

HUMAN RESOURCE DISCLOSURES

A Comparative Study of Annual Reporting Practice About
Information, Providers and Users in Two Corporations

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ISBN 91-7246-203-5

Printed in Sweden
by Intellecta DocuSys AB,
Västra Frölunda, 2003

TO MY PARENTS

ABSTRACT

Although several corporations proclaim their employees as being the corporation's most valuable resource, only a few corporations have utilised models and concepts of measuring human resources in their corporate annual reports. In the ongoing academic debate, human resource disclosures are often described and thought of as problematic due to the limited understanding of such information. The debate about insufficient understanding and the resulting information gap between users and providers is taken by this dissertation as a starting point.

The overall research purpose in this study is to *describe the practice of voluntary information on human resources in corporate annual reports by the comparison of the findings on justification, disclosure and utilisation*. In the current academic debate, proposals have been made to study the information content on human resources, providers or users of information together in order to obtain deeper understanding. Accordingly, this dissertation introduces a tripartite model of human resource disclosure practice to study information, providers and users. A subset of three research questions examines the amount of voluntary disclosures in corporate annual reports, why human resource disclosures are provided and how users utilise voluntary information on human resources.

To answer the research questions a combination of methods is used to obtain the empirical data. The amount of voluntary disclosure in corporate annual reports is found through the application of a disclosure scoreboard. The users, being represented by analysts, and the providers, who are representatives from two corporations, were interviewed. A comparative case study approach was chosen to obtain a deeper understanding of the research questions. Two case corporations have been chosen. One corporation is regarded as being experienced and the second corporation as being inexperienced with the measurement, evaluation and reporting of intangible assets.

The findings from this dissertation indicate that both corporations provide a considerable amount of voluntary disclosure in corporate annual reports. During the five-year period of analysis, the experienced corporation's leading position in voluntary disclosure disappears. Both corporations provide human resource disclosures, as they regard them as being an important aspect in illustrating their corporations. Furthermore, it is shown that the inexperienced corporation provides more disclosures about their employees than the experienced corporation. The users regard human resource disclosures as important information as they contribute to the overall impression of a corporation. Still, the comparative analyses indicate that the human resource disclosures of both corporations do not fully meet users expectations. The users find it difficult to analyse the human resource disclosures for a single corporation over a longer time-span as well as to compare the information provided by both corporations.

ACKNOWLEDGEMENTS

When I commenced my PhD studies almost four years ago, one professor told me that academic research is a craft to be learned. During this endeavour, I was fortunate enough to be the apprentice of two distinguished accounting researchers, who introduced me to the academic world. I owe very special thanks to my two supervisors, Olov Olson and Jan Marton at the Göteborg School of Economics and Commercial Law. It is very difficult to express in a few lines what your supervision has meant to me. I am very grateful for your support throughout this process; for giving me the opportunity of doing my own research and making my own mistakes. You always provided me with excellent guidance and fast feedback, which brought me back on track and spurred me on. The criticisms and advice throughout the discussions at our uncounted meetings were especially invaluable in avoiding the *åb fan* – situations. I am glad that you never got tired of me, as you showed endless patience and were thoroughly observant even during the innumerable drafts I handed to you.

In the final doctoral seminar I received many very valuable suggestions from the discussants, Jan-Erik Gröjer and Pär Falkman. Jan-Erik's well-structured comments and his advice was extremely valuable, as was his wish-list, which has contributed considerably to the final version of this dissertation. I would also like to express my gratitude to Christian Ax who provided valuable input and comments during the halfway seminar on the first analysis of the gathered material.

At times during the PhD program one is faced with adversity and starts to question ones passion for, and capability of, conducting academic research. Here, I can say that I am lucky to have colleagues with whom I could share my scepticisms, hesitations, frustrations and anxieties over a cup of coffee. First of all there is Andreas Diedrich. Who of us would have thought that our time as exchange students at Handels would be prolonged so long? Truly the high spirits in the German-speaking zone at J2 would not be complete without mentioning Roger Schweizer. Thank you for the many laughs we had together that was plainly based on the lack of understanding in Swiss-German word usage. I am grateful to the two of you and I treasure our discussions and that you lifted up my spirits whenever needed. Another colleague to mention is Hillevi Toresson. When we shared the office at ÖF you were exceptionally understanding

while I transcribed my interviews. Many other colleagues at the Göteborg School of Economics and Commercial Law have made my PhD studies very pleasant and unforgettable.

I would like to thank all the analysts and managers who participated in the provider and user studies. The fact is that without your generous input and sharing of your valuable time, this dissertation would not have been possible. There are two London based analysts from a major investment bank to whom I especially would like to express my gratitude, not only for a memorable stay in London, but also for the material they granted me access to.

To finance the first two years of my PhD studies I worked fulltime at the Viktoria Institute. Thanks to my old colleagues, particularly Mathias Klang for the fun we had. Since my employment at the Göteborg School of Economics and Commercial Law, this project only needed funding for research visits. This financial support was provided by the Adlerbertska foundation, together with the Paul and Eva Berghaus foundation. I am also indebted to the Management Accounting Group at the department of business administration for financial support. The proofreading has been done by Steven Sheppard. All remaining mistakes are mine.

Finally, my families in Germany and Sweden deserve my deepest appreciation. My wife Karin gave me the strength and endurance to finish this dissertation. The encountered problems were much easier to tackle with your encouragement and the joyful moments of writing this dissertation were doubled with you on my side. My love goes to you. There are no words for what my parents mean to me. Without their love, caring and financial support, my personal adventure in Sweden would never have been possible.

Göteborg, January 2003

Gunnar Rimmel

ABBREVIATIONS

AAA	American Accounting Association
AFS	Assurance and Financial Service
AG	Aktiengesellschaft (corporation)
AICPA	American Institute of Certified Public Accountants (US)
BV	Book Value
DCF	Discounted Cash Flow
DSOP	Draft Statement of Principles
EC	European Commission
EU	European Union
EV	Embedded Value
FASB	Financial Accounting Standards Board (US)
IAD	Insurance Accounting Directive
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IC	Intellectual Capital
NYSE	New York Stock Exchange
NAV	Net Asset Value
MV	Market Value
OTC	Over The Counter
P&C	Property and Casualty
P/E	Price/Earnings
R&D	Research and Development
SCI	Steering Committee on Insurance
US GAAP	United States Generally Accepted Accounting Principles

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Chapter I

INTRODUCTION

Since the early 1990s, one could easily observe that many companies in various industries are facing a shift towards information, expertise, skills and technology because they are considered to be of great importance. Zuboff (1988) calls it the *Information Revolution* and posits that this will transform the human society as dramatically as the *Industrial Revolution* did. Today's time period has manifold titles such as the *Information Economy*, *New Economy*, *Knowledge-based Economy* or the *Knowledge Society*, which are commonly showing different market prerequisites than those traditional industries dealt with decades ago (Shapiro, 1998; Kelly, 1998; OECD, 1996; Drucker, 1993).

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

Johanson, Mårtensson and Skoog (2001) assert that the dominating problem in understanding the importance of intangibles originates from deficient information on intangibles, which explains the capital market's current reliance on financial information. However, studies on shareholder use of corporate annual reports revealed that the usefulness of financial statement reports of publicly listed companies had declined,

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creating an information gap between the issuer and user of information (Lev, 2001; Pownell and Schipper, 1999; Epstein and Pava, 1993). Francis and Schipper (1999) provided evidence to this popular claim showing that financial information has become less value relevant over the period from 1952 to 1994. In response to the investigated loss of relevance, practitioners and researchers proclaimed the increasing necessity for new accounting methods that also provide additional disclosure of information on intangibles to close the information gap (Lev, 1997; Wallman, 1996).

