Users’ Perception of Human Resource Disclosures  
- A Comparison of Annual Report Users of Two Corporations

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Key Words: Voluntary disclosure; human resources; human resource disclosure; human resource accounting; reporting practice; corporate annual reports

Abstract: This paper is concerned with users’ perception of human resources disclosure in corporate annual reports. The disclosure of intangibles and human resource disclosure in particular, are often described and thought of as problematic due to the researchers’ limited understanding of such information. The debate about the insufficient understanding and the resulting information gap is taken by this study as a starting point. In the centre of attention is to analyse and compare users’ perception of voluntarily disclosed information on human resources that is made available in corporate annual reports. Thus, it is aimed to establish a picture about users’ perception of human resource disclosures in annual reporting practice. Until now, there is no study available offering a multifaceted illustration on human resource disclosure. Consequently, the primary purpose of this research is to describe users’ perception of voluntary information on human resources in corporate annual reports. Therefore, the results from this study will contribute to a better understanding of users’ perception of voluntarily disclosed human resources information. Accordingly, this study will contribute to the knowledge about corporate voluntary disclosure practices that may assist to reduce possible deficiencies between providers and users of voluntary human resources disclosures as well as between companies.

Introduction

Since the early 1990s, one could easily observe that many companies in various industries are facing a shift towards information, expertise, skills and technology because they are considered to be of great importance. Zuboff (1988) calls it the Information Revolution and posits that this will transform the human society as dramatically as the Industrial Revolution did. Today’s time period has manifold titles such as the Information Economy, New Economy, Knowledge-based Economy or the Knowledge Society, which are commonly showing different market prerequisites than those traditional industries dealt with decades ago (OECD 1996; Kelly 1998; Shapiro and Varian 1998).

Coping with these changed business conditions, mostly indicated by globalisation, the sharpening of competition and increasing customer demands, some companies began attempts to capture the value of their organisational intangible resources (Klein 1997). Intangible resources are the company’s soft facts such as human resources,
know-how, intellectual property rights, manufacturing procedures or organisational structure, which might become visible for investors in corporate reports. In many areas, intangible resources have become more valuable than the physical evidence that carries it. For that reason, a great number of practitioners and researchers started to assert that corporate knowledge represents an asset in its own right and not simply as an enhancement of other assets (Brooking 1996; Edvinsson and Malone 1997; Klein 1997; Stewart 1997; Sveiby 1997; Roos, Roos et al. 1998).

Johanson, Mårtensson and Skoog (2001) assert that the dominating problem in understanding the importance of intangibles originates from deficient information on intangibles, which explains the capital market’s current reliance on financial information. However, studies on shareholder use of corporate annual reports revealed that the usefulness of financial statement reports of publicly listed companies had declined, creating an information gap between the issuer and user of information (Epstein and Pava 1993; Pownell and Schipper 1999; Lev 2001). Francis and Schipper (1999) provided evidence to this popular claim showing that financial information has become less value relevant over the period from 1952 to 1994. In response to the investigated loss of relevance, practitioners and researchers proclaimed the increasing necessity for new accounting methods that also provide additional disclosure of information on intangibles to close the information gap (Wallman 1996; Lev 1997).

Many attempts have been made to reduce the information gap by developing various concepts and measurement models on intangibles, which is not just a recent phenomenon. In the 1960s accounting researchers already started to elaborate on the subject of human resources (Monti-Belkaoui and Riahi-Belkaoui 1995). Roslender and Fincham (2001) examined that most of the human resource accounting studies engaged in measurement development and utility analysis, strengthening the view of employees as valuable organisational resources.

During the 1990s the term *intellectual capital* became a popular fad among knowledge-based companies as well as accounting practitioners (Guthrie, Petty et al. 2001). These so-called *knowledge-based companies* are commonly characterised by the fact that the value of their intangible assets often exceeds their tangible assets, although this does not show up on their financial statements. Many authors articulated that the market value of knowledge-based companies could be 10 to 100 times its book value (Brooking 1996; Edvinsson and Malone 1997; Stewart 1997; Sveiby 1997). The significant increase in the market-to-book value¹ on nearly all stock exchanges, during the 1990s, crystallises to be the most important argument for the promoters of the concept of intellectual capital in their strive towards the measurement of additional intangible assets. The forefathers of intellectual capital were headed by Leif Edvinsson from the Swedish insurer Skandia promoting intellectual capital as the new method filling the gap of the market-to-book ratio. In other words they claim that the difference between the market value and the book value of a company is said to be intellectual capital (Klein 1997).

One aim of intellectual capital is to complete financial ratios with nonfinancial ratios in order to describe the company value. Intellectual capital makes classifications into structural capital and human capital. The latter elaborates on the value of the intangible assets that are embedded in the company’s human resources, the employees and

¹ However, it is observable that since the beginning of the year 2000 the market-to-book ratio has gone down for many companies. Therefore, not all, but some, of the applied arguments favouring accounting for intangible assets are already negated.
managers. According to the intellectual capital movement, human capital consists of three main ability types: competence, attitude and intellectual agility (Roos et al. 1998:35). Competence is said to generate value through human resources’ knowledge, skills, talents and know how (ibid.). Attitude depends on the employees’ motivation as well as managers’ abilities in cooperation and leadership to achieve strategic goals (Stewart 1997). Lastly, intellectual agility should be understood as human resources’ ability to improve its knowledge as well as innovation and entrepreneurship (Bontis, Dragonetti et al. 1999). Stewart (1997:106) stresses the importance of human capital for companies by labelling it the most important asset, as companies could not exist without human resources.

