companies Act and Generally Accepted Accounting Practice (GAAP). These overall rankings are mainly supported by the employers. The accountants supported the obligations ranked overall first and second equally.

Table 7.33 Employee reporting examination and reporting obligation according to sub-population group

Obligation	Employers		Public accountants		Total	
	(26) ¹		(18) ¹		(44) ¹	
	Number	%	Number	%	Number	%
a. Conformity with published annual report	22	85	14	78	36	82
- Examination obligation	9	35	2	11	11	25
- Reporting obligation	4	15	4	22	8	18
- Examination and reporting obligation	9	35	8	45	17	39
b. Conformity with Companies Act and GAAP	13	50	8	45	21	48
- Examination obligation	2	8	1	6	3	6
- Reporting obligation	5	19	4	22	9	21
- Examination and reporting obligation	6	23	3	17	9	21
c. Only to data which can be expressed in financial or quantitative terms	13	50	9	50	22	50
- Examination obligation	3	12	3	17	6	14
- Reporting obligation	6	23	4	22	10	22
- Examination and reporting obligation	4	15	2	11	6	14
d. Conformity to any guidelines set by SAICA	15	57	14	78	29	66
- Examination obligation	4	15	2	11	6	14
- Reporting obligation	7	27	5	28	12	27
- Examination and reporting obligation	4	15	7	39	11	25
e. Other						
-Progress made on transformation	1	4	-	-	1	2

Notes:

1. Total "Yes" responses from table 7.21.
2. Respondents could indicate more than one reason.

Information on the precise nature of the obligation to be assumed by the public accountant is also shown in table 7.33. With regards to the obligation of conformity with the annual report, 35% of the employers supported an examination obligation or an examination and reporting obligation as opposed to 45% of the accountants who supported an examination and reporting obligation. As far as the obligation of conformity to any guidelines set by SAICA is concerned, in the opinion of the employers this should only be a reporting obligation (27%), but in the opinion of the accountants it should be an examination and reporting obligation (39%). The employers and the accountants agreed that the obligation of only to data which

can be expressed in financial or quantitative terms should be only a reporting obligation with 23% support from the employers and 22% support from the accountants. With regards to the obligation of conformity to the Companies Act and GAAP, the employers and the accountants were divided on this issue with 23% of the employers in favour of an examination and reporting obligation and with 22% of the accountants in favour of only a reporting obligation.

Analyzing the employers' responses with their length of time in a managerial position is shown in table 7.34. With regard to the primary obligation that the accountant should have a duty only to conformity with the annual report, there is more support for this reason as the employers' managerial experience increases. The obligation ranked second overall was supported only by employers with 20 or less years of experience and the employers with 1 – 10 years experience showed more support for this reason. Equal third were the obligations of conformity with the Companies Act and GAAP and only to data which can be expressed in financial or quantitative terms. No inferences can be made from this table except that employers with 11 – 20 years experience show less support for these two obligations compared to employers with 1 – 10 years experience. Employers with more than 20 years experience did not support the obligations of only to data which can be expressed in financial or quantitative terms and conformity to any guidelines set by SAICA.

With regards to the specific obligation which should be assumed by the public accountant, employers with more than 20 years experience supported equally the obligations of conformity with the published annual report and conformity with the Companies Act and GAAP, and the specific duty for each is either an examination obligation or an examination and reporting obligation. These respondents are divided fifty – fifty on these issues. The employers with 1 – 10 years experience and the employers with 11 – 20 years experience have different opinions as to what the public accountants' specific duties should be. With regards to the primary obligation of conformity with the published annual report, employers with 1 – 10 years experience supported an examination and reporting obligation (41%), while employers with 11 – 20 years experience supported an examination obligation (57%). While there is agreement that the specific obligation should be a reporting obligation as far as the obligation of conformity to any guidelines set by SAICA is concerned, a difference of opinion is shown in the final two obligations. With regards to the obligation of only to data

which can be expressed in financial or quantitative terms, and the obligation of conformity with the Companies Act and GAAP, the employers with 1 – 10 years of experience favoured an examination and reporting duty while the employers with 11 – 20 years experience favoured only a reporting duty. Employers with 1 – 10 years experience therefore see greater public accountant involvement with published employee reports compared to the employers with 11 – 20 years experience.

Table 7.34 Employee reporting examination and reporting obligation according to length of time in a managerial position

Obligation	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(17) ¹		(7) ¹		(2) ¹		(26) ¹	
	Number	%	Number	%	Number	%	Number	%
a. Conformity with published annual report	14	82	6	85	2	100	22	85
- Examination obligation	4	23	4	57	1	50	9	35
- Reporting obligation	3	18	1	14	-	-	4	15
- Examination and reporting obligation	7	41	1	14	1	50	9	35
b. Conformity with Companies Act and GAAP	8	47	3	43	2	100	13	50
- Examination obligation	1	6	-	-	1	50	2	8
- Reporting obligation	3	18	2	29	-	-	5	19
- Examination and reporting obligation	4	23	1	14	1	50	6	23
c. Only to data which can be expressed in financial or quantitative terms	10	59	3	43	-	-	13	50
- Examination obligation	3	18	-	-	-	-	3	12
- Reporting obligation	3	18	3	43	-	-	6	23
- Examination and reporting obligation	4	23	-	-	-	-	4	15
d. Conformity to any guidelines set by SAICA	11	65	4	57	-	-	15	57
- Examination obligation	3	18	1	14	-	-	4	15
- Reporting obligation	5	29	2	29	-	-	7	27
- Examination and reporting obligation	3	18	1	14	-	-	4	15
e. Other								
- Progress made on transformation	1	6	-	-	-	-	1	4

Notes:

1. Total "Yes" responses from table 7.22.
2. Respondents could indicate more than one alternative.

Examination of the employers' responses according to field of activity of companies is shown in table 7.35. The primary obligation of conformity with the published annual report is

supported across all fields of activity. In the manufacturing field, there was less support for the overall second obligation which was ranked third with 44% support. Instead, joint second with 55% support in the manufacturing field were the obligations of conformity with the Companies Act and GAAP and only to data which can be expressed in financial or quantitative terms.

As far as the specific obligations are concerned, only the manufacturing and accommodation and food services fields agreed with the overall specific duties supported by the employers. The construction field gave more support for an examination duty, the retail and wholesale field favoured a reporting duty and the other field favoured only an examination and reporting duty for the obligation of conformity with the published annual report. The information field supported all three specific duties. With regards to the obligation of conformity to any guidelines set by SAICA, only the transportation and warehousing, and information fields showed a different opinion to the overall response of the employers while this was not an obligation chosen by the other field. The transportation and warehousing and other fields show a difference in support for the specific duty within the obligation of only to data which can be expressed in financial or quantitative terms, and the transportation and warehousing field has also a difference in support for the specific duty within the obligation of conformity to the Companies Act and GAAP. As far as the latter obligation is concerned, the construction, retail and wholesale and information fields all show a different opinion as to what the specific obligation should be.

An examination of the accountants' responses according to length of time in the accounting profession shows some differences in rankings (refer to table 7.36). Conformity with the published annual report was ranked first by the accountants with 1 – 10 years experience (84%) and accountants with more than 20 years experience (100%). This latter group also ranked conformity to any guidelines set by SAICA as equal first with 100% support. Accountants with 11 – 20 years experience preferred first the obligation of conformity to any guidelines set by SAICA (71%). This group showed a lack of support for the obligations of only to data which can be expressed in financial or quantitative terms and to conformity with the Companies Act and GAAP.

As far as the specific duties which fall under each obligation are concerned, the length of

Table 7.35 Employee reporting examination and reporting obligation according to field of activity of companies

<u>Obligation</u>	<u>Field of activity</u>															
	<u>Construction</u>		<u>Manufacturing</u>		<u>Retail and wholesale</u>		<u>Transportation and warehousing</u>		<u>Information</u>		<u>Accommodation and food services</u>		<u>Other²</u>		<u>Total</u>	
	<u>(3)¹</u>		<u>(9)¹</u>		<u>(5)¹</u>		<u>(2)¹</u>		<u>(3)¹</u>		<u>(2)¹</u>		<u>(2)¹</u>		<u>(26)¹</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
a. Conformity with published annual report	3	100	7	77	3	60	2	100	3	100	2	100	2	100	22	85
- Examination obligation	2	67	3	33	1	20	1	50	1	33	1	50	-	-	9	35
- Reporting obligation	-	-	1	11	2	40	-	-	1	33	-	-	-	-	4	15
- Examination and reporting obligation	1	33	3	33	-	-	1	50	1	34	1	50	2	100	9	35
b. Conformity with Companies Act and GAAP	1	33	5	55	2	40	1	50	1	33	1	50	2	100	13	50
- Examination obligation	-	-	1	11	-	-	1	50	-	-	-	-	-	-	2	8
- Reporting obligation	1	33	1	11	2	40	-	-	1	33	-	-	-	-	5	19
- Examination and reporting obligation	-	-	3	33	-	-	-	-	-	-	1	50	2	100	6	23
c. Only to data which can be expressed in financial or quantitative terms	1	33	5	55	2	40	2	100	1	33	1	50	1	50	13	50
- Examination obligation	-	-	1	11	1	20	1	50	-	-	-	-	-	-	3	12
- Reporting obligation	1	33	2	22	1	20	-	-	1	33	1	50	-	-	6	23
- Examination and reporting obligation	-	-	2	22	-	-	1	50	-	-	-	-	1	50	4	15
d. Conformity to any guidelines set by SAICA	3	100	4	44	3	60	2	100	2	67	1	50	-	-	15	57
- Examination obligation	1	33	1	11	-	-	1	50	1	33	-	-	-	-	4	15
- Reporting obligation	2	67	2	22	2	40	-	-	-	-	1	50	-	-	7	27
- Examination and reporting obligation	-	-	1	11	1	20	1	50	1	34	-	-	-	-	4	15
e. Other																
- Progress made on transformation	-	-	-	-	-	-	-	-	-	-	-	-	1	50	1	4

Notes:

1. Total "Yes" responses from table 7.23.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one alternative.

Table 7.36 Employee reporting examination and reporting obligation according to experience as practicing chartered accountant

Obligation	Length of time in accounting profession							
	1-10 years (6) ¹		11-20 years (7) ¹		More than 20 years (5) ¹		Total (18) ¹	
	Number	%	Number	%	Number	%	Number	%
a. Conformity with published annual report	5	84	4	58	5	100	14	78
- Examination obligation	1	17	-	-	1	20	2	11
- Reporting obligation	1	17	2	29	1	20	4	22
- Examination and reporting obligation	3	50	2	29	3	60	8	45
b. Conformity with Companies Act and GAAP	4	67	2	29	2	40	8	45
- Examination obligation	-	-	-	-	1	20	1	6
- Reporting obligation	1	17	2	29	1	20	4	22
- Examination and reporting obligation	3	50	-	-	-	-	3	17
c. Only to data which can be expressed in financial or quantitative terms	3	50	3	43	3	60	9	50
- Examination obligation	2	33	-	-	1	20	3	17
- Reporting obligation	-	-	3	43	1	20	4	22
- Examination and reporting obligation	1	17	-	-	1	20	2	11
d. Conformity to any guidelines set by SAICA	4	67	5	71	5	100	14	78
- Examination obligation	-	-	1	14	1	20	2	11
- Reporting obligation	1	17	3	43	1	20	5	28
- Examination and reporting obligation	3	50	1	14	3	60	7	39

Notes:

1. Total "Yes" responses from table 7.24.
2. Respondents could indicate more than one alternative.

time as a practising chartered accountant had some influence on their opinions. All accountants preferred an examination and reporting duty for the obligation of conformity with the published annual report although accountants with 11 – 20 years experience equally favoured a reporting obligation. Accountants with 11 – 20 years experience preferred a reporting duty for conformity to any guidelines set by SAICA contrary to the overall support by accountants for only an examination and reporting obligation. Accountants with 1 – 10 years experience preferred an examination duty for the obligation of only to data which can be expressed in financial or quantitative terms and an examination and reporting duty for the obligation of conformity with the Companies Act and GAAP. These latter preferences of

accountants with 1 – 10 years experience are contrary to the average preferences of the accountants.

7.5.4 Synthesis of research findings on public accountant involvement with published employee reports

From the above analysis, the following inferences may be made:

- (1) Employers and public accountants oppose public accountant involvement with published employee reports. This results confirms those obtained in prior studies which considered public accountant involvement with corporate social responsibility disclosures.
- (2) The background information had some influence on the attitudes of the two groups in that
 - (a) employers with more than 20 years experience opposed public accountant involvement with published employee reports more strongly than employers with 20 or less years of experience,
 - (b) the manufacturing field showed a higher level of rejection for public accountant involvement in comparison to the average response, and
 - (c) accountants with more than 20 years experience opposed public accountant involvement with published employee reports more strongly than accountants with 20 or less years of experience.
- (3) The primary reasons why respondents supported public accountant involvement with published employee reports are, in order of decreasing importance,
 - (a) to ensure the reliability of the information,
 - (b) to prevent purposely under-reporting of information, and
 - (c) public accountants are competent to examine and report on the information.
- (4) The primary reasons why respondents opposed public accountant involvement with published employee reports are, in order of decreasing importance,
 - (a) increase in audit costs,
 - (b) accountant's responsibility is to report only to shareholders, and
 - (c) lack of appropriate accounting and auditing standards.

There was considerable comment by the respondents that employee reporting is a management function.

- (5) Background information had some influence on the reasons for and against auditor involvement with published employee reports.
- (6) The primary examination and reporting obligation by auditors, assuming that there is support for public accountant involvement with published employee reports, are in order of preference,
 - (a) conformity with the published annual report,
 - (b) conformity to any guidelines set by SAICA, and
 - (c) only to data which can be expressed in financial or quantitative terms.

Background information had some influence on the results.

