

International Management

Master Thesis No 2003:19

VOLUNTARY DISCLOSURE OF HUMAN CAPITAL

An Explorative Study of Voluntary Disclosure Practices in Swedish Annual
Reports

Johannes Pettersson & Henrik Rylme

Graduate Business School
School of Economics and Commercial Law
Göteborg University
ISSN 1403-851X
Printed by Elanders Novum

ABSTRACT

This thesis concerns the increasing importance and amount of voluntary disclosures. As intangible assets play an even more important role in companies' value-creating process than ever before, it has become more important to communicate these "hidden" assets to external stakeholders. As the traditional financial accounting standards are insufficient to capture and communicate the value of intangibles, companies use voluntary disclosure to breach the knowledge and information gap between internal and external users of such information.

In this thesis we have explored the voluntary disclosure practices in companies noted on the Stockholm stock exchange. The study is limited to human capital disclosure by examining what type of human resource information is presented in annual reports. The study also includes a multidimensional instrument, which is used to explore how the information included in the annual report is presented.

Our explorative study on voluntary disclosure of human capital has shown that the disclosures among Swedish companies are not very extensive regarding what information is enclosed and how this information is presented. We also call out for some sort of standardization of the manner in which the information is presented.

Keywords: Voluntary disclosure, human capital, human resource accounting, information asymmetry and information gap

Acknowledgements

During the past months we have had the opportunity to investigate an extremely interesting yet fairly unexplored topic. We have a lot of people that we owe thanks to, without whom this thesis would not be what it is today.

First of all we would like to express our gratitude to our tutor, Christian Ax, for all of his support and gentle guidance.

We would also like to thank Gunnar Rimmel, for taking time out of his busy schedule to discuss our ideas.

Furthermore, we would also like to thank Torbjörn Stjernberg for informative seminars and valuable feedback.

On a more personal note, we would like to thank our girlfriends for bearing with us during the months of our life when all we talked about was voluntary disclosures and annual reports.

Johannes Pettersson

Henrik Rylme

Gothenburg, December 2003

1. INTRODUCTION	2
1.2 PROBLEM BACKGROUND	3
1.3 STATEMENT OF PROBLEM	4
1.4 STATEMENT OF PURPOSE	5
1.5 THESIS CONTRIBUTION	6
1.6 THESIS DELIMITATIONS	6
1.7 THESIS OUTLINE	7
2. THEORETICAL FRAMEWORK	10
2.1 THE ROLE OF EXTERNAL REPORTING	10
2.2 GROWING IMPORTANCE OF INTANGIBLES	11
2.3 HUMAN RESOURCE ACCOUNTING AND REPORTING	13
2.4 BRIDGING THE INFORMATION GAP	16
3. METHODOLOGY	18
3.1 METHODOLOGICAL ISSUES AND PERSPECTIVES	18
3.2 RESEARCH STRATEGY AND STUDY PROCESS	19
3.3 HUMAN RESOURCE DISCLOSURE INDEX	21
3.4 THE MULTIDIMENSIONAL RESEARCH INSTRUMENT	22
3.4.1 HUMAN RESOURCE ITEMS, NUMBER OF WORDS AND CONTEXT	23
3.4.2 COMMENTS ON TEXT AND NUMBERS	24
3.4.3 TIME PERSPECTIVE AND BENCHMARKING	25
3.4.4 WORKING WITH THE MULTIDIMENSIONAL RESEARCH INSTRUMENT	26
3.5 COLLECTION OF DATA	26
3.5.1 SECONDARY DATA	26
3.6 EVALUATION OF THE COLLECTED DATA	27
3.6.1 VALIDITY	28
3.6.2 RELIABILITY	28
4. EMPIRICAL FINDINGS	30
4.1 THE ITEMS DISCLOSED	30
4.1.1 STAFF BREAKDOWN	30
4.1.2 STAFF HEALTH	32
4.1.3 EDUCATION	34
4.1.4 RECRUITMENT AND COMPENSATION	37
4.1.5 VALUE AND EMPLOYEES	39

4.3 COMPANIES CATEGORISED REGARDING SWEDISH/FOREIGN OWNERSHIP, STOCK EXCHANGE LISTINGS AND INDUSTRIES	41
4.3.1 OWNERSHIP	41
4.3.2 STOCK EXCHANGE LISTINGS	42
4.4 INDUSTRY	44
5. ANALYSIS	48
<hr/>	
5.1 COMPANY CHARACTERISTICS AND DISCLOSURE PRACTICES	48
5.2 CATEGORISING THE COMPANIES INTO DIFFERENT SEGMENTS	49
5.2.1 DIVIDING THE COMPANIES INTO TO DIFFERENT CATEGORIES	51
5.3 DISCLOSURE PRACTICES IN GENERAL	55
6. CONCLUSIONS	58
<hr/>	
BIBLIOGRAPHY	60
<hr/>	
APPENDIX 1. COMPANIES IN ALPHABETICAL ORDER (EMPIRICAL FINDINGS)	65
A	65
(ABB, ASSA ABLOY, ASTRAZENECA, ATLAS COPCO, AUTOLIV)	65
E	66
(ELECTROLUX, ERICSSON)	66
F	67
(FÖRENINGSSPARBANKEN)	67
G	67
(GAMBRO)	67
H	68
(HANDELSBANKEN, HOLMEN)	68
I	69
(INDUSTRIVÄRDEN, INVESTOR)	69
N	69
(NOKIA, NORDEA)	69
S	70
(SANDVIK, SCA, SEB, SECURITAS, SKF, SKANDIA, SKANSKA, SSAB, STORA ENSO, SWEDISH MATCH)	70
T	72
(TELIA SONERA)	72
V	73
(VOLVO)	73
APPENDIX 2. EMPIRICAL FINDINGS/AGGREGATED FORM	74
APPENDIX 3. COMPANIES INCLUDED IN DIFFERENT SEGMENTS AND CATEGORIES	75

Figures

Figure 1: Research Strategy and Study of Process pg. 20

Figure 2: Multidimensional Research Instrument pg. 23

Figure 3: Categorization Matrix pg. 51

Tables

Table 1: Human Resource Disclosure Index pg. 21

Table 2: Staff Breakdown pg. 30

Table 3: Staff Breakdown pg. 31

Table 4: Staff Breakdown pg. 32

Table 5: Staff Health pg. 33

Table 6: Staff Health pg. 33

Table 7: Staff Health pg. 34

Table 8: Education pg. 35

Table 9: Education pg. 36

Table 10: Education pg. 36

Table 11: Recruitment and Compensation pg. 37

Table 12: Recruitment and Compensation pg. 38

Table 13: Recruitment and Compensation pg. 38

Table 14: Value and Employees pg. 39

Table 15: Value and Employees pg. 40

Table 16: Value and Employees pg. 40

1. Introduction

The increasing importance of intangibles in value creation in companies has become critical when it comes to the area of corporate finance and capital markets (Holland 2002). As the intangible assets are strategically more important now to wealth creation than they ever were in the past (Bontis 2002), significant changes in the role of knowledge in company value creation have altered and increased the existing information asymmetry, i.e. the information gap between the company providers and the external users of such information. Holland (2002) proclaims that this is partly due to the problems with defining, measuring and assigning potential benefits to these intangible assets, creating a problem with a valuation of the same. It seems widely accepted in the academic community that accounting information is losing its relevance due to the growing amount and importance of intangibles, which are not (in most cases) seen as assets under current accounting regulations and standards (See Garcia-Ayuso 2002, Gelb 2002, Ittner and Larcker 1998).

As the current accounting practices are unable to efficiently value these intangible assets, Gelb (2002) argue that investors and analysts are unable or reluctant to use such information. This situation has lead to increased incentives for companies to voluntarily disclose information on the assets that are seen as drivers of value. This is done by voluntary disclosure which is defined by Adrem (1999) as “...*information disclosed over and above existing regulations.*” The regulations provided by national accounting regulations should be the requirements that constitute the threshold between voluntary and mandatory disclosure. Increases in voluntary disclosure have caused an increasing interest from the academic community. However, empirical research on voluntary disclosure is not a newfound concept (Eng and Mak 2003). Instead it has been of interest for researchers since the early 1960’s, at that point documenting the relation between voluntary disclosure and corporate size and managerial ownership. More recent studies have focused on the effects on cost of capital (Botosan 1997) and the cost of debt capital (Sengupta 1998).

1.2 Problem Background

The information gap is growing as the proportion of company value attributable to intangible assets increases (Pike et al 2001). The inefficient valuation due to this might cause significant problems for companies and its stakeholders. There are several reasons proclaiming the importance of companies providing information externally, especially when it comes to intangibles, i.e. the value drivers of today's business. (1) *Companies play an important role in supplying the capital market with information.* According to Williams et al (1996), company-provided information is vital to, as efficiently as possibly, allocate scarce resources in economies, especially the allocation of investment funds. Furthermore, the same information influences the functioning of the stock market as much of the information used by investors and analyst to assess the company's value is provided by the companies themselves. Insufficient information might lead to stock volatility as analysts have difficulties to accurately value future pay-offs (Garcia-Ayuso 2002).

(2) *The provided information might lead to potential benefits for the company's capital allocation.* Gray et al (1995) argue that the main motivation for companies to disclose information is to lower the company's capital cost as additional information reduces investor uncertainty. Uncertainty from investors, especially when it comes to knowledge-intensive companies, increases the cost of capital. Holland (1997) and Lang and Lundholm (1996) state that providing a large amount of information might have positive effects on a company's credibility, and analyst's coverage. It is therefore of greatest interest that companies are able to provide accurate information to the external users. In a survey on the disclosure practices of American companies (Garcia-Ayuso 2002), findings proclaimed that the companies investigated enclosed a large amount of voluntary information. The information was primarily focused towards their financial position; as a result they lacked a meaningful and informative presentation of their intangible assets.

These findings are supported through a study conducted by PriceWaterhouseCoopers (2002) where companies, on a general level, failed to satisfy the needs and requirements of the users of company information. The information provided by companies was not seen as relevant enough to be useful for investors, analysts and creditors. Ittner and Larcker (1999) claim that

company financial reports do not provide investors with an accurate view of the value-creation process of the company due to the lack of proper information on the company's value drivers.

1.3 Statement of Problem

Edvinsson and Malone (1997) claim that the knowledge, skills and competence of a company's employees and managers are seen as drivers of value. Stewart (1997) argues that the human capital of the employees is a company's most valuable assets. Many academics (See Guthrie 2000, Rimmel 2003) state that although companies are eager to proclaim the employees as the most important and valuable company asset, few of them have utilized models for measuring the human capital. The disclosure of human capital is seen as problematic due to limited understanding of such information.

For example, Johansson (2002) analyses how capital market participants may face in-house and external barriers to using company information on human capital. (1) They might not understand how the human capital contributes to the company value creation. (2) They might face issues of validity and reliability concerning intellectual capital information. (3) Because the company cannot own individual competence, the risk of losing the competence might be important. (4) The capital market actors might be hesitant because they do not know if the measures really matter in the company's management control process; is the information taken care of? Does management really take action upon the data? Holland (2002) made similar findings. Furthermore, he found that since company's accountants and auditors also have problems in understanding the value-creating process, this must also be seen as an additional barrier. The debate about the insufficient understanding and the resulting information gap is taken by this thesis as a starting point. These findings have lead up to three problems issues.

(1) What type of information on human resources is disclosed in annual reports?

This question aims to provide information on what areas within human resources are seen as important and thereby also enclosed in the annual report.

(2) How is voluntary disclosure of human resources presented in annual reports?

As the reporting of human capital has been criticized as not being sufficient enough for its users (Johansson 2002), this questions aims to provide information on how companies actually present their information about human resources in their annual reports. This questions aims to increase the understanding of why this information might be difficult to understand.

(3) Are there any differences in disclosure practices with regards to industry, ownership structure and stock exchange listings?

This question aims to provide a basis for analysis and discussion about the companies studied. These three factors have often been used to analyse voluntary disclosure and are useful for creating understanding about the disclosure practices.

1.4 Statement of Purpose

A large part of companies' value creation process is created by the intangibles such as employees' knowledge, skills and expertise captured within the human capital. As a result, investors and analysts tend to request information regarding the intangible assets that are not either disclosed in the annual report. If the items are included it is not presented or explained properly. The academic community talks about an information gap (Bukh 2003, Holland 2002), where asymmetric information is occurring because management knows more about the company than the external users, such as investors and analysts. This information asymmetry might cause severe implications on the capital market, stock market and the capital allocation process of companies. Increasing the

understanding in the external reporting of the intangible assets must be seen as important to overcome the information gap existing today, and thereby minimize the negative effects on the capital markets.

There are two purposes of this thesis. (1) The first purpose is to explore the practice of voluntary disclosure of human resources by examining what information about human resources is disclosed in annual reports, and how this enclosed information is presented. (2) The second purpose of this thesis is to develop a multidimensional research instrument that will enable a categorisation of how information on human resources is presented in annual reports. The two purposes aim to provide new information and thereby contribute to the knowledge on reporting human capital.

1.5 Thesis Contribution

After finalising this thesis we hope to have made three contributions to the knowledge on reporting human capital. (1) Providing new information when it comes to exploring human capital presentation in companies listed on the Swedish stock exchange, as a study like this has never been conducted in Sweden. (2) Developing a multidimensional research instrument. (3) Empirically testing the validity of the multidimensional research instrument.