Many attempts have been made to reduce the information gap by developing various concepts and measurement models on intangibles, which is not just a recent phenomenon. In the 1960s accounting researchers already started to elaborate on the subject of human resources (Monti-Belkaoui and Riahi-Belkaoui, 1995). Roslender and Fincham (2001) examined that most of the human resource accounting studies engaged in measurement development and utility analysis, strengthening the view of employees as valuable organisational resources. Another approach was taken in social accounting, which led to the introduction of the French *social balance sheet*¹ that has been compulsory since 1977 in French companies with 300 or more employees (Hendriksen and VanBreda, 1992). During the 1970s the development of human resource accounting remained locked up within the financial accounting and reporting paradigm and caused that further development stopped progressing almost until the mid 1980s (Roslender and Dyson, 1992).

Since the mid 1980s, a new generation of companies emerged on the global market that were almost entirely founded on knowledge (Savage, 1996). These so-called *knowledge-based companies* are commonly characterised by the fact that the value of their intangible assets often exceeds their tangible assets, although this does not show up on their financial statements. Many authors articulated that the market value² of knowledge-based companies could be 10 to 100 times its book value³

¹ The French social balance sheet must contain numerical data needed to assess the work and employment situation within the enterprise, and evaluate changes over the two preceding years. A more detailed analysis is made in Gröjer and Stark (1978).

² The IASC defines market value as the amount obtainable from the sale, or payable on the acquisition, of a (financial) instrument in an active market (IASB, 2000a:1220).

³ Book value is an accounting term used to describe the original cost of an asset less accumulated depreciation, depletion or amortization. It is also called net book value, but this dissertation will apply the term book value.

(Stewart, 1997; Edvinsson and Malone, 1997; Sveiby, 1997; Brooking, 1996). The market-to-book value, the gap between the book value and the market value, makes it easy to recognise that the value of listed companies is not represented purely by companies' financial value of physical evidence. If the market value would be expressed purely by the numbers and figures illustrated in the traditional financial statements only, the market value would equal the book value, which obviously is not the fact.

During the 1990s the term *intellectual capital* became a popular fad among knowledge-based companies as well as accounting practitioners (Guthrie, 2001). The significant increase in the market-to-book value⁴ on nearly all stock exchanges, during the 1990s, crystallises to be the most important argument for the promoters of the concept of intellectual capital in their strive towards the measurement of additional intangible assets. The forefathers of intellectual capital were headed by Leif Edvinsson from the Swedish insurer Skandia promoting intellectual capital as the new method filling the gap of the market-to-book ratio. In other words they claim that the difference between the market value and the book value of a company is said to be intellectual capital (Klein, 1997).

One aim of intellectual capital is to complete financial ratios with nonfinancial ratios in order to describe the company value. Intellectual capital makes classifications into structural capital and human capital. The latter elaborates on the value of the intangible assets that are embedded in the company's human resources, the employees and managers. According to the intellectual capital movement, human capital consists of three main ability types: competence, attitude and intellectual agility (Roos et al., 1998:35). Competence is said to generate value through human resources' knowledge, skills, talents and know how (ibid.). Attitude depends on the employees' motivation as well as managers' abilities in cooperation and leadership to achieve strategic goals (Stewart, 1997). Lastly, intellectual agility should be understood as human resources' ability to improve its knowledge as well as innovation and entrepreneurship (Bontis et al., 1999). Stewart (1997:106) stresses the importance of human capital for companies by labelling it the most important asset, as companies could not exist without human resources.

⁴ Now, in the act of writing up this dissertation, it is observable that since the beginning of the year 2000 the market-to-book ratio has gone down for many companies. Therefore, not all, but some, of the applied arguments favouring accounting for intangible assets are already negated.

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

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

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

Apparently, many academics (Guthrie et al., 2001; Petty and Guthrie, 2000; Flamholtz, 1999; Mouritsen, 1998; Gröjer and Johanson, 1997) articulate that although several companies proclaim their employees as being the company's most valuable resource only few companies have utilised models and concepts of measuring human resources in their corporate annual reports. Recent literature (Phillips et al., 2001; Becker et al., 2001; Fitz-enz, 2000) on human resource measurement often

presuppose that experienced companies⁵ will achieve an advantage over inexperienced companies, which in their argumentation is also due to more disclosure about human resources in corporate annual reports. Such a general assumption is opposed by some capital market research on the relevance and usefulness of disclosed information (see Chapter 2).

1.1 STATEMENT OF PROBLEM AND PURPOSE

Bearing in mind the previous discussion, the disclosure of intangibles and human resource disclosure in particular, are often described and thought of as problematic due to the researchers limited understanding of such information. The debate about the insufficient understanding and the resulting information gap is taken by this study as a starting point. Researcher like Bukh (2002) or Eccles et al (2001) suggest in their conclusions that research should not focus solely on information content, providers or users of information, but should study all of them together in order to obtain deeper understanding about the information gap.

Bukh's (2002) propositions provide a good starting point to begin with an analysis of corporate annual reports towards their information content on human resources. This could open the possibility for a quantitative investigation of the extent and types of information disclosed, which in turn would allow for a comparison between different reporting years and companies. A suggestion made by Eccles et al (2001) is to conduct case studies that examine how voluntarily disclosed information is utilised by users and to obtain knowledge about if the intentions behind voluntary disclosure by providers have met the capital market demand. Additionally, a comparative case study design could examine if an experienced company really disclose more information on intangibles than an inexperienced company. All of these questions constitute the overall problem formulation for this dissertation, which is expressed as follows:

How is voluntary information about human resources justified, disclosed and utilised?

On the basis of the above discussion the overall problem formulation requires insights about information, providers and users. This leads to the

⁵ Johanson et al (2001) formed the term experienced-companies for those companies, which are experienced in the formalised recognition, measurement, evaluation and reporting of intangibles for management control purposes and henceforth report intangibles externally if considered being beneficial.

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development of a subset of three research questions that are addressed in this dissertation. The first research question's intention is to analyse the amount of voluntary disclosure in corporate annual reports from two companies, one company with a stated voluntary disclosure strategy that then is compared to a company that does not have a stated strategy for voluntary disclosure. This question not only focuses on the voluntary disclosures of human resources alone but also on a multitude of other voluntary disclosures. This is done on purpose as this will show how human resource disclosures have developed in comparison to other voluntary disclosures for both companies. Hence, the first research question for this dissertation is as follows:

1. *How much voluntary human resource disclosure is made available in corporate annual reports?*

The sheer amount of voluntary disclosures gives an indication about their size as well as their development throughout the years, since this dissertation examines corporate annual reports over a five-year period (Section 1.2). However, the first research question does not reveal anything about the intent of disclosed items. This spawns the second research question, which exclusively elaborates on the intentions providers have with issued human resource disclosures. It is formulated as:

2. *Why is voluntary human resource information disclosed in corporate annual reports?*

The third research question addresses the relationship between voluntarily provided information about human resources and the users. As it is assumed that providers of information have certain intentions with voluntary disclosure this study will also show how users utilise information about human resources. Consequently, the final research question is as follows:

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

The evaluation of the research questions in this dissertation is important for a number of reasons. Although proposed by various academics there is currently no study available that compares the understanding about

human resource disclosure of providers to that of users or even between companies. This is one reason why this dissertation wants to combine different aspects of prior research. However, the results from this study will contribute to a better understanding of the providers and users of voluntarily disclosed human resources information. The examination of voluntary disclosure, in which human resource disclosure is a part of, shows how the amount of voluntary disclosure has developed over the years. Accordingly, this dissertation will contribute to the knowledge about corporate voluntary disclosure practices that may assist to reduce possible deficiencies between providers and users of disclosed information as well as between companies.