7.6 OVERALL ASSESSMENT OF THE RESEARCH FINDINGS

The objective of the research was to determine the desirability of employee reporting in South Africa. To do this, archival and survey research was used. Archival research was used to provide the theoretical foundation which provided the platform for the survey research. Survey research was used to determine the attitudes of employers and public accountants towards the desirability of employee reporting, its form and contents, and the desirability of public accountant involvement with published employee reports. The conclusions and recommendations resulting from this study are presented in chapter 8 and this will enable further study of the topic in South Africa. In chapter 6 it was noted that for the questionnaire to provide the researcher with usable data, it was necessary for various steps to be performed and that the questionnaire should be reliable and have content validity. Furthermore, certain limitations of the research were discussed.

Before conclusions and recommendations can be made, it is necessary to re-visit these steps (Fink,1995a) and ensure that these and any limitations of the research were addressed. These are as follows:

- (1) Identifying the survey's objectives. A review of the literature justified the theory underlying the questions.
- (2) The reliability of the questionnaire. Both target groups were sophisticated sub-populations of either all listed companies or all chartered accountants and it can therefore be assumed that the questionnaire provided consistent results (the probability of obtaining the same results again). Pre-testing also ensured that the questions were straight-forward and the respondents could not be confused by them.

- (3) The content validity of the questionnaire. The questions used in the questionnaire were mostly derived from literature sources or prior research studies. The responses to the questions show that the respondents found the questionnaire to be straight-forward and that their answers were reasonable. It can thus be concluded that the questionnaire possessed content validity.
- (4) The representativeness of the sub-populations. Statistical sampling was not used. However, the sub-populations were chosen on the basis of certain relevant criteria which would mean that their attitudes are representative of the entire population and would provide authoritative opinions on the topic studied.
- (5) The suitability of the sub-populations with regards to the research topic. The sub-populations were financial managers or chartered accountants and would therefore be familiar with and knowledgeable about the topic. This therefore reinforces the reliability of their responses and the ability of their responses to represent the population from which they were drawn.
- (6) The adequacy of the statistical tests. The statistical tests were relatively simple in keeping with the questionnaire itself. This, together with the cross-tabulations, provided adequate analysis of the data.
- (7) The reasonableness of the level of significance. A significance level of 0,05 was selected as this is usually regarded as significant. Therefore the level of significance can be considered reasonable.
- (8) The reliability of the presentation of the data. The data was presented by making use of authoritative sources and by reliable presentation of the facts.

In conclusion, the results of this study may be regarded as reliable and valid and that the findings are therefore well-grounded.

7.7 SUMMARY

The purpose of this chapter was to present the analysis of the data obtained from the questionnaires which endeavoured to determine the attitudes of employers and public accountants towards the desirability of employee reporting in South Africa.

The chapter first discussed the background information which was used for the cross-tabulations. The examination revealed that employers and public accountants represented

different levels of experience and that the employers' companies are spread throughout the different fields of activity. The cross-tabulations were used to provide more information on the attitudes of employers and public accountants towards the desirability of employee reporting, the form and contents of employee reports, and auditor involvement with published employee reports.

With regards to the desirability of employee reporting, the research revealed that while both groups considered employee reporting desirable, the employers had a stronger attitude towards this issue which resulted in the null hypothesis being rejected at the 0,05 level of significance. To provide more information on this issue, the reasons for and against reporting to employees were also examined.

If employee reporting is desirable, it is necessary to consider what form it should take and what should be the contents of an employee report. Although hypothesis testing was not performed on these issues, the analysis showed support by the employers for regular meetings whereas the accountants supported a separate employee report issued annually. In so far as the contents of an employee report are concerned, although there were some similarities in the rankings of the items by the two groups, in general the public accountants were more supportive of quantitative financial information and information concerning employment conditions.

In the last instance, the desirability of public accountant involvement with published employee reports was examined. The results showed that both the employers and the public accountants rejected auditor involvement with published employee reports and the null hypothesis was accepted at the 0,05 level of significance. To provide more information on this issue, the reasons for and against public accountant involvement with published employee reports was examined. To conclude this section on auditor involvement, the respondents were questioned on what should be the examination and reporting obligation if there was auditor involvement with published employee reports.

Throughout the chapter reference was made to previous research studies which have examined the above issues. While in some instances comparisons were difficult due to

differences in terminology, the results of this study provided general confirmation of the overseas and South African research.

The final part of this chapter examined whether or not the results documented in this chapter can be considered reliable. It was concluded that this was indeed so and thus this analysis, and the conclusions and recommendations presented in chapter 8 can be considered reliable.

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CHAPTER 8

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

- 8.1 Summary and conclusions
- 8.2 Recommendations
- 8.3 Suggestions for further research
- 8.4 Overview
- 8.5 List of sources

8.1 SUMMARY AND CONCLUSIONS

Employee reporting has developed in response to the needs of employees for financial and other information about the company for which they work. Although The corporate report (Institute of Chartered Accountants in England and Wales (ICAEW), 1975) was one of the early documents to show concern for employees as users of financial statements, other studies such as The Trueblood report (American Institute of Certified Public Accountants (AICPA), 1973), the Financial Accounting Standards Board's (FASB) Objectives of financial reporting by business enterprises (1978), and The Sandilands report (Sandilands, 1975) have included employees as a user group. This position, now accepted internationally, has culminated in employees included as users in Framework for the preparation and presentation of financial statements issued by the International Accounting Standards Committee (IASC) in 1989 and adopted by the South African Institute of Chartered Accountants (SAICA) in 1990, as AC 000 (SAICA, 1990).

Attempts to meet the needs of employees have seen the preparation of a separate employee report as well as the proliferation of employee related information in the annual report itself. Employee reports are common in Australia, Britain, the Netherlands, and, to a lesser extent, Canada and the United States of America (USA) (Macintosh, 1984:41). The increasing popularity of employee reports has also initiated considerable research in the area, both overseas and in South Africa. However, despite this research, there has not been any attempt at regulatory interference. In South Africa, SAICA has recognised the importance of employee reporting through its co-sponsorship of the Employee Report Award. However, the last award was made in 1998, and a new sponsor has yet to be found. SAICA itself has not addressed the issue on a formal basis. This study therefore had as its objective the extension

of knowledge on the topic in South Africa by determining the attitudes of employers and public accountants towards the desirability of employee reporting in South Africa.

To achieve the research objective, the study was conducted in two parts. The first part of the study was conducted by reviewing the relevant literature (archival research). The second part of the study empirically investigated the desirability of employee reporting in South Africa using survey research. A summary of these two parts follows.

8.1.1 Literature review

This part of the study was designed to provide the background to the study and the foundation for the empirical research that follows.

The first part of the literature review discussed the place of employee reporting within the context of financial reporting and the theoretical framework. This was necessary to give the subject its correct boundaries so as to provide a proper understanding of the topic. The concepts of financial reporting, employee reporting and accounting theory were examined together with the role of financial reporting as a source of information for employees. The investment-decision approach to financial reporting was contrasted with the accountability approach to financial reporting. As a result of user groups increasing over the years to include, amongst others, employees, so the accountability approach can be now considered to be part of the investment-decision approach to financial reporting and that employees require information for decision-making purposes. The discussion also examined the theories on which financial reporting may be based with particular reference to employee reporting. The traditional and modern approaches were discussed with particular emphasis on the sociological approach which has links to corporate social reporting.

The second part of the literature review was reported on in chapter 3. Here, the nature and importance of employee reporting was discussed. This was necessary to ensure that the concept of employee reporting was properly understood. The chapter also traced the development of employee reporting internationally and locally to establish any similarities. The areas of corporate social responsibility, the influence of research studies and professional pronouncements, and the influence of trade unions were examined in depth. The importance of and the need for employee reporting, and the advantages and disadvantages of employee reporting were examined. This was necessary to ensure that if employee reporting is regarded

as desirable, the advantages and disadvantages of such reporting should be carefully considered. The relevance of the conceptual framework (SAICA, 1990) was also examined to put employee reporting into a South African context.

Chapter 4 examined the current status of employee reporting globally and locally. Employee reporting regulations and practice were investigated in the major western countries. This was necessary in order to understand the global importance of employee reporting. The discussion revealed that currently there exist no regulations relating to the production of a separate employee report and that interest in environmental reporting has to a certain degree supplanted interest in employee reporting. Despite this, France, with its bilan social, is probably ahead of most countries in the area of employee related disclosures. Nevertheless, employee related disclosures are increasing in the annual report itself in those countries that are currently harmonizing their local standards with those of the IASC.

In chapter 5, prior research on those areas of employee reporting relevant to this study were presented. These areas were the desirability of employee reporting, the form and contents of employee reports and the desirability of public accountant involvement with published employee reports. The chapter also included some research studies on 'social accounting', an area in which employee reporting is often included, in order to provide a broader view of the relevant issues.

At this stage, based on the literature review, the following conclusions are made:

- (1) Employee reporting, as part of financial reporting, is placed within the new approaches to the formulation of accounting theory. The traditional focus of employee reporting has been on investors and creditors. This traditional focus is shifting to meet the needs of the other stakeholders. However, it is unlikely that general-purpose financial statements can meet the needs of the employee user group. Thus employee reporting is useful as it meets the needs of the employee user group. Furthermore, the conceptual framework is relevant to employee reporting, and preparers of employee reports should be guided by the framework.
- (2) Research on employee reporting indicates that there is general agreement that employees require information for decision making. However, the information they require may differ according to the level of employment.

- (3) Employee reporting is currently not the attention of any initiatives in the leading Western countries and there have been few new developments recently. However, events in the European Union (EU) may lead to an increase in social disclosure there. Likewise, the harmonization program and recent legislature changes in South Africa should provide an impetus for the disclosure of employee related information in annual reports or for the issuance of published employee reports.
- (4) Employee reporting needs to be empirically investigated in South Africa as a result of recent developments which emphasize the employees' needs for financial information. Such an investigation would enable recommendations to be made to assist in the further development of employee reporting.

As a result of the latter two conclusions, the desirability of employee reporting in South Africa was studied empirically. The following section discusses the empirical investigation into the desirability of employee reporting in South Africa.

8.1.2 Empirical investigation

The empirical part of this study used survey research to determine the attitudes of employers and public accountants towards the desirability of employee reporting, its form and the contents of employee reports and auditor involvement with published employee reports. The financial managers of the Financial Mail 1999 Top 300 companies were chosen to represent the employers and the public accountants responsible for the audits of the Top 300 companies were chosen to represent the public accountants.

An overview of the research methodology which was used to determine the attitudes of the two sub-populations towards the above issues was presented in chapter 6. The two sub-populations were not chosen using statistical sampling but rather by reasoned judgement regarding the characteristics of the total population and the objectives of the research. This resulted in the selection of target groups that would enable their responses to be representative of each total population from which they were drawn. A self-administered postal questionnaire was used to establish the attitudes of the two target groups. The survey questionnaires were discussed detailing the content and layout, reasons for question choice, the covering letter, pre-testing and the distribution of the questionnaires. The preparation, processing and statistical presentation and analysis of the data was described together with the limitations of the research.

The presentation and analysis of the research finding were presented in chapter 7. The data was first cross-tabulated with the two sub-populations and then with the background information. For the employers, this was the length of time in a managerial position and the field of activity of the company, while for the public accountants this was length of time as a practising CA(SA). A summary of these findings is presented below.

8.1.2.1 The desirability of employee reporting

Although employers (98%) and public accountants (85%) supported the desirability of employee reporting, this attitude was not shared to the same extent. Research documented in chapter 5 endorses these findings on the need for employee reporting. In particular, the research revealed only some relationships with reference to the background information.

These are the following:

- (1) As only two employers did not support employee reporting, and both of these had less than 20 years experience, it could be inferred that employers with more than 20 years experience provide more support for employee reporting compared to those with less than 20 years experience, and
- (2) accountants with less than 20 years experience are more supportive of employee reporting than public accountants with more than 20 years experience.

To extend the knowledge on the topic, the research also focused on the reasons for and against reporting to employees. The most important reasons for reporting to employees according to the average response of the two groups were:

- (1) To improve employee-employer relationships (80%).
- (2) To increase employees' financial understanding of the company's operations and activities (74%).
- (3) To demonstrate a more open approach to management (64%).
- (4) To motivate employees towards greater productivity (59%).
- (5) To meet the company's responsibilities towards stakeholders (45%).

The most important reasons against reporting to employees according to the average response were:

- (1) Confidential information may be disclosed outside the company (72%).
- (2) Employees are not entitled to the information (56%).
- (3) Wage demands may intensify (44%) and employees are not able to understand the information (44%).
- (4) Employees receive information via alternative channels (39%).

There were no differences regarding the ranking by the two groups of the reasons supporting employee reporting. There were however some differences in the ranking by the two groups of the reasons against reporting to employees. Discussion on these differences is found in chapter 7.

The research thus indicates that there is a need for employee reporting. It is an important communication tool from the viewpoint of both employers and public accountants.

8.1.2.2 The form and contents of employee reports

As the research has indicated that it is desirable that companies should report to employees, the study next concentrated on what form it should take and what should be the contents of employee reports.

The average response of the two groups indicated that the most desirable form was, in order of preference:

- (1) A separate report issued annually.
- (2) Regular meetings.
- (3) Part of a company magazine.
- (4) A combination of employee reporting forms.

The employer group deviated from this average response and placed regular meetings as the most desirable form of employee reporting.

Further investigation of the responses of the two groups as to the form employee reporting should take according to the background information revealed the following:

- (1) Employers with more than 20 years experience did not show an overall preference for any particular form of reporting whereas employers with 20 years or less managerial experience placed regular meetings first.
- (2) The field of activity of companies has some influence on employer support for the form of employee reporting. A strong preference for regular meetings was shown across all fields of activity with the exception of the transportation and warehousing, information and other fields.
- (3) Although all public accountants agreed that a separate employee report issued annually is the preferred form for employee reporting, accountants with more than 20

years experience placed regular meetings second as opposed to accountants with less than 20 years experience who placed part of the annual report second.

Regarding the contents of employee reports, the average responses of the two groups were used to provide a ranking of a list of information items. In general, there was similar support by the employers and the public accountants for the same items. However, the following observations were made:

- (1) With regards to information on philosophy and plans, employers and accountants provided similar support for these items.
- (2) With regards to information on ownership and management and financial data, there was more support for these items by the public accountants.
- (3) Public accountants were also more supportive of employee information than the employers.