1.6 Thesis Delimitations

This thesis is limited to the human (capital) resource area because it is more or less distinguishable from other parts of the annual report and it also contains many non-financial measurements. Furthermore, Stewart (1997) has earlier pointed out the importance of human capital, labelling it the most important asset, as companies cannot exist without human resources. It is also seen as a vital part of the intellectual capital and thereby also seen as an important driver of value (Edvinsson and Malone 1997). The previous statement has also received the attention from several researchers that have been examining or discussing the role of human resources and its importance to the bottom-line: success (Nagar 1999).

The type and extent of information disclosure of interest in this thesis is limited to voluntary disclosure. Voluntary disclosure is defined as the additional

information that is disclosed over and above mandatory requirements; these are defined by national accounting regulations (Adrem 1999). The study included in this thesis is limited to the annual reports and does not intend to analyse intellectual statements, supplementary business reports, etc.

There are authors that might disagree with our limitation, since the annual report is only one way for the company to communicate to the capital market (Gray et al 1995). Gelb (2002), for example, claims that interim reports, press releases and business statements include more vital information than the annual report when it comes to intellectual capital presentations. However, Rimmel (2003) states that the corporate annual report contains the accumulated company information about development and events that occurred during the reporting year and it is seen by many academics as the most important report for corporate valuation. Gray et al (1995) argue that the annual report is the most widely disseminated source of information on publicly held companies. These findings of the importance of the annual report, combined with the accessibility of annual reports, finalized the limitation of this thesis.

1.7 Thesis Outline

This thesis will be structured as follows. In the theory chapter, a theoretical framework will be provided. For example, theories describing the role of information in capital markets, previous studies on human resources and the intellectual capital, it will also include the development of external reporting.

The methodology chapter includes important methodological issues and decisions. It also contains a description of the two methodological frameworks used in this thesis.

In the chapter of empirical findings, we will provide the empirical findings from the annual report study. The information is divided and presented into different segments and sections, visualizing interesting categorizations.

In the analysis chapter, focus will be put on structuring the information and visualising connections and relations in the different segments and sections.

The analysis chapter includes working with the data provided from the empirical findings chapter.

In the final conclusions chapter, we answer our problem issues and purposes of this thesis. We also include a discussion in which we identify the

contributions provided. The chapter also presents a discussion on our findings and the overall problem issue.

2. Theoretical Framework

This chapter aims to supply a theoretical foundation for the research area, thereby providing an understanding of the fundamentals on which this thesis and our thinking are based upon.

External reporting has the objective to provide users of financial statements with useful information; this will, according to Cañibano et al (1999), facilitate the decision-making. Traditionally, the main users of this information are analysts, investors and creditors. Since they have no direct control over the process of preparation of accounting standards, financial accounting standards have been developed in order to ensure that the stakeholders are provided with relevant, reliable and timely information on which they can make their decisions. The underlying problem and importance for companies to provide investors and analysts (i.e. the capital market) with information can be found in the “lemon problem” and the “agency theory”.

2.1 The Role of External Reporting

As been mentioned earlier in this thesis, companies’ disclosures provide vital information towards the capital market. A critical challenge in the capital market, as well as in the economy at large, is the allocation of scarce resources into investment opportunities. In economic literature, this problem is referred to as the “lemon problem”. The theory consists of households that are willing to invest their savings into some of the ideas on the market presented by entrepreneurs.

According to Healey and Palepu (2001), households face an information problem, as they do not know as much about the business ideas as the entrepreneurs offering them. If there is a situation where half of the ideas are “good” and half of them are “bad”, the entrepreneurs with the bad ideas are going to claim that their ideas are as valuable as the good ideas. If this problem cannot be solved, the consequences might be that the capital market will undervalue some good ideas and overvalue some bad ones. This will have severe consequences on the allocation process of scarce resources in an economy. As a result, it is of greatest importance that companies provide external stakeholders with reliable information.

Furthermore, closely related to the lemon problem is the agency theory. It has been previously established that insufficient information might have severe consequences on the functioning of the capital market, stock market and the resource allocation process of companies. These ideas are based on a theory that economists introduced in the 1970's, called the agency theory. This theory has been regarded as an important construction for understanding and analysing financial reporting incentives (Jensen and Meckling 1976). According to this theory, the relationship between employers and their employees consists of a principal and an agent. The principal and the agent work together, but for different purposes. This can be seen as a manager-owner relationship, as the agent is hired to manage the company on behalf of the principal. The agency theory assumptions are that the agent is motivated by self-interest and is a rational actor. However, the principal can motivate the agent by controlling his/her incentives (Nowak and McCabe 2003).

Nowak and McCabe (2003) state furthermore that by creating an optimal contractual relationship between the agent and the principal, the problem might be solved. The agent is forced, due to remuneration incentives (often related to the contractual relationship), to disclose relevant information to the principal on which the remuneration systems are based. By providing the principal with important information on the company's performance, the principal is able to analyse whether or not the agent has utilized the company's assets properly, and in accordance to the interest of the principal.

To facilitate this communication, one of the more commonly used vehicles is the annual report (Gray et al 2001). However, due to the increasing amounts of intangibles in the value creating process, the regulated annual report has become insufficient (Holland 2002).

2.2 Growing Importance of Intangibles

According to Cañibano et al (1999), companies have moved into a knowledge-based intensive economy in which investments in human resources, research development and information technology are becoming essential in order to strengthen the company's competitive position, ensuring its future viability. Furthermore, Goldfinger (1997) argues that the source of economic value no longer is relies on the production of material goods but on the creation

and manipulation of intangible assets. Therefore, companies are experiencing a need to make investments in intangibles that are not (in most cases) reflected in the balance sheet, but on which the future success of the company relies. As a consequence, financial statements are becoming less informative of the company's current financial position and future prospects.

A sign of the loss of relevance for the accounting information is the increasing gap between market value and the book value of equity in most companies in most countries. For example, Microsoft's book value constitutes 7% of the company's market value (Lev and Zarowin 1998). Several studies have tried to establish the value creation of intangibles. For example, Bart et al (1998), Gu and Lev (2001), and Ittner and Larcker (1998) have tried to establish whether an intangible measure is associated with stock prices. If a significant association exists, the measure is said to be "value relevant" to investors. Although these studies have found that intangibles are associated with equity prices and are value relevant to investors, the coefficient is often smaller than those of recognisable and intangible assets.

At the moment it is difficult to communicate intangible assets due to restrictive legislations. The IAS 38 Intangible Assets (IASB 2000) have established requirements that companies are forced to meet in order to report assets as intangibles. The requirements are: (1) the intangibles are controlled by the company, (2) they are expected to generate revenues in the future, (3) the company should expect to be able to have an advantage of the return on the investments in these assets, and (4) if the value could be evaluated in a confident way.

Rimmel (2003) argues that several of these requirements are too difficult to fulfil. For example, to meet the definition of an intangible asset, it must be separately identifiable and distinguishable from other assets, and the company must show clear control over the asset. To distinguish, for example, the human asset from other assets is problematic since human resources are often integrated in business processes and other techniques. Kristensen and Westlund (2003) state that it is time for a new and improved reporting system because in order to understand the information gap there is an obvious need for relevant and reliable information on these intangible assets. Furthermore, Westphalen (1999) argues that there is a need for a standardization of reporting intellectual capital in

general, and on human capital specifically. At the moment there are several ways of presenting human capital, which offers the users little comparability and reliability.

2.3 Human Resource Accounting and Reporting

At the moment, companies noted on the Swedish stock exchange face two regulations when it comes to reporting human capital. The first requirement is to present the total number of employees within the company. This requirement was active when the companies from the sample group presented their annual reports of 2002. From 2003, it is also a legislative requirement that companies have to present their employees in the segments of men and women (FAR 2003).

When investigating the area of human capital, we found the following definition presented by Fredriksen and Westphalen (1998 pp. 10): “*the knowledge, skills and competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances*”. However, the idea of reporting as well as measuring human capital is not a newfound concept. In 1964, Hermansson (1964) published his first pioneer work concerning valuation of human assets. The human resource accounting theory was originally based on the assumptions that investments in human capital do pay-off because the correlation between years of on-the-job training and income demonstrated that there was a positive rate of return (Flamholtz 1985).

Since the beginning of human resource accounting in the 1960’s, researchers have produced large amounts of basic research that have resulted in models for the measurement of human resource costs and values. The one common idea behind all these models is the objective to enhance the quality of decisions through the provision of information on human capital for internal as well as external use (Flamholtz 1985).

Flamholtz (1999) argues that present and potential stakeholders of a company are interested in obtaining information regarding the organisation’s human assets. Moreover, they want to know about specific organisation’s investments in human resources, thereby improving the quality of decision-making by external users, particularly the investors.

There have been several attempts to improve the reporting of human capital. For example, the Konrad group, including Karl-Erik Sveiby, developed a model in 1987 to measure intangibles; thereby making them visible on the balance sheet (Rimmel 2003). But perhaps the most well referred term when it comes to reporting intangibles is intellectual capital. The work of Edvinsson and Malone (1997) was one of the attempts to categorise intangible assets, thereby making it more accessible to develop, facilitate and report. One of the intellectual capital components is the human capital, including the knowledge, skills and competencies of employees and managers. The Swedish insurance company, Skandia, developed, through the work of Edvinsson (1997), intellectual reports supplementing the traditional annual report. These reports highlighted the role of intellectual/human capital in relation to the value creation process within companies. Moreover, this information was communicated in a way that tried to describe how knowledge resources were managed and utilized in the company. This idea has not been without critic. However, as we do not intend to analyse this model in particular, we will not include such a discussion in this thesis.

Although there have been several attempts to communicate the intangible assets in a company, external users of such information have not found it adequate. Studies conducted by Rimmel (2003), Bukh (2002), and Garcia-Ayuso (2001) have found that investors and analysts have problems understanding this information, since it does not meet their requirements. The information provided is, at this stage, difficult to relate to future company performance and profitability. Johansson (2002) analysed how capital market participants may face in-house and external barriers for using company information on human capital. Due to this, various initiatives are under way to tackle the shortcomings of intangible management and reporting, which are provided by companies through their voluntary disclosures.

Marr et al (2003) provides a study that is sponsored by the Danish government, which aims to provide guidelines for companies to prepare intellectual capital statements. The study identifies three aspects that are vital for a functional intellectual capital presentation, i.e. being understandable and usable for analysts and investors (which are seen as the target groups in this study). Organizations are encouraged to produce reports that contain a *knowledge narrative*, *management challenges* and a *set of indicators*.

1) *The knowledge narrative* describes the strategic objective of the organization, including its customer's value proposition and resource position. Because it is a story, it must contain a storyline involving a chain of cause and effect. It includes how the products or services of a business add value to its customers, and it identifies the critical knowledge resources that will help the organisation deliver value. By using words such as "because" and "in order to", the organization can describe how knowledge assets drive organizational performance and deliver value to its customers.

2) Translating the knowledge narrative into well-defined *management challenges* involves explaining which knowledge resources need to be strengthened or acquired in order to tackle the challenges and achieve the strategic objective. Management challenges are further broken down into activities, initiatives and processes that need to be put into place to address the challenges and attain competitiveness.

3) In order to measure how well the organization challenges are being managed, a company must *put indicators in place*. These quantify the success of the actions corresponding to individual management challenges. Indicators make it possible for an organization to visualize its performance in term of intellectual capital management (Marr et al 2003 pp. 32).

Furthermore, Marr et al (2003) state that intellectual capital statement's objectives are to facilitate strategy implementation of the company rather than describe historical results. Not only do they concern metrics from previous performance, but they also focus on change activities that are made visible through the presentations of sketches and stories. Measurement and processes cannot be separated because together they constitute the language and practices of intellectual capital. The intellectual capital statements do not disclose the value of the company's intellectual capital resources. However, they do present the company's knowledge-management activities.

2.4 Bridging the Information Gap

The role of traditional financial reporting is becoming insufficient when it comes to communicating intangible assets. Previously, we described methods for presenting intangibles through intellectual capital statements or other forms of voluntary disclosures, which are occasionally included in companies' annual reports. Voluntary disclosures have been put forward as a way to present the intangible resources and thereby bridging the information gap between managers of companies and its external stakeholders. This following section provides information on how voluntary disclosure practices participate in the functioning of the capital markets.

Although the annual report is seen as one of the most widely used vehicles for external reporting (Gray et al 1995), Healey and Palepu (1993) claim that the annual report does not facilitate properly as a communication channel for managers, thereby forcing them to voluntarily disclose information. The gap in information between well-informed managers and less informed owners is referred to as the information gap. By disclosing information over and above the mandatory, managers are reducing the information asymmetry gap (agency participant problem), thereby increasing the owners knowledge of the strategically important aspects of the company. Voluntary disclosure reduces uncertainty and therefore reduces the information asymmetry problem. This might lead to opportunities for the company to reduce the cost of external financing (Healey and Palepu 1993, 2001).

There are however several other reasons for companies and managers to disclose information voluntarily. For example, managers are also directly rewarded using a variety of stock-based compensation plans (also identified in the agency theory) such as stock options grants and stock appreciation rights. These types of compensation schemes provide incentives for managers to engage in voluntary disclosures (Healey and Palepu 2001). Aboody and Karsznik (1999) found that companies delayed disclosure of good news and accelerated the release of bad news prior to stock option award periods, consistent with managers making disclosure decisions to increase stock-based compensation.

Diamond and Verrecchia (1991) argue that voluntary disclosure reduces information asymmetries among informed and uninformed investors. As

companies disclose information voluntarily, studies showed that stock prices increased as a result, which was unrelated to current earnings performance. These findings suggest that companies' disclosure strategies affect the speed with which information gets into stock prices.

Furthermore, Lang and Lundholm (1993) found that companies that disclose more information tended to have larger analyst followings, resulting in less dispersion in analyst forecasts as well as less volatility in forecast revisions.