However, critiques to the application of intellectual capital are many and easy to identify, which might be an explanation that not every company works with this concept (Rimmel 2001). Edvinsson and Malone’s (1997) frequently quoted intellectual capital equation IC = MV – BV has been in the centre for critics. This equation assumes that Intellectual Capital (IC) fills out the gap between Market Value (MV) and Book Value (BV). In a recent article Bukh et al. (2001) examined that from an accounting perspective this equation turns out to be an illogical one, as it would imply to accept the intellectual capital equation as a function of accounting rules to construct the book value.

Despite criticisms, a number of researchers (Eccles, Herz et al. 2001; Lev 2001; Mouritsen, Larsen et al. 2001) have argued that demand for additional disclosure on intellectual capital is increasing. Bukh’s (2002) annotations about the recently introduced guidelines for the development and publications about intellectual capital reports by the Danish Agency for Development of Trade and Industry indicated that standardised intellectual capital reporting will satisfy the information demand of the investor community. The Danish guideline also includes 27 items especially measuring human resources (Mouritsen et al., 2001a).

Although disclosure about intangibles might become more standardised, this does not automatically imply that the demand of the information user has been met. The empirical studies that Eccles, Herz, Keegan and Phillips (2001) draw on, indicate that companies often believe that they do provide the capital market with information that is demanded by analysts and investors. Further they reveal that analysts and investors do not entirely perceive increased disclosure as an improvement because their demand might not be met.

Apparently, many academics (Guthrie, Petty et al. 2001; Petty and Guthrie, 2000; Gröjer and Johanson 1997; Mouritsen 1998; Flamholtz 1999) articulate that although several companies proclaim their employees as being the company’s most valuable resource only few companies have utilised models and concepts of measuring human resources in their corporate annual reports. Recent literature (Fitz-enz 2000; Becker, Huselid et al. 2001; Phillips, Stone et al. 2001) on human resource measurement often presuppose that experienced companies will achieve an advantage over inexperienced companies, which in their argumentation is also due to more disclosure about human resources in corporate annual reports. Such a general assumption is opposed by some capital market research on the relevance and usefulness of voluntary disclosure (Rimmel 2003).

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2 Johanson et al. formed the term experienced-companies for those companies, which are experienced in the formalised recognition, measurement, evaluation and reporting of intangibles for management control purposes and henceforth report intangibles externally if considered being beneficial.
Research Issues

Bearing in mind the previous discussion, the disclosure of intangibles and human resource disclosure in particular, are often described and thought of as problematic due to the researchers limited understanding of such information. The debate about the insufficient understanding and the resulting information gap is taken by this study as a starting point (Eccles and Mavrinac 1995; Johanson, Mårtensson et al. 2001; Bukh 2002).

Bukh’s (2002) propositions provide a good starting point to begin with an analysis of corporate annual reports towards their information content on human resources. This could open the possibility for a quantitative investigation of the extent and types of information disclosed, which in turn would allow for a comparison between different reporting years and companies. A suggestion made by Eccles et al (2001) is to conduct case studies that examine how voluntarily disclosed information is utilised by users. Consequently, the overall problem formulation for this study is expressed as follows:

How are voluntary human resource disclosures utilised by users from the capital market?

The evaluation of the research question in this study is important for a number of reasons. Although proposed by various academics there is currently no study available that compares the understanding about human resource disclosure of users or even between companies. Therefore, the results from this study will contribute to a better understanding of users’ perception of voluntarily disclosed human resources information. Accordingly, this study will contribute to the knowledge about corporate voluntary disclosure practices that may assist to reduce possible deficiencies between providers and users of disclosed information as well as between companies.

Research Approach

Disclosure in corporate annual reports has been identified as “… the companies’ need to provide information externally to investors in order to attract capital” (Frederiksen and Westphalen 1998:287). Over a 40-year time span, a large amount of research on various and different aspects of disclosure has been accumulated, which in this study is referred to as disclosure research. The nature and extent of disclosure research often engage in the analysis of the user3 of disclosed information, the assessment of user needs, the amount of disclosure positions as applied by different media for communicating information, as well as the market’s reactions of special disclosure (Dye 2001; Verrechia 2001).

The largest amount of studies conducted in recent years, is concerned with disclosure research, is taking a user approach4. Very few authors carried out disclosure studies

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3 Parker, Ferris and Otley discussed the difference between recipient and user. For them a user presumes that a corporate annual report is not only read but also used for decision-making, which differs for a recipient, who does not necessarily have to apply corporate annual reports for decision-making.

4 A user approach encompasses research about users or potential users’ behaviour, reactions and demands of accounting information. An example of a user approach is Epstein and Pava’s study on shareholders use of corporate annual reports where they investigated what information shareholders use in making their investment decisions and what additional information they regard as being useful.
taking a company approach⁵ (c.f. O’Dwyer 2002). Common to both approaches is that they only take a single perspective without examining the other parts involved. Despite the interesting nature of these studies, taking either a company or user approach, no present disclosure research is available that has taken a tripartite approach where users, providers and the information are considered as interrelated parts. Therefore they need to be analysed together in order to obtain a deeper understanding on the practice of voluntary information on human resources in corporate annual reports.