This research will thus expand on the empirical knowledge of human resource disclosure practice by applying a new approach to the existing research. Summing the above stated research questions, the overall research purpose can be formulated as follows:

Describe the practice of voluntary information on human resources in corporate annual reports by the comparison of the findings on justification, disclosure and utilisation.

This research purpose will illustrate the relationship between providers, users and information to generate empirical evidence on the state of practice of voluntary disclosure about human resources. The comparison of an experienced company with an inexperienced company is of particular interest, as it will engender the facts about how well the amount of disclosure, the providers' intentions, and the users utilisation of voluntary human resource disclosure match each other.

1.2 RESEARCH APPROACH

Disclosure in corporate annual reports has been identified as "... *the companies' need to provide information externally to investors in order to attract capital*" (Frederiksen and Westphalen, 1998:287). Over a 40-year time span, a large amount of research on various and different aspects of disclosure has been accumulated, which in this dissertation is referred to as disclosure research. The nature and extent of disclosure research often

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engage in the analysis of the user⁶ of disclosed information, the assessment of user needs, the amount of disclosure positions as applied by different media for communicating information, as well as the market's reactions of special disclosure (Verrechia, 2001; Dye, 2001).

The largest amount of studies conducted in recent years, is concerned with disclosure research, is taking a *user approach*⁷. Very few authors carried out disclosure studies taking a *company approach*⁸ (c.f. O'Dwyer, 2002). Common to both approaches is that they only take a single perspective without examining the other parts involved. Despite the interesting nature of these studies, taking either a company or user approach, no present disclosure research is available that has taken a *tripartite approach* where users, providers and the information are considered as interrelated parts. Therefore they need to be analysed together in order to obtain a deeper understanding on the practice of voluntary information on human resources in corporate annual reports.

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

⁶ Parker, Ferris and Otley (1989) discussed the difference between recipient and user. For them a user presumes that a corporate annual report is not only read but also used for decision-making, which differs for a recipient, who does not necessarily have to apply corporate annual reports for decision-making.

⁷ A user approach encompasses research about users or potential users behaviour, reactions and demands of accounting information. An example of a user approach is Epstein and Pava's (1993) study on shareholders use of corporate annual reports where they investigated what information shareholders use in making their investment decisions and what additional information they regard as being useful.

⁸ The term company approach should pinpoint that researchers who apply such an approach are concerned with research out of a company's perspective elaborating on problems that are of interest or affect companies issuing of information. One example of such a company approach is Craighead and Hartwick's (1998) study on the effect of CEOs disclosure beliefs on the volume of disclosure about corporate earnings and strategy, investigating the association between managerial disclosure beliefs and firms' disclosure activities.

Section 8.2 by data source triangulation⁹ analysing the similarities and differences between the providers' justifications on human resource disclosure, the actual amount of provided information, users own information needs and their utilisation of human resource disclosures.

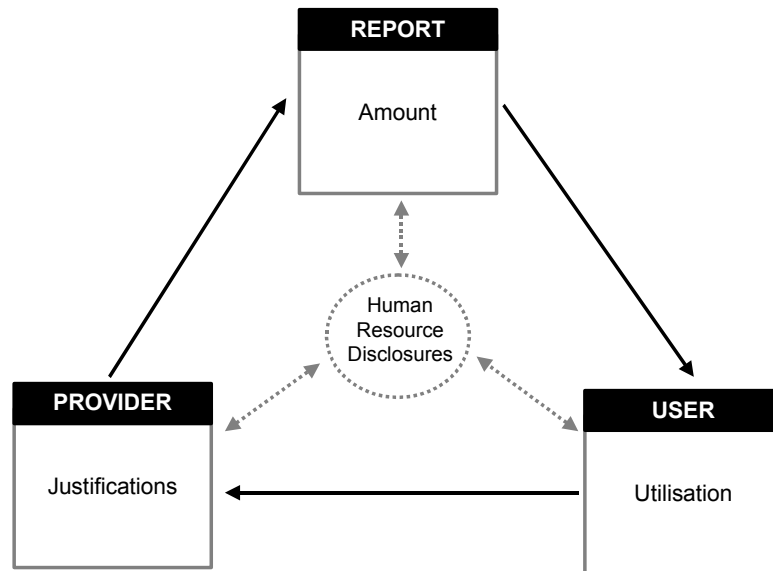


Figure 1-1 The tripartite model of human resource disclosure practice

The tripartite model in Figure 1-1 represents the three studies of this dissertation, as the boxes *provider*, *report* and *user* illustrate. The box report represents the collection of information in the corporate annual report. The arrows between the boxes show the exchanging of information. In Figure 1-1, the companies are the providers of information, which disclose information by developing an idea, considering its destination, purpose and likely impact. Hence, this should represent that all information a company externalises is due to reflected action. The provider transmits the disclosure information and its message via the corporate annual report, as the chosen medium, to the user. The users who receive the disclosed information may translate it into a format that is most appropriate for their understanding.

⁹ According to Hammersley and Atkinson (1995:183) data source triangulation involves comparison of data relating to the same phenomenon. A detailed description about the application of data source triangulation for the analysis of the empirical material has been done in Section 3.4.

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

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

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

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

1.3 DELIMITATIONS

The restrictions that are presented in the following have been made deliberately to increase focus of this dissertation. Many of the delimitations are suggested in research by Bukh (2002) and Eccles et al (2001).

The first step taken to narrow the scope was the decision to conduct a comparative case study. This was inspired by two arguments. Firstly, the dispute about the fact that few companies have utilised models and

concepts of measuring human resources in their corporate annual reports (e.g. Petty and Guthrie, 2000; Flamholtz, 1999; Mouritsen, 1998; Gröjer and Johanson, 1997). Secondly, the presumption of some researchers (Phillips et al., 2001; Becker et al., 2001; Fitz-enz, 2000) is that experienced companies will disclose more about human resources in corporate annual reports than inexperienced companies. Applying the Johanson et al (2001) term experienced company, the one case company should be experienced with the formalised recognition, measurement, evaluation and reporting of intangibles. The Swedish insurer Skandia was among one of the first companies who pioneered the development of intellectual capital reporting. Due to the fact that Skandia reports externally their strategy on voluntary disclosure that includes a strategy for human resource disclosure, they have been selected to represent the experienced company. Contrasting Skandia, an inexperienced company in the same industry was required that has not articulated a specific strategy for voluntary disclosure of information. This counterpart was found in the German insurer Allianz¹⁰. By the reason that Allianz has not presented a strategy for the voluntary disclosure of corporate information, which includes human resources, Allianz has been selected for this research to represent the inexperienced company.

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

¹⁰ Suffice to say that in this dissertation there will not be any difference made in applying the terms corporation, firm, company or group for both Skandia and Allianz. The author is aware of the fact that there is a linguistic difference in the meaning between corporation, company, firm and group. In this dissertation, I ask for forgiveness by any who might be disturbed by this careless application of these terms. A more detailed company presentation of Allianz and Skandia is made in Chapter 4 "Context of the Field".