3. Methodology

In this chapter, the reader will be provided with the most important methodological issues and decisions made during the writing process of this thesis. In this thesis, the methodological approach is qualitative since our purpose is explorative. As we gather information and interpret this in order to understand a context, a qualitative study is recommended as Holter (1982) claims that qualitative studies are relevant when researcher/s interpretations of motives, processes and contexts are in focus. This chapter also includes a presentation and a discussion regarding the two methodological frameworks that are used in this study, a human resource disclosure index and a multidimensional research instrument.

3.1 Methodological Issues and Perspectives

As the writing process began, there was a need to establish a starting point, identifying a research perspective. Applying a perspective means showing how we as researchers understand, explain and interpret the research area (Arbnor and Bjerke 1994).

In this thesis we have established two perspectives:

(1) *System perspective* (Hatch 1997). Viewing the research area as a system means that we have identified the research area to consist of several areas, or the understanding of them, which are integrated and thrive off each other. When these areas are combined they create something larger, in our case a larger understanding of the research area.

Relating this to our thesis, several authors (See Bukh 2003, Rimmel 2003) argue that it is of great importance to study the relation between the users and the providers of voluntary disclosure information. It is in the interplay between these two parts that an increased understanding of voluntary disclosure can be achieved. We agree that the problem, as well as the solution, to our research area is revealed in the relation between the providers and the users/interpreters of discussed information. Due to lack of time and resources, the external perspective is limited to findings provided by other academics. The external perspectives aim to provide information on how external users might perceive the disclosed information, i.e. is the enclosed information making sense? Is it

understandable? This is an important question since Johansson (2001) argues that users do not understand this information properly. The internal perspective aims to provide information on which human resource items are presented in annual reports as well as how this information is presented.

Like as system that is constituted by separate parts, we believe that there are several interesting findings to be made in the interplay between information provided by companies and the information required by the users. However, there are no studies from the user perspectives when it comes to human capital information. The few studies that have been made are not able to generalise or specify what criteria that the users of this information are requiring. As a result, the external perspective, i.e. what information that is required by the users, is limited to other academic's guidelines to how this information should be presented.

(2) *Capital market perspective.* In this thesis, as for several studies on voluntary disclosure, the capital market perspective constitutes a framework. Bukh (2003), Holland (2002), and Eng and Mak (2003) argue that the capital market is seen as a foundation or a starting point when discussing financial reporting. In this thesis we have established the importance in the functioning of the capital markets. Furthermore, the overall problem addressed in this thesis is drawn from the functioning of the capital markets; we therefore find it relevant to enclose such a perspective. All the assumptions and interpretations that have been made in writing this thesis are performed in light of this perspective.

3.2 Research Strategy and Study Process

This section of the thesis aims to provide a description of the research strategy as well as the process of study. The research and study process is often described by categorizing the research project into different activities (Yin 1994). The figure presented below provides a presentation of the activities and process of thought included in our study. Identifying the research sequence plays an important role in presenting the thinking process according to Gill and Johnson (1997).

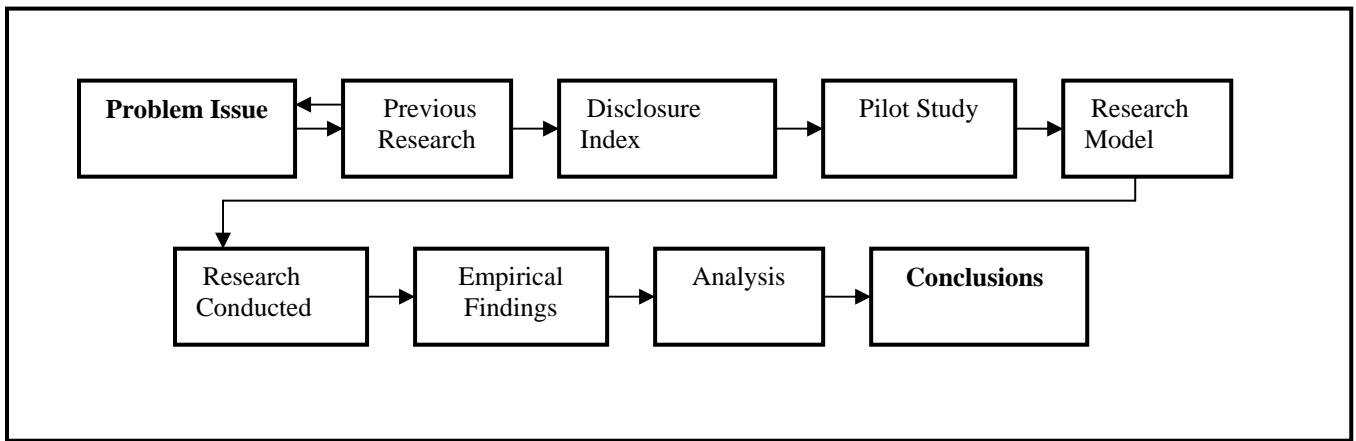


FIGURE 1: RESEARCH STRATEGY AND STUDY OF PROCESS

Before identifying the problem issues addressed in this thesis, we reviewed much of the literature on intellectual capital reporting and intangibles as newfound drivers of value. Early in the research we were more interested in how corporations interpret and foremost measure the intangible assets. Why are they seen as drivers of value? Can they be measured in an effective way? The literature reviewed mainly consisted of management and business journals. As this process developed, we came to realize that much of our question was to be found in the examination of external reporting. If these intangible assets are drivers of value, they should be disclosed in the external reporting presented to investors and analysts. These findings; together with the discussion on the information gap due to insufficient financial reporting, concluded the problem issues of this thesis.

After identifying the problem issues and narrowing the problem area, the scope of potential studies and researchers diminished. The researchers that have received most attention in this thesis are Bukh (et al 2001, 2002, and 2003) and Rimmel (2003). These researchers have conducted studies on reporting intellectual capital, and Rimmel specifically focused on the area of human capital. The work of Bukh (2003) has made a large contribution to this thesis by supplying the human resource disclosure index. Rimmel (2003) has been an inspiration since his study was very similar to ours, thereby providing us with a good set of references and guidelines.

The first two sub-questions need to be discussed a bit more in depth as two methodological frameworks constitute their exploration. The first sub-question to be examined in this thesis was: *what type of information for human resources is disclosed in annual reports?* This question aimed to provide a general

understanding of what information for human resources that corporations find important enough to enclose in their annual reports. For this question we used the human resource disclosure index provided by Bukh (2003). The original disclosure index contained 69 items divided into six categories. Of these 69 items, human resource items represented 27. Bukh establishes that there are no widely accepted theoretical guidelines for selecting items to disclose in an index. Bukh chooses his items based on an inspection of the literature on company disclosures (Bukh 2003).

3.3 Human Resource Disclosure Index

1. Staff breakdown by age	15. Education and training expenses
2. Staff breakdown by seniority	16. Education and training expenses/number of employees
3. Staff breakdown by gender	17. Employee expenses/number of employees
4. Staff breakdown by nationality	18. Recruitment policies
5. Staff breakdown by department	19. HRM department, division or function
6. Staff breakdown by functionality	20. Job rotation opportunities
7. Staff breakdown by level of education	21. Career opportunities
8. Rate of staff turnover	22. Remuneration and incentive systems
9. Comments on changes in number of employees	23. Pensions
10. Staff health and safety	24. Insurance policies
11. Absence	25. Statements of dependence on key personnel
12. Staff interviews	26. Revenues/Employee
13. Statements of policy on competence development	27. Value added/Employee
14. Descriptions of competence development program and activities	

TABLE 1: HUMAN RESOURCE DISCLOSURE INDEX

In the study process, items from the human resource disclosure index have been examined in the annual reports.

The second sub question in this thesis was: *how is information on human resources presented in annual report?* This research question is interesting because the only study in the area is provided by Bukh (2003). However Bukh's

study is limited to only investigating the amount of human resources items that are disclosed in external reporting (the study is limited to studying IPO's). Thereby examining whether or not the items are disclosed, using a yes-or -no framework. In this thesis, we were therefore forced to develop a framework that would enable us to explore how these items were presented. The process of developing a model or an instrument that enabled us to measure or observe something more abstract is referred to as a process of operationalisation (Patel and Tebelius 1987). Furthermore, Gill and Johnson (1997 pp. 33) defines the operationalisation process as “...*translation of abstract concepts into indicators or measures that enable observations or measure to be made.*”

Sub-question two was operationalised by the development of a multidimensional research instrument that enabled a categorisation of the number of ways that a company might present their information. By doing this, we were able to make a judgment of the different dimensional aspects occurring when presenting human resource information.

3.4 The Multidimensional Research Instrument

When starting the project of creating this instrument it was primarily based on an internal discussion, identifying what we believed would be important when presenting company-related information. In an early draft of the instrument we identified targets and activities as important aspects together with a general relation to the overall company strategy. However, since this instrument was such an important contribution, we needed to make a deeper analysis. The process of creating this instrument can be summarized through three stages.

(1) Examining the general discussion on how information about intellectual capital should be presented according to the academic community (Bukh (2003) (Marr et al 2003.) (2) Making a review of the discussion on presenting key measurements in general (Catusus et al (2001). (3) Creating a pilot study along the way and thereby identifying new ways in which the model could be developed. The instrument will be presented and a presentation of its development will be provided below the figure.

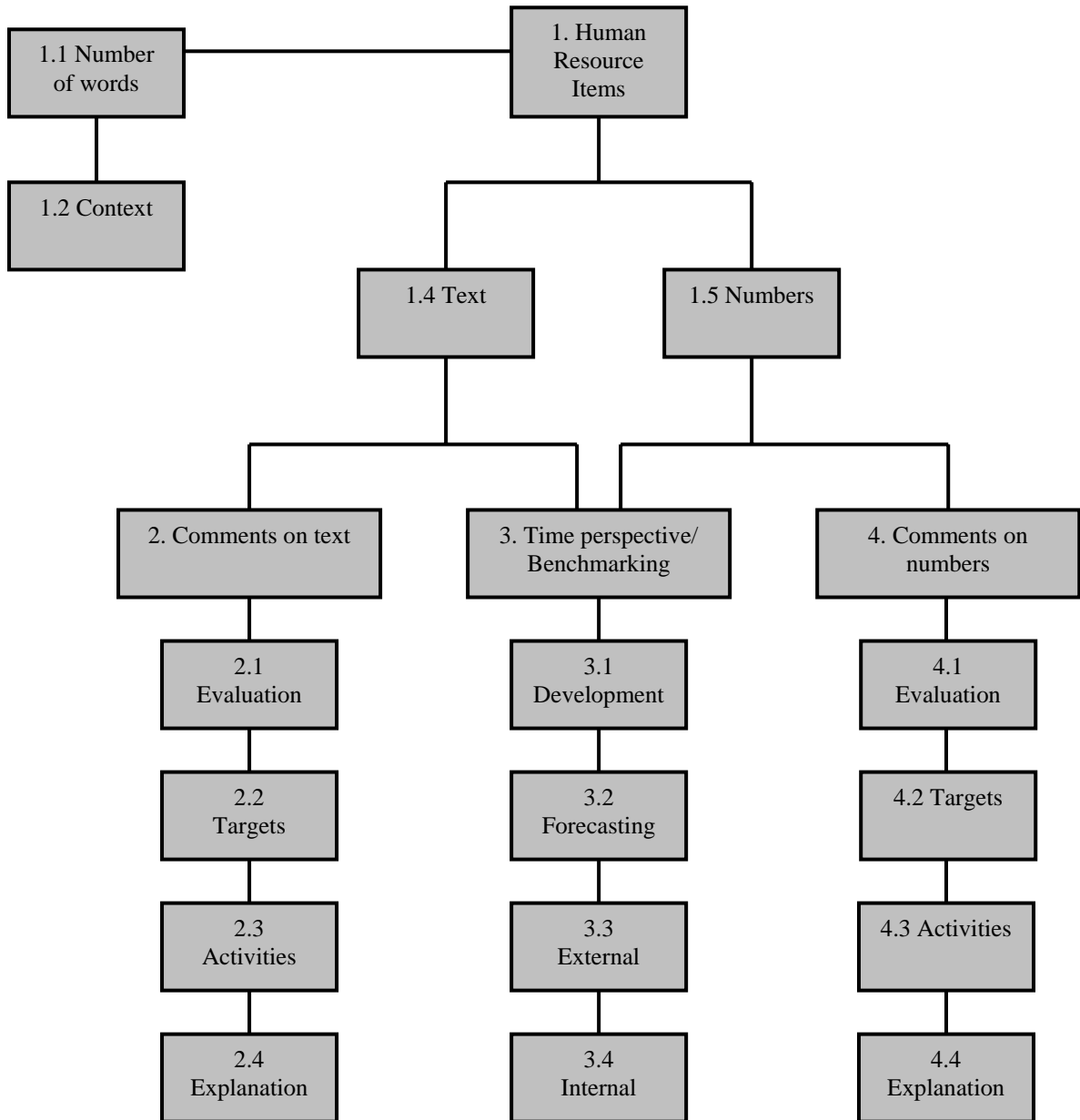


FIGURE 2: MULTIDIMENSIONAL RESEARCH INSTRUMENT

3.4.1 Human Resource Items, Number of Words and Context

The first step was to examine if a chosen human resource item from the disclosure index was included, which is done in Section 1. If the item was mentioned in text or in number, it was placed here. Thus far, our study is quite similar to the one conducted by Bukh (2003). From this point we wanted to know whether the item was presented in text or in numbers (including tables, figures or diagrams).