This study’s tripartite approach, as presented in Figure 1, is inspired by Parker, Ferris and Otely’s (1989:111-15) model of accounting’s communication process between two parts, i.e. providers and users, but highlighting information as an additional third part. This approach has some similarities to Marton’s (1998) accounting research, which he based on linguistic research. In order to derive a better understanding of human resources disclosure in annual reporting practice the users, providers and information are first studied separately in two companies. Nonetheless, the insight gained from these partial studies are necessary for the tripartite model to generate a broad picture of the human resource disclosure practice. This picture will be established by data source triangulation analysing the similarities and differences between the providers’ justifications on human resource disclosure, the actual amount of provided information, users own information needs and their utilisation of human resource disclosures.

The tripartite model in Figure 1 represents the three studies of this study, as the boxes provider, report and user illustrate. The box report represents the collection of information in the corporate annual report. The arrows between the boxes show the

⁵ The term company approach should pinpoint that researchers who apply such an approach are concerned with research out of a company’s perspective elaborating on problems that are of interest or affect companies issuing of information. One example of such a company approach is Craighead and Hartwick’s study on the effect of CEO’s disclosure beliefs on the volume of disclosure about corporate earnings and strategy, investigating the association between managerial disclosure beliefs and firms’ disclosure activities.
exchanging of information. In Figure 1, the companies are the providers of information, which disclose information by developing an idea, considering its destination, purpose and likely impact. Hence, this should represent that all information a company externalises is due to reflected action. The provider transmits the disclosure information and its message via the corporate annual report, as the chosen medium, to the user. The users who receive the disclosed information may translate it into a format that is most appropriate for their understanding.

If the user sees a need to respond to the received disclosed information, in the form of feedback, a similar process will be initiated. The user will construct the responding information by developing an idea and considering its destination, purpose and likely impact. For that reason the company is responding to the received information with a conscious action. The users’ feedback to the provider can contain everything from questions to answers, which the provider may regard in the next disclosure of information.

Nonetheless, the human resource disclosures circle with arrows to and from all three parts is shown as dotted lines. This illustrates that the focus of attention in this research is on human resource disclosures, which is a part of a company’s total amount of corporate disclosure.

The model as described above exemplifies how this study aims to generate a picture of voluntarily disclosed information about human resources in annual reporting practice. The tripartite approach embarks with a report study examining the general amount of voluntary disclosure in corporate annual reports, which includes human resource disclosures. This is followed by a provider study investigating the intentions that providers have with their disclosed information. The user study elaborates on the users’ perception and utilisation of disclosed information.

The picture about the reporting practice of human resource disclosures is completed in the final chapter by analysing the three studies empirical findings through triangulation towards similarities and differences between users and providers as well as between companies. Each part in the tripartite model, as outlined in Figure 1, is of interest and plays an important role for the design of the three studies in order to obtain a deeper understanding about the practice of human resource disclosure.

**Research Methodology and Study Design**

In order to facilitate the gathering of the empirical material of this study there were many alternative methodological strategies to choose from. Each methodology strategy has its advantages, disadvantages and tradeoffs.

The overall approach of this study is a combination of qualitative and quantitative research. The application of both qualitative and quantitative methods is not conflicting in itself. Glaser and Strauss (1967) reasoned that both forms of data is useful and can supplement another to increase understanding of the studied. However, the purpose here is not to pigeonhole the present study into a certain research approach but rather to bring forward its most important features. The distinctiveness of qualitative research has certain implications for the write-up, as qualitative research designs are typically not intended to prove hypotheses or test a certain theory (Parker and Roffey 1997). This does not allow the researcher to ignore theoretical perspectives of previous work cited in the literature review, but it permits the researcher to develop concepts to understand patterns in the data.
The decision to conduct a comparative case study was inspired by two arguments. Firstly, the dispute about the fact that few companies have utilised models and concepts of measuring human resources in their corporate annual reports (e.g. Petty and Guthrie, 2000; Flamholtz, 1999; Mouritsen, 1998; Gröjer and Johanson, 1997). Secondly, the presumption of some researchers (Phillips et al., 2001; Becker et al., 2001; Fitz-enz, 2000) is that experienced companies will disclose more about human resources in corporate annual reports than inexperienced companies. Applying the Johanson et al (2001) term experienced company, the one case company should be experienced with the formalised recognition, measurement, evaluation and reporting of intangibles. The Swedish insurer Skandia was among one of the first companies who pioneered the development of intellectual capital reporting. Due to the fact that Skandia reports externally their strategy on voluntary disclosure that includes a strategy for human resource disclosure, they have been selected to represent the experienced company. Contrasting Skandia, an inexperienced company in the same industry was required that has not articulated a specific strategy for voluntary disclosure of information. This counterpart was found in the German insurer Allianz. By the reason that Allianz has not presented a strategy for the voluntary disclosure of corporate information, which includes human resources, Allianz has been selected for this research to represent the inexperienced company.

This study is limited to the analysis of voluntarily disclosed information provided in corporate annual reports. The annual report is just one of the many communication vehicles that a company can use to externalise information to the investor community. Although other communication vehicles like interim reports, press releases on the Internet or shareholder e-mail are available faster, the corporate annual report contains the accumulated corporate information about development and events that occurred during the reporting year (Cooke 1989). Many studies found evidence that the corporate annual report is the most important corporate report for company valuation (e.g. Hooks et al. 2002; Epstein and Pava, 1993; Marston and Shrives 1991; Lee and Tweedie 1990).