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The type and extent of information disclosure of interest for this dissertation is limited to voluntary disclosure¹¹. Voluntary disclosure is defined as additional information that is disclosed over and above the mandatory disclosure requirements, which are defined by national accounting regulations (Gray et al., 1995a). Due to the fact that the headquarters of both case companies are located in different countries the accounting standards differ because of national jurisdictions and interests. The European Union (EU) took the decision to adopt the International Accounting Standard (IAS) as European reporting practice and a specific IAS for insurance companies should be in place by 2005 (COM, 2000). By reason of different accounting standards the decision has been taken for this dissertation to start off from the mandatory requirements of the existing IAS. The Swedish accounting standard, which Skandia uses, is to be harmonised with IAS, which Allianz has applied since the 1998 annual report. As a consequence of the current lack of specific accounting standards for insurance companies, this dissertation will not go into detail with international insurance accounting diversity.

Although limited to voluntary disclosure, the manifold possibilities for companies for issuing additional information made it necessary for this dissertation to further narrow down the range of voluntary disclosure by concentrating on the voluntary disclosure of human resource information. This kind of information has drawn the attention of many researchers examining or discussing its role and contribution to bottom-line success (Nagar, 1999; Aboody and Lev, 1998; Hackston and Milne, 1996; Cascio, 1991).

A further step taken for scope limitation has been made in this dissertation, as only financial analysts represent the user group for voluntarily disclosed information. This limitation has been made by many researchers, such as Lang and Lundahl (2000), William, Moyes and Park (1996) or Schipper (1991), all asserting that financial analysts can help capital markets to function efficiently by serving as information intermediates¹² between companies and investors. An alternative approach would have been to analyse a user group constituted by private

¹¹ In this study the term voluntary disclosure is often applied without further explanations but focusing on nonfinancial disclosures. Voluntary disclosures are certainly not exclusively attributable to nonfinancial disclosures, as financial disclosures can also be voluntary in nature.

¹² For a detailed discussion on information intermediates see Beaver (1998:6-16).

investors such as the studies of Epstein and Pava (1993) or Lee and Tweedie (1990). Financial analysts have been chosen as they forecast the companies' economic performance and interpreting managers' actions as well as the company's environment, and these forecasts they then communicate to investors. Analysts' opinions are therefore informative, as they develop skills and expertise about a few companies or industries they are covering (Gilson, 2000). Despite their role as information intermediates for private investors, financial analysts are easier to identify than private investors, which increased this dissertation's feasibility of the proposed design.

The dissertation's geographical distribution of respondent providers and users limits the dissertation's scope. The interviews for the user study were limited to Stockholm, London and Düsseldorf, since the financial analysts that have a professional interest in following Skandia and/or Allianz in their home markets or on the most important European stock exchange were located in these three cities. The respondents of the provider study are located at the companies' head-offices, which is Stockholm for Skandia and Munich for Allianz.

Although this dissertation has an international dimension, the concept of culture has not been applied deliberately. Riahi-Belkaoui (2000) stated that culture dictates the cognitive functioning of individuals and plays a central role in the everyday understanding of accounting and information, which certainly cannot be denied. For this dissertation, however, it turned out that the composition of the participating users and providers was very mixed, which would have made it very unreliable to separate cultural differences from individual preferences. In the user study the financial analysts in London were not exclusively English but also Swedish, American, German and Norwegian. In Stockholm the interviewees for the user study and the provider study were also Danish and Dutch. As a result of the mixed composition of interviewees the analysis does not involve a cultural dimension.

Whenever necessary, further delimitations are made directly in the appropriate part of a chapter.

1.4 DISSERTATION OUTLINE

Starting with the first chapter, the introduction opens with the development of human resource accounting towards the intellectual

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capital movement. The concept of intellectual capital is reviewed and critiques discussed. Consequently, the academic interest in the disclosure of intangible asset information constitutes the overall problem statement and the research questions, which the dissertation makes an effort to answer. The research approach motivates the reason for taking the tripartite approach to examine human resource disclosures in annual reporting practice. The limitations explain the focus necessary to achieve results.

The objective of Chapter 2 is to provide theoretical fundamentals to this dissertation. This chapter starts off by describing the role of disclosure drawing attention to agency theory, highlighting the importance of accounting information for the capital market. Since the disclosure of human resources is of special interest for this dissertation a concise historical review shows approaches and developments in human resource accounting. Recent developments in accounting for human resources examine current efforts by academia and practitioners. The regulation and reporting of human resource disclosure is discussed. A review of previous literature of disclosure research aims to provide an understanding of the multitude of conducted studies. An array of the most frequently mentioned prior disclosure studies is outlined in chronological manner, categorising the studies by their nature into corporate disclosure studies and voluntary disclosure studies. This chapter concludes with a summary.

Chapter 3 presents the choices made to find adequate methods facilitating this research. It identifies the choices made by applying a case study design and what consequences arose by doing so. A paragraph about research strategy and process reveals the dissertation's development process from the conceptualising stage, to the out in the field research phase, to the analysis and writing up stage. Since the collection of data is decisive for all research, much emphasis is put on the interview process reviewing and discussing the related problems and concerns. The disclosure scoreboard, as applied in this dissertation, shows how much information annual reports contain, is outlined and discussed. Some of the practical constraints of conducting this kind of research are outlined. Finally, the issues of data quality are discussed in the light of reliability and validity.

The background to insurance as well as to Skandia and to Allianz is provided in Chapter 4. This chapter intends to equip the reader with

background information for a better understanding of the context of the field. The basic concepts of non-life insurance and life insurance are illustrated revealing their most basic denominators. Unit-linked insurance, a special form of life insurance, is explained particularly due to its importance for Skandia. For both corporations a general overview illustrates the historical development and organisation as well as some brief operational positions and results. A section on the financial analysts concludes this chapter.

Chapter 5 presents the results from the disclosure scoreboard by examining the amount of voluntary disclosed information that Allianz' and Skandia's corporate annual reports from 1996 to 2000 contain. The applied disclosure scoreboard assesses the categorisation of three main areas. These main areas measure the strategic, financial and nonfinancial information about the corporation. The results of this disclosure scoreboard serve the purpose to illustrate the amount as well as the development during the past five years of voluntary disclosed information. To illustrate the disclosure scoreboard results, it has been decided to present each of the three areas separately beginning with the aggregated result before presenting the results for each subcategory. Finally, the results are aggregated to a total scoreboard showing the development of the overall disclosure of Allianz and Skandia.

The answers that the company respondents of Allianz and Skandia made during the interviews for the provider study are illustrated in Chapter 6. The study's focus is on the provider of information and in this study, the heads of investor relations from both corporations have been interviewed, as they function as the corporations information interface to the investing community. The empirical material is presented closely to the structure of the developed interview guide providing a more general analysis of answers serving the purpose of achieving a holistic understanding. Whenever a more detailed analysis appeared to be of value to enhance the understanding of the parts, quotes from the interviews are given. All main questions are analysed as own paragraphs in this chapter while the sub-questions are not necessarily analysed in a paragraph of their own.