Before identifying the different dimensions to present the information, we wanted to establish where the item was located in the annual report. This part is

called context and it is found in Section 1.2. Where an item has been presented in an annual report reveals a lot of its importance or what the company thinks the items influences. For example, if it is located in the CEO's section, the human resource section, or is it hidden in the notes in the back of the report? We are under the impression that the most important items or areas generally are presented in the CEO's section. If the item has been presented in text, we wanted to know how many words describe the item, this is found in Section 1.1. Similar to the items location, the number of words might reveal its importance in relation to other human resource items. Not that quantity of words is correlated to quality but it might give interesting indications of the company's intentions.

3.4.2 Comments on Text and Comments on Numbers

The following sections (comments on text/numbers) are attempts to sort and categorise the information concerning the enclosed human resource items. Section 2 and Section 4 contain the same parameters.

According to Bukh (2003) and Marr et al (2003), it is of greatest importance to put the human resource item into context, not only presenting the information as a general interest but also to express what the items mean to the company and how they tie in to the company strategy. Catusus et al (2001 pp.5) expresses similar findings when discussing the presentation of key measurement on a general level. *"The key measurement is and will be a reduction. It must be put into context and a history must be told about it. Key measurements work well when they are used as a reference point in with the purpose of facilitating the creative analysis and discussion"*.¹

We agree that it is crucial to have a discussion about the presented human resource item; otherwise a lot of the information will be lost. We have so far discussed the importance for items to be discussed in order to make them understandable to the people who read them.

1) Evaluation- this parameter was included to study if the corporation has made any attempts to evaluate the text or numbers. Discussing whether the presented information is good or bad can make the item easier to understand. It can also be

¹ A free translation as the book is only available in Swedish.

presented as a broader discussion about the company needs for improvement. This section also includes information about how important the item is for the company on different levels.

2) Targets- this parameter was included to study if we can find targets set for the items. This is important to make sense of the presented item. Without a target it is difficult to determine if the result is good or bad or to predict the future. Furthermore, it is difficult to understand what the company is trying to achieve in the future.

3) Activities- this parameter was included to describe what activities the company has undertaken to reach its targets or to improve the item. This is important to see that the company actually is working with the item and not just talks about it.

4) Explanation- this parameter was included to study if the company had explained the items or not. By this we mean how they have presented a calculation (if numbers) describing how they have reached the presented conclusion. If the item is presented in text, one should find information about how they have reached the conclusions drawn in the text. For example, if they present the item *competence development*, do they explain what competence means in their company?

3.4.3 Time Perspective and Benchmarking

Bukh (2003) claims that since every company has their own way of measuring intellectual (human) capital, a comparison between corporations is difficult. As there are no standardised ways to measure or present human capital, it is necessary to make other comparisons. Even if the human resource items are not standardised, comparison is still possible; companies can compare the numbers internally over time or between departments or countries. Sometimes there might even exist a standardisation for an item such as the European Employee Index, which is an attempt to standardise and compare employee satisfaction (Eskildsen et al 2003). If such an index or standardisation exists for each item, external comparison becomes possible.

- 1) Development- this parameter examined if the company had included a history of the development of the item, i.e. how has it changed over the years?
- 2) Forecasting- this parameter examined if the company presented any forecasts or thoughts about the future.
- 3) External benchmarking- another way of making sense of the item is to compare them. If the item is standardized in any way external benchmarking is possible. Companies can use external benchmarking by comparing to indexes or external guidelines.
- 4) Internal benchmarking- if the item is only used within the company one might expect to see a comparison between departments, countries or areas within the company.

As we finalised the multidimensional research instrument, the next step was to put it into practice.

3.4.4 Working with the Multidimensional Research Instrument

An item was identified in the annual report, which was included in the human resource disclosure index. The item was then checked against our research instrument, enabling a categorisation of how different human resource items were presented in the annual reports. This process was repeated for every human resource items that were found while conducting our annual report study. The findings from each of the annual reports are presented on an aggregated level in the section of empirical findings. The entire study of each of the annual reports is presented as an appendix.

3.5 Collection of Data

3.5.1 Secondary Data

We have used secondary data for this thesis, i.e. using articles about prior research and corporate annual reports. Written documentation has been fundamental in the introductory and preparatory stages of our thesis writing, but

also throughout the data collection process as we investigated annual reports. These writings/studies have been of important use to enhance and support evidence from other sources.

The secondary data for this thesis is collected from 27 companies listed on the Swedish Stock Exchange's A-list most traded in 2003. In alphabetical order:

- | | |
|------------------------|-------------------|
| 1) ABB | 15) Nordea |
| 2) Assa Abloy | 16) Sandvik |
| 3) AstraZeneca | 17) SCA |
| 4) Atlas Copco | 18) SEB |
| 5) Autoliv | 19) Securitas |
| 6) Electrolux | 20) SKF |
| 7) Ericsson | 21) Skandia |
| 8) Föreningssparbanken | 22) Skanska |
| 9) Gambro | 23) SSAB |
| 10) Handelsbanken | 24) Stora Enso |
| 11) Holmen | 25) Swedish Match |
| 12) Industrivärden | 26) TeliaSonera |
| 13) Investor | 27) Volvo |
| 14) Nokia | |

The data was collected from the sample companies' annual reports of 2002. The annual report was used as a method to conduct our research study. In the beginning of the study we reviewed a lot of literature, which formed the base for the introduction, background context and theoretical framework. Some of the more used information sources were: Journal of Business Finance and Accounting, Journal of Accounting and Economics, Journal of Accounting Research and Accounting, Auditing and Accountability Journal.

3.6 Evaluation of the Collected Data

In order to secure a high level of quality on the empirical study, it is of importance to perform an evaluation of the collected data. In our case, the most important and perhaps critical issue to address was the creation and usage of the multidimensional research instrument.

3.6.1 Validity

The concept of validity can be defined as the ability for an instrument to measure what it is intended to measure (Merriam 1994). To make our research instrument good enough, the first thing was to ensure ourselves that we measured what we intended to measure. This issue concerns the operationalising process, in which we broke down the concept of “present” into several dimensions that could be examined. As we conducted a pilot study to develop our research instrument, we were also able to identify new dimensions of the concept of presenting human resource information. By embracing several dimensions of the examined concept, together with pre-defined human resources areas or items from Bukh’s disclosure index, we were able to uphold a high validity on the conducted study.

3.6.2 Reliability

The concept of reliability means to what extent the result from a study can be replicated (Merriam 1994). The first question is how reliable was the research instrument during our study? As we mentioned previously the pilot study was important in order to test the research instrument and develop it when necessary. By doing this, we were able to develop several dimensions of how information about human resources could be presented. In that way, the research instrument was made reliable. However, the problem in this study was that the instrument was used subjectively.

We identified a human resource item and the item was then checked against the research instrument and its different dimensions. It is important to be aware that we, as researchers, have a background –an inbuilt perspective on the research subject, which will affect the way that we interpret what we study. In order for us to make this study reliable, and thereby being replicable, we conducted a study on the same sample group separately and then the results were compared. By doing this we were able to discuss where we had come up with different interpretations, which was then analysed to clarify a common interpretation. We believe that this study can be replicated, using our research instrument, with similar findings, although as qualitative studies are subjective there might be minor differences.

4. Empirical Findings

In this chapter we will present the empirical findings from our annual report study. These findings will be presented in five different categories, which include similar items or areas. The five sections are Staff Breakdown, Staff Health, Education, Recruitment and Compensation and Value and Employees. These areas will be presented with three tables each. The first table will deal with what and how many items have been disclosed, i.e. the items frequency. The second and third table in each category will deal with how the items have been presented. This data has been collected by using our multidimensional research instrument. We will also examine how the companies studied used voluntary disclosure and if there were differences with regards to ownership, stock exchange listings and industry.

4.1 The Items Disclosed

We will now present our findings about the items disclosed, i.e. discussing how frequent they were and what has been done to clarify and explain the presented items. See Appendixes 1 and 2 for the data material.

4.1.1 Staff Breakdown

The staff breakdown by age, gender, nationality, department, function and level of education was disclosed differently. The most common disclosure in this group was breakdown by gender (70%) and nationality (67%). Staff breakdown by department and seniority were only disclosed by 7% of the researched companies.

HR-Item	n=27	Average disclosure
Staff breakdown by age		26%
Staff breakdown by seniority		7%
Staff breakdown by gender		70%
Staff breakdown by nationality		67%
Staff breakdown by department		7%
Staff breakdown by functionality		37%
Staff breakdown by level of education		15%

Table 2: Staff Breakdown (n=27)

HR-Item	Avg. # of words	Context	Evaluation	Targets	Activities
Staff breakdown by age	21,4	HR	0%	0%	0%
Staff breakdown by seniority	25	Notes	4%	4%	4%
Staff breakdown by gender	20,7	Notes/HR	4%	15%	11%
Staff breakdown by nationality	1,9	Notes/HR	0%	4%	0%
Staff breakdown by department	0	Notes	0%	0%	0%
Staff breakdown by functionality	4	Notes	0%	0%	0%
Staff breakdown by level of education	11,3	Notes/HR	0%	0%	0%

Table 3: Staff Breakdown (n=27)

Most of the items found in this area were presented in the notes section. It was primarily presented in an index over the employees distributed by nationality, gender or some other disclosed item. However, few comments were made in the notes section. If the companies explained the information, this was mostly provided in the HR section. Quite often, the figures were not commented on in any way but simply presented as an index. Several of the companies used internal benchmarking in this area. This was almost exclusively done as companies disclosed staff breakdown by gender together with the staff breakdown by nationality, thereby showing the differences between countries.

Among the staff breakdown disclosures, the most discussed and commented one was staff breakdown by gender; some companies had whole sections on its equality situation stating targets and activities for the staff breakdown by gender. Staff breakdown by gender was one of the few items that were explained using almost all of the parameters of our research instrument, i.e. the information was explained using dimensions such as evaluation, targets, activities, explanation, development, forecasting, internal benchmarking and external benchmarking. An example of a target in staff breakdown by gender was: *“Our goal is to have*

the same percentage of female managers as the percentage of women in the company.”

Another item often disclosed in this section was the staff breakdown by nationality. We think that the reason for this is that almost all of the companies that we studied were multinationals and thus placed an importance on mapping where the company had its employees. However, the area of staff breakdown by nationality was not often discussed, only 4% of the companies discussed goals in relation to this item. However, the development over time was more frequently disclosed (56%). Staff breakdown by level of education was found in a couple of companies (15%), but no attempts were made to explain the item. No targets were expressed and we found no linkages to activities within the company.

HR-Item	Explanation	Develop-ment	Forecasting	External Bench.	Internal Bench
Staff breakdown by age	0%	7%	0%	0%	0%
Staff breakdown by seniority	0%	0%	0%	0%	0%
Staff breakdown by gender	4%	48%	4%	0%	22%
Staff breakdown by nationality	0%	56%	0%	0%	4%
Staff breakdown by department	0%	7%	0%	0%	0%
Staff breakdown by functionality	0%	19%	0%	0%	0%
Staff breakdown by level of education	0%	0%	0%	0%	0%

Table 4: Staff Breakdown (n=27)

4.1.2 Staff Health

In this section, we will present the following items: rate of staff turnover, comments of changes in number of employees, staff health and safety, absence and staff interviews.

The most frequently disclosed items were comments of changes in number of employees (48%) and staff health and safety (30%). The least frequently disclosed items in this section were rate of staff turnover (4%) and staff interviews (11%).

HR-Item	n=27	Average disclosure
Rate off staff turnover		4%
Comments of changes in number of employees		48%
Staff health and safety		30%
Absence		26%
Staff interviews		11%

Table 5 Staff Health (n=27)

HR-Item	Avg. # of words	Context	Evaluation	Targets	Activities	Explanation n
Rate off staff turnover	0	Notes	0%	0%	0%	0%
Comments of changes in number of employees	50,7	HR	4%	11%	7%	7%
Staff health and safety	102	HR/Own segment	4%	15%	26%	4%
Absence	41	HR	4%	0%	7%	0%
Staff interviews	55	HR	4%	4%	4%	0%

Table 6 Staff Health (n=27)

Disclosures in this category were normally found in the human resource (HR) section of the annual report or in a section of its own, labelled staff health and safety. The most explained item in this area was the staff health and safety. This is, in our opinion, a very concrete item that is perhaps easier to write about than others. Many companies also work diligently with this item internally.

Primarily companies in the manufacturing industry disclosed staff health and safety. The item was extensively discussed; we even found one company that used external benchmarking in this section comparing their figures to the rest of the industry. Targets for health and safety were often expressed in text,

for instance “*our goal is to have no fatal accidents anywhere*” and activities normally consisted of programs for educating the staff or safety procedures implemented.

Comments about the number of employees were most frequent in companies that had recently downsized and wanted to explain the reasons for this. Therefore, targets and activities were often linked to costs. Absence was quite often disclosed (26%) but very few companies made attempts to explain the item, only 7% described activities. No attempts were made to express targets for this item and few companies (4%) used internal benchmarking. This is quite interesting since the absence is an easy item to measure and thereby applying targets. Similarly, there were only a few companies that included internal or external benchmarking on absence (4%). Relating this item between countries or departments would have been interesting to see (See table 7 below).

HR-Item	Development	Forecasting	External Bench.	Internal Bench
Rate off staff turnover	4%	0%	0%	0%
Comments of changes in number of employees	15%	0%	0%	4%
Staff health and safety	4%	0%	4%	4%
Absence	7%	0%	0%	4%
Staff interviews	0%	0%	0%	0%

Table 7: Staff Health (n=27)

4.1.3 Education

In this section we will discuss the following items: statements of policy on competence development, descriptions of competence development program and activities, education and training expenses, education and training expenses/number of employees and employee expenses/number of employees. These items were almost without exception found in the HR section of the annual report.