Due to the large number of items listed as possible contents of an employee report, cross-tabulations to the background information were not presented.

Although the research provided some similarities to prior research documented in chapter 5, terminology differences provided some impediment to this. However, in general, there was support for those results.

8.1.2.3 The desirability of public accountant involvement with published employee reports

Although the respondents supported the desirability of employee reporting, they did not support public accountant involvement with published employee reports. Auditor involvement with published employee reports was rejected by 79% of the employers and by 80% of the public accountants. Although public accountant involvement with published employee reports has not been explicitly studied before, studies concerned with social responsibility disclosures and auditor involvement obtained similar responses. The analysis of the results according to the background information revealed the following:

- (1) The level of opposition against public accountant involvement with published employee reports was slightly higher for employers with more than 20 years experience.

- (2) Companies in the manufacturing field showed a level of opposition greater than the average response.
- (3) Accountants with more than 20 years experience have a slightly higher level of opposition against public accountant involvement with published employee reports when compared to the average response.

The most important reasons against public accountant involvement with published employee reports according to the average response rate were:

- (1) Increase in audit costs (66%).
- (2) Accountant's responsibility is to report only to shareholders (53%).
- (3) Lack of appropriate accounting and auditing standards (39%).

The more important reasons supporting public accountant involvement with published employee reports according to the total responses were, in order of preference:

- (1) To ensure the reliability of the information (91%).
- (2) To prevent purposely under-reporting of information (61%).
- (3) Public accountants are competent to examine and report on the information (30%).

The background information had some effect on these rankings and this was discussed in chapter 7.

Although prior research has not examined specifically the issue of public accountant involvement with published employee reports, studies dealing with public accountant involvement with other sensitive reporting issues provides supports for these results.

Respondents who supported public accountant involvement with published employee reports were asked what should be the public accountants' examination and reporting obligation as far as published employee reports were concerned. The average responses of the two groups indicated that the main obligation of the public accountant should be conformity of the information with the published annual report (82%), secondly, conformity to any guidelines set by SAICA (66%), thirdly, only to data which can be expressed in financial or quantitative terms (50%) and lastly, conformity with the Companies Act and GAAP (48%). With regards to the specific duty to be undertaken by the public accountant, the employers preferred either an examination duty or an examination and reporting duty for conformity with the published

annual report whereas the public accountants preferred only an examination and reporting duty. The employers preferred a reporting duty while the accountants preferred an examination and reporting duty for conformity to any guidelines set by SAICA. For the obligation of only to data which can be expressed in financial or quantitative terms, both respondent groups agreed the specific duty to be a reporting duty, while for conformity with the Companies Act and GAAP, employers favoured an examination and reporting duty while public accountants preferred a reporting duty only.

The background information had some influence on these rankings and this was elaborated on in chapter 7.

This is a new area of research and thus has provided new information about public accountant involvement with published employee reports.

As a result of this research, the following conclusions are made:

- (1) Employee reporting is desirable. Employee reporting is a valuable communication tool for the employers and the employees. The research thus
 - (a) supports those companies which provide information to employees,
 - (b) supports employees who have a need for information,
 - (c) provides an impetus for a sponsor to be found to re-instate the Employee Report Award of SAICA.
- (2) The form to be used for employee reporting is unresolved at this stage. While the average response provided support for a separate employee report issued annually, the preference of the employers for regular meetings cannot be ignored. More research needs to be undertaken on the form of employee reporting and the contents of an employee report. Companies which have undertaken their own research in this area should be encouraged to share their findings with researchers and professional bodies.
- (3) There is currently no need for public accountant involvement with published employee reports.

The next section of this chapter considers the recommendations arising from the conclusions.

8.2 RECOMMENDATIONS

This study forms the basis for the following recommendations concerning employee reporting in South Africa:

- (1) Financial reporting should not only be aimed at traditional users such as investors and creditors, but needs to be expanded to other user groups, and in particular, to the employee user group. Matthews (1998:3) suggests that despite references by accountancy bodies to a wider group of stakeholders, the accountancy professions are still mainly concerned with reporting to investors and creditors. SAICA should therefore, as a minimum, support those disclosures recommended by The King report on corporate governance (Institute of Directors in Southern Africa, 1994) by issuing a guideline on the topic. This will result in disclosures on employee information increasing. Support for this recommendation comes not only from this study but also from those documented in chapter 5. Employees require information that is not available from other sources.
- (2) The employee reporting efforts of companies are to be encouraged. This recommendation is supported not only by this study, but also by the literature on the topic and developments abroad. The employee report award by SAICA should be reinstated to keep such reporting topical. This will encourage more companies to initiate an employee reporting strategy or to take part in such a competition so as to improve their employee reporting efforts.
- (3) The communication role of employee reporting should be emphasized. This study has shown that employers are aware of the communication function which employee reporting should play. However, this important channel of communication needs to be opened on a more structured basis. A starting point would be some guidance from SAICA as to certain minimum recommended disclosure to be disclosed either in the annual report or in an employee report.
- (4) There should be no regulatory interference with the form of employee reporting at the moment. This recommendation is made as
 - (a) the form of employee reporting is unresolved,
 - (b) employee reporting is a management function,
 - (c) input is required on this issue from employees,
 - (d) more experimentation by employers is probably necessary, and
 - (e) public accountant with published employee reports is undesirable at this stage.

Further research may provide additional justification for these recommendations. Suggestions for further research are considered next.

8.3 SUGGESTIONS FOR FURTHER RESEARCH

This study has extended knowledge on the topic of employee reporting in South Africa and in particular, employers' and public accountants' attitudes towards employee reporting in South Africa. However, not all the results are conclusive and therefore there is a need for further research on the topic.

Chapter 5 of this study documents prior research studies carried out overseas and in South Africa. This study did not attempt to cover all these aspects and those areas which were not covered would enhance knowledge on employee reporting if they were to be researched in the future. These are

- (1) employees' readership, interest in and understandability of employee reports,
- (2) employees' understanding of accounting terminology,
- (3) employees' preferred form of employee reporting, and
- (4) employees' attitudes towards the desirability of public accountant involvement with published employee reports.

The above aspects are particularly important in South Africa where employees have different educational levels, cultural backgrounds and languages.

Furthermore, the employee reporting practices of South African companies requires investigation. Practices to be investigated are

- (1) the forms of employee reporting currently being used by South African companies,
- (2) the contents of employee reports which are being issued in South Africa,
- (3) the method of distribution of employee reports, and
- (4) whether or not there is currently public accountant involvement with published employee reports.

The privatization of public entities and employee equity participation schemes are topical issues in South Africa of which employees should be aware. Research could investigate the influence these may have on the attitudes and understanding of employees of financial information in companies where privatization may take place and/or equity participation schemes are in place.

The selection of the target groups was not done using statistical sampling. This research could be extended through the use of statistical sampling to draw samples from the populations of all financial managers and all public accountants. This would enable statistical deductions to be made about each population.

The level of statistical testing undertaken was relatively simple. The research could be extended to facilitate the use of more powerful statistical analyses.

The background information used for the employer target group was the length of time in a managerial position and the field of activity of the company. Background information in future studies could include the number of employees employed by the company or whether the company has experience with published employee reports.

The form of employee reporting requires further investigation. Although the public accountants preference was for a separate employee report issued annually, the employers preference was for regular meetings. Research needs to investigate what should be the format of these meetings, the time period between meetings, what documentation is provided at these meetings and what should be the contents of such documentation.

8.4 OVERVIEW

The objective of this research was to determine the attitudes of employers and public accountants towards employee reporting. To provide the foundation for the empirical research, a thorough review of the relevant literature was undertaken to determine the place of employee reporting in financial reporting and accounting theory, the objectives, development and importance of employee reporting, arguments for and against employee reporting, the current status of employee reporting regulations and practice, and prior research on employee reporting. The objective of the empirical research was to determine the attitudes of employers and public accountants towards the desirability of employee reporting, the form and contents of employee reports, and public accountant involvement with published employee reports.

The research has found that while employee reporting is considered desirable, public accountant involvement with published employee reports is not supported. The research has

thus extended knowledge on the topic of employee reporting, but there remains a need for further research in this area.

With the emphasis on employee rights in South Africa, employee reporting will probably continue to evolve. Research is required on the needs of employees from an employee point of view. In view of the unique characteristics of the employees in South Africa, research on the informational needs of employees should be co-ordinated by SAICA or an educational institution, to determine the needs of employees for information in a way that best meets the needs of employees and employers.

8.5 LIST OF SOURCES

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APPENDIX A FINANCIAL MAIL 1999 TOP 300 COMPANIES AND RESPONSIBLE AUDIT FIRM(S)

<u>Name of company</u> (in alphabetical order)	<u>Name of audit firm(s)</u>
1. Abacus Technology Holdings Limited	J.H. Smilg & Co.
2. Abraxas Investment Holdings Limited	Fisher Hoffman Sithole
3. Accord Technologies Limited	Charles Orbach & Company
4. Acrem Holdings Limited	Glass-Arenson
5. Adcock Ingram Limited	Arthur Andersen & Co.
6. Adcorp Holdings Limited	Charter Financial & Auditing Inc.
7. Admiral Leisure World Limited	Papilsky Hurwitz
8. Adonis Knitwear Holdings Limited	Leveton Boner Horwath
9. Advsource Holdings Limited	Moore Rowland
10. Advtech Education Holdings Limited	Moore Rowland
11. Advtech Technical Holdings Limited	Moore Rowland
12. AECI Limited	Deloitte & Touche/KPMG
13. Afribrand Holdings Limited	Fisher Hoffman Sithole
14. African Harvest Limited	Deloitte & Touche/Gobodo Inc.
15. African Media Entertainment Limited	Charles Orbach & Company
16. African Oxygen Limited	PricewaterhouseCoopers Inc.
17. Alex White Holdings Limited	Leveton Boner Horwath
18. Alliance Pharmaceuticals Limited	Grant Thornton Kessel Feinstein
19. Allied Technologies Limited	Fisher Hoffman Sithole
20. Amalgamated Appliance Holdings Limited	Deloitte & Touche
21. Amalgamated Beverage Industries Limited	Ernst & Young
22. Amlac Limited	Andre van der Merwe & Associates
23. A M Moola Group Limited	David Strachan & Tayler

<u>Name of company</u>	<u>Name of audit firm(s)</u>
24. Anbeeco Investment Holdings Limited	Litvin Hack
25. Anglovaal Industries Limited	Ernst & Young
26. Aries Investment Holdings Limited	PricewaterhouseCoopers Inc.
27. Aspen Healthcare Holdings Limited	PricewaterhouseCoopers Inc.
28. Astrapak Limited	Deloitte & Touche
29. Autopage Holdings Limited	Fisher Hoffman Sithole
30. Autoquip Group Limited	Moores Rowland
31. Avis Southern Africa Limited	PricewaterhouseCoopers Inc.
32. Awethu Breweries Limited	Ernst & Young
33. Barlow Limited	Deloitte & Touche
34. Basil Read Holdings Limited	PricewaterhouseCoopers Inc.
35. Bateman Industrial Corporation Limited	KPMG
36. Bateman Project Holdings Limited	KPMG
37. Bearing Man Limited	PricewaterhouseCoopers Inc.
38. Beige Holdings Limited	Papilsky Hurwitz
39. Bell Equipment Limited	Deloitte & Touche
40. The Bidvest Group Limited	KPMG
41. Billcad Holdings Limited	Kotze & Abbott / JFS
42. Bolton Footwear Limited	Ernst & Young
43. Bolton Industrial Holdings Limited	Ernst & Young
44. Boumat Limited	KPMG
45. Bowler Metcalf Limited	Moores Rowland
46. Brandcorp Holdings Limited	Grant Thornton Kessel Feinstein
47. British American Tobacco Holdings (SA) Limited	PricewaterhouseCoopers Inc.
48. Buildmax Limited	Fisher Hoffman Sithole
49. Burlington Industries Limited	Grant Thornton Kessel Feinstein

<u>Name of company</u>	<u>Name of audit firm(s)</u>
50. Cadbury Schweppes (SA) Limited	PricewaterhouseCoopers Inc.
51. Cargo Carriers Limited	Ernst & Young
52. Carson Holdings Limited	Deloitte & Touche
53. Cashbuild Limited	Ernst & Young
54. Caxton Limited	Ernst & Young
55. Cedargro Holdings Limited	Moores Rowland
56. Cementation Company (Africa) Limited	Arthur Andersen & Co.
57. Ceramic Industries Limited	PricewaterhouseCoopers Inc.
58. CG Smith Limited	Deloitte & Touche
59. Chemical Services Limited	PricewaterhouseCoopers Inc.
60. Chet Industries Limited	Charles Orbach & Company
61. Choice Holdings Limited	Nexia Levitt Kirson
62. City Investment Holdings Limited	PricewaterhouseCoopers Inc.
63. City Lodge Hotels Limited	KPMG
64. Clinic Holdings Limited	Grant Thornton Kessel Feinstein
65. Clyde Industrial Corporation Limited	Campbell Bode Brown
66. Coastal Group Limited	Deloitte & Touche/KMMT Brey Inc.
67. Coates Brothers (SA) Limited	Arthur Andersen & Co.
68. Comair Limited	Fisher Hoffman Sithole
69. Combined Motor Holdings Limited	PricewaterhouseCoopers Inc.
70. Comparex Holdings Limited	Deloitte & Touche/PricewaterhouseCoopers Inc.
71. Computer Configurations Holdings Limited	PricewaterhouseCoopers Inc.
72. Concor Limited	KPMG
73. Conshu Holdings Limited	Deloitte & Touche
74. Consolidated Frame Textiles Limited	Arthur Andersen & Co.