Chapter 7 contains the results of the analysts' interviews for the user study. The empirical findings are illustrated in a more survey like style due to the larger number of respondents. As for the provider study, the user study's interview guide structure is followed closely for analysing the

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study's results. To show how the analysts' answers were sorted into the different categories for each question, examples of quotations from the analysts' interviews are given which represent characteristic statements for the category. The chapter concludes with a summary of the results from the user study.

The final chapter completes the three-step analysis of the empirical findings aiming to draw a picture about the human resource disclosure practice. The first step of the analysis is presented in Chapter 5, 6 and 7. Their findings are highlighted by answering the research questions. In the second step, pair-wise comparative analyses are performed, which examined the justifications with the amount of disclosure, actual disclosures and their utilisation as the utilisation with the justification of disclosure as well. A further analysis discussed the findings toward different disclosure strategies, relevance and comparability of voluntary disclosures. Concluding remarks on the dissertation's empirical findings' wider significance are made. Future research suggests interesting research issues based on the dissertation's findings.

Chapter II

THEORETICAL FUNDAMENTALS

This chapter's objective is to provide a brief outline of the propositions and assumptions of relevant literature that provides theoretical fundamentals for this dissertation. The dissertation's overall research statement contains some complexity as it focuses on information, providers and users of human resources disclosure in annual reporting practice. Thus, this research draws upon not just, one but many relevant areas of interest, which is why this chapter concentrates on areas that are the most important to this research, namely accounting research, information disclosure, accounting for human resources¹³ and prior disclosure studies. This chapter starts off by concisely covering developments in accounting research. The role of information disclosure incorporates agency theory, discussing the agency problem and the information problem. Since the disclosure of human resource information is of particular interest for this dissertation, this section opens with a concise historical review of human resource accounting, which includes recent developments and a discussion about the regulation and reporting of human resources. This chapter then concludes with a review of prior disclosure studies.

2.1 DEVELOPMENTS IN ACCOUNTING RESEARCH

The title of this section aims to cover a very broad field, which might be somewhat misleading in the first place as it is not intended to review every development in accounting research. This section provides a comprehensive overview about some assumptions, definitions, principles and concepts that reflect the focus of accounting research. At the end of this section a discussion is made about what accounting research approach this dissertation has taken.

Modern accounting systems are based upon double entry bookkeeping that Luca Pacioli published in his book *Summa de Arithmetica, Geometria*,

¹³ Accounting for human resources is used in this dissertation to illustrate that there are more approaches existent to measure human resources for accounting purposes than human resource accounting proposes.

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*Proportioni et Proportionalita*¹⁴, which until the 18th century remained almost technically unchanged (Bryer, 2000).

During the nineteenth century and until the mid 1950s accounting research was mainly concerned with describing and explaining accounting practices. In this period, individual efforts on accounting practice codification increased the complexity of descriptive accounting theories. In 1922 Paton (1973) outlined postulates to illustrate the financial condition of corporations e.g. going concern, continuity or the balance sheet. Gilman's (1939) accounting doctrines contained conservatism, consistency and disclosure.

During the 1950's and the 1960's accounting research was devoted to develop general prescriptive accounting theories (Henderson et al., 1992). A committee of the American Accounting Association (AAA) on Concepts and Standards for External Financial Reports suggested categorising prescriptive accounting theories into the three groups of true-income, decision-usefulness and information economics (AAA, 1977). The true-income approach basically implies that income is measured using a single valuation base for assets and liabilities that would meet the needs of all users (Hakansson, 1978). The decision-usefulness approach principally assumes that people use accounting data as input in a decision-making process (Elliott and Elliott, 2000). The information economics approach treats information as conventional commodities in economic theory determining the amount of information by using supply and demand curves (Schroeder et al., 1987). Consequently, certain items of accounting information should be made available in annual reports by evaluating the costs of accounting information compared with the benefits obtained from its disclosure (Feltham, 1968). This comparison is difficult because information providers incur costs but receive few benefits, while information users receive benefits but incur few costs (Henderson et al., 1992).

In the 1970s and 1980s accounting research underwent a shift in focus from a normative research approach towards formulation and verification of partial theories of positive research (Hendriksen and VanBreda, 1992). This shift in accounting research towards empiricism was an extension of

¹⁴ Luca Pacioli was a mathematician and that is why the title of his book is named *The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality*.

the research activities of the 1960s, as the emphasis of this positive accounting theory is on explaining accounting practice with help of empirical and statistical studies. Chua (1986) labelled this empirical tradition mainstream accounting research, which commonly states that an objective reality exists independently of people. People are not regarded as makers of their social reality and assumed of being goal-oriented utility-maximisers. Therefore, observations are used to verify or falsify hypotheses. Mainstream accounting research favours quantitative statistical methods to examine generalisations from causal relationships. This research approach is reflected in many areas like capital market research (Ball and Brown, 1968; Fama, 1970; Abdel-khalik and Ajinkya, 1979; Watts and Zimmerman, 1986; Watts and Zimmerman, 1990; Ball, 1992) and still is dominating US accounting research.

Opposing the objective reality of mainstream accounting, interpretive accounting research seeks to understand the subjective experience of people that are part in the preparation, communication, verification or use of accounting information (Riahi-Belkaoui, 1997). The dominant assumptions of interpretive research shows that social reality is subjectively created and objectified by human actions, which the researcher has to consider. Interpretive researchers do regard accounting as concepts and labels used to construct social reality, which they assess via logical consistency, subjective interpretation and agreement with actors' common-sense interpretation (*ibid.*).

In a recent article Hopwood (2000) reflects upon accounting research's current state and addresses that financial accounting's institutional and social aspects remained fairly uninvestigated. He admits, however, that the focus in accounting research gradually changed towards an interest in how the functioning of accounting is related to wider cultural and social practices. In that sense, it is not only the accounting system that is of interest but the actors, the providers and users of accounting systems. According to Gray (2002), the giving and receiving of accounts is an inherent part of human experience. The interest in the actors is not limited to behavioural research as economics-based research also engaged in studying micro-processes (Richardson and Welker, 2001; Clarkson et al., 1999; Francis et al., 1997). Such methodology induces the interpretive approach that actors are studied in their everyday world with help of ethnography, action research, participant observation, case-studies or

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interviews (c.f. Forsberg, 2002; Mouritsen et al., 2001; Enquist and Javefors, 1996).

This dissertation considers that parts of different theoretical approaches toward accounting can utilise the study's methodology. Consequently, areas from the mainstream approach can be used to enhance interpretive research. Although the disclosure scoreboard (Figure 3-5) for the report study in this dissertation does not test hypotheses, it started to define items before the analysis of the empirical material and applies statistical presentation of the results. This dissertation clearly contains interpretive aspects, as it neither seeks to control the empirical phenomena nor to produce technical applications. Moreover, this research follows Chua's (1986) attributions to the interpretive approach to enhance understanding of deficiency reduction between the provider and the users of voluntary disclosed information. This dissertation neither takes a mainstream accounting nor an interpretive approach and methodological implications are discussed further in Section 3.1.

2.2 THE ROLE OF INFORMATION DISCLOSURE

This section looks into the role of disclosed information in capital markets. In financial theory the capital market's efficient allocation of resources is of special interest. Therefore, much research in financial theory examines the influence of accounting information on individuals' behaviour on capital markets¹⁵, which can be measured by market reactions, as well as the effects of accounting information on the mode of how capital markets work. Financial theory anticipates that the disclosure of information underlies agency and information problems, which impede capital markets optimal allocation of resources. One of the major pillars in research is agency theory. Numerous different types of agency models exist in the literature. Nonetheless, these models commonly presuppose conflicts of interest, an agency problem and informational asymmetry, an information problem that exists between two parties. In this section, agency theoretical aspects are elucidated towards providers' agency problem and users' information problem as they bear some implications for this study.