The most frequently disclosed item in this section and in the whole study was statements of policy on competence development (70%). On the other side of the spectrum are education and training expenses (4%), education and

training expenses/number of employees (0%) and employee expenses/number of employees (7%).

HR-Item	n=27	Average disclosure
Statements of policy on competence development		70%
Descriptions of competence development program and activities		26%
Education and training expenses		4%
Education and training expenses/number of employees		0%
Employee expenses/number of employees		7%

Table 8: Education (n=27)

The most frequent disclosed as well as explained item was statements of policy on competence development. The item was explained in many different ways; in some cases it was merely a couple of sentences on how important it was for the company to train good managers. In other cases a couple of pages were devoted to explaining how the company was continuously educating the entire company and why this was important for the general strategy. Activities were often described, some more detailed than others.

Statements of policy on competence development (70%), was the area that mainly filled up companies HR sections of the annual report. Others were less presented for example, descriptions of competence development programs and activities (26%). Surprisingly, almost none of the companies mentioned the cost for these activities (4%) and no companies wrote about spending per employee. Almost all of the discussions we found were about how much value the education programs added to the company, i.e. including evaluation, targets and activities. The concept of competence was seen as important as such items were often presented in the CEO's section.

HR-Item	Avg # of words	Context	Evaluation	Targets	Activities
Statements of policy on competence development	86,5	HR/CEO: s comments	22%	48%	52%
Descriptions of competence development program and activities	54,7	HR	7%	11%	22%
Education and training expenses	20	HR	0%	0%	0%
Education and training expenses/number of employees	0		0%	0%	0%
Employee expenses/number of employees	0	Notes	0%	0%	0%

Table 9: Education (n=27)

There were however, few companies that made any attempts to present the development over time when it comes to educational items in general. One example was the item of education and training expenses, which was related to previous years or put into relation to other areas within and outside the company.

HR-Item	Explanation	Develop-ment	Forecasting	External Bench.	Internal Bench
Statements of policy on competence development	4%	0%	0%	4%	0%
Descriptions of competence development program and activities	0%	0%	0%	0%	0%
Education and training expenses	0%	0%	0%	0%	0%
Education and training expenses/number of employees	0%	0%	0%	0%	0%
Employee expenses/number of employees	0%	7%	0%	0%	4%

Table 10: Education (n=27)

4.1.4 Recruitment and Compensation

In this section, we will discuss the following items: recruitment policies, HRM department division or function, job rotation opportunities, career opportunities, remuneration and incentive systems, pensions and insurance policies.

The most commonly disclosed items here were remuneration and incentive systems (70%) followed by pensions (44%). The least frequent item was insurance policies (0%).

HR-Item	n=27	Average disclosure
Recruitment policies		41%
HRM department division or function		7%
Job rotation opportunities		7%
Career opportunities		15%
Remuneration and incentive systems		70%
Pensions		44%
Insurance policies		0%

Table 11: Recruitment and Compensation (n=27)

The information regarding Remuneration and incentive systems were normally stock option programs for the top management, and we often found explanations of how the program was constructed and how many options each person had received. Although if it was frequently disclosed it was rarely presented in relation to why such as an area was important or what the company wanted to get out of having these systems.

Recruitment policies were less disclosed than remuneration and incentive systems, but were more often accompanied by extensive explanation. Many companies stressed the importance of recruiting and keeping the best employees. A lot of activities were mentioned, such as university contacts and database systems for sorting applications. Occasionally, external benchmarking was used to show how popular the company was among, for instance, business students.

HR-Item	Avg. # of words	Context	Evaluation	Targets	Activities	Explanation
Recruitment policies	102	HR	11%	22%	22%	0%
HRM department division or function	42,5	HR	4%	4%	4%	4%
Job rotation opportunities	31	HR	0%	4%	7%	0%
Career opportunities	88,8	HR	4%	4%	4%	11%
Remuneration and incentive systems	198,8	Notes/HR	4%	19%	15%	67%
Pensions	109	Notes	0%	0%	0%	30%
Insurance policies	0		0%	0%	0%	0%

Table 12: Recruitment and Compensation (n=27)

As mentioned previously, items such as remuneration and incentive systems and pensions were more frequently presented than items such as job rotation opportunities and career opportunities. Despite that many companies presented the item in general with many words (average of 88,8 words), only one company presented an evaluation, targets and activities to career opportunities. Similar findings can be made with regard to job rotation opportunities.

HR-Item	Explanation	Development	Forecasting	External Bench	Internal Bench
Recruitment policies	0%	0%	4%	0%	0%
HRM department division or function	0%	0%	0%	0%	0%
Job rotation opportunities	0%	0%	0%	0%	0%
Career opportunities	0%	0%	0%	0%	0%
Remuneration and incentive systems	7%	0%	0%	0%	7%
Pensions	11%	0%	0%	4%	11%
Insurance policies	0%	0%	0%	0%	0%

Table 13: Recruitment and Compensation (n=27)

Most of the items were found in the HR section, but the one most frequently disclosed, remuneration and incentive systems, was presented in the notes section. The reason might be that this particular item contained a lot of text about exactly how many stock options the CEO had received and so on. Perhaps the companies that disclosed this kind of information found it to be too tedious to have in any other section of the annual report.

The recruitment policies had, when disclosed, a very prominent position in the HR section. Most companies that disclosed the item wrote about how popular the company was for future employees and the problems with finding suitable candidates. However, few companies actually discussed what activities could make this process any easier or what targets they had with their recruitment policies.

4.1.5 Value and Employees

In this section we will discuss the following items: statements of dependence on key personnel, revenues/employee and value added/employee.

We found very few disclosures among these three; two companies presented revenues /employee and value added/employee and statements of dependence on key personnel.

HR-Item	n=27	Average disclosure
Statements of dependence on key personnel		4%
Revenues/employee		7%
Value added/employee		4%

Table: 14 Value and Employees (n=27)

The items presented in this section were rarely presented and even less explained. Revenues/employee and value added/employee was found in the notes section, while statements of dependence on key personnel was presented in the HR section. The figures on the first two items can be calculated as the information on number of employees and revenues are presented in the annual

report, only not presented as a specific item. The figures with which to calculate revenues/employee and value added/employee were represented in most of the annual reports that we studied. However, no company actually specified the measure or had any discussion whatsoever. This could have been especially interesting in companies that recently downsized or were having problems with costs.

HR-Item	Avg. # of words	Context	Evaluation	Targets	Activities	Explanation
Statements of dependence on key personnel	30	HR	4%	0%	0%	0%
Revenues/employee	0	Notes	0%	0%	0%	0%
Value added/employee	0	Notes	0%	0%	0%	0%

Table 15: Value and Employees (n=27)

HR-Item	Development	Forecasting	External Bench.	Internal Bench
Statements of dependence on key personnel	0%	0%	0%	0%
Revenues/employee	7%	0%	0%	0%
Value added/employee	4%	0%	0%	0%

Table 16: Value and Employees (n=27)

4.3 Companies Categorized Regarding Swedish/Foreign Ownership, Stock Exchanges Listings and Industries

In this next section, we have divided the companies even further into degree of foreign or Swedish ownership, noted stock markets of Sweden, and Europe or U.S. We also divided the companies into different industries such as finance/real estate, manufacturing, IT/telecommunication, consumer products, heavy industry and healthcare. We have disregarded the size of the companies since all of them, in our opinion, are large as they are noted on the A-list. By examining the information through a filter of categorisation, we hope to find interesting results.

4.3.1 Ownership

In this segment, we will look at the differences between companies based on their owner structure.

In the segment of primarily Swedish owners we looked at the following companies: Gambro, Electrolux, Skanska, Atlas Copco, Swedish Match, SKF, SEB, Industrivärden, SCA, Ericsson, Handelsbanken, Sandvik, TeliaSonera, Skandia, Investor, Holmen, Föreningssparbanken, SSAB, Nordea, and ABB. It was difficult in this section to make any generalisations on the information provided. This is because it ranged from high to low quantity as well as number of dimensions included when presenting the item. One of the most interesting findings in this section was the item; *staff breakdown by gender*. Although the companies included in this section were categorised by a variety of disclosure practices as well as in different industries, they all put a lot of effort into presenting the gender item. The information was not only presented as a number or figures, there were also entire sections devoted to the gender discussion. The items that were most frequently presented were also the ones that the companies in this segment related to the most number of

Average number of disclosures: 6, 7

Most frequent items:

1. Staff breakdown by gender (75%)
2. Statements of policy on competence development (70%)
3. Remuneration and incentive systems (70%)

Most explained items:

1. Remuneration and incentive systems
2. Statements of policy on competence development
3. Staff breakdown by gender

dimensions. In general, this segment presented a variety of human resource items.

In the segment of primarily foreign owners, we found the following companies: Stora Enso, Volvo, Assa Abloy, Autoliv, Nokia, Securitas and AstraZeneca. The information provided in this section was primarily found in the notes section in the annual report. As a result, many of the companies presented here could be categorised as providing little information and presenting it with few dimensions. There was, however, one company that stood out in number of items and explanation of the presented items, Stora Enso. The information provided in the foreign owner section was primarily less than in the Swedish owned section. However, *pensions* was explained more than in the Swedish owned counterparts.

<p>Average number of disclosures: 6, 4</p> <p>Most frequent items:</p> <ol style="list-style-type: none">1. Staff breakdown by nationality (86%)2. Remuneration and incentive systems (86%)3. Statements of policy on competence development (86%) <p>Most explained items:</p> <ol style="list-style-type: none">1. Statements of policy on competence development2. Remuneration and incentive systems3. Pensions
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4.3.2 Stock Exchange Listings

In this segment, we have divided the companies in the sample group in three different categories that might provide new insights about voluntary disclosure practices: Companies noted on the Swedish stock exchange only, noted on other European stock exchanges and noted on U.S. stock exchange.

Noted on the Swedish stock exchange only- in this segment we have the following companies: Gambro, Electrolux, Skanska, Atlas Copco, SEB, Industrivärden, SSAB, SCA, Handelsbanken, Assa Abloy, Investor, Holmen and Föreningssparbanken. A larger number of items were disclosed in the HR section including information on competence programs and activities. The information provided in this segment was focused on *statements of policy on competence development* (86%), and *staff breakdown by gender* was also frequent. Although this segment presented an average amount of 7 items, they were more often explained than not. The most frequent dimensions in this segment were *evaluation* and *targets*; it was rare to find activities to reach the established targets.

Noted on the Swedish stock exchange only (14 companies)

Average number of disclosures: 7

Most frequent items:

1. Statements of policy on competence development (86%)
2. Staff breakdown by gender (64%)
3. Remuneration and incentive systems (57%)

Most explained items:

1. Statements of policy on competence development
2. Recruitment policies
3. Remuneration and incentive systems

Noted on other European stock exchanges- in this segment we studied the following companies: Stora Enso, SKF, Volvo, Ericsson, Skandia, AstraZeneca, Nokia and Nordea. The information provided in this section was primarily low section based. The information provided was mostly presented in the notes section and often in the form of numbers. Staff breakdown by nationality was disclosed by all of the companies in this category, few companies explained the item. None of the companies in this segment presented a large amount of information, nor did they relate it to any larger number of dimensions. The most frequently used dimension was *explanation*, especially when it came to comments on changes in number of employees and remuneration and incentive systems.

Noted on other European stock exchanges (8 companies)

Average number of disclosures: 5, 8

Most frequent items:

1. Staff breakdown by nationality (100%)
2. Remuneration and incentive systems (75%)
3. Staff breakdown by gender (75%)

Most explained items:

1. Comments of changes in number of employees
2. Staff health and safety
3. Staff breakdown by gender

Noted on U.S. stock exchange- in this segment we studied the following companies: Swedish Match, Stora Enso, Volvo, TeliaSonera, Autoliv, AstraZeneca and Nokia. The information presented in this section was similar to the low section, which will be found later in this thesis. A lot of focus was put on *remuneration and incentive systems*. Although several of the companies in this segment presented a lot of items, they were rarely connected to different dimensions other than *explanation*. This segment had very little in common, as the companies in this segment are rather large international companies, they put some effort into presenting staff breakdown by nationality, which was related to development and internal benchmarking.

Noted on U.S. stock exchange (7 companies)
 Average number of disclosures: 7
 Most frequent items:

1. Remuneration and incentive systems (86%)
2. Pensions (71%)
3. Statements of policy on competence development (71%)

Most explained items:

1. Remuneration and incentive systems
2. Statements of policy on competence development
3. Staff breakdown by nationality

In this section we can see a difference in the average number of disclosures, companies noted on the Swedish stock exchange and on the U.S. stock exchange have a higher number of disclosures compared to the companies noted on other European stock exchanges. Staff breakdown by gender is more commonly found in companies noted on Swedish or other European stock exchanges.

4.4 Industry

This segment highlight any differences based on their industry position, there are six different industries. The companies were originally divided into eight industries. However, in two of them there was only one company in each, making a summery less fruitful. These two industries were consumer products rare bought, and telecommunication operator. Therefore they were included in the most similar industries. The company in the consumer products- rare purchase was included in consumer products and the company in the telecommunication operator industry was included in the IT/telecommunication industry. The industry categorisation used was made by Dagens Industri, found at www.di.se.