	<u>Name of company</u>	<u>Name of audit firm(s)</u>
75.	Control Instruments Group Limited	PricewaterhouseCoopers Inc.
76.	Cornick Group Limited	Deloitte & Touche
77.	Corpcapital Limited	Fisher Hoffman Sithole
78.	Corpcom Limited	Fisher Hoffman Sithole
79.	Corpgro Limited	Fisher Hoffman Sithole
80.	Crookes Brothers Limited	Deloitte & Touche
81.	CTP Holdings Limited	Ernst & Young
82.	Cullinan Holdings Limited	KPMG
83.	Cullinan Hotel & Leisure Group Limited	Fisher Hoffman Sithole
84.	Daewoo Electronics SA Limited	KPMG
85.	Datatec Limited	Deloitte & Touche
86.	Del Monte Royal Foods Limited	Fisher Hoffman Sithole
87.	Delta Electrical Industries Limited	Deloitte & Touche
88.	Dimension Data Holdings Limited	Deloitte & Touche
89.	Distillers Corporation (SA) Limited	PricewaterhouseCoopers Inc.
90.	The Don Group Limited	Fisher Hoffman Sithole
91.	Dorbyl Limited	KPMG
92.	Dunlop Africa Limited	Deloitte & Touche
93.	Edgars Stores Limited	Ernst & Young
94.	The Education Investment Corporation Limited	Grant Thornton Kessel Feinstein
95.	Edward L Bateman Limited	KPMG
96.	Elexir Technology Holdings Limited	Fisher Hoffman Sithole
97.	Ellerine Holdings Limited	Grant Thornton Kessel Feinstein
98.	Energy Africa Limited	Ernst & Young
99.	Enviroserve Holdings Limited	Ernst & Young

	<u>Name of company</u>	<u>Name of audit firm(s)</u>
100.	Europe South Africa Investments Corporation Limited	Deloitte & Touche
101.	Fashion Africa Limited	Deloitte & Touche
102.	The Fedics Group Limited	Deloitte & Touche
103.	Feltex Limited	Deloitte & Touche
104.	Femco Technology Holdings Limited	KPMG
105.	Fintech Limited	Fisher Hoffman Sithole
106.	First Lifestyle Holdings Limited	PricewaterhouseCoopers Inc.
107.	Fortune Beverages Limited	Deloitte & Touche
108.	Foschini Limited	Arthur Andersen & Co.
109.	Fralex Limited	Ernst & Young
110.	Fransaf Limited	Ernst & Young
111.	General Optical Company Limited	Moores Rowland
112.	Glodina Holdings Limited	Deloitte & Touche
113.	Glohold Limited	Grant Thornton Kessel Feinstein
114.	Grinaker Construction Limited	Ernst & Young
115.	Grindrod Unicorn Group Limited	Morrison Murray
116.	Grintek Limited	Ernst & Young
117.	Group Five Limited	PricewaterhouseCoopers Inc.
118.	Gubb and Inggs Limited	Fisher Hoffman Sithole
119.	Gundle Limited	PricewaterhouseCoopers Inc.
120.	Harwill Investments Limited	PricewaterhouseCoopers Inc.
121.	Hicor Limited	PricewaterhouseCoopers Inc.
122.	Highveld Steel and Vanadium Corporation Limited	Deloitte & Touche
123.	Homechoice Holdings Limited	Ernst & Young
124.	The House of Busby Limited	Levenstein & Partners

<u>Name of company</u>	<u>Name of audit firm(s)</u>
125. Howden Africa Holdings Limited	PricewaterhouseCoopers Inc.
126. Hudaco Industries Limited	Grant Thornton Kessel Feinstein
127. Hunt Leuchars & Hepburn Holdings Limited	Deloitte & Touche/PricewaterhouseCoopers Inc.
128. Illovo Sugar Limited	Deloitte & Touche
129. Imperial Holdings Limited	Nexia Levitt Kirson
130. Impotek Group Holdings Limited	KPMG
131. Independent Newspapers Holdings Limited	PricewaterhouseCoopers Inc.
132. Infiniti Technologies Limited	PricewaterhouseCoopers Inc./Nkonki Sizwe Ntsaluba
133. Inmins Limited	PricewaterhouseCoopers Inc.
134. Invicta Holdings Limited	Deloitte & Touche
135. Irvin & Johnson Limited	Ernst & Young
136. Iscor Limited	KPMG/PricewaterhouseCoopers Inc.
137. Italtile Limited	Ernst & Young
138. ITI Technology Holdings Limited	Dippenaar Coetzee & Partners
139. Ixchange Technology Holdings Limited	Lutrin & Partners
140. Jasco Electronics Holdings Limited	Ernst & Young
141. JD Group Limited	Deloitte & Touche
142. Kagiso Media Limited	PricewaterhouseCoopers Inc.
143. Kairos Industrial Holdings Limited	KPMG
144. Karos Hotels Limited	Grant Thornton Kessel Feinstein
145. Kersaf Investments Limited	PricewaterhouseCoopers Inc.
146. King Consolidated Holdings Limited	Moores Rowland
147. Kolosus Holdings Limited	PricewaterhouseCoopers Inc.
148. Kunene Technology Limited	Ernst & Young
149. Langeberg Holdings Limited	Arthur Andersen & Co.

	<u>Name of company</u>	<u>Name of audit firm(s)</u>
150.	LA Retail Stores Limited	Ernst & Young/KMMT Brey Inc.
151.	The Laser Group Limited	KPMG
152.	Leisurenet Limited	Deloitte & Touche
153.	Lenco Holdings Limited	PricewaterhouseCoopers Inc.
154.	The Lion Match Company Limited	PricewaterhouseCoopers Inc./MSGM Masuku Jeena Inc.
155.	Log-Tek Holdings Limited	Grant Thornton Kessel Feinstein
156.	LTA Limited	Ernst & Young
157.	M-Cell Limited	PricewaterhouseCoopers Inc.
158.	M-Net Supersport International Holdings Limited	PricewaterhouseCoopers Inc.
159.	Macadams Bakery Supplies Holdings Limited	Bruk Munkes & Co.
160.	Macmed Health Care Limited	Fisher Hoffman Sithole
161.	Malbak Limited	Deloitte & Touche
162.	Managed Care SA Limited	Moores Rowland
163.	Masonite (Africa) Limited	Arthur Andersen & Co.
164.	Masterfridge Limited	PricewaterhouseCoopers Inc.
165.	Mathomo Group Limited	Fisher Hoffman Sithole
166.	Maxiprest Limited	Fisher Hoffman Sithole/Simon Hurwitz & Co.
167.	MB Technologies Limited	Deloitte & Touche
168.	McCarthy Retail Limited	Deloitte & Touche
169.	Medex Limited	PricewaterhouseCoopers Inc.
170.	Medi-Clinic Corporation Limited	PricewaterhouseCoopers Inc.
171.	Metair Investments Limited	PricewaterhouseCoopers Inc.
172.	Metje and Ziegler Limited	Ernst & Young
173.	Metkor Group Limited	PricewaterhouseCoopers Inc.
174.	Metro Cash and Carry Limited	Ernst & Young

<u>Name of company</u>	<u>Name of audit firm(s)</u>
175. MGX Holdings Limited	Grant Thornton Kessel Feinstein
176. Micor Industrial Corporation Limited	Grant Thornton Kessel Feinstein
177. Midas Limited	Deloitte & Touche
178. MIH Holding M-Web Holding Limited	PricewaterhouseCoopers Inc.
179. Minaco Granite & Marble Limited	KPMG
180. MMW Technology Holdings Limited	Pollack & Pollack
181. Molope Group Limited	PricewaterhouseCoopers Inc.
182. Monex Limited	PricewaterhouseCoopers Inc.
183. Moribo Leisure Limited	PricewaterhouseCoopers Inc./Fisher Hoffman Sithole
184. Murray & Roberts Holdings Limited	Deloitte & Touche
185. Mustek Limited	Deloitte & Touche/Henry K H Pon & Co.
186. Namibian Fishing Industries Limited	Ernst & Young
187. Nampak Limited	Deloitte & Touche
188. Nando's Group Holdings Limited	Deloitte & Touche
189. Nasionale Pers Limited	PricewaterhouseCoopers Inc.
190. National Chick Limited	Deloitte & Touche
191. Northern Engineering Industries Africa Limited	KPMG
192. Network Healthcare Holdings Limited	Fisher Hoffman Sithole
193. New Clicks Holdings Limited	Arthur Andersen & Co.
194. Nictus Limited	KPMG
195. Ninian and Lester Holdings Limited	Deloitte & Touche
196. Nu-World Holdings Limited	Tuffias Sandberg
197. O'Hagans Investment Holdings Limited	Deloitte & Touche
198. Oakfields Thoroughbreds and Leisure Industries Limited	Smerkovitz & Bloch
199. Oceana Fishing Group Limited	Deloitte & Touche

	<u>Name of company</u>	<u>Name of audit firm(s)</u>
200.	Omega Holdings Limited	Deloitte & Touche
201.	Omnia Holdings Limited	PricewaterhouseCoopers Inc.
202.	OTK Holdings Limited	PricewaterhouseCoopers Inc.
203.	Ozz Limited	Grant Thornton Kessel Feinstein
204.	Pacific Asia Investments International Limited	KPMG
205.	Pals Holdings Limited	Moores Rowland
206.	Paradigm Interactive Media Limited	Fisher Hoffman Sithole
207.	Paragon Business Forms Limited	Deloitte & Touche
208.	Paramed Holdings Limited	Leveton Boner Horwath
209.	Penrose Holdings Limited	Ernst & Young
210.	Pepkor Limited	PricewaterhouseCoopers Inc.
211.	Pick 'n Pay Stores Limited	Arthur Andersen & Co.
212.	Plate Glass & Shatterprufe Industries Limited	Arthur Andersen & Co.
213.	Polifin Limited	KPMG
214.	Power Technologies Limited	KPMG
215.	President Medical Investments Limited	PricewaterhouseCoopers Inc.
216.	Pretoria Portland Cement Company Limited	KPMG
217.	Prima Toy & Leisure Group Limited	Arthur Andersen & Co,
218.	Primedia Limited	Deloitte & Touche
219.	Profurn Limited	Grant Thornton Kessel Feinstein
220.	Prospur Packaging & Plastics Limited	PricewaterhouseCoopers Inc.
221.	Putco Limited	Ernst & Young
222.	Radiospoor Technology Holdings Limited	Grant Thornton Kessel Feinstein
223.	Rainbow Chicken Limited	Deloitte & Touche
224.	Rebhold Limited	Fisher Hoffman Sithole

<u>Name of company</u>	<u>Name of audit firm(s)</u>
225. Relyant Retail Limited	Deloitte & Touche
226. Rembrandt Group Limited	PricewaterhouseCoopers Inc.
227. Retail Apparel Group Limited	Deloitte & Touche
228. Retail Corporation Limited	PricewaterhouseCoopers Inc.
229. Reunert Limited	Deloitte & Touche
230. Rex Trueform Clothing Company Limited	Arthur Andersen & Co.
231. Roadcorp Limited	Octagon Chartered Accountants SA
232. Romatex Limited	Deloitte & Touche
233. Sabvest Limited	Nexia Levitt Kirson/Ernst & Young
234. Safmarine and Rennies Holdings Limited	Deloitte & Touche
235. Sappi Limited	Deloitte & Touche
236. Sasani Limited	PricewaterhouseCoopers Inc.
237. Sasol Limited	KPMG
238. Scharrig Industrial Holdings Limited	G L Palmer & Co.
239. Sea Harvest Corporation Limited	Deloitte & Touche
240. Seardel Investment Corporation Limited	Arthur Andersen & Co.
241. Seartec Limited	KPMG
242. Sentry Group Limited	KPMG
243. Set Point Technology Holdings Limited	Fisher Hoffman Sithole
244. Shoprite Holdings Limited	PricewaterhouseCoopers Inc.
245. Siltek Limited	PricewaterhouseCoopers Inc.
246. Softline Limited	Charles Orbach & Company
247. Software Connection Limited	Deloitte & Touche
248. Sondor Industries Limited	BDO Spencer Steward
249. South African Breweries P/c	PricewaterhouseCoopers Inc.
250. South African Druggists Limited	Deloitte & Touche

<u>Name of company</u>	<u>Name of audit firm(s)</u>
251. South African Empowerment Fund Investment Trust Company	KMMT Brey Inc.
252. Southern African Investments Limited	Cecil Kilpin & Company
253. Sovereign Food Investments Limited	KPMG
254. Spanjaard Limited	PricewaterhouseCoopers Inc.
255. Speciality Stores Limited	Ernst & Young
256. Spescom Electronics Limited	Ernst & Young
257. Spicer-Mitchell Holdings Limited	PricewaterhouseCoopers Inc./J.C. Barnard and Partners
258. Spur Steak Ranches Limited	Cecil Kilpin & Company
259. Stantronic Group Holdings Limited	Charles Orbach & Company
260. Steers Holdings Limited	Galatis & Company/Betty & Dickson
261. Stellenbosch Farmers' Winery Group Limited	PricewaterhouseCoopers Inc.
262. Stocks & Stocks Limited	Ernst & Young
263. Stocks Hotels & Resorts Limited	Ernst & Young
264. Strand Group Holdings Limited	KPMG
265. Sun International (SA) Limited	PricewaterhouseCoopers Inc.
266. Super Group Limited	Fisher Hoffman Sithole/Arthur Andersen & Co.
267. Sweets from Heaven Holdings Limited	Schneider Katz (SA)
268. Teljoy Holdings Limited	PricewaterhouseCoopers Inc.
269. Teltron Limited	Arthur Andersen & Co.
270. Terexko Limited	Fisher Hoffman Sithole
271. Tiger Oats Limited	Arthur Andersen & Co.
272. Tiger Wheels Limited	Fisher Hoffman Sithole
273. Toco Holdings Limited	PricewaterhouseCoopers Inc.
274. Tolaram 2000 Limited	PricewaterhouseCoopers Inc.