The type and extent of information disclosure of interest for this study is limited to voluntary disclosure. Voluntary disclosure is defined as additional information that is disclosed over and above the mandatory disclosure requirements, which are defined by national accounting regulations (Gray et al. 1995). Due to the fact that the headquarters of both case companies are located in different countries the accounting standards differ because of national jurisdictions and interests. The European Union (EU) took the decision to adopt the International Accounting Standard (IAS) as European reporting practice and a specific IAS for insurance companies should be in place by 2005 (COM 2000). By reason of different accounting standards the decision has been taken for this study to start off from the mandatory requirements of the existing IAS. The Swedish accounting standard, which Skandia uses, is to be harmonised with IAS, which Allianz has applied since the 1998 annual report. As a consequence of the current lack of specific accounting standards for insurance companies, this study will not go into detail with international insurance accounting diversity.

Although limited to voluntary disclosure, the manifold possibilities for companies for issuing additional information made it necessary for this study to further narrow down the range of voluntary disclosure by concentrating on the voluntary disclosure of human resource information. This kind of information has drawn the attention of many researchers examining or discussing its role and contribution to bottom-line success (Cascio 1991; Hackston and Milne 1996; Aboody and Lev 1998; Nagar 1999).
The focus for the user study is on financial analysts, as it serves two practical functions. One is that analysts are identifiable as a group and the other is that they are regarded as financial intermediaries serving advisory functions (Beaver 1998). An important and decisive factor for a successful user study was the comparability criterion, which demanded intensive knowledge of both corporations. To see whether analysts where covering both corporations, or not, a list of analysts covering Allianz was used to crosscheck this criterion. The original list of analysts covering Skandia consisted of 21 sell-side analysts working for 17 different financial analysts firms and brokerage houses in three different countries. The crosschecking with the Allianz list resulted in 18 analysts working for 15 different financial analysts firms or brokerage houses that were covering both corporations (see Figure 2).

<table>
<thead>
<tr>
<th>TYPE OF STUDY</th>
<th>SAMPLE CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider Study</td>
<td>- 3 interviewees selected in total</td>
</tr>
<tr>
<td>Report Study</td>
<td>- Skandia’s annual reports from 1996 - 2000</td>
</tr>
<tr>
<td>User Study</td>
<td>- Skandia’s annual reports from 1996 - 2000</td>
</tr>
<tr>
<td></td>
<td>- Allianz’s annual reports from 1996 - 2000</td>
</tr>
<tr>
<td></td>
<td>- 18 interviewees selected</td>
</tr>
<tr>
<td></td>
<td>- 14 brokerage houses and analysts firms included</td>
</tr>
<tr>
<td></td>
<td>- All interviewees are sell-side analysts</td>
</tr>
<tr>
<td></td>
<td>- 11 in London, 4 in Stockholm, and 2 in Düsseldorf</td>
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</tbody>
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<tr>
<th>PARTICIPATING COMPANIES</th>
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<tbody>
<tr>
<td>ASSURANCE</td>
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<tr>
<td>BNP-Paribas</td>
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<tr>
<td>Carnegie</td>
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<tr>
<td>Chevreux Nordic</td>
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<tr>
<td>Enskilda Securities</td>
</tr>
<tr>
<td>Danske Securities</td>
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<tr>
<td>Commerzbank Securities</td>
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<tr>
<td>Dresdner Kleinwort Benson</td>
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<tr>
<td>Goldman Sachs</td>
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<tr>
<td>HSBC Investment Bank</td>
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<tr>
<td>JP Morgan</td>
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<tr>
<td>Merrill Lynch</td>
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<tr>
<td>Morgan Stanley Dean Witter</td>
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<tr>
<td>SCANSECURE</td>
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<tr>
<td>Schroder Salomon Smith Barney</td>
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<tr>
<td>West LB - Panmure</td>
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Fig. 2 Sample characteristics and participating companies

Due to the fact that 3 analysts and 2 analysts-firms where marked unclear, an initial check on every brokerage houses and financial analysts firms that where included in the lists was done by contacting them.

During these contacts any unclear situations were resolved, and is turn out, most companies have specialised insurance analysis teams, where analysts do have a specific responsibility covering one insurance corporation, that exchange their knowledge about the whole sector. Hence, these companies have specialised analysts for one company that also do have as excellent knowledge about the corporation that other analysts in their team are covering. This eliminated also some concern about Swedish based sell-side analysts as they were specialised merely on the Scandinavian market. Here, the contact call revealed that even when they were not covering Allianz actively they had good knowledge about Allianz due to competitor analysis.

In the end, this resulted in a maximum of 21 interviewees from a maximum 17 brokerage houses and financial analysis firms. Numerically it may appear to be exactly the same constitution as the original Skandia list but it is not. The variations are explainable due to changes of analysts the within insurance analysts teams. However, each analyst on the final list was sent an introductory letter with an interview request that would take approximately 30 minutes. The letter was followed up by a telephone call, where the interviews were booked. Three analysts were not willing to be interviewed, which reduced the final participant list for the user study to 18 interviewees from 14 brokerage houses and financial analysis firms.
This study conducted case study research. Consequently, the number of corporations as well as the number of analysts included is not intended to answer the question regarding statically representativeness of the researched population (Ryan et al. 2002). However, expert sampling is used in this study to obtain the interviewees’ specific expertise.