In the finance/real estate industry we identified seven companies: Nordea, Handelsbanken, Förenings-sparbanken, SEB, Investor, Industrivärden and Skandia. The companies in this section provided a large amount of items and the information. Almost all of the companies had included an HR section in their annual report, where a lot of the information could be found. Frequent items were *remuneration and incentive systems* together with *staff breakdown by gender*, both 86%. *Statements of policy on competence development* closely followed these two items on competence development, which was included by 71 % of the companies studied. Several of the companies found in this industry focused on explaining the remunerations and incentive systems, which was often put in the notes and included a lot of words. The items that received the most explanation including *targets, evaluation and activities* were *recruitment policies* and *staff breakdown by gender*.

In the consumer products industry we found three companies: Electrolux, Autoliv and Swedish Match. The information was primarily presented in the notes section of the annual report. The companies in this industry presented fewer items than for example the finance/real estate industry. *Competence development and programs* as well as *statements of policy on competence development* were the items most disclosed, all companies disclosed this information. These items were also explained to a high degree, i.e. including evaluation, targets and activities.

In the healthcare industry we identified two companies: AstraZeneca and Gambro. In this section we had only two companies, which presented the information very differently. Both companies included *staff breakdown by nationality, statements of policy on competence development and remuneration and incentive systems*. These items included were the only thing in common. AstraZeneca had disclosed only a few items, while Gambro had included several items. However, it was not only the amount of items disclosed, but also the way that they were explained. Gambro included several dimensions from our research instrument when explaining an item and this way of describing their work was used in almost all items presented.

In the heavy industry we identified four companies: SCA, Holmen, Stora Enso and SSAB. In general this section provided a large amount of information, most items included throughout all industries. The information was often

enclosed in a human resource section in the annual report. The companies in this section focused to a large extent on the employees and their environment, which can be seen in their most frequent and explained items, *recruitment policies, comments on changes in number of employees and absence*, all disclosed in 75 % of the companies. In contrast to the other industries this industry put a lot of effort into explaining areas closely related to the employees and their well being, such as *staff health and safety, recruitment policies and statements of policy on competence development*.

In the IT/telecommunication industry, we identified three companies: Nokia, Ericsson and TeliaSonera. The companies in this section provide information very similar to the one presented in the low and medium sections found later in this thesis. The information was to be found in the notes section of the annual report and it was not explained to a large degree. The companies presented many similar items such as, *staff breakdown by nationality and functionality and remuneration and incentive systems*. However, the only item presented frequently that the companies tried to explain was *remuneration and incentive systems*, but the items rarely included any *evaluation, target or activities*. One interesting finding in this industry was that a lot of effort was put on explaining the item *comment on changes in number of employees*, explaining why it was necessary for the company to downsize.

In the manufacturing industry we found eight companies: Volvo, Atlas Copco, SKF, Sandvik, Skanska, ABB, Securitas, and Assa Abloy. The companies in this industry provided a little amount of information. There were very few items disclosed, only an average of 4, 5 items/company. The least amount if items disclosed between the industries. The information was primarily found in the notes section and it included very few explaining dimensions. Few items were explained and very few items were explained with regard to evaluation, targets activities. Some companies provided how staff breakdown by nationality had developed over the years.

The most interesting finding with regards to industry was that Heavy industry presented most items and provided also explanations to the disclosed items, several of them including targets, activities, benchmarking and evaluation. Another interesting fact is that the Manufacturing industry that is quite similar to the Heavy industry had the lowest amount of disclosures and the

least amount of explanation. When starting our study we had expected companies that were known to be knowledge driven to have a high amount of voluntary disclosure in the HR segment but we found quite the opposite, companies in telecommunication and IT were among the companies that disclosed the least amount of information and had little explanation of the items disclosed. However we must take into consideration that we only had three companies from this industry in our study, but it is still a very interesting finding.

5. Analysis

This chapter will present the most interesting findings from the empirical chapter when it comes to ownership, stock exchanges listings and industry. It will also include a categorisation of the companies included in this study, thereby enabling a more general picture of the disclosure practices in Swedish annual reports.

5.1 Company Characteristics and Disclosure Practices

When investigating the differences regarding ownership, registered on different stock exchanges and industry, the most interesting findings were that foreign owners was less reluctant or interested in providing information on their human resources. In the cases that this was disclosed the information was primarily focused towards remuneration and incentive systems. Swedish owned companies as well as companies registered on the Swedish stock exchange, on the other hand, often presented staff breakdown by gender and statements of policy on competence development. The difference in focus between foreign and Swedish owner is interesting. The reason for the interest in competence development from Swedish companies might be connected with the prominent work of Leif Edvinsson. It seems that the ideas on the intellectual capital with focus on human capital, including perhaps the most important aspect competence has influenced Swedish companies. Similarly, the high frequency and interest for competence items there was a high frequency on staff breakdown by gender. The reason for the high frequency on staff breakdown by gender might be that the recent external reporting regulation on this item, which is put in practice June 2003.

Another interesting finding when it comes to human resource items presented was that the segment of foreign owners presented, to a large extent, similar items. Perhaps this is a sign that foreign countries and companies have more experience of standardizing the information on human capital in voluntary disclosures? For example, companies registered on foreign stock exchanges, which were owned by foreign investors often presented remuneration and incentive systems as well as pensions to a large extent i.e. including large sections providing explanations on these items. There was however, less focus on providing targets and activities or explaining why the items were so

important that it required an own section. Here, we could find differences in relation to the Swedish owned companies, which focused to a larger extent on competence development. This item was often valuated, i.e. explaining its importance for the companies future viability, there was however more rare to find specific targets and activities as a complement.

The most interesting findings when it came to presenting the items disclosed regarding industry was that the industry that received the highest numbers of items and that also had the items most explained was the Heavy industry (including four companies). These companies had often their own human resource as well as employee health and safety sections. This was a finding that surprised us since knowledge-intensive industries such as IT and Telecommunication has received a lot of the attention when it comes to the importance of presenting intangibles and human capital. Why this was the case is not all that clear, perhaps, these companies are seeking higher coverage by analysts, an ideas supported by Lang and Lundholm (1996) who argues that increasing voluntary disclosure increases analysts coverage.

5.2 Categorising the Companies into Different Segments

So far we have presented the information with regards to different categorise. We have divided and sort out the information with regard to the areas, Swedish or foreign ownership, stock exchange listings and industry. Now it is time to analyse the empirical findings and in order to categorise and sort out the information, thereby enabling a more general picture of the presented information we will categorise the companies into three different segments. These segments will include; types of information presented, how this information have been presented.

For this categorisation we have come up with two parameters. (1) Number of disclosures, which deal with how much information the company has presented in the annual report. This parameter is found on the vertical axis in figure 3, where we find the level of numbers disclosed. If the number of disclosures is lower than six the result was categorised as a low amount of disclosures and if the number of disclosures was more than six it was categorised as a high level of disclosure. The level of six items as a threshold

was decided by locating the average amount of disclosure throughout all the annual reports.

The other parameter (2) labelled quality was harder to judge. Although that we have labelled it quality it does stand for something else. In this case, the term quality is related to whether the item disclosed has been explained through a number of different dimensions included in our research instrument. This parameter is seen in figure 3 on the horizontal axis. The axis includes three levels, low, medium and high quality. The more dimensions that the company had included when presenting the item the higher level of quality has they received. Very few items studied had all of the dimensions in our research instrument represented, but we still felt that several of items were connected to the dimensions in our research instrument. In our opinion this was enough to estimate that a company had sufficiently explained an item.

The parameters previously describe has been used to create a framework which forms a matrix in which all of the examined companies can be sorted and categorised. First of all, companies that disclose little information with low amount of dimensions related to the item, is categorised in a segment labelled: “Low”. Secondly companies that disclose a slightly higher number of items and have made attempts of explaining these, is categorised in a segment labelled: “Medium”. Finally companies that have disclose a lot of items and at the same time have maintained a high level of connected dimensions, thereby explaining the items, is categorised in a segment labelled: “High”. (See figure 3 below) The main function with this section is, first, to find general categorise that will visualise the disclosure practices. Secondly, the idea is to categorise the three segments of; Swedish or foreign ownership, stock exchange listings and industry into to these different categorise.

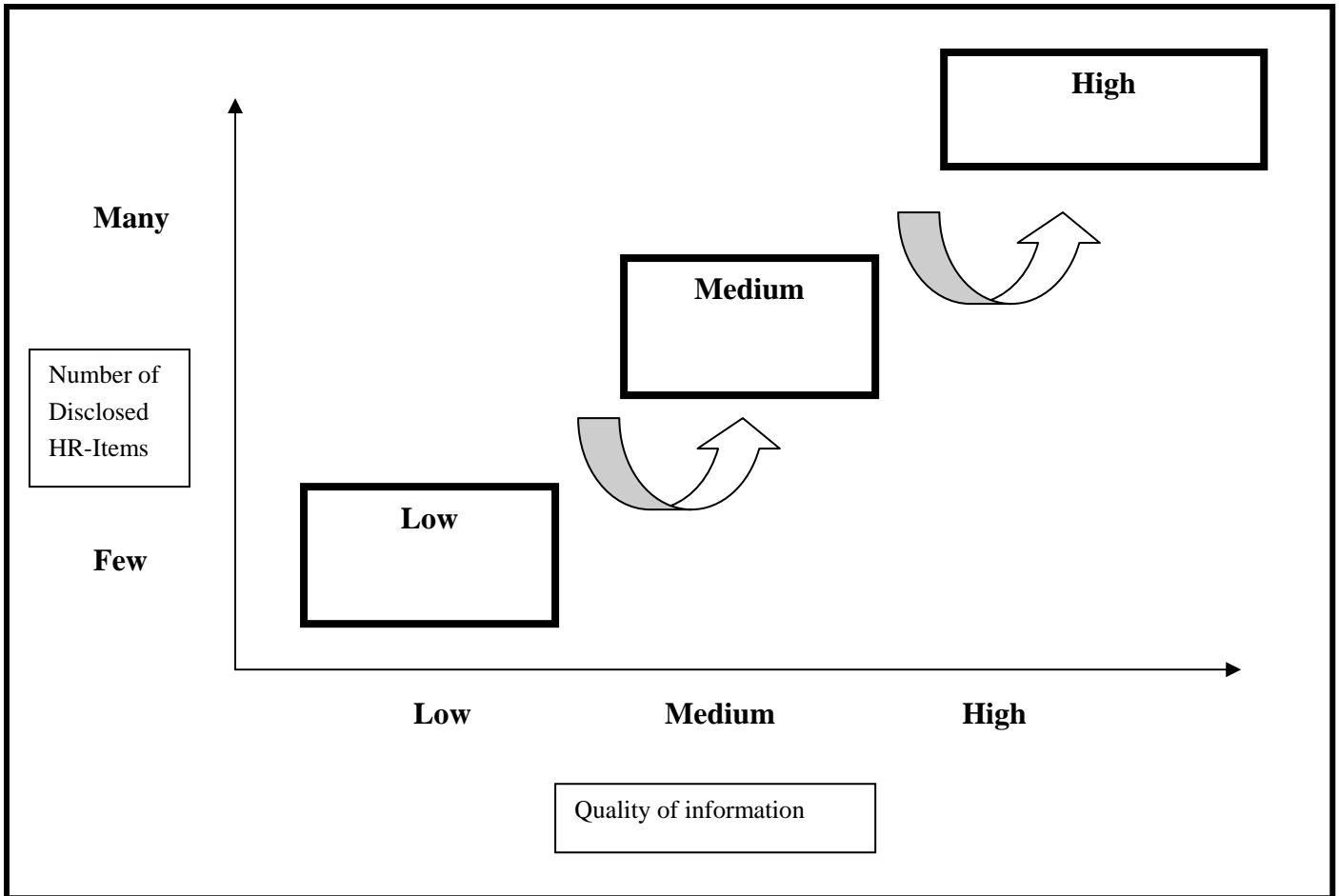


FIGURE 3: CATEGORIZATION MATRIX

In the *first* categorization labelled low we identified the following companies: ABB, Ericsson, Skink, Securitas, SKF, Nokia, Industrivärden, Volvo, AstraZeneca, Assa Abloy, SSAB, and Autoliv. In the *second* categorisation labelled medium we identified the following companies: Handelsbanken, SCA, Swedish Match, Investor, TeliaSonera, Holmen, Atlas Copco, Sandvik, and Skandia. In the *third* categorisation labelled high we identified the following companies: Föreningsparbanken, Gambro, Stora Enso, and SEB. In the next section we will describe the characteristics that symbolises each of the segments.

5.2.1 Dividing the Companies into to Different Categories

(1) In the segment low, we found few items that were mainly not connected and explained with any dimensions. The presented information was often found in

the notes section of the annual report. There was in general a little amount of text, and in the cases where text occurred it primarily regarded remuneration and incentive systems. Explanations on remuneration and incentive systems were mainly focused towards how a stock option system for the management was constructed and what the costs were for the company. The situation was rather similar when it came to explaining the pensions.

The companies that fell into the segment low very quite varied, some companies had apparently chosen not to disclose HR items because it was not relevant for their business, examples here are investment companies with few employees that had very few items and even less information about the items.

<p><u>Low</u></p> <ul style="list-style-type: none"> • Average amount of HR-Items: 4 • Most frequent HR-Items: <ol style="list-style-type: none"> 1. Staff breakdown by nationality 87,5% 2. Staff breakdown by gender 75% 3. Statements of policy on competence development: 50% • Most explained HR-Items: <ol style="list-style-type: none"> 1. Remuneration and incentive systems 2. Statements of policy on competence development 3. Pensions
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But surprisingly other companies fell into this category as well, even companies that we thought would disclose as much as possible, for example, Ericsson that only disclosed 5 items and had very little additional information, the only attempt to express a target was when commenting downsizing where they said that the target was to have “*less than 60000 employees*”. Other than that the only information about the disclosed items was 261 words to explain how the companies’ incentive system was structured. Swedish owned companies and Europe and U.S. listings were the majority in this section; the companies were from various industries although all of the companies in the Manufacturing industry were found in this segment.