¹⁵ The term capital market in its purest form is a theoretical construct, representing each possible interception of capital supply with capital demand. This dissertation regards the organised capital markets as a representative of this theoretical capital market. A particular form of these organised capital markets are the stock exchanges where securities and shares are traded.

2.2.1 AGENCY PROBLEM

The relationship between managers and owners of a corporation has often been in the centre of investigation on capital market research (Kunz and Pfaff, 2002). Wolk and Teary (1997) discussed that agency theory provides an important framework for analysing financial reporting incentives between managers and owners. Standard agency theory examines the efficient organisation of cooperative relationships between two or more individuals. The agency relationship implies a contract under which one or more individuals, the principal or the principals, hire another person, the agent, to execute a service on behalf of the principal who delegates decision-making authority to the agent (Jensen and Meckling, 1976:308). From an agency theoretical perspective many different relationships would be suitable, for example the relation between insurance company and insurant, as an agency relationship does not exist exclusively between management (agent) and shareholder (principal) (Schroeder et al., 1987). However, from the principal's perspective agency theory's main objective is to find an optimal arrangement of contractual relations that solves the problem of delegating decision-making authority to the agent. The problem is solved by using a suitable incentive system (Hendriksen and VanBreda, 1992).

The strive for explanation and prediction under positive accounting theory extended information economics by the basic premises of the agency relationship that takes the motivational behaviour of managers into account, which in turn causes management costs (Mathews and Perera, 1996). The agency model presupposes that a principal employs an agent to act on his behalf. Still, the agent possesses private information, for example details about the corporation's business decisions, which is not costlessly available to the principal.

Agency theory assumes that all individuals act in their own self-interest. Principals are presumed to be risk neutral, reducing their risk through spreading their wealth in many different companies. The agents cannot diversify away this risk and are assumed to be risk adverse, avoiding taking risks. The agent both has his financial wealth as well as his human capital tied up in the corporation, which means that he depends upon the performance of the corporation. Hence, the agent has more at stake than the principal and wants to avoid risk to a greater extent than the principal. Furthermore, it is supposed that agents prefer more wealth than less, but

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the dilemma is that the marginal satisfaction decreases when more wealth is created. This hypothesis of agency theory implies that management attempts to maximise its own welfare. Wolk and Tearnly (1997) point out that the agent's tendency to maximise his own welfare does not necessarily imply value maximisation of the corporation.

As pointed out in the previous paragraph, there might exist differences in objectives between the shareholders and the managers that result in a conflict of interest. The owners obviously want the managers to act in accordance to the best interest of the owner. Managers may still have priorities that are different to those of the owners. The managers' personal objectives may interfere with the shareholders interest if the agent chooses those actions that maximise the creation of the largest personal earnings possible or raising the personal status within the restricted contractual constraints, which might have a negative impact on the interests of the principals (Kunz and Pfaff, 2002).

Wolk and Tearnly (1997) illustrate another problem that might occur due to the agent's attempt to maximise compensation, given that the agent's compensation might be tied to the corporation's share price. The agent's effort to improve accounting-based performance measures may lead to the application of accounting rules that maximise current income rather than long-term income. In this case managements' opportunistic behaviour might not be in the best interest of stockholders and a principal can be worse off when providing an incentive contract to his agent than by not doing so (Kunz and Pfaff, 2002).

Healy and Palepu (2001) mentioned that there are numerous solutions to the agency problem. Normally, the principals seek to align agents towards an optimal contractual relationship by compensation agreements, which bind management to disclose relevant information. This makes it possible for shareholders to analyse whether the corporation's resources have been managed in the principals' best interests. The disclosure of relevant information in financial reporting can be used to monitor the agent's fulfilment of the contractual agreements as it facilitates the disclosure of events and transactions in which managers behave in a manner that is not in the principals' best interest. In an earlier article Healy and Palepu (1993) showed that financial reporting requirements in annual reports do not help managers to communicate effectively with their shareholders. Therefore managers will attempt to improve the credibility of their

financial reporting by voluntarily providing additional disclosures. Voluntary disclosures allow the reduction in agency problems since agents may articulate the corporation's long-term strategy or specify nonfinancial indicators that might be useful for the principal to analyse the effectiveness of such strategy.

Empirical accounting research on financial reporting and disclosure has focused primarily on cross-sectional variation in contracting variables to explain management's financial reporting decisions (Core, 2001). However, according to Gigler and Hemmer (2001) an increasing number of empirical studies (see Section 2.4.1) started to establish theoretical links between the properties of mandatory financial reports and the amount of information that managers provide through voluntary disclosures.

2.2.2 INFORMATION PROBLEM

The previous section indicated that under normal conditions the principal does not have information about the agent's work input or intermediate result, which shows that the principal cannot control the agent directly (Mathews and Perera, 1996). This is the traditional cause for the information problem, since the corporation's management is employed owing to their expertise in business strategies and operations. Consequently, the managers have superior information about the corporation's business decisions and strategy compared to the investors. This unequally distributed information is called *information asymmetry*¹⁶ (Hendriksen and VanBreda, 1992). Information asymmetries generally are associated with the relation between (better informed) managers and (less well informed) investors (Fields et al., 2001).

In order to guarantee that the agent is willing to make optimal decisions in maximising the principal's welfare, the principal must create suitable incentives for the agent (Jensen and Meckling, 1976). Incentives for the agent would be a certain remuneration, which may vary from a fixed amount to a percentage of the total result. This agency contract normally includes penalties for failing to fulfil the contract. In this situation, inducing the agent to maximise the principal's welfare an information system is necessary that informs both the agent and the principal (Mathews and Perera, 1996). The corporate annual report can be regarded

¹⁶ For a comprehensive discussion see Akerlof's (1970) article illustrating information asymmetry by using the Lemons (used cars) market as an example.

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as a communication vehicle where the agent reports to the principal about the current state of business about the decisions and the developments taken to fulfil the objectives in the agency contract.

Another information problem, known as the lemons problem, arises from information differences and conflicting incentives between managers and investors. It can potentially lead to a breakdown in the functioning of the capital market (Akerlof, 1970). For example, consider a situation where half the business ideas are good and the other half are bad. Both investors and managers are rational and value investments on their own information. If investors cannot distinguish between the two types of business ideas, managers with bad ideas will try to claim that their ideas are as valuable as the good ideas. Realizing this possibility, investors will value both good and bad ideas at an average level. Consequently, if the lemons problem is not fully resolved, the capital market will rationally undervalue some good ideas and overvalue some bad ideas relative to the information available.

There are a number of solutions to the lemons problem. Optimal contracts between managers and investors will provide incentives for full disclosure of private information (Kreps, 1990). Another potential solution to the information asymmetry problem is regulation that requires managers to fully disclose their private information. Finally, because of the lemons problem, there is a demand for information intermediaries, such as financial analysts and rating agencies, who engage in private information production to uncover managers' superior information.

A variety of economic and institutional factors determine whether contracting, regulation and information intermediaries eliminate information asymmetry, or leave some residual information problem. These factors include the ability to write, monitor and enforce optimal contracts, proprietary costs that might make full disclosure costly for investors, regulatory imperfections and potential incentive problems for intermediaries themselves. Research on corporate disclosure, therefore, focuses on cross-sectional variation in these factors and their economic consequences.