The analysis of the empirical data from the user study was carried out according to grounded theory means. In grounded theory coding is a very vital part as it generates categories. The initial coding should be made as without predefinitions, which is referred to as open coding (Strauss and Corbin 1990). Open coding aims to generate central categories from the empirical data, which should be carried out without any predefinitions, to get consciousness about the structure in the empirical data. Therefore, it is important that the categories are named with terms that the interviewees have used.

The stage after the open coding is selective coding, which means that more systematic coding of the empirical analysis is selecting the preliminary categories in order to deduct the amount of generated categories to a more practical amount.

The picture of current human resource disclosure practice will be derived from the empirical analysis. Glaser and Strauss (1967) discuss that a comparative analysis is a general method to illuminate evidence from the empirical material with findings from comparative groups. In that way similarities and differences between the intention, use and existence of information are analysed.

**Context of the research**

Although insurance corporations increasingly moved their business from their traditional national markets towards competition on international markets, worldwide there are only few similarities in the requirements by national insurance accounting frameworks. Currently, there is no international standard on insurance accounting to reduce the diversity of practices, which interfere with comparability and transparency in the reporting of the results of insurance corporations.

In April 1997 the Board of the International Accounting Standard Committee (IASC) added the Insurance Project on its agenda to fill an existing gap by developing an accounting standard particularly for insurance companies (IASC 1999).

A comprehensive study (KPMG 1999) identified that there are 132 options contained in EU’s Insurance Accounts Directive of which almost all have been eliminated by at least one member state. That is one of the many reasons why the European Commission in 1995 officially stated to adopt a new strategy for accounting harmonisation (COM 1995), which resulted in the European Commission’s 2000 Communication (a policy document) stating its intention to require all EU companies, listed on stock markets, to prepare their consolidated financial statements using IAS (COM 2000).

The Allianz Group is the largest insurance group in Europe and one of the world’s largest insurers in total premium income. The market capitalisation more than tripled from 1996’s € 32.5 billions to 2000’s € 98.0 billions. In the fiscal year 2000 the Allianz Group increased the total premium income from 1999s € 60.6 billions by 8.1 € billions, to € 68.7 billions in 2000. In comparison with the total premium income of € 38.1 billions in 1996 the total premium income constantly increased during the five-year period by more than € 30 billions. The Allianz Group developed from a mainly German focus, as it was in 1996, towards a global insurer with its main business in Europe. The growth of total premium income was also due to consolidations of the taken over insurers e.g. an in 1998 acquired French insurer was included for the first time in
Allianz’s 1999 annual report with an effect of € 2.6 billions while the internal growth of the Allianz Group increased with 5.3%, which amounted for € 2.4 billions of total premium income. Despite the globalised business the Allianz Group still has overweight in non-life insurance business in its product line. In 1998 the established the Allianz Group the Allianz Asset Management being the responsible unit for organising Allianz’s global asset management operations. In mid of the year 2000 an company US-based asset management company PIMCO had been acquired to strengthen this business segment as well as to decease Allianz’s underrepresentation in the USA.

Allianz described it disclosure strategy as a close-to-the-market approach, which is signified by the fact that the quantity and quality of human resource disclosure is regarded as being sufficient until users indicate that they would like to have more specific information.

The present-day Skandia Group represents the aggregate of 48 Swedish insurance companies that were tied together after five Swedish insurance groups joined forces during the first half of the 1960s. After a restructuring program Skandia transformed its business during the past decade into a leading global financial services and insurance group with a large franchise organisation. Skandia has built the world’s leading unit-linked life assurance franchise and its business model is among the great business success stories of the last decade. The largest product group are unit-linked plans, which are adapted to local legislation and market conditions. Skandia’s total sales illustrate that Swedish home market makes up only a relatively small portion of its business. The largest market for Skandia is the US market where in 2000 almost 60 % of the total sales are generated. Skandia’s second largest market is the UK, which accounted for around 29 % of total sales. Almost 80% of Skandia’s sales came from unit-linked products. The market capitalisation expanded almost eight times from 1996’s € 2.43 billions to 2000’s € 19.14 billions. Despite all growth in the savings business Skandia migrated its traditional P&C business in 1999, joined by one Norwegian insurer and one Finnish insurer, establishing Scandinavia’s largest P&C insurer.

Skandia’s strategy for providing voluntary human resource information started off as an internal process. Through the development of Skandia’s Navigator model additional information about human resources was voluntarily externalised in the corporate annual reports. Skandia described its general disclosure strategy as being proactive. The proactive disclosure strategy generally implies that information is voluntarily introduced to users before the market demands it. Skandia’s intention with a proactive disclosure strategy corroborates with FASB’s (2001) insights into enhancing voluntary disclosures, the idea behind voluntarily disclosed human resources information is to increase transparency for the users, which in turn will lower the cost of capital.

**Empirical findings from the User Study**

The presentation of the empirical findings follows the structure of the interview guide. In this section it examined whether the participating financial analysts have a different model to facilitate a valuation of Allianz’s or Skandia’s human resources. All respondents made a statement on this question, which contains three main categories as illustrated in Figure 3.