(2) The segment of medium was categorized by having a lot of information on statement of policy on competence development. However, this type of item was not often explained to a large extent. There were some explanations in this segment but in those cases they were too few to value the company to the high segment. An example in this category is SCA, they disclosed seven items but had very little discussion about the items disclosed. The numbers were presented in the notes section in the back of the report and if there was a discussion no real targets were presented and activities were poorly defined. The only area where

SCA had a lot of information was the explanation of the company's recruitment policies in which SCA had 353 words about why recruiting the right people was important and how they worked to handle the large number of applicants.

Another example is Handelsbanken that disclosed six items that were defined and presented. For instance, the item statements of policy on competence development did not only contain targets and activities in this area but also an explanation of what the company meant by "competence". The items disclosed were also linked to the company's overall strategy in order to create an understanding as to why they were presented. Handelsbanken was one of the few companies that used external benchmarking; presenting a survey about how attractive Handelsbanken was as a future employer. In the segment medium, companies were in general lacking items that would have helped them explain their company and often the explanation of the items were not very extensive. In this segment the information found was to a majority presented in the notes section, rather similar to the low section. Furthermore, some of the frequent items were remuneration and incentive systems and pensions, also similar to the low segment. However in this segment we also find other types of disclosures, for instance statements of policy on competence development, which was often found in the HR section of the annual report. The companies in this category had little in common other than their voluntary disclosure, they were from different industries and had both Swedish and foreign ownership as well as stock exchange listings.

<p style="text-align: center;"><u>Medium</u></p> <ul style="list-style-type: none">• Average amount of HR-Items: 7• Most frequent HR-Items:<ol style="list-style-type: none">1. Statement of policy on competence development. 100%2. Remuneration and incentive systems 87, 5 %3. Staff breakdown by gender 75%• Most explained HR-Items:<ol style="list-style-type: none">1. Statement of policy on competence development.2. Remuneration and incentive systems3. Pensions

3) In the high segment we find the companies that have disclosed many items but also explained them carefully, several of the dimensions presented in our research instrument were used. We found most of the disclosed items in HR sections or even, in some cases, the CEO: s comments. Almost all of the items we found in this section were somehow explained; little information was only

mentioned in passing. There was a large amount of text complementing the items both when it was presented in text and in numbers.

One thing that all of these companies had in common were that they seemed to have a strategy for choosing and presenting the items. This way of organizing the information resulted in an annual report that was easy to read and also interesting to analyse. Even if the items were many none of them seem to be out of place or unnecessary. The items in this section were easy to find and were generally often related to several different dimensions.

<p><u>High</u></p> <ul style="list-style-type: none">• Average amount of HR-Items: 11• Most frequent HR-Items:<ol style="list-style-type: none">1. Statement of policy on competence development. 100%2. Items with 75%: Breakdown by age, gender, nationality, functionality, Staff health and safety, Recruitment policies and remuneration and incentive systems• Most explained HR-Items:<ol style="list-style-type: none">1. Statement of policy on competence development.2. Staff breakdown by gender.3. Staff health & safety.

The company that best represents the inhabitants of this segment is Gambro. This company disclosed 10 items and had extensive information on each of the items disclosed. Internal benchmarking was widely used in almost all of the items that were presented with figures and the development of the figures was also shown as far back as 10 years in some cases. All of the items disclosed had some kind of target attached, if the item was text only Gambro used other kinds of targets, for instance: “*the purpose is to develop and support Gambro’s values and corporate culture*”. Activities to reach these targets were also plentiful, leadership development programs were described in detail and global job posting systems were discussed. The companies found in this section were few, only four, but the companies had little similarities; there were two banks, one from the Healthcare industry and one from Heavy industry. We had expected the companies in this section to have a high degree of foreign ownership or to be noted on a foreign stock exchange but contrary to our beliefs only one company was noted on another stock exchange and owned by foreign interests.

5.3 Disclosure Practices in General

When reading through previous studies and theories on external reporting in general we have found that there are some findings that should be highlighted. Westphalen (1999) for example, argues that there is little comparability between disclosures on human capital; this is something that was apparent in our studies. Very few companies used similar ways to structure the human resource items. The information on human resources could be found anywhere in the annual report. Sometimes it was presented in the CEO' section and sometimes it was more or less hidden in the notes section.

During our studies in the field of voluntary disclosure we have found little information about the user perspective of disclosure i.e. what do the users want to know? This presents us with a rather difficult problem; if we do not know what the users of the annual report want to read, how can we determine if the information disclosed is the one analysts or other users need or if the items disclosed are made understandable to the user? Interesting is the findings made by Johansson (2001) that points out several barriers to understand the human capital reports. Johansson (2001) argues for example, that one important barrier for understanding this information is that the users do not understand how the presented item generates value. The cause and effect relationship is unclear; we agree that this is one of the most important aspects in overcoming the difficulties in understanding the role of human capital. Providing a presentation that enables and visualizes this might enhance the possibilities for users to understand this kind of information. There have been attempts to create guidelines to breach this gap.

In order to increase the understanding of reporting human capital or intellectual capital in general there are a couple of guidelines presented by Marr et al. (2003) Marr et al (2003) argues that it is of greatest importance to communicate intellectual capital related to three areas presented in section 2.3. Marr et al (2003) also points out that the intellectual capital statements do not disclose the value of the company's intellectual capital resources but they present the company's knowledge-management activities. Having these guidelines/references in mind we found that the items disclosed were often easily presented, and little effort was made to develop the items and the readers understanding of them. When it comes to the items that are a bit harder to

present, for instance the statements of policy on competence development, we found evidence that they were present in the annual reports, however they were less well explained and disclosed little information about the company's internal environment. As competence and competence development is seen as a vital value driver in the human capital and therefore should be utilized as an intangible asset, we lack a deeper analysis on how companies utilize these areas in general.

6. Conclusions

In this study we have found that at the present time there is a wide range of different voluntary disclosure practices in Swedish annual reports. The three categories we found ranged from enclosing only a few items and offering little additional information or explanation to enclosing a large amount of items and carefully defining, explaining and putting them into context. Some tendencies can be seen with regard to ownership, stock exchange listings and industry, but at the moment, it is more or less related up to the company on which and how they chose to disclose their human resource information. This can be seen in the analysis where a segment (such as ownership) includes companies from low, medium and high segments.

When starting to write this report we expected a lot of work in classifying the information we would find in the annual reports, as it turned out our largest problem became finding the information. Having these findings in mind and remembering that we have highlighted the problem of the information gap between managers and owners of companies due to the increasing importance of intangibles in companies' value creation process. Due to the insufficiency in traditional financial reporting to capture the value drivers in a business, companies are trying to use voluntary disclosure as a tool for breaching this information gap. Today the voluntary disclosures are not made easily available to the reader and it takes a lot of knowledge in the subject to analyse it. This is contrary to the idea of voluntary disclosure, which is to create understanding for the company's internal environment, thereby diminishing the information gap.

Due to great variances in reporting human capital, we are supportive of Fredriksen and Westphalen (1998) idea of standardizing the reporting practice of voluntary disclosures, not so that everyone have to disclose the same items but to make the explanation somewhat standardized. We feel that targets, activities and evaluation should be included in such standardization.

The purposes of this thesis was to explore the practice on voluntary disclosure on human capital, we also intended to develop a research instrument that enabled a categorization of the presented information. We argue that this thesis has contributed by providing new information on the practice of voluntary disclosure in Swedish annual reports, a study that has never been done before. New information has been collected to support the existing knowledge in

presenting human capital, which has been done by identifying what items that is presented. Furthermore, the information has also been categorized to the extent possible and some conclusions have been drawn regarding the usage of human capital presentation up till today. It is however difficult to make any reliable assumption about the usability of this information since proper studies on the needs and requirements from the user perspective is lacking. Hopefully, a study from a user's perspective is at hand, thereby enabling a further analysis of the situation and development of reporting human capital.

The multi-dimensional research instrument worked well when it came to gathering information and analysing it. It was particularly useful on large sections of text, sorting the text into our categories actually was faster than just reading it. Some might argue that the instrument was too advanced; after all, we rarely found all of our dimensions in one item. Some of the dimensions were less frequently used one reason for this might be that our instrument was designed to incorporate all possible areas that a company might chose to discuss and that this model was a bit too advanced for some of the items on Bukh's disclosure index. Still we feel that our research model gave us a sufficient framework to sort the companies into three categories, describing, perhaps not the best quality, but the most dimensions on the presented information. But we feel that the many dimensions were useful because of the variety of items disclosed, some items were easy to express targets about and others were easy to develop over time. The dimension most seldom found was the external benchmarking, but we do not feel that it should be taken out of the instrument during further research. It is, on our opinion, very significant that external benchmarking is almost never found as this indicates that there is little standardization in the area of voluntary disclosure and thus hard to compare between companies.

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Appendix 1. Companies in alphabetical order (empirical findings)

A

(ABB, Assa Abloy, AstraZeneca, Atlas Copco, Autoliv)

ABB

Human resource items 3

Ownership: Largely Swedish owner, Zurich, Frankfurt, New York stock exchange, Manufacturing Industry

- 1) Pensions, 152 words, **explanation**
- 2) Comments on changes in number of employees, 55 words.
- 3) Remuneration and incentive systems, 356 words **explanation**.

Assa Abloy

Human resource items (4)

Ownership: Largely foreign owner, Stockholm stock exchange, Manufacturing Industry

- 1) Description of competence development program and activities; Text 35 words, **activities**.
- 2) Statement of policy and competence development; Text 40 words, **activities**.
- 3) Revenues per employee; in numbers, **developed**.
- 4) Employee expenses; in numbers, (notes), **developed**.

AstraZeneca

Human resource items (5)

Ownership: Largely foreign owner, London, New York, Healthcare
Noted on London and New York stock exchange

- 1) Staff breakdown by nationality: (notes), **development**.
- 2) Statements of policy on competence development; 46 words, **targets**, under strategy section.
- 3) Staff interviews; **evaluation**
- 4) Pensions; economic overview, 350 words, **explanation**.
- 5) Remuneration and incentive systems; 110 words, **explanation**.

Atlas Copco

Human resource items (6)

Ownership: Largely Swedish owned, Stockholm stock exchange, Manufacturing Industry

- 1) Staff breakdown by nationality; numbers, **developed**.
- 2) Staff breakdown by functionality; numbers, **developed**.
- 3) Comments on changes in number of employees; Text 46 words, **benchmarked externally**.
- 4) Statements of policy on competence development; Text 180 words, **targets, activities**.
- 5) Remuneration and incentive systems; Text 142 words, **explanation**.
- 6) Pensions; Text 140 words, **explanation**.

Autoliv

Human resource items (8)

Ownership: Largely Foreign owner, New York stock exchange, Consumer products

- 1) Staff breakdown by gender
- 2) Staff breakdown by functionality
- 3) Absence, **internal benchmarking**
- 4) Statements of policy on competence development, 65 words, **targets activities**
- 5) Description of competence development, 25 words, **activities**.
- 6) Recruitment policies, 10 words, **targets**
- 7) Remuneration and incentive systems, 33 words, **target, explanation, activities**.
- 8) Comments on changes in number of employees, 35 words.

E

(Electrolux, Ericsson)

Electrolux

Human resource items (5)

Ownership: Largely Swedish owned, Stockholm stock exchange, Consumer products

- 1) Staff breakdown by nationality; numbers, **developed**.
- 2) Comments on changes in number of employees; Text 10 words, **targets, developed**.
- 3) Statements of policy on competence development; Text 30 words, **targets, activities, evaluated**.
- 4) Description of competence development program and activities; **activities, targets**.
- 5) Job rotation opportunities; Text 42 words, **targets, activities**.

Ericsson

Human resource items (5)

Ownership: Largely Swedish owned, Düsseldorf, Hamburg, London, Paris, Swiss stock exchange, IT/Telecommunication

- 1) Staff breakdown by gender; numbers (notes) **developed**.
- 2) Staff breakdown by nationality; numbers (notes) **developed**.
- 3) Staff breakdown by functionality; numbers (notes) **developed**.
- 4) Comments on changes in number of employees; Text 60 words, **targets**.
- 5) Remuneration and incentive systems; Text 260 words, **explanation**.

F

(Föreningsparbanken)

Föreningsparbanken

Human resource items (10)

Ownership: Majority Swedish ownership, Stockholm stock exchange, Finance/real estate

- 1) Statements of policy on competence development; Text 110 words, **evaluated, targets, activities, benchmarked externally**.
- 2) Staff breakdown by department; numbers, **developed**.
- 3) Staff breakdown by functionality; Text 40 words.
- 4) Description of competence development program and activities; Text 70 words, **evaluated, targets, activities**.
- 5) Statements of dependence on key personnel; Text 30 words, **evaluated**.
- 6) Staff health & safety; Text 60 words, **evaluated, activities**.
- 7) Comments on changes in numbers of employees; Text 110 words + numbers (notes).
- 8) Career opportunities; Text 50 words, **evaluated, targets**.
- 9) Absence; Text 65 words, **activities**.
- 10) Employee expenses/number of employees; Text 110 words, **activities**.