Agency theory represents one approach for this dissertation to view voluntarily disclosed information in annual reports as a means to reduce information differences between agent and principals. However, a

statistical study to test this assumption, as positive accounting theory studies would carry out, will not be done in this dissertation rather than bearing the just described mechanism for a well-functioning relationship between agent and principal in mind. There are several ways to use information for the reduction of investors' uncertainty to enhance the understanding of the economic situation of a corporation (Mathews and Perera, 1996). Accordingly, voluntarily disclosed information about corporate human resources might improve investors' confidence.

2.3 ACCOUNTING FOR HUMAN RESOURCES

This section covers some of the issues about accounting for human resources, which are of importance for this dissertation. At first, a concise historical review draws upon the major developments that occurred in human resource accounting since its establishment in the early 1960s. Different models for conceptualisation and measuring the economic effects of human resources had been developed and refined by researchers throughout the years. The second part of this section takes a closer look at some of the current developments in accounting for human resources. In the 1990s, accounting practitioners and researchers put the process of human resource valuation as the focus of their interest. Different aspects are elucidated as they caught much attention. Although the regulation and reporting of human resources is to a large extent voluntary for corporations the last part of this section elaborates on some directives and the overall direction of the regulating authorities.

2.3.1 A CONCISE REVIEW

The tendency of some companies to evaluate their human resources in economic terms is not really a new idea. Human resource accounting (HRA) has been on the research agenda for about 40 years with varying degrees of significance. To a large extent, the early research in human resource accounting focused on the problems of accounting for investments in human resources (e.g. Hermanson, 1964; Heikiman and Jones, 1967; Brummet et al., 1968; Lev and Schwartz, 1971). In the 1970s, human resource accounting has been defined by the American Accounting Association's Committee on Human Resource Accounting as "*...the process of identifying and measuring data about human resources and communicating this information to interested parties*" (CHRA, 1973:169). Consequently, human resource accounting has an objective to enhance the quality of financial decisions through the provision of information on

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human capital to internal and external users of such reports (Flamholtz, 1985).

According to Flamholtz (1999), there have been five stages of research in human resource accounting. During the first stage in the period from 1960 to 1966 the models that conceptualise and measure human resource accounting were drawn from labour economics, accounting and psychology (Steffy and Maurer, 1988). In this period Hermanson (1964) stated that traditional financial statements did not adequately reflect the financial position of a corporation due to the fact that human assets are not included, which is why he developed a method to measure the value of human assets that is created by actions such as recruitment or training. Much of the early research on human resource accounting focused for the most part on determining human resource measurements for reports that should be utilised by managers and investors.

The second stage of human resource accounting occurs between 1966 and 1971 (Flamholtz, 1999). During this period, researchers tried to construct and verify their human resource accounting models theoretically and in practice. The first major attempt of experimental field research was conducted at the R.G. Barry Corporation in Columbus, Ohio. This frequently quoted experiment addressed the development of a historical-cost approach to employee valuation, where accumulated costs for each manager were amortised over expected working lives and write-offs were made for unamortised costs (Cascio, 1999).

Brummet, Flamholz and Pyle (1968) put forward that the historical-cost approach bears a relative objectivity since it is rooted in the accounting of other assets and therefore allows comparisons between human resource investments. Heikiman and Jones (1967) stressed in their article that the corporation's employees contribute considerably to its business and for that reason to the creation of its value. However, accounting captures employees as costs, which is why Heikiman and Jones (1967) proposed employees as assets and for that reason should be treated, measured and valued as conventional assets.

The advantages of the historical-cost approach are distinguished by Baker (1974) who also outlined its limitations. The economic value of human assets does not inevitably match their historical costs, as the assumption of a stable dollar does not hold. The amortisation of human resources

underlies considerable subjectivity because the productivity of human assets might not necessarily depreciate during the working life. The historical cost approach only measures costs for the corporation but chooses not to appraise the individual's value to the corporation. Despite these shortcomings, researchers often consider the historical cost model as being the most appropriate (Cascio, 1999; Monti-Belkaoui and Riahi-Belkaoui, 1995).

Flamholz (1999) outlined that the third stage in the development of human resource accounting from 1971 to 1976 experienced an increased research interest in human resource accounting. The American Accounting Association established the committee for human resource accounting, which published reports on the development of human resource accounting (CHRA, 1973; CHRA, 1974). Research was interested in the potential impact of human resource accounting information on management and investor decisions.

In the early and mid-1970s, intensive efforts were made by both practitioners and academic researchers to develop new economic models for valuation, costing and accounting focusing on the corporations' employees. Flamholtz (1971; 1973) developed a model that measures the cost incurred when replacing an existing employee, filling a certain position in the organization, with another employee. The replacement cost approach consists of estimating the cost of replacing existing employees by including all costs of recruiting, selecting, hiring, training, placing and developing new employees to attain a similar competence level as the replaced employee (Monti-Belkaoui and Riahi-Belkaoui, 1995). The question about the usefulness of measuring the replacement-costs has been discussed by some researchers (e.g. Turner, 1996; Baker, 1974), as they find that the substitution of the historical cost approach by the replacement cost approach only increases subjectivity. Furthermore, Cascio (1999) reasons that corporations would only need the replacement costs infrequently, which questions the regular measurement of all employees.

For Lev and Schwartz (1971) the problem with human capital was mainly the fact that traditional accounting did not consider human capital at all. They developed another method of measuring human resources, which they derived from economic theory, where the valuation of employees is based on their present value of future earnings. Basically, they calculated

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the employees' economic value as the present value of an employee's future contribution over life, which was adjusted for the probability of the employee's death. To quantify the employee's future contribution the employee's costs or wages statistics about income returns and mortality tables had been applied. Apart from the discounted cash flow method that Lev and Schwartz proposed, various models exist that take a present value approach like the adjusted discounted future wages method or the discounted future value method (Monti-Belkaoui and Riahi-Belkaoui, 1996). The adjusted future wages method implies that discounted future wages are adjusted by an efficiency factor, the return on investment by one corporation to all corporations in the economy for a given period, to calculate the corporation's human capital relative effectiveness. The discounted future value method proposes to forecast a corporations present value of earnings at a normal rate of return whereby the corporation's human resources contributes to this economic value.

Human resource accounting was very popular in the mid-1970s. However, the interest declined among academics and practitioners. According to Flamholtz (1985) the short duration of the fourth stage between the years 1976 to 1980 was caused by widespread idea that human resource accounting was just about putting people on the balance sheet, considering employees as financial objects. However, the decline in interest of human resource accounting by the end of the 1970s was also a result from continuous measurement problems and the perceived manipulation risk of measures.

The fifth stage that Flamholz (1999) described for the years from 1980 to present, in which interest in human resource accounting has revived. These developments in accounting for human resource are reviewed in the following section.