<table>
<thead>
<tr>
<th>Categories</th>
<th>No</th>
<th>Not really different</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Analysts</td>
<td>13</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

*Fig. 3 Use of different model for valuating human resources disclosure*
13 interviewees denied that they use different models for valuating human resources disclosure. Both respondents, who acknowledged in their statement that they do not have a really different model for the valuation of Allianz’s or Skandia’s human resources, explained that their valuation model is basically the same but that minor adjustments are made to derive individual estimates e.g. changes in size of distribution system. The general finding from this section’s question is evidenced from a variety of studies from O'Shaughnessy (O'Shaughnessy 1998), (Burgstrahler and Dichev 1997) or Barth and Landsman (Barth and Landsman 1995) show that the majority of financial analysts do not use multiple valuation models or different partial analysis in order to keep up comparability with other company valuation.

Elaborating on the Pros and Cons of human resource disclosure the question was addressed whether Allianz or Skandia benefit from voluntarily disclosing information about its human resources. Figure 4 illustrates the results from this question in five categories.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Yes</th>
<th>Probably</th>
<th>More beneficial for Skandia</th>
<th>Probably not</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Analysts</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Fig. 4 Benefits from voluntary disclosure of human resource information.

A typical quote for the “yes” category:

“Any disclosure is beneficial that is the philosophy within our company. So even if human resources many be fuzzy and subjective, it still gives you a hint if the company has staff problems or if the company have a highly motivated staff that could sell everything as gold.”

(A8)

Comments that were collected in the “probably” category:

“I think that this has a rather marginal significance for the stock market, to be honest. .... I think, that this has an importance in another association for valuation. We are looking on growth and other types of ratios, which maybe take good human resources into account. But I think that one has to see this apart from a direct valuation of a company.”

(A16)

Some respondents mentioned that human resource disclosure is probably not beneficial:

“They are probably not, as I don’t think it matters to anyone, because it is not a big issue. Because you have so many other issues that you are wrestling with.”

(A17)

This question generated interesting empiricial evidence. While Figure 4 showed that the vast majority of the respondents do not consider human resource disclosure for valuation, the data from the question in this paragraph reveal that more than the half of the interviewees regards the disclosure of human resource information being beneficial or at least probably beneficial. This seems to indicate that voluntarily disclosed information has an effect on analysts’ context building about corporations, which was also articulated in Ellis and Williams (1993) framework.

A more general question was addressed to the interviewees whether they can think of advantages that Allianz or Skandia might obtain from the voluntary disclosure about their corporations’ human resources. There was no limitation to the number advantages but usually the interviewees mentioned one or two advantages. The analysts’ answers are aggregated in Figure 5.
The findings here show that analysts can think of a large array of advantages that could arise for companies who voluntarily disclose human resource information. Most often mentioned was that human resource disclosures could lead to increased transparency. One respondent underpinned this argument indirectly by a contrasting statement that the market would punish less disclosure. Another potential advantage of human resource disclosure was higher valuation as 3 respondents expressed that this kind of information might improve valuation. One of these 3 respondents explained the higher valuation due to increased trustworthiness. An additional 3 interviewees saw an advantage from human resource disclosure arising from a marketing standpoint. In their view human resource disclosure could be a marketing tool to attract good workers to join the corporation. Two financial analysts uttered that human resource information is nice to have but they also pointed out that human resource information is quite complex and not easy to quantify. This was outlined by Parker, Ferris and Otley (1989) as being one critique to human resource accounting that the measurement models are too complex to generate comprehensive and useful information.

Since all respondents made a statement about potential advantages it seemed to be a natural consequence to ask the participating financial analysts about disadvantages that Allianz or Skandia could get from voluntarily disclosing information about their corporations’ human resources. As the previous question there were no limitations to mention one advantage only and some financial analysts pointed out more than one disadvantage. Every respondent made a statement on this question, which constitutes Figure 6.

The category that was mostly acknowledged was stating that too much disclosure is a likely disadvantage of human resource disclosures. Half of the respondents in this
category named especially Skandia’s general disclosure strategy which in their believe issues too much information which is not of interest while some information is no longer available. One interviewee mentioned in particular that the human resource information in Skandia’s corporate annual reports is very little informative. Another point that was made by 4 respondents is that human resource information is very biased. Further 3 financial analysts uttered that disadvantages might occur if the human resource information is not meant seriously or dishonesty with the market. If it is possible that the human resource disclosure reveals that the corporations staff is overaged or that the organisation is not function might this turn out as a disadvantage.

The ending question of the user study’s interviews addressed the participating financial analysts with the question if more regulation through laws and recommendations are needed for the disclosure of companies’ intangible assets. The interviewees’ responses made to this question is classified into three categories as illustrated in Table 7-23.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Yes</th>
<th>No</th>
<th>Regulation through market pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of analysts</td>
<td>9</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

Fig. 7 Further laws and recommendations needed for intangible assets disclosure

The “yes” category was classified by a characteristically following quote:

*I think it will be very difficult. I mean I would like to see in detail how much a company is spending on human resources. How many personnel they recruited. Age structure. Changes. So, that I could compute a turnover rate on personnel. Yes, after all that wouldn’t be a bad idea. If this would be a requirement by law would then be very good as it would be comparable to other companies. No bad idea at all. (A18)*

That no further regulation for intangible asset information is needed was derived from quotes as:

*I would prefer not to sit down and to detailise the cost of training or something like that. It is like paying the electricity bill. If you want to produce you have to do that and why do you want to detailise that. But it is not worth it to make more fuzz about it then it needs attention for. (A5)*

A few respondents stated that regulation through market pressure:

*From regulators probably not, but the pressure that has moved insurance companies to disclose more information has come from the customers. ... There are European directives, which are very devious on accounting practice in Europe, because they never managed to agree. (A8)*

Half of the respondents indicated that they would like to see more regulation of intangible asset information. This seems to indicate that there is a demand by financial analysts for more standardised human resource information strengthening Gröjer and Johanson's (1997) discussed that it is hard to understand why there has not been a serious effort to develop valid and reliable measures. There were 6 respondents who did not see a need for further regulation as opposed to the group of analysts who welcomed further regulation of intangible asset information. Regulation of intangible assets information through market pressures was suggested by 3 interviewees, who all referred to the lack of a general insurance accounting standard or the complexity of European directives.
An Analysis of the Assessment of Human Resource Disclosure

Since Hermanson’s (1964) study about the measurement of the value of human assets a great deal of research has been conducted about many facets of human resource information, but not in the way as this research does. This paper provides evidence that the disclosure of human resource information is important and that human resources have for their corporations a very important position.

The FASB’s projected framework concluded that a corporation might lower the quality or quantity if the risk of competitive harm outweighs the expected benefit from voluntary disclosures (FASB 2001; p. 15).

The corporations’ strategies on disclosing human resource information are relatively different. Although the Allianz’s participant assured that a clearly formulated strategy is absent for human resource disclosures it was at the same time emphasised that employees are the key to sustainable competitiveness. According to Fitz-enz (2000) the latter is an indicator for corporations’ changed understanding about human resources and their effects on corporate competitiveness.

The findings from the user study seem to reflect the voluntary disclosure strategies of both corporations correctly on an overall level. The users acknowledged Skandia as the corporation who is disclosing most information, recognising Skandia as having adopted a proactive disclosure strategy. With a closer look to the disclosures about human resources this impression is not quite rooted in the empirical results from the report study. Therefore it might be hard to prove in what way a proactive disclosure strategy is more beneficial in financial terms than a reactive strategy, as Adrem (1999) concluded. According to Botosan (1997) it is difficult to quantify the exact impact of voluntary disclosure on users’ decision-making process.

The findings from this research support the FASB Business Reporting Research Project’s (FASB 2001) results that there are many ways of how voluntary disclosures, including voluntary human resource disclosures, help to describe and explain investment potential to users. Both corporations assessed different disclosure strategies, but they generally served the users demand to improve their understanding about the corporations’ background by examining additional information on human resources.

The user study revealed that there is a large array of positive effects that might originate from voluntary disclosure about human resources. The most often mentioned positive affect that users pointed out in the user study were that voluntarily disclosed information about human resources might lead to increased transparency. In an article Diamond and Verrecchia (1991) addressed that voluntary disclosures have the potential to reduce information asymmetry by reducing the information gap that exists between the provider and the user of disclosed information. This reduced information gap may then decrease the users’ uncertainty about the corporation and lower the agency costs, which in turn might reduce the cost of capital by attracting investors. According to Lev (1992), however, there is no guarantee that the full value of voluntary disclosure will be obtained by users.

Although increased voluntary human resource disclosures might improve users’ perception about transparency of corporations, providing voluntary disclosure is not fully unproblematic. Hendriksen (1982) has stated that the provider of voluntary information have to be aware that too much disclosure might be harmful, because unimportant information might bury significant business information for the users. In the users study too much disclosure was most often named, as a disadvantage that might occur if corporations do not carefully consider the amount and impact of voluntary.
disclosure. Therefore, corporations should be concerned not to create information overload for users when they disclose human resources, as it may create a negative impression for the users and could fall back on the corporation. Emphasis should lie on important facts enhancing the quality of voluntarily disclosed information in order to meet the expectations of all user groups.

The research by Kim (1993) indicates that users do have different expectations towards the amount of voluntary disclosure, as the better-informed user prefer less disclosure than the less well-informed user. This shows that for corporations it is important to find the right balance between too much and too little voluntary information about human resources. Corporations need judgment out of a cost-benefit perspective when they determine how much voluntary disclosure is appropriate and disclosures about human resources makes no exception to the rule. In her cost-benefit study of voluntary disclosure Depoers (2000) examined the trade-off between the incentive to withhold and incentives to disclose voluntary information and concluded that corporations have to consider their disclosure decision carefully. The interviewees of both corporations stated another aspect, as careful consideration will create trust in the corporation in the long run.

Regarding human resource disclosures the users came up with some possible disadvantages that might originate from too detailed human resource information in corporate annual reports. One example was given in the user study that very specific information about directors or employees might reveal that a corporation have an overaged board of directors or employee structure. Such information about human resources could diminish analysts’ trust in the corporation’s management or salesforce, as they might suspect that new products will not be sold at the cutting edge of the market. To reason like that would have negative effects on analysts’ valuations.

At the same time while the possible disadvantages were just outlined users have as well referred to potential benefits that certain types and more specific details of voluntarily disclosed information about human resources might generate. Higher valuation and increased trustworthiness were mentioned in the user study as possible advantages that might occur due to increased human resource disclosure. There is interplay between trustworthiness and higher valuation (Carnaghan et al. 1996). Human resources disclosures might help to improve the credibility of a corporation for the users as they can gain deeper understanding that in turn probably contributes to reduce misallocation of capital.