G

(Gambro)

Gambro

Human resource items (9)

Ownership: Largely Swedish owned, Stockholm stock exchange, Healthcare

- 1) Staff breakdown by age; numbers.
- 2) Staff breakdown by gender, numbers, **targets**.
- 3) Staff breakdown by functionality; numbers.
- 4) Staff breakdown by nationality; numbers.
- 5) Rate of staff turnover; numbers **developed**.
- 6) Statement of policy on competence development; Text 60 words, **targets, activities**.
- 7) Recruitment policies; Text 122 words, **activities**.
- 8) HRM department, division or function; 35 words, **targets, explanation**.
- 9) Remuneration and incentive systems; Text 70 words **explanation** + 80 words (notes).

H

(Handelsbanken, Holmen)

Handelsbanken

Human resource items (7)

Ownership: Largely Swedish owned, Stockholm stock exchange, Finance/Real estate

- 1) Staff breakdown by gender; numbers (notes) **developed, targets, activities benchmarked internally.**
- 2) Staff breakdown by age; Text 75 words.
- 3) Staff breakdown by nationality; numbers (notes), **developed.**
- 4) Statements of policy on competence development; Text 155 words, **targets, activities, explanation.**
- 5) Employee expenses/number of employees; numbers (notes), **developed, benchmarked internally.**
- 6) Recruitment policies; Text 72 words, **targets, benchmarked externally.**
- 7) Remuneration and incentive systems; Text 105 words, **targets, activities, explanation.**

Holmen

Human resource items (8)

Ownership: Largely Swedish owned, Stockholm stock exchange, Heavy industry

- 1) Staff breakdown by gender; (notes), **benchmarking internally, development.**
- 2) Staff breakdown by nationality; HR-section, **development.**
- 3) Staff breakdown by age; development, HR-section.
- 4) Comments on changes in number of employees; HR-section.
- 5) Staff health & safety; HR-section, **activities, targets**, 65 words.
- 6) Absence; targets, **development**, 10 words. HR
- 7) Recruitment policies; 170 words, HR-section, **targets, activities.**
- 8) Job rotation opportunities; 20 words, **activities**, HR-section.

I

(Industrivärden, Investor)

Industrivärden

Human resource items (4)

Ownership: Largely Swedish owned, Stockholm stock exchange, Finance&Real estate

- 1) Staff breakdown by gender; numbers, (notes) **developed, benchmarked internally.**
- 2) Staff breakdown by nationality; numbers (notes) **developed.**
- 3) Remuneration and incentive systems; Text 70 words (notes) **explanation.**
- 4) Pensions; Text 30 words (notes).

Investor

Human resource items (10)

Ownership: Largely Swedish ownership, Stockholm stock exchange, Finance/Real estate

- 1) Absence; numbers.
- 2) Staff breakdown by gender; numbers.
- 3) Comments on changes in number of employees; Text 80 words.
- 4) Staff breakdown by education; Text 15 words.
- 5) Recruitment policies; Text 90 words, **evaluated, targets.**
- 6) Remuneration and incentive systems; Text 500 words, **evaluated, targets, activities + numbers, (notes) developed, explained.**
- 7) Statements of policy on competence development; Text 45 words, **evaluated.**
- 8) Staff Interviews; Text 70 words, **evaluated, targets, activities.**
- 9) Staff health & safety; Text 35 words, **activities.**
- 10) Pensions; Text 60 words, **explained.**

N

(Nokia, Nordea)

Nokia

Human resource items 5

Ownership: Largely foreign owner, Helsinki, London, Paris, New York and Frankfurt stock exchange, IT/Telecommunication

- 1) Staff breakdown by nationality, notes **developed**
- 2) Staff breakdown by department, notes **developed**
- 3) Staff breakdown by functionality, notes **developed**
- 4) Pensions, HR, 80 words **explanation**
- 5) Remuneration and incentive systems, 11 words, **targets**

Nordea

Human resource items: 5

Ownership: Largely Swedish ownership, Copenhagen and Helsinki stock exchange, Finance/Real estate

- 1) Comments on changes in number of employees, 15 words, **developed**, HR section
- 2) Pensions numbers notes, **developed**
- 3) Remuneration and incentive systems, notes, **developed, explained**, 150 words
- 4) Staff breakdown by nationality, notes, **developed**
- 5) Staff breakdown by gender, notes **developed, internal benchmarking**

S

(Sandvik, SCA, SEB, Securitas, SKF, Skandia, Skanska, SSAB, Stora Enso, Swedish Match)

Sandvik

Human resource items (6)

Ownership: Largely Swedish owned, Stockholm stock exchange, Industry

- 1) Recruitment Policies; Text 77 words, **activities**.
- 2) Statement of policy on competence development; Text 60 words, **targets, activities**.
- 3) HRM departments, division or function; Text 50 words, **evaluated, activities**.
- 4) Staff breakdown by gender; in numbers (notes) **developed**.
- 5) Pensions; in numbers (notes) no comments.
- 6) Remuneration and incentive systems; Text 205 words, explained (notes).

SCA

Human resource items (7)

Ownership: Largely Swedish owned, Stockholm stock exchange, Base industry

- 1) Staff breakdown by gender; numbers (notes) **development**.
- 2) Staff breakdown by age; numbers (notes).
- 3) Staff breakdown by educational level; numbers (notes).
- 4) Staff breakdown by functionality; numbers.
- 5) Statements of policy on competence development; Text 72 words, **activities, targets**.
- 6) Pensions; numbers (notes), **development, benchmarked internally**.
- 7) Recruitment policies; Text 353 words, **activities, targets**.

Securitas

Human resource items: 4

Ownership: Majority foreign, Listed on Stockholm, Manufacturing

- 1) Staff breakdown by gender, **development**
- 2) Staff breakdown by nationality
- 3) Statements of policy on competence development Text, 145 words, **activities, Targets**
- 4) Remuneration and incentive systems, text 380 words **explanation**

SEB

Human resource items (10)

Ownership: 75% Swedish owners, Stockholm stock exchange, Finance&Real estate

- 1) Staff breakdown by age; Text 25 words.
- 2) Staff breakdown by seniority; Text 25 words, **targets**.
- 3) Staff breakdown by gender; Text 55 words, **targets, activities, forecasting**.
- 4) Staff breakdown by level of education; Text 30 words.
- 5) Staff breakdown by nationality; Text 35 words, **targets, developed, benchmarked internally**.
- 6) Staff health & safety; Text 72 words, **activities, targets**.
- 7) Statements of policy on competence development; Text 72 words, **activities**.
- 8) Description of competence development program and activities; Text 23 words, **activities**.
- 9) Education and training expenses; Text 20 words.
- 10) Remuneration and incentive systems; Text 400 words, **targets, activities, explanation**.

Skandia

Human resource items (6)

Ownership: Largely Swedish owned, London and Frankfurt stock exchange, Finance/Real estate

- 1) Remuneration and incentive systems; Text 800 words, **explained**.
- 2) Recruitment policies; Text 200 words, **evaluated, activities**.
- 3) Statement of policies on competence development; Text 150 words; **evaluated**.
- 4) Staff breakdown by age; numbers, **developed**.
- 5) Staff breakdown by nationality; numbers, **developed**.
- 6) Staff breakdown by gender; numbers, **developed**.

Skanska

Human resource items (4)

Ownership: Largely Swedish owned, Stockholm stock exchange, Industry

- 1) Staff breakdown by gender; numbers, **developed**.
- 2) Staff breakdown by nationality; numbers, **developed**.
- 3) Statements of policy on competence development; Text 30 words.
- 4) Career opportunities; Text 185 words, **activities, explanation**.

SKF

Human resource items (4)

Ownership: Largely Swedish owned, London, Paris and Zurich stock exchange, Industry

- 1) Staff breakdown by gender; numbers (notes) **developed, benchmarked internally**.
- 2) Staff breakdown by nationality; numbers, **developed**.
- 3) Comments on changes in numbers of employees; Text 21 words, **explanation**.
- 4) Staff health & safety; Text 55 words, **targets, activities**.

Stora Enso

Human resource items (14)

Ownership: Largely Finnish owned, Helsinki and New York stock exchange,
Base industry

- 1) Staff breakdown by age; Text 50 words.
- 2) Staff breakdown by gender; Text 300 words, **evaluated, targets, activities, explanation.**
- 3) Staff breakdown by nationality; numbers (notes).
- 4) Staff breakdown by functionality; numbers, (notes).
- 5) Staff breakdown by level of education; numbers (notes).
- 6) Comments on changes in number of employees; Text 172 words, **targets, activities** + numbers (notes), **developed, explanation.**
- 7) Staff health & safety; Text 420 **words, targets, activities, internal and external benchmarking.**
- 8) Absence; Text 24 words, **developed.**
- 9) Staff interviews; Text 95 words.
- 10) Statements of policy on competence development; Text 152 words, **targets, activities.**
- 11) Recruitment policies; Text 30 words, **targets, activities, evaluation.**
- 12) Career opportunities; Text 60 words, **explanation.**
- 13) Remuneration and incentive systems; Text (notes) 75 words, **explanation.**
- 14) Pensions; numbers (notes) **developed.**

Swedish Match

Human resource items (6)

Ownership: Largest Swedish owner, NASDAQ, Consumer Products

- 1) Staff breakdown by gender; numbers, **developed**
- 2) Statements of policy on competence development; Text 74 words, **targets**
- 3) Description of competence program and activity; Text 255 words, **targets, activities**
- 4) Career opportunities; text 70 words, **activities**
- 5) Remuneration and incentive systems; Text 65 words, **activities, explanations**
- 6) Pensions; Text 172 words, in notes, **explanation**

T

(TeliaSonera)

TeliaSonera

Human resource items (10)

Ownership: Largest Swedish owner, NASDAQ, IT/Telecommunication

- 1) Statements of policy on competence development; Text 100 words, **evaluated, targets, activities.**
- 2) Absence; Text 120 words, **activities.**
- 3) Staff breakdown by gender; Text 40 words, **developed.**
- 4) Staff breakdown by nationality, **developed**
- 5) Comments on changes in numbers of employees; Text 65 words (notes), **developed.**
- 6) Pensions; Text 200 words + numbers (notes), **developed, explained**
- 7) Staff breakdown by functionality; numbers (notes), **developed.**
- 8) Revenues/employee **developed**
- 9) Value added/employee **developed**
- 10) Remuneration & incentive systems; numbers (notes), **explained** + Text (notes)
200 Words, **explained.**

V

(Volvo)

Volvo

Human resource items (5)

Ownership: Largely foreign owned, London, NASDAQ, Frankfurt, Düsseldorf and Hamburg stock exchange, Industry

- 1) Staff breakdown by gender; numbers (notes) **developed, benchmarked internally.**
- 2) Staff breakdown by nationality; numbers (notes) **developed.**
- 3) Staff breakdown by functionality; numbers, **development.**
- 4) Staff health & safety; Text 25 words.
- 5) Pensions; Text 125 words, **explanation.**

APPENDIX 2. Empirical Findings/Aggregated Form

HR-Items	Frequency n=27	Average Disclosure %
Staff breakdown by age	7	30%
Staff breakdown by seniority	2	9%
Staff breakdown by gender	19	83%
Staff breakdown by nationality	18	78%
Staff breakdown by department	2	9%
Staff breakdown by functionality	10	43%
Staff breakdown by level of education	4	17%
Rate off staff turnover	1	4%
Comments of changes in number of employees	13	57%
Staff health and safety	8	35%
Absence	7	30%
Staff interviews	3	13%
Statements of policy on competence development	19	83%
Descriptions of competence development program and activities	7	30%
Education and training expenses	1	4%
Education and training expenses/number of employees	0	0%
Employee expenses/number of employees	2	9%
Recruitment policies	11	48%
HRM department division or function	2	9%
Job rotation opportunities	2	9%
Career opportunities	4	17%
Remuneration and incentive systems	19	83%
Pensions	12	52%
Insurance policies	0	0%
Statements of dependence on key personnel	1	4%
Revenues/employee	2	9%
Value added/employee	1	4%
SUMMA TOTAL Human Resource Items	177	

APPENDIX 3. Companies included in different segments and categories

Low	Electrolux, AstraZeneca, Nordea, Sandvik, ABB Ericsson, Skanska, SKF, Securitas, Nokia, Industrivärden, Volvo, Assa Abloy
Medium	Handelsbanken, Swedish Match, Investor, TeliaSonera, Holmen, Skandia, SCA, Atlas Copco
High	Föreningssparbanken, Gambro, SEB, Stora Enso
Swedish Owner	Handelsbanken, Sandvik, Investor, Holmen, SSAB, ABB, Nordea, Föreningssparbanken, Gambro, Electrolux, Skanska, Swedish Match, SEB, SCA, Industrivärden, Ericsson
Foreign Owner	Stora Enso, Volvo, Assa Abloy, Autoliv, Nokia, Securitas, AstraZeneca
Swedish stock exchange only	Gambro, Electrolux, Skanska, Atlas Copco, SEB, SSAB, Industrivärden, Assa Abloy, Handelsbanken, Investor, Holmen, Föreningssparbanken, Securitas
Other European stock exchange	Stora Enso, SKF, Volvo, Ericsson, Skandia, AstraZeneca, Nokia, Nordea
US stock exchange	Swedish Match, Stora Enso, Volvo, TeliaSonera, Autoliv, AstraZeneca, Nokia
Finance	Nordea, Handelsbanken, SEB, Föreningssparbanken, Investor, Industrivärden, Skandia
Consumer	Electrolux, Swedish Match, Autoliv
Healthcare	Gambro, AstraZeneca
Heavy Industry	SCA, Holmen, Stora Enso, SSAB
IT/Telecommunication	Nokia, Ericsson, Telia Sonera
Manufacturing industry	Volvo, Atlas Copco, SKF, Sandvik, Skanska, ABB, Assa Abloy, Securitas