	<u>Name of company</u>	<u>Name of audit firm(s)</u>
275.	Tongaat Hulett Group Limited	Deloitte & Touche
276.	Tourism Investment Corporation Limited	Grant Thornton Kessel Feinstein
277.	Toyota South Africa Limited	PricewaterhouseCoopers Inc.
278.	Transpaco Limited	Ernst & Young
279.	Trencor Limited	Arthur Andersen & Co.
280.	Tridata Magnet Technology Holdings Limited	Fisher Hoffman Sithole
281.	Truworthis International Limited	Ernst & Young
282.	UCS Group Limited	Kaplan & Kaplan
283.	Umbono Investment Corporation Limited	Ernst & Young
284.	Unihold Limited	Deloitte & Touche
285.	Unispin Holdings Limited	Deloitte & Touche
286.	United Service Technologies Limited	Deloitte & Touche
287.	Unitrans Limited	KPMG
288.	Universal Growth Holdings Limited	Grant Thornton Kessel Feinstein
289.	Usko Limited	Deloitte & Touche
290.	Vaalauto Limited	Jordaan Botha & Partners
291.	Venter Leisure and Commercial Trailers Limited	Fisher Hoffman Sithole
292.	Voltex Holdings Limited	KPMG
293.	Waco International Limited	Arthur Andersen & Co.
294.	WB Holdings Limited	BDO Spencer Steward
295.	Wetherlys Investment Holdings Limited	Fisher Hoffman Sithole
296.	Wilson Bayly Holmes Ltd.	BDO Spencer Steward
297.	Wooltru Limited	Ernst & Young
298.	Woolworths Holdings Limited	Ernst & Young
299.	The York Timber Organisation Limited	KPMG
300.	Zeltis Holdings Limited	BDO Spencer Steward

**APPENDIX B NAMES OF PUBLIC ACCOUNTANT FIRMS INVOLVED
WITH THE AUDIT OF THE FINANCIAL MAIL TOP 300
COMPANIES**

Name of firm (in alphabetical order)	Number of companies audited individually	Number of companies audited jointly	Total
Andre van der Merwe & Associates	1		1
Arthur Anderson & Co.	17	1	18
J.C. Barnard and Partners		1	1
BDO Spencer Steward	4		4
Betty & Dickson		1	1
Bruk Munkes & Co.	1		1
Campbell Bode Brown	1		1
Cecil Kilpin & Company	2		2
Charles Orbach & Company	5		5
Charter Financial & Auditing Inc.	1		1
David Strachan & Tayler	1		1
Deloitte & Touche	53	6	59
Dippenaar Coetzee & Partners	1		1
Ernst & Young	36	2	38
Fisher Hoffman Sithole	26	3	29
Galatis & Company		1	1
Glass-Arenson	1		1
Gobodo Inc.		1	1
Grant Thornton Kessel Feinstein	17		17
Henry KH Pon & Co.		1	1
Jordaan Botha & Partners	1		1
JFS		1	1
Kaplan & Kaplan	1		1

Name of firm (in alphabetical order)	Number of companies audited individually	Number of companies audited jointly	Total
KMMT Brey Inc.	1	2	3
Kotze & Abbott		1	1
KPMG	29	2	31
Levenstein & Partners	1		1
Leveton Boner Horwath	3		3
Litvin Hack	1		1
Lutrin & Partners	1		1
MSGM Masuku Jeena Inc.		1	1
Moores Rowland	10		10
Morrison Murray	1		1
Nexia Levitt Kirson	2	1	3
Nkonki Sizwe Ntsaluba		1	1
Octagon Chartered Accountants SA	1		1
G L Palmer & Co.	1		1
Papilsky Hurwitz	2		2
Pollack & Pollack	1		1
PricewaterhouseCoopers Inc.	56	7	63
Schneider Katz (SA)	1		1
Simon Hurwitz & Company		1	1
Smerkovitz & Bloch	1		1
J.H. Smilg & Company	1		1
Tuffias Sandberg	1		1
TOTAL	283	34	317

APPENDIX C

COVERING LETTERS AND QUESTIONNAIRES

EMPLOYER QUESTIONNAIRE**UNIVERSITY OF NATAL**

Pietermaritzburg

Faculty of Human Sciences**School of Business
Centre for Accountancy**

26 October 1999

Private Bag X01 Scottsville
 Pietermaritzburg 3209 South Africa
 Tel: (0331) 260 5392 Fax: (0331) 260 5347
 Telegrams: University Telex: 643719

Dear Sir/Madam,

I am conducting a survey to investigate your attitude towards employee reporting in South Africa. Employee reporting may be defined as the voluntary disclosure of financial and other information by an enterprise to its employees. Employee reporting is an important issue in corporate financial reporting and your opinion is essential to the accuracy and reliability of the survey results.

Enclosed is a questionnaire which you are kindly requested to complete and return in the attached reply-paid envelope as soon as possible.

As nearly all the questions are pre-structured, completing the questionnaire will take up very little of your time. All the information will be treated as strictly confidential and will be statistically processed together with that of other respondents. Please direct any enquires about the questionnaire to me on 033-260-5386 (or e-mail me at stainbank@acct.unp.ac.za).

Thank you in advance for your kind co-operation.

Yours faithfully,

**PROFESSOR L.J. STAINBANK
 CENTRE FOR ACCOUNTANCY**



UNIVERSITY OF NATAL

Pietermaritzburg

Faculty of Human Sciences

School of Business
Centre for Accountancy

Private Bag X01 Scottsville
Pietermaritzburg 3209 South Africa
Tel: (0331) 260 5392 Fax: (0331) 260 5347
Telegrams: University Telex: 643719

17 January 2000

Dear Respondent,

EMPLOYEE REPORTING

A questionnaire relating to the above topic was mailed to you on 26 October 1999. If you have already completed and returned the questionnaire, I thank you for your co-operation.

If you have not returned the questionnaire, this is a reminder that your opinion is very important to the interpretation of the final survey results.

For your convenience, I enclose a copy of the original posting and request that you kindly complete the questionnaire and return it in the reply paid envelope as soon as possible.

Yours faithfully,

PROFESSOR L.J. STAINBANK
DIRECTOR: CENTRE FOR ACCOUNTANCY

**SURVEY OF EMPLOYERS' ATTITUDES TOWARDS
EMPLOYEE REPORTING**

Please indicate your answer by placing a tick in the relevant box.

For office use only

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1-3
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1. Desirability

1.1 Should companies report to employees?

YES	<input type="checkbox"/>	1	NO	<input type="checkbox"/>	2
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<input type="checkbox"/>	4
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1.2 If YES, why should companies report to employees
(tick ONE or MORE boxes)

- a. To improve employee-employer relationships
- b. To demonstrate a more open approach to management
- c. To increase employees' financial understanding of the company's operations and activities
- d. To reduce the influence of trade unions or other labour representatives
- e. To motivate employees towards greater productivity
- f. To increase employees' understanding of the free market system
- g. To meet the company's responsibilities towards stakeholders
- h. Other (please specify)

<input type="checkbox"/>	1
<input type="checkbox"/>	2
<input type="checkbox"/>	3
<input type="checkbox"/>	4
<input type="checkbox"/>	5
<input type="checkbox"/>	6
<input type="checkbox"/>	7
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<input type="checkbox"/>	5
<input type="checkbox"/>	6
<input type="checkbox"/>	7
<input type="checkbox"/>	8
<input type="checkbox"/>	9
<input type="checkbox"/>	10
<input type="checkbox"/>	11
<input type="checkbox"/>	12

1.3 If NO, why should companies NOT report to employees
(tick ONE or MORE boxes)

- a. Employees are not able to understand the information
- b. Employees are not entitled to the information
- c. Employees are not interested in the information
- d. Confidential information may be disclosed outside the company
- e. Wage demands may intensify
- f. Costs would exceed any benefits
- g. Employees receive information via alternative channels
- h. Other (please specify)

<input type="checkbox"/>	1
<input type="checkbox"/>	2
<input type="checkbox"/>	3
<input type="checkbox"/>	4
<input type="checkbox"/>	5
<input type="checkbox"/>	6
<input type="checkbox"/>	7
<input type="checkbox"/>	8

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<input type="checkbox"/>	14
<input type="checkbox"/>	15
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<input type="checkbox"/>	17
<input type="checkbox"/>	18
<input type="checkbox"/>	19
<input type="checkbox"/>	20

If your answer to Question 1.1 is YES, please complete the rest of the questionnaire.

If your answer to Question 1.1 is NO, please answer Question 4 (see page 6) and return the questionnaire to Professor L.J. Stainbank in the enclosed reply-paid envelope

2. **Form and contents**

For office use only

2.1 What form should employee reporting take?
(tick *ONE* box only)

- a. A separate employee report issued annually
- b. Part of a company magazine
- c. Part of the annual report
- d. Regular meetings
- e. Other (please specify)

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2.2 How important is it to disclose the following information in an employee report?
Please score from 1 (not at all important) to 5 (very important)
(tick one box for each item of disclosure)

Philosophy and plans:	Not at all important			Very important	
	1	2	3	4	5
Company's aims and objectives	1	2	3	4	5
Company's philosophy (values, social responsibility etc.)	1	2	3	4	5
Future prospects and plans	1	2	3	4	5
Forecasts of profits	1	2	3	4	5
New products	1	2	3	4	5
Future capital expenditure	1	2	3	4	5
Nature of business/company's products	1	2	3	4	5
Ownership and management:					
Group structure	1	2	3	4	5
Who owns the company	1	2	3	4	5
Profile of shareholders	1	2	3	4	5
Employee share schemes, if applicable	1	2	3	4	5
Senior management for each division	1	2	3	4	5
What management do	1	2	3	4	5
The board of directors	1	2	3	4	5
What directors do	1	2	3	4	5
Directors' remuneration	1	2	3	4	5

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Financial data:	Not at all important			Very important	
	1	2	3	4	5
Summarised balance sheet	1	2	3	4	5
Summarised income statement	1	2	3	4	5
Summarised cash flow statement	1	2	3	4	5
Value added statement	1	2	3	4	5
Value added statement explained	1	2	3	4	5
Comparatives to value added statement	1	2	3	4	5
How inflation affects the company	1	2	3	4	5
Chief executive's report	1	2	3	4	5
An explanation of the financial results	1	2	3	4	5
Reasons for trends	1	2	3	4	5
Revenue/Turnover	1	2	3	4	5
Amount paid to employees	1	2	3	4	5
Interest expense	1	2	3	4	5
Taxation expense	1	2	3	4	5
Dividends paid and proposed	1	2	3	4	5
Profits retained for expansion	1	2	3	4	5
Profit after tax	1	2	3	4	5
Cash position	1	2	3	4	5
Current capital expenditure	1	2	3	4	5
Divisional data, if applicable - general	1	2	3	4	5
- quantified	1	2	3	4	5
Data per employee	1	2	3	4	5
Donations made	1	2	3	4	5

For office use only

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For office use only

Employee information:	Not at all important			Very important			
	1	2	3	4	5		
Profile of employees - by location	1	2	3	4	5		65
- by category	1	2	3	4	5		66
Wage levels	1	2	3	4	5		67
Minimum wages	1	2	3	4	5		68
Union representatives	1	2	3	4	5		69
Details of this year's wage negotiations	1	2	3	4	5		70
Details of strikes/stoppages	1	2	3	4	5		71
Details of productivity	1	2	3	4	5		72
Staff turnover - overall	1	2	3	4	5		73
- hired	1	2	3	4	5		74
- retrenchments	1	2	3	4	5		75
- resigned	1	2	3	4	5		76
- dismissals	1	2	3	4	5		77
Benefits to which staff are entitled - general	1	2	3	4	5		78
- health	1	2	3	4	5		79
- housing	1	2	3	4	5		80
- training	1	2	3	4	5		81
- bursaries available	1	2	3	4	5		82
Training facilities	1	2	3	4	5		83
The number of employees who received training	1	2	3	4	5		84
Safety prevention measures	1	2	3	4	5		85
Accident numbers/details	1	2	3	4	5		86
Aids policy/education	1	2	3	4	5		87
Bonus schemes available to employees	1	2	3	4	5		88
General staff news	1	2	3	4	5		89
Affirmative action philosophy - planned	1	2	3	4	5		90
- achieved	1	2	3	4	5		91
Social responsibility/community projects - external to the company	1	2	3	4	5		92
- internal to the company	1	2	3	4	5		93

For office use only

	Not at all important			Very important	
	1	2	3	4	5
The company and the environment	1	2	3	4	5
Pension and provident fund information	1	2	3	4	5
Other (please specify)	1	2	3	4	5
.....					

<input type="checkbox"/>	94
<input type="checkbox"/>	95
<input type="checkbox"/>	96
<input type="checkbox"/>	97
<input type="checkbox"/>	98

3. Auditor involvement

3.1 Should the public accountant's examination and reporting duty be extended to include published employee reports?

YES	1	NO	2
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<input type="checkbox"/>	99
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If YES, please answer Questions 3.2 and 3.4

If NO, please answer Question 3.3

3.2 Why should the public accountant's examination and reporting duty be extended to include published employee reports (tick ONE or MORE boxes)

- a. To ensure the reliability of the information
- b. Public accountants are competent to examine and report on the information
- c. To prevent competition from other groups or individuals for this service
- d. To prevent purposely under-reporting of information
- e. Other (please specify)

1
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3
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5

<input type="checkbox"/>	100
<input type="checkbox"/>	101
<input type="checkbox"/>	102
<input type="checkbox"/>	103
<input type="checkbox"/>	104

3.3 Why should the public accountant's examination and reporting duty not be extended to include published employee reports (tick ONE or MORE boxes)

- a. Increase in audit costs
- b. Lack of appropriate accounting and auditing standards
- c. Exposure to trade union action
- d. Accountant's responsibility is to report only to shareholders
- e. Other (please specify)

1
2
3
4
5

<input type="checkbox"/>	105
<input type="checkbox"/>	106
<input type="checkbox"/>	107
<input type="checkbox"/>	108
<input type="checkbox"/>	109

For office use only

3.4 What examination and reporting obligation should the public accountant assume with regard to published employee reports (tick ONE or MORE boxes)

	Examination obligation	Reporting obligation
a. Conformity with published annual report	1	2
b. Conformity with Companies Act and GAAP	1	2
c. Only to data which can be expressed in quantitative or financial terms	1	2
d. Conformity to any guidelines set by SAICA	1	2
e. Other (please specify)	1	2

<input type="checkbox"/>	110
<input type="checkbox"/>	111
<input type="checkbox"/>	112
<input type="checkbox"/>	113
<input type="checkbox"/>	114

4. How many years have you been in a managerial position in a listed South African company?

- a. 1 - 10 years
- b. 11 - 20 years
- c. More than 20 years

<input type="checkbox"/>	1
<input type="checkbox"/>	2
<input type="checkbox"/>	3

<input type="checkbox"/>	115
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THANK YOU FOR YOUR ASSISTANCE.