Conclusions

The overall research purpose of this study proposed to describe the users’ perception of voluntary disclosure about human resources in corporate annual. Returning to the introductory discussion that pinpointed deficiencies in the disclosure about human resource information, the analysis of the empirical results can be expanded to attain a deeper understanding about voluntary human resource disclosures.

Some studies (c.f. Botosan 1997) argue that it is difficult to quantify the exact impact of voluntary disclosure on the users’ decision-making process. The findings from the user study reveal that more than half of the interviewees regard human resource disclosure as being somewhat beneficial. While the majority of the respondents did not made any specifications, one analyst named especially Skandia as being the corporation that benefits most from human resource disclosures (see Figure 4). To put it briefly, although many users attributed human resource disclosures as being beneficial for
corporations, they do not differentiate the amount provided between the corporations. Otherwise, users would have mentioned that Allianz increased their employee reporting, whereas Skandia decreased the amount of employee reporting.

The user study findings in Figure 5 and Figure 6 list many advantages and disadvantages that users might receive from more detailed human resource disclosures. Analysts’ valuations could be affected negatively in the short-term by detailed human resource disclosure e.g. a too large administrative staff or overaged salesforce. This in turn, would affect the corporation’s cost structure, and diminish the revenues. On the other hand, users also referred to potential benefits that might occur due to increased human resource disclosure e.g. higher valuation and trustworthiness.

Effective communication between the providers and users of information is of fundamental importance for valuation. The more sophisticated the users’ analyses are, the more crucial it is for providers to disclose appropriate information (Parker, Ferris et al. 1989). The reporting of nonfinancial disclosure demands attention as this play an important role in a corporations’ overall disclosure, which in turn is of specific interest for analysts (Clarkson, Kao et al. 1999).

The users’ complex information environment affects their decision for stock market recommendations. To achieve greater transparency about a corporations’ current state the financial analysts have an incentive to cultivate management relations (Francis and Philbrick 1993). The feedback through financial analysts’ personal meetings was also acknowledged to be very important for both corporations in order to sense if users correctly understand disclosed information as it was intended by the providers. According to the interviewees from the provider study, such user feedback contributes to increased disclosure quality. However, several analysts criticised that Skandia’s human resource disclosures are often too vague, as they lack numbers and figures, which could help analysts.

Improving users’ understanding about the company, by issuing of voluntary disclosure is not without its problems. It has to be taken into consideration that too much disclosure might be harmful if significant business information is hidden by information unimportant to the users (Hendriksen and VanBreda 1992). Users mentioned that current human resource disclosures hardly make any statement about how employees add to corporate productivity. Although the current state of human resource disclosures may be unclear, they should not be absent, as they can provide users with clues about the corporate condition regarding employees or management.

The empirical evidence from the user study (Figure 7) suggests that providers and regulators should go on to debate valid and reliable measures. Although the respondents from both companies pointed out that their corporations voluntarily disclose more information than required by law, many users would appreciate a more structured and standardised use of issuing nonfinancial information. Moreover, some users mentioned that a more structured and standardised nonfinancial disclosure would be appreciated, as it would increase transparency and comparability.
## Appendix A

**Relevance of Corporate Annual Reports**

1. How important are the corporate annual reports for company valuation?
   - Which parts in a report do you consider to be most important for company valuation?
   - On which items do you see the need for providing further explanation?

2. How important is voluntarily disclosed information in relation to financial statements information for company valuation?

**Company Analysis & Information Gathering**

3. Do you valuate company’s voluntarily disclosed information on intangible assets?

4. Do you use the same valuation model for all companies, or do you make modifications?
   - Do you have an in-house model for valuation of voluntarily disclosed information?

5. Mention important information sources that you use when gathering information about a company’s intangible assets?
   - Do you assemble the information yourself, or do you get hold of it within your company?

6. Do you use a different model valuating Allianz’s or Skandia’s disclosure on human resources?
   - How important is consistency in a company’s disclosure policy?

**Level of Disclosure Allianz & Skandia**

7. Do you find an important information content difference between the corporate annual reports of Allianz (IAS) and Skandia (Swedish Accounts Act for Insurance Companies)?

8. Do you find an important difference in the level of disclosure in the corporate annual reports of Allianz (IAS) and Skandia (Swedish Accounts Act for Insurance Companies)?
   - Who disclose most information Skandia or Allianz?
   - Is this difference related to the application of different standards for the annual reports of Allianz and Skandia?

**Pros & Cons of Voluntary Disclosure**

9. Does Allianz or Skandia benefit by voluntarily disclosing information about its human resources?

10. Is there a difference with respect to the valuation between the companies who choose to voluntarily disclose more information about their intangible assets compared to those who do not?

11. With regard to Allianz or Skandia what kind of advantages may arise with voluntary disclosure on human resources?

12. With regard to Allianz or Skandia what kind of disadvantages may arise with voluntary disclosure on human resources?

**Market Efficiency**

13. Are there variations in the valuation of Allianz’s or Skandia’s intangible assets with respect to country and stock market?

14. Is disclosure of intangible assets, especially on human resources, something that facilitates company valuation?

15. Where in the corporate annual report should information about intangible assets and human resources be published?

16. Are more regulations through laws and recommendations needed for the disclosure of companies’ intangible assets?
References