SIC Code

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116

PUBLIC ACCOUNTANT QUESTIONNAIRE**UNIVERSITY OF NATAL**

Pietermaritzburg

Faculty of Human Sciences**School of Business
Centre for Accountancy**

26 October 1999

Private Bag X01 Scottsville
 Pietermaritzburg 3209 South Africa
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 CENTRE FOR ACCOUNTANCY**



UNIVERSITY OF NATAL
Pietermaritzburg

Faculty of Human Sciences

**School of Business
Centre for Accountancy**

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Pietermaritzburg 3209 South Africa
Tel: (0331) 260 5392 Fax: (0331) 260 5347
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17 January 2000

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Yours faithfully,

**PROFESSOR L.J. STAINBANK
DIRECTOR: CENTRE FOR ACCOUNTANCY**

**SURVEY OF PUBLIC ACCOUNTANTS' ATTITUDES TOWARDS
EMPLOYEE REPORTING**

Please indicate your answer by placing a tick in the relevant box.

For office use only

			1-3
--	--	--	-----

1. Desirability

1.1 Should companies report to employees?

YES	1	NO	2
-----	---	----	---

	4
--	---

1.2 If YES, why should companies report to employees
(tick ONE or MORE boxes)

- a. To improve employee-employer relationships
- b. To demonstrate a more open approach to management
- c. To increase employees' financial understanding of the company's operations and activities
- d. To reduce the influence of trade unions or other labour representatives
- e. To motivate employees towards greater productivity
- f. To increase employees' understanding of the free market system
- g. To meet the company's responsibilities towards stakeholders
- h. Other (please specify)

1	5
2	6
3	7
4	8
5	9
6	10
7	11
8	12

1.3 If NO, why should companies NOT report to employees
(tick ONE or MORE boxes)

- a. Employees are not able to understand the information
- b. Employees are not entitled to the information
- c. Employees are not interested in the information
- d. Confidential information may be disclosed outside the company
- e. Wage demands may intensify
- f. Costs would exceed any benefits
- g. Employees receive information via alternative channels
- h. Other (please specify)

1	13
2	14
3	15
4	16
5	17
6	18
7	19
8	20

If your answer to Question 1.1 is YES, please complete the rest of the questionnaire.

If your answer to Question 1.1 is NO, please answer Question 4 (see page 6) and return the questionnaire to Professor L.J. Stainbank in the enclosed reply-paid envelope

2. Form and contents

For office use only

2.1 What form should employee reporting take?
(tick ONE box only)

- a. A separate employee report issued annually
- b. Part of a company magazine
- c. Part of the annual report
- d. Regular meetings
- e. Other (please specify)

1
2
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5

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	24
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2.2 How important is it to disclose the following information in an employee report?
Please score from 1 (not at all important) to 5 (very important)
(tick one box for each item of disclosure)

Philosophy and plans:	Not at all important			Very important	
	1	2	3	4	5
Company's aims and objectives	1	2	3	4	5
Company's philosophy (values, social responsibility etc.)	1	2	3	4	5
Future prospects and plans	1	2	3	4	5
Forecasts of profits	1	2	3	4	5
New products	1	2	3	4	5
Future capital expenditure	1	2	3	4	5
Nature of business/company's products	1	2	3	4	5
Ownership and management:					
Group structure	1	2	3	4	5
Who owns the company	1	2	3	4	5
Profile of shareholders	1	2	3	4	5
Employee share schemes, if applicable	1	2	3	4	5
Senior management for each division	1	2	3	4	5
What management do	1	2	3	4	5
The board of directors	1	2	3	4	5
What directors do	1	2	3	4	5
Directors' remuneration	1	2	3	4	5

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For office use only

Financial data:	Not at all important			Very important			
	1	2	3	4	5		
Summarised balance sheet	1	2	3	4	5		42
Summarised income statement	1	2	3	4	5		43
Summarised cash flow statement	1	2	3	4	5		44
Value added statement	1	2	3	4	5		45
Value added statement explained	1	2	3	4	5		46
Comparatives to value added statement	1	2	3	4	5		47
How inflation affects the company	1	2	3	4	5		48
Chief executive's report	1	2	3	4	5		49
An explanation of the financial results	1	2	3	4	5		50
Reasons for trends	1	2	3	4	5		51
Revenue/Turnover	1	2	3	4	5		52
Amount paid to employees	1	2	3	4	5		53
Interest expense	1	2	3	4	5		54
Taxation expense	1	2	3	4	5		55
Dividends paid and proposed	1	2	3	4	5		56
Profits retained for expansion	1	2	3	4	5		57
Profit after tax	1	2	3	4	5		58
Cash position	1	2	3	4	5		59
Current capital expenditure	1	2	3	4	5		60
Divisional data, if applicable - general	1	2	3	4	5		61
- quantified	1	2	3	4	5		62
Data per employee	1	2	3	4	5		63
Donations made	1	2	3	4	5		64

For office use only

Employee information:	Not at all important			Very important			
	1	2	3	4	5		
Profile of employees - by location	1	2	3	4	5		65
- by category	1	2	3	4	5		66
Wage levels	1	2	3	4	5		67
Minimum wages	1	2	3	4	5		68
Union representatives	1	2	3	4	5		69
Details of this year's wage negotiations	1	2	3	4	5		70
Details of strikes/stoppages	1	2	3	4	5		71
Details of productivity	1	2	3	4	5		72
Staff turnover - overall	1	2	3	4	5		73
- hired	1	2	3	4	5		74
- retrenchments	1	2	3	4	5		75
- resigned	1	2	3	4	5		76
- dismissals	1	2	3	4	5		77
Benefits to which staff are entitled - general	1	2	3	4	5		78
- health	1	2	3	4	5		79
- housing	1	2	3	4	5		80
- training	1	2	3	4	5		81
- bursaries available	1	2	3	4	5		82
Training facilities	1	2	3	4	5		83
The number of employees who received training	1	2	3	4	5		84
Safety prevention measures	1	2	3	4	5		85
Accident numbers/details	1	2	3	4	5		86
Aids policy/education	1	2	3	4	5		87
Bonus schemes available to employees	1	2	3	4	5		88
General staff news	1	2	3	4	5		89
Affirmative action philosophy - planned	1	2	3	4	5		90
- achieved	1	2	3	4	5		91
Social responsibility/community projects - external to the company	1	2	3	4	5		92
- internal to the company	1	2	3	4	5		93

For office use only

	Not at all important			Very important	
	1	2	3	4	5
The company and the environment	1	2	3	4	5
Pension and provident fund information	1	2	3	4	5
Other (please specify)	1	2	3	4	5
.....					

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3. Auditor involvement

3.1 Should the public accountant's examination and reporting duty be extended to include **published** employee reports?

YES	1	NO	2
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If YES, please answer Questions 3.2 and 3.4

If NO, please answer Question 3.3

3.2 Why should the public accountant's examination and reporting duty be extended to include **published** employee reports (tick ONE or MORE boxes)

- a. To ensure the reliability of the information
- b. Public accountants are competent to examine and report on the information
- c. To prevent competition from other groups or individuals for this service
- d. To prevent purposely under-reporting of information
- e. Other (please specify)

1
2
3
4
5

	100
	101
	102
	103
	104

3.3 Why should the public accountant's examination and reporting duty not be extended to include **published** employee reports (tick ONE or MORE boxes)

- a. Increase in audit costs
- b. Lack of appropriate accounting and auditing standards
- c. Exposure to trade union action
- d. Accountant's responsibility is to report only to shareholders
- e. Other (please specify)

1
2
3
4
5

	105
	106
	107
	108
	109

For office use only

3.4 What examination and reporting obligation should the public accountant assume with regard to published employee reports (tick ONE or MORE boxes)

	Examination obligation	Reporting obligation
a. Conformity with published annual report	1	2
b. Conformity with Companies Act and GAAP	1	2
c. Only to data which can be expressed in quantitative or financial terms	1	2
d. Conformity to any guidelines set by SAICA	1	2
e. Other (please specify)	1	2

<input type="checkbox"/>	110
<input type="checkbox"/>	111
<input type="checkbox"/>	112
<input type="checkbox"/>	113
<input type="checkbox"/>	114

4. How many years have you been practising as a chartered accountant (CA (SA))?

- a. 1 - 10 years
- b. 11 - 20 years
- c. More than 20 years

<input type="checkbox"/>	1
<input type="checkbox"/>	2
<input type="checkbox"/>	3

<input type="checkbox"/>	115
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THANK YOU FOR YOUR ASSISTANCE.

APPENDIX D REASONS PROVIDED BY RESPONDENTS WHY THE PUBLIC ACCOUNTANT'S EXAMINATION AND REPORTING DUTY SHOULD NOT BE EXTENDED TO INCLUDE PUBLISHED EMPLOYEE REPORTS

1. Reasons provided by employers

"Creates impression that veracity of management is in doubt."

"The publishing of such information must be evidence of management's commitment and credibility. There is no need to incur unnecessary audit expense!"

"Report should not be mandatory and not auditable. Purely for informing the employees of company's results and happenings."

"Sufficient confidence in reports produced by management."

"Internal matter, not for public consumption."

"The most important information which needs to be given to employees is often not financial in nature. If employees can't trust reports from management without being audited, then employee reporting is the least of that organisation's problems."

"Internal company function."

"Management should be trusted to report information."

"Due to differing requirements and nature of employees."

"90% of employees economically illiterate."

"No value added."

"Not area of expertise."

"The company should endeavour to build trust with employees. (The figures could be verified against audited financial statements)."

"Extremely difficult and would be very costly to conduct audit due to the subjective nature of the report."

"Management's responsibility."

"Should be a high degree of trust in an employer/employee relationship."

"Management responsible for management."

"Cost vs relevance."

“Not intending to produce exact information.”

“As this is an internal document for employees only, there should be no need for auditor involvement.”

“Lack of knowledge, how deep must they go?”

“To report on the fairness of the results. Once reported, anyone has access to financial statements and can have them explained.”

“What kind of opinion would he offer?”

“It should not be mandatory. Companies should be able to identify the benefits without being forced to include information.”

“No day-to-day experience of environment.”

2. Reasons provided by public accountants

“Cost outweighs benefit.”

“But company may elect to have information audited.”

“Outside of auditors expertise. You can't make the auditors the watch dogs of everything the company should or shouldn't do.”

“This should be an option available to the company.”

“Increased risk to auditors.”

“Management must be responsible.”

“In certain cases, not facts but perceptions – you can't audit plans.”

“This is merely an information report – no financial decisions are based on this. As long as management know what they are doing, no audit should be required.”

“Problem of defining and record-keeping needed. Would increase analysis of information.”

“Audit report would only cover quantifiable items.”

“Too costly in relation to worth. Too time consuming, time can be better spent. Management who deceive will soon be exposed.”

“Issues reported on would be difficult to audit or express an opinion on it.”

“No direct benefit to employees.”

“Trust relationship gives correct information to all stakeholders.”

“Cost would outweigh benefit. The extent of testing would be prohibitive.”

“Unnecessary – management should be trustworthy without auditors saying they are.”

APPENDIX E

DETAILED RESPONSES TO QUESTIONS

Table E1 Reasons why companies should report to employees according to sub-population group

Reason	Employers		Public accountants		Total	
	(125) ¹		(89) ¹		(214) ¹	
	Number	%	Number	%	Number	%
a. To improve employee-employer relationships	102	81.60	70	78.65	172	80.37
b. To demonstrate a more open approach to management	81	64.80	57	64.04	138	64.49
c. To increase employees' financial understanding of the company's operations and activities	96	76.80	63	70.79	159	74.30
d. To reduce the influence of trade unions or other labour representatives	13	10.40	10	11.24	23	10.75
e. To motivate employees towards greater productivity	76	60.80	51	57.30	127	59.35
f. To increase employees' understanding of the free market system	44	35.20	18	20.22	62	28.97
g. To meet the company's responsibilities towards stakeholders	58	46.40	38	42.70	96	44.86
h. Other						
- For transparency and morale	2	1.60	-	-	2	0.93
- To assist in strategic planning	1	0.80	1	1.12	2	0.93
- To educate about globalisation	-	-	1	1.12	1	0.47

Notes:

1. Total 'Yes' responses from table 7.4.
2. Respondents could indicate more than one reason.

Table E2 Reasons why companies should report to employees according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(82) ¹		(33) ¹		(10) ¹		(125) ¹	
	Number	%	Number	%	Number	%	Number	%
a. To improve employee-employer relationships	70	85.37	23	69.70	9	90.00	102	81.60
b. To demonstrate a more open approach to management	55	67.07	20	60.61	6	60.00	81	64.80
c. To increase employees' financial understanding of the company's operations and activities	64	78.05	24	72.73	8	80.00	96	76.80
d. To reduce the influence of trade unions or other labour representatives	10	12.20	3	9.09	-	-	13	10.40
e. To motivate employees towards greater productivity	51	62.20	20	60.61	5	50.00	76	60.80
f. To increase employees' understanding of the free market system	28	34.15	10	30.30	6	60.00	44	35.20
g. To meet the company's responsibilities towards stakeholders	33	40.24	18	54.55	7	70.00	58	46.40
h. Other								
- For transparency and morale	2	2.44	-	-	-	-	2	1.60
- To assist in strategic planning	1	1.22	-	-	-	-	1	0.80

Notes:

1. Total "Yes" responses from table 7.5.
2. Respondents could indicate more than one reason.

Table E3 Reasons why companies should report to employees according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(14) ¹		(65) ¹		(17) ¹		(7) ¹		(7) ¹		(8) ¹		(7) ¹		(125) ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
a. To improve employee-employer relationships	13	92.86	49	75.38	13	76.47	6	85.71	6	85.71	8	100.00	7	100.00	102	81.60
b. To demonstrate a more open approach to management	9	64.29	38	58.46	13	76.47	4	57.14	4	57.14	7	87.50	6	85.71	81	64.80
c. To increase employees' financial understanding of the company's operations and activities	10	71.43	49	75.38	13	76.47	7	100.00	7	100.00	6	75.00	4	57.14	96	76.80
d. To reduce the influence of trade unions or other labour representatives	2	14.29	6	9.23	1	5.88	-	-	2	28.57	2	25.00	-	-	13	10.40
e. To motivate employees towards greater productivity	10	71.43	35	53.85	12	70.59	6	85.71	5	71.43	6	75.00	2	28.57	76	60.80
f. To increase employees' understanding of the free market system	3	21.43	26	40.00	7	41.18	1	14.29	4	57.14	2	25.00	1	14.29	44	35.20
g. To meet the company's responsibilities towards stakeholders	7	50.00	32	49.23	8	47.06	1	14.29	4	57.14	3	37.50	3	42.86	58	46.40
h. Other																
- For transparency and morale	-	-	-	-	-	-	-	-	1	14.29	-	-	1	14.29	2	1.60
- To assist in planning	-	-	-	-	1	5.88	-	-	-	-	-	-	-	-	1	0.80

Notes:

1. Total "Yes" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.

Table E4 Reasons why companies should report to employees according to experience as practicing chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(30) ¹		(31) ¹		(28) ¹		(89) ¹	
	Number	%	Number	%	Number	%	Number	%
a. To improve employee - employer relationships	21	70.00	26	83.87	23	82.14	70	78.65
b. To demonstrate a more open approach to management	21	70.00	20	64.52	16	57.14	57	64.04
c. To increase employees' financial understanding of the company's operations and activities	22	73.33	23	74.19	18	64.29	63	70.79
d. To reduce the influence of trade unions or other labour representatives	4	13.33	1	3.23	5	17.86	10	11.24
e. To motivate employees towards greater productivity	14	46.67	18	58.06	19	67.86	51	57.30
f. To increase employees' understanding of the free market system	5	16.67	6	19.35	7	25.00	18	20.22
g. To meet the company's responsibilities towards stakeholders	12	40.00	16	51.61	10	35.71	38	42.70
h. Other								
- To assist in strategic planning	-	-	-	-	1	3.57	1	1.12
- To educate about globalisation	-	-	-	-	1	3.57	1	1.12

Notes:

1. Total "Yes" responses from table 7.7.
2. Respondents could indicate more than one reason.

Table E5 Reasons why companies should not report to employees according to sub-population group

<u>Reason</u>	<u>Employers</u>		<u>Public accountants</u>		<u>Total</u>	
	<u>(2)¹</u> <u>Number</u>	<u>%</u>	<u>(16)¹</u> <u>Number</u>	<u>%</u>	<u>(18)¹</u> <u>Number</u>	<u>%</u>
a. Employees are not able to understand the information	-	-	8	50.00	8	44.44
b. Employees are not entitled to the information	-	-	10	62.50	10	55.56
c. Employees are not interested in the information	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	1	50.00	12	75.00	13	72.22
e. Wage demands may intensify	1	50.00	7	43.75	8	44.44
f. Costs would exceed any benefits	-	-	6	37.50	6	33.33
g. Employees receive information via alternative channels	2	100.00	5	31.25	7	38.89
h. Other						
- Impractical for majority of companies which are small or owner-managed	-	-	1	6.25	1	5.56

Notes:

1. Total 'No' responses from table 7.4.
2. Respondents could indicate more than one reason.

Table E6 Reasons why companies should not report to employees according to length of time in a managerial position

<u>Reason</u>	<u>Length of time in a managerial position</u>							
	<u>1-10 years</u>		<u>11-20 years</u>		<u>More than</u>		<u>Total</u>	
	<u>(1)¹</u>		<u>(1)¹</u>		<u>(-)¹</u>		<u>(2)¹</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
a. Employees are not able to understand the information	-	-	-	-	-	-	-	-
b. Employees are not entitled to the information	-	-	-	-	-	-	-	-
c. Employees are not interested in the information	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	-	-	1	100.00	-	-	1	50.00
e. Wage demands may intensify	-	-	1	100.00	-	-	1	50.00
f. Costs would exceed any benefits	-	-	-	-	-	-	-	-
g. Employees receive information via alternative channels	1	100.00	1	100.00	-	-	2	100.00

1. Total "No" responses from table 7.5.

2. Respondents could indicate more than one reason.

Table E7 Reasons why companies should not report to employees according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(1) ¹		(1) ¹		(1) ¹		(1) ¹		(1) ¹		(1) ¹		(1) ¹		(2) ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
a. Employees are not able to understand the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b. Employees are not entitled to the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c. Employees are not interested in the information	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	-	-	1	100.00	-	-	-	-	-	-	-	-	-	-	1	50.00
e. Wage demands may intensify	-	-	1	100.00	-	-	-	-	-	-	-	-	-	-	1	50.00
f. Costs would exceed any benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
g. Employees receive information via alternative channels	-	-	1	100.00	-	-	-	-	-	-	-	-	1	100.00	2	100.00

Notes:

1. Total "No" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.

Table E8 Reasons why companies should not report to employees according to experience as practicing chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(5) ¹		(3) ¹		(8) ¹		(16) ¹	
	No.	%	No.	%	No.	%	No.	%
a. Employees are not able to understand the information	3	60.00	2	66.67	3	37.50	8	50.00
b. Employees are not entitled to the information	3	60.00	1	33.33	6	75.00	10	62.50
c. Employees are not interested in the information	-	-	-	-	-	-	-	-
d. Confidential information may be disclosed outside the company	5	100.00	3	100.00	4	50.00	12	75.00
e. Wage demands may intensify	3	60.00	2	66.67	2	25.00	7	43.75
f. Costs would exceed any benefits	2	40.00	2	66.67	2	25.00	6	37.50
g. Employees receive information via alternative channels	1	20.00	1	33.33	3	37.50	5	31.25
h. Other								
- Impractical for majority of businesses which are small or owner-managed	-	-	-	-	1	12.50	1	6.25

Notes:

1. Total "No" responses from table 7.7.
2. Respondents could indicate more than one reason.

Table E9 Form to be used for employee reporting according to sub-population group

<u>Format</u>	<u>Employers</u>		<u>Public accountants</u>		<u>Total</u>	
	<u>(125)¹</u>		<u>(89)¹</u>		<u>(214)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. A separate employee report issued annually	25	20.00	39	43.82	64	29.91
b. Part of a company magazine	21	16.80	11	12.36	32	14.95
c. Part of the annual report	12	9.60	15	16.85	27	12.62
d. Regular meetings	40	32.00	14	15.73	54	25.23
e. Other						
- A combination of above forms	22	17.60	8	8.99	30	14.02
- Presentations	3	2.40	2	2.25	5	2.34
- Monthly, quarterly or bi-annual circulars	2	1.60	-	-	2	0.93

Note:

1. Total "Yes" responses from table 7.4.

Table E10 Form to be used for employee reporting according to length of time in a managerial position

<u>Form</u>	<u>Length of time in a managerial position</u>							
	<u>1-10 years</u>		<u>11-20 years</u>		<u>More than 20</u>		<u>Total</u>	
	<u>(82)¹</u>		<u>(33)¹</u>		<u>years</u>		<u>(125)¹</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
a. A separate employee report issued annually	17	20.73	5	15.15	3	30.00	25	20.00
b. Part of a company magazine	16	19.51	4	12.12	1	10.00	21	16.80
c. Part of the annual report	9	10.98	3	9.09	-	-	12	9.60
d. Regular meetings	26	31.71	11	33.33	3	30.00	40	32.00
e. Other								
- A combination of above forms	11	13.41	8	24.24	3	30.00	22	17.60
- Presentations	2	2.44	1	3.03	-	-	3	2.40
- Monthly, quarterly or bi-annual circulars	1	1.22	1	3.03	-	-	2	1.60

Note:

1. Total "Yes" responses from table 7.5.

Table E11 Form to be used for employee reporting according to field of activity of companies

<u>Form</u>	<u>Field of activity</u>															
	<u>Construction</u> (14) ¹		<u>Manufacturing</u> (65) ¹		<u>Retail and wholesale</u> (17) ¹		<u>Transportation and warehousing</u> (7) ¹		<u>Information</u> (7) ¹		<u>Accommodation and food services</u> (8) ¹		<u>Other</u> ² (7) ¹		<u>Total</u> ¹ (125) ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
a. A separate employee report issued annually	4	28.57	12	18.46	4	23.53	-	-	2	28.57	2	25.00	1	14.29	25	20.00
b. Part of a company magazine	2	14.29	9	13.85	4	23.53	4	57.14	-	-	1	12.50	1	14.29	21	16.80
c. Part of the annual report	-	-	6	9.23	2	11.76	-	-	3	42.86	1	12.50	-	-	12	9.60
d. Regular meetings	4	28.57	20	30.77	7	41.18	3	42.86	2	28.57	2	25.00	2	28.57	40	32.00
e. Other																
- A combination of above forms	4	28.57	13	20.00	-	-	-	-	-	-	2	25.00	3	42.86	22	17.60
- Presentations	-	-	3	4.62	-	-	-	-	-	-	-	-	-	-	3	2.40
- Monthly, quarterly or bi-annual circulars	-	-	2	3.08	-	-	-	-	-	-	-	-	-	-	2	1.60

Notes:

1. Total "Yes" responses from table 7.6.
2. Includes development stage, redevelopment, services, and education and staffing.

Table E12 Form to be used for employee reporting according to experience as practising chartered accountant

<u>Form</u>	<u>Length of time in accounting profession</u>							
	<u>1-10 years</u>		<u>11-20 years</u>		<u>More than 20</u>		<u>Total</u>	
	<u>(30)¹</u>		<u>(31)¹</u>		<u>years</u>		<u>(89)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. A separate employee report issued annually	11	36.67	13	41.94	15	53.57	39	43.82
b. Part of a company magazine	2	6.67	5	16.13	4	14.29	11	12.36
c. Part of the annual report	7	23.33	7	22.58	1	3.57	15	16.85
d. Regular meetings	5	16.67	4	12.90	5	17.86	14	15.73
e. Other								
- A combination of above forms	3	10.00	2	6.45	3	10.71	8	8.99
- Presentations	2	6.67	-	-	-	-	2	2.25

Note:

1. Total "Yes" responses from table 7.7.

Table E13 Importance of disclosure of information in an employee report according to sub-population group

	<u>Employers</u>					n/r ³	<u>Public accountants</u>					n/r ³	<u>Total</u>					n/r ³
	1	2	<u>(125)¹</u> <u>Score²</u>		5		1	2	<u>(89)¹</u> <u>Score²</u>		5		1	2	<u>(214)¹</u> <u>Score²</u>		5	
<u>Philosophy and plans:</u>																		
Company's aims and objectives	1	1	3	28	92		1	1	7	19	61		2	2	10	47	153	
Company's philosophy (values, social responsibility etc.)	-	2	11	36	76		1	1	14	20	53		1	3	25	56	129	
Future prospects and plans	-	2	23	54	46		1	-	11	43	33	1	1	2	34	97	79	1
Forecasts of profits	6	22	60	22	14	1	9	15	34	21	9	1	15	37	94	43	23	2
New products	-	15	27	49	34		5	6	24	34	20		5	21	51	83	54	
Future capital expenditure	9	25	54	28	8	1	11	20	33	21	4		20	45	87	49	12	1
Nature of business/company's products	4	10	20	45	46		2	8	25	26	28		6	18	45	71	74	
<u>Ownership and management:</u>																		
Group structure	1	11	39	35	39		3	6	27	31	22		4	17	66	66	61	
Who owns the company	11	12	38	32	32		3	7	26	34	19		14	19	64	66	51	
Profile of shareholders	17	33	43	17	15		8	16	28	25	12		25	49	71	42	27	
Employee share schemes, if applicable	7	10	22	41	44	1	1	3	12	37	36		8	13	34	78	80	1
Senior management for each division	2	4	29	50	40		2	5	17	36	29		4	9	46	86	69	
What management do	5	8	25	53	33	1	1	4	20	36	27	1	6	12	45	89	60	2
The board of directors	3	18	33	43	28		1	6	17	35	30		4	24	50	78	58	
What directors do	6	20	29	47	23		3	7	16	38	24	1	9	27	45	85	47	1
Directors' remuneration	34	33	37	13	6	2	11	13	40	16	9		45	46	77	29	15	2
<u>Financial data:</u>																		
Summarised balance sheet	8	18	44	36	19		4	5	18	40	21	1	12	23	62	76	40	1
Summarised income statement	2	7	30	56	30		3	3	16	42	24	1	5	10	46	98	54	1

	Score ²					n/r ³	Score ²					n/r	Score ²					n/r
	1	2	3	4	5		1	2	3	4	5		1	2	3	4	5	
Summarised cash flow statement	15	19	42	34	15		10	13	18	31	16	1	25	32	60	65	31	1
Value added statement	14	10	33	42	25	1	3	18	17	31	19	1	17	28	50	73	44	2
Value added statement explained	8	11	27	40	38	1	2	13	16	38	19	1	10	24	43	78	57	2
Comparatives to value added statement	16	16	32	38	22	1	8	18	24	26	12	1	24	34	56	64	34	2
How inflation affects the company	10	15	48	34	18		5	15	23	28	17	1	15	30	71	62	35	1
Chief executive's report	8	7	30	45	35		1	3	21	43	20	1	9	10	51	88	55	1
An explanation of the financial results	1	4	19	61	40		2	2	9	41	34	1	3	6	28	102	74	1
Reasons for trends	3	6	33	60	23		5	5	28	31	19	1	8	11	61	91	42	1
Revenue/Turnover	3	6	38	57	21		6	8	27	34	13	1	9	14	65	91	34	1
Amount paid to employees	5	7	35	51	27		5	5	16	39	23	1	10	12	51	90	50	1
Interest expense	10	23	46	35	11		11	16	34	20	7	1	21	39	80	55	18	1
Taxation expense	12	23	43	35	12		9	13	38	24	4	1	21	36	81	59	16	1
Dividends paid and proposed	15	21	51	26	12		6	17	38	21	6	1	21	38	89	47	18	1
Profits retained for expansion	9	20	35	43	18		5	5	32	36	10	1	14	25	67	79	28	1
Profit after tax	6	16	47	34	22		5	6	34	35	8	1	11	22	81	69	30	1
Cash position	6	15	36	41	27		6	9	25	34	14	1	12	24	61	75	41	1
Current capital expenditure	6	21	53	36	9		5	15	39	24	4	2	11	36	92	60	13	2
Divisional data, if applicable																		
- general	13	16	39	49	7	1	7	15	32	24	9	2	20	31	71	73	16	3
- quantified	17	23	36	37	7	5	7	13	34	22	6	7	24	36	70	59	13	12
Data per employee	10	24	35	38	17	1	6	9	29	33	11	1	16	33	64	71	28	2
Donations made	25	32	37	19	12		18	23	28	15	4	1	43	55	65	34	16	1
<u>Employee information:</u>																		
Profile of employees																		
-by location	9	16	47	45	7	1	2	10	39	28	9	1	11	26	86	73	16	2

	Score ²						Score ²						Score ²					
	1	2	3	4	5	n/r ³	1	2	3	4	5	n/r	1	2	3	4	5	n/r
-by category	10	17	46	43	7	2	2	13	33	29	9	3	12	30	79	72	16	5
Wage levels	14	25	48	27	9	2	4	6	34	38	6	1	18	31	82	65	15	3
Minimum wages	15	21	46	31	10	2	5	6	26	37	14	1	20	27	72	68	24	3
Union representatives	17	28	45	22	11	2	5	14	34	24	10	2	22	42	79	46	21	4
Details of this year's wage negotiations	18	14	35	42	15	1	2	12	22	35	16	2	20	26	57	77	31	3
Details of strikes/stoppages	13	19	33	47	11	2	1	11	18	37	21	1	14	30	51	84	32	3
Details of productivity	6	8	17	57	35	2	1	-	10	44	33	1	7	8	27	101	68	3
Staff turnover - overall	6	15	45	44	14	1	2	8	34	27	16	2	8	23	79	71	30	3
- hired	10	28	41	32	13	1	3	10	39	21	13	3	13	38	80	53	26	4
- retrenchments	11	26	36	36	15	1	2	10	38	22	14	3	13	36	74	58	29	4
- resigned	11	29	37	34	13	1	2	12	39	20	13	3	13	41	76	54	26	4
- dismissals	11	30	33	36	14	1	2	10	39	22	14	2	13	40	72	58	28	3
Benefits to which staff are entitled - general	3	6	23	58	28	7	1	2	18	38	27	3	4	8	41	96	55	10
- health	4	8	25	56	31	1	1	3	18	37	28	2	5	11	43	93	59	3
- housing	5	9	26	54	30	1	1	4	19	36	27	2	6	13	45	90	57	3
- training	4	8	24	53	35	1	1	3	20	34	29	2	5	11	44	87	64	3
- bursaries available	4	10	30	49	31	1	1	4	18	37	28	1	5	14	48	86	59	2
Training facilities	2	4	22	66	30	1	2	3	17	38	28	1	4	7	39	104	58	2
The number of employees who received training	6	9	26	59	23	2	1	3	26	36	22	1	7	12	52	95	45	3
Safety prevention measures	7	5	30	53	29	1	2	4	19	38	25	1	9	9	49	91	54	2
Accident numbers/details	8	10	40	47	19	1	2	8	29	32	17	1	10	18	69	79	36	2
Aids policy/education	3	10	31	50	30	1	2	4	28	35	19	1	5	14	59	85	49	2
Bonus schemes available to employees	3	8	31	47	34	2	1	3	11	48	25	1	4	11	42	95	59	3
General staff news	3	7	45	43	25	2	3	16	38	17	13	2	6	23	83	60	38	4
Affirmative action philosophy - planned	4	6	42	48	24	1	3	3	32	33	17	1	7	9	74	81	41	2

	Score ²						Score ²						Score ²					
	1	2	3	4	5	n/r ³	1	2	3	4	5	n/r	1	2	3	4	5	n/r
- achieved	3	5	42	48	24	3	2	2	32	31	21	1	5	7	74	79	45	4
Social responsibility / community projects																		
-external to the company	4	18	38	51	13	1	1	6	31	32	18	1	5	24	69	83	31	2
-internal to the company	4	11	36	55	17	2	1	4	29	34	19	2	5	15	65	89	36	4
The company and the environment	-	16	45	44	18	2	2	9	21	40	16	1	2	25	66	84	34	3
Pension and provident fund information	1	6	28	53	37		2	2	15	42	27	1	3	8	43	95	64	1
Other																		
- External factors affecting company performance	-	-	-	1	-	124	-	-	-	-	-	89	-	-	-	1	-	213
- Medical scheme and benefits	-	-	-	1	-	124	-	-	-	-	-	89	-	-	-	1	-	213
- An explanation of the need to pay directors higher salaries	-	-	-	-	1	124	-	-	-	-	-	89	-	-	-	-	1	213
- Budgets	-	-	-	-	-	125	-	-	-	-	1	88	-	-	-	-	1	213
- Amounts claimed back from SETA's as a % of contributions	-	-	-	-	-	125	1	-	-	-	-	88	1	-	-	-	-	213

Notes:
1. Total "Yes" responses from table 7.4.
2. Scoring is from 1 (not at all important) to 5 (very important).
3. n/r = no box scored by respondent.

Table E14 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to sub-population group

<u>Reason</u>	<u>Employers</u>		<u>Public</u>		<u>Total</u>	
	<u>(26)¹</u>		<u>(18)¹</u>		<u>(44)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. To ensure the reliability of the information	24	92.31	16	88.89	40	90.91
b. Public accountants are competent to examine and report on the information	8	30.77	5	27.78	13	29.55
c. To prevent competition from other groups or individuals for this service	2	7.69	1	5.56	3	6.82
d. To prevent purposely under-reporting of information	15	57.69	12	66.67	27	61.36
e. Other						
- To improve information to all stakeholders	1	3.85	-	-	1	2.27
- To ensure the credibility of the information	1	3.85	1	5.56	2	4.55

Note:

1. Total "Yes" responses from table 7.21.
2. Respondents could indicate more than one reason.

Table E15 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to length of time in a managerial position

<u>Reason</u>	<u>Length of time in a managerial position</u>							
	<u>1 – 10 years</u>		<u>11-20 years</u>		<u>More than 20 years</u>		<u>Total</u>	
	<u>(17)¹</u>		<u>(7)¹</u>		<u>(2)¹</u>		<u>(26)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. To ensure the reliability of the information	16	94.12	7	100.00	1	50.00	24	92.31
b. Public accountants are competent to examine and report on the information	5	29.41	2	28.57	1	50.00	8	30.77
c. To prevent competition from other groups or individuals for this service	2	11.76	-	-	-	-	2	7.69
d. To prevent purposely under-reporting of information	13	76.47	2	28.57	-	-	15	57.69
e. Other								
- To improve information to all stakeholders	1	5.88	-	-	-	-	1	3.85
- To ensure the credibility of the information	-	-	1	14.29	-	-	1	3.85

Notes:

1. Total "Yes" responses from table 7.22.
2. Respondents could indicate more than one reason.

Table E16 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(3) ¹		(9) ¹		(5) ¹		(2) ¹		(3) ¹		(2) ¹		(2) ¹		(26) ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
a. To ensure the reliability of the information	3	100.00	8	88.89	4	80.00	2	100.00	3	100.00	2	100.00	2	100.00	24	92.31
b. Public accountants are competent to examine and report on the information	2	66.67	2	22.22	1	20.00	1	50.00	1	33.33	1	50.00	-	-	8	30.77
c. To prevent competition from other groups or individuals for this service	1	33.33	-	-	-	-	-	-	-	-	1	50.00	-	-	2	7.69
d. To prevent purposely under-reporting of information	2	66.67	5	55.56	2	40.00	1	50.00	2	66.67	1	50.00	2	100.00	15	57.69
e. Other																
- To improve information to all stakeholders	-	-	-	-	1	20.00	-	-	-	-	-	-	-	-	1	3.85
- To ensure the credibility of the information	-	-	-	-	-	-	-	-	-	-	1	50.00	-	-	1	3.85

Notes:

1. Total "Yes" responses from table 7.23.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.

Table E17 Reasons why the public accountant's examination and reporting duty should be extended to include published employee reports according to experience as practising chartered accountant

<u>Reason</u>	<u>Length of time in accounting profession</u>							
	<u>1 – 10 years</u>		<u>11-20 years</u>		<u>More than 20</u>		<u>Total</u>	
	<u>(6)¹</u>		<u>(7)¹</u>		<u>years</u>		<u>(18)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. To ensure the reliability of the information	5	83.33	6	85.71	5	100.00	16	88.89
b. Public accountants are competent to examine and report on the information	1	16.67	2	28.57	2	40.00	5	27.78
c. To prevent competition from other groups or individuals for this service	-	-	-	-	1	20.00	1	5.56
d. To prevent purposely under-reporting of information	4	66.67	4	57.14	4	80.00	12	66.67
e. Other								
- To ensure the credibility of the information	-	-	1	14.29	-	-	1	5.56

Notes:

1. Total "Yes" responses from table 7.24.
2. Respondents could indicate more than one reason.

Table E18 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to sub-population group

<u>Reason</u>	<u>Employers</u>		<u>Public accountants</u>		<u>Total</u>	
	<u>(99)¹</u>		<u>(71)¹</u>		<u>(170)¹</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
a. Increase in audit costs	66	66.67	46	64.79	112	65.88
b. Lack of appropriate accounting and auditing standards	36	36.36	31	43.66	67	39.41
c. Exposure to trade union action	6	6.06	5	7.04	11	6.47
d. Accountant's responsibility is to report only to shareholders	50	50.51	41	57.75	91	53.53
e. Other						
- It is a management function	13	13.13	4	5.63	17	10.00
- It should be optional	3	3.03	2	2.82	5	2.94
- Costs exceed benefits	5	5.05	4	5.63	9	5.29
- Outside auditors' expertise	4	4.04	5	7.04	9	5.29
- Report is too subjective to audit	1	1.01	1	1.41	2	1.18

Note:

1. Total "No" responses from table 7.21.
2. Respondents could indicate more than one reason.

Table E19 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to length of time in a managerial position

Reason	Length of time in a managerial position							
	1-10 years		11-20 years		More than 20 years		Total	
	(65) ¹		(26) ¹		(8) ¹		(99) ¹	
	No.	%	No.	%	No.	%	No.	%
a. Increase in audit costs	44	67.69	16	61.54	6	75.00	66	66.67
b. Lack of appropriate accounting and auditing standards	30	46.15	5	19.23	1	12.50	36	36.36
c. Exposure to trade union action	4	6.15	2	7.69	-	-	6	6.06
d. Accountant's responsibility is to report only to shareholders	31	47.69	16	61.54	3	37.50	50	50.51
e. Other								
- It is a management function	7	10.77	4	15.38	2	25.00	13	13.13
- It should be optional	2	3.08	-	-	1	12.50	3	3.03
- Costs exceed benefits	1	1.54	4	15.38	-	-	5	5.05
- Outside auditors' expertise	1	1.54	3	11.54	-	-	4	4.04
- Report is too subjective to audit	1	1.54	-	-	-	-	1	1.01

Notes:

1. Total "No" responses from table 7.22.
2. Respondents could indicate more than one reason.

Table E20 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to field of activity of companies

Reason	Field of activity															
	Construction		Manufacturing		Retail and wholesale		Transportation and warehousing		Information		Accommodation and food services		Other ²		Total	
	(11) ¹		(56) ¹		(12) ¹		(5) ¹		(4) ¹		(6) ¹		(5) ¹		(99) ¹	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
a. Increase in audit costs	7	63.64	38	67.86	8	66.67	4	80.00	2	50.00	5	83.33	2	40.00	66	66.67
b. Lack of appropriate accounting and auditing standards	3	27.27	21	37.50	4	33.33	2	40.00	2	50.00	3	50.00	1	20.00	36	36.36
c. Exposure to trade union action	-	-	4	7.14	-	-	-	-	-	-	2	33.33	-	-	6	6.06
d. Accountant's responsibility is to report only to shareholders	7	63.64	23	41.07	9	75.00	3	60.00	1	25.00	4	66.67	3	60.00	50	50.51
e. Other																
- It is a management function	2	18.18	6	10.71	1	8.33	1	20.00	-	-	2	33.33	1	20.00	13	13.13
- It should be optional	-	-	2	3.57	-	-	-	-	1	25.00	-	-	-	-	3	3.03
- Costs exceed benefits	1	9.09	4	7.14	-	-	-	-	-	-	-	-	-	-	5	5.05
- Outside auditors' expertise	-	-	4	7.14	-	-	-	-	-	-	-	-	-	-	4	4.04
- Report is too subjective to audit	-	-	-	-	-	-	-	-	1	25.00	-	-	-	-	1	1.01

Notes:

1. Total "No" responses from table 7.23.
2. Includes development stage, redevelopment, services, and education and staffing.
3. Respondents could indicate more than one reason.

Table E21 Reasons why the public accountant's examination and reporting duty should not be extended to include published employee reports according to experience as practising chartered accountant

Reason	Length of time in accounting profession							
	1-10 years		11-20 years		More than 20 years		Total	
	(24) ¹		(24) ¹		(23) ¹		(71) ¹	
	No.	%	No.	%	No.	%	No.	%
a. Increase in audit costs	15	62.50	18	75.00	13	56.52	46	64.79
b. Lack of appropriate accounting and auditing standards	14	58.33	10	41.67	7	30.43	31	43.66
c. Exposure to trade union action	3	12.50	2	8.33	-	-	5	7.04
d. Accountant's responsibility is to report only to shareholders	12	50.00	14	58.33	15	65.22	41	57.75
e. Other								
- It is a management function	2	8.33	2	8.33	-	-	4	5.63
- It should be optional	-	-	1	4.17	1	4.35	2	2.82
- Costs exceed benefits	2	8.33	1	4.17	1	4.35	4	5.63
- Outside auditors' expertise	2	8.33	3	12.50	-	-	5	7.04
- Report is too subjective to audit	-	-	-	-	1	4.35	1	1.41

Notes:

1. Total "No" responses from table 7.24.
2. Respondents could indicate more than one reason.

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