2.3.2 RECENT DEVELOPMENTS

It has recently been claimed that human resource accounting "*...has progressed at something less than a snail's pace in the last two decades*", but that during the 1990s interest in accounting for human resource has been on the rise again (Turner, 1996). Johanson (1996) finds it interesting that the principal argument used by intellectual capital proponents as Sveiby (1997) against human resource accounting represents the same argument that human resource accounting proponents apply in order to promote its use. Human resource accounting proponents point out that the

nonfinancial indicators of human resources that have been used for a long time are not strong enough to influence managerial action. By using monetary figures, including costs, incomes and values on problems or measures normally not described in a monetary way, it is believed that new insights may emerge to fulfil three main functions of human resource accounting. The first function is to provide numerical information about the cost and value of people as organisational resources. Secondly, human resource accounting should serve as a framework to facilitate decision-making. Finally, the third main function is to motivate decision makers, managers as well as investors, to adopt a human resource perspective. Johanson (1999:91) believes that financial and accounting people are over-represented among the proponents of the balanced scorecard concept, whereas human resource people are over-represented among those who support human resource accounting.

As early as in 1987 the Swedish Konrad group (1988), a working group including Karl-Erik Sveiby, developed a theory about measuring intangible assets, which is partly employed in the Skandia intellectual capital model. This group was elaborating on the invisible parts of a company that did not show up on the balance sheet. The *Konrad Assets Theory* became broadly recognised in Scandinavia during the late 80s. This theory divided the intangible parts of a company into three different categories, individual competence, internal structure and external structure. In their report a set of 38 key indicators were defined, ranging from common financial performance indicators to new aspects of capturing human resource factors.

In 1992, Kaplan and Norton (1992) published their first article about the Balanced Scorecard. The balanced scorecard approach retains traditional financial measures, which reflect past organisational achievements, but adds three new measures of future performance found necessary in this information age with its focus on customer relationships and long-term capabilities. These are: customer, internal business processes, and learning and growth. With these four perspectives providing the framework for the balanced scorecard, organisations can now measure how they create value for customers, how they can enhance internal competencies, and how they must invest in people, systems and procedures to improve future performance.

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Practitioners took on the idea from the balance scorecard approach and developed their own specialised concept of intellectual capital with the idea basically remaining the same. Intellectual capital has been around for a very long time, but it did not receive attention until 1994. Fortune magazine published original articles about brainpower and intellectual capital. These articles were based on the pioneering efforts, which were going on in the United States and Scandinavia. Generated synchronously these articles show an extensive awareness of intellectual capital on companies' management-levels (Stewart, 1997).

Intellectual capital is a concept that aims to cover the relations within a sum of acquired insights of a corporation's business, which strives for creating future values from a human perspective. (Edvinsson and Malone, 1997). Although writers on intellectual capital differ about the specifics of intellectual capital reporting, they typically mobilise three dimensions that extend the idea of financial reporting beyond the conventional financial statement (Mouritsen, 1998). They generally write about human capital, organisational capital and customer capital (Stewart, 1997). For Stewart the primary purpose of human capital is innovation of products, services and improving business processes.

For a number of years a team of the Skandia Future Center, headed by Leif Edvinsson, pioneered a new system for visualizing and developing intellectual, intangible and organisational business assets. The results of this work is the Skandia Navigator, an instrument which has been continuously refined and worked on and has attracted growing interest and appreciation around the world (Roos et al., 1998). The Skandia Navigator consists of five focus areas, which should help a company to navigate the future and by this means, advance business renewal and development. Following Skandia's market value scheme, intellectual capital can be defined and classified as intellectual capital assets as i.e., knowledge, experience and technical infrastructure, customer relations, routines and professional competencies that create the future earnings potential. The market value includes two parts, financial capital and intellectual capital. The latter consists of human and structural capital. Human capital is the capabilities of the company's employees to provide necessary solutions to customers, to innovate and to renew business. Structure capital is the infrastructure of human capital, including the organisational capabilities to meet market requirements. Infrastructure includes the quality and reach of information technology systems,

company images, databases, organisational concept and documentation. Customer capital is the relationship with people with whom a company does business. Although this usually means clients and customers, it can also mean suppliers. It has also been referred to as relationship capital. The interaction among human, structural and customer capital helps to determine the true value of a company's intellectual capital.

In the 1990s Monti-Belkaoui and Riahi-Belkaoui (1995) recommended three different ways of reporting companies' human capital. Besides a supplementary annual report they proposed employee reporting and value added reporting. The supplementary annual report should contain a balance sheet, which includes expenses for human capital, while the value added report should be of use for the employees and unions in providing information on companies' productivity and efficiency.

Some of the most extensive experiences with intellectual capital reporting, which include some human resource disclosures, stems from a project that was initiated by the Danish Agency for Development of Trade and Industry (1997) in collaboration with researchers and corporations aiming to establish guidelines for the development and reporting of intellectual capital statements. The guideline was published in 2000 and by 2002 it has been followed by approximately 100 Danish organisations and corporations including large publicly listed corporations (Bukh, 2002)

2.3.3 HUMAN RESOURCE REPORTING AND REGULATIONS

Despite the fact that the interest in human resource accounting has been an issue of growing importance, the current accounting and financial reporting practices have been criticised by many top managers of high technology corporations as well as financial analysts, as not keeping pace with changes in the business world. According to Wallman (1996) financial statements fail to measure and show the most significant pillars of business, which are human capital, organisational capital and customer capital. In his view, financial statements fail to communicate to management and the investor community in what state the business a corporation is in when it comes to human resources and their development, which is said to be the driving factor for future innovation and profits growth (ibid.).

Traditional accounting standards do not provide the guidance necessary in valuing all intangible assets (Lev, 1997). There are very few legislative

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requirements on the issuing of information and external reports on human resources. In general these requirements refer only to financial statements for publicly listed corporations. The European Community's 4th Council Directive of 1978 has set guidelines for the contents of financial statements in order to ensure uniform reporting by corporations within the European Union. When it comes to human resources, the 4th Directive requires corporations to disclose information on their employees only as wages, salaries and social security costs. In most countries, these minimum requirements were supplemented by further requirement of providing the number of employees. The 7th Council Directive on consolidated accounts is implemented in the national laws of all member states in the European Union and can be regarded as an extension of the 4th Directive and considered being a compromise between the practices used in the different member states.

Since the European Commission decided to make the International Accounting Standard as a common reporting standard for European corporations some of them are worth a closer look. The International Accounting Standards Board¹⁷ (IASB) sets accounting standards according to good reporting practice for publicly listed corporations. Throughout the years the International Accounting Standards Committee (IASC) has issued accounting standards like IAS 19 Employee Benefits, IAS 26 Accounting and Reporting Retirement Benefit Plans as well as IAS 38 Intangible Assets that make some human resource disclosures legal requirements.

Although some of the IASs regulate human resource disclosures, the IAS 38 Intangible Assets, which is supposed to handle problems that arise with intangibles, only discusses patents, trademarks, copyrights, goodwill, as well as research and development costs (Lundmark, 1999). The latter has been regulated earlier in IAS 9 Research and Development Costs whereas IAS 22 takes on the reporting of goodwill. Nothing is indicated about employee knowledge, best practices, training investments or staff turnover (Lev, 2001:7).

Notwithstanding the absence and difficulty in valuing and reporting human resources, many researchers point to the fact that costly losses

¹⁷ Since 1st April 2001 the IASB's assumed accounting standard setting responsibilities from its predecessor body, the International Accounting Standards Committee (IASC).

may occur that traditional financial statements do not cover (cf. Becker et al., 2001; Phillips et al., 2001; Lev, 2001; Fitz-enz, 2000). In a study Bhidé (2000) illustrated that his findings revealed massive losses for 71 percent of the sample corporations that occurred from employee turnover due to lost knowledge of best practices or damaged customer relationships. Furthermore he demonstrated that this loss stemmed from key employees who replicated or modified developments from their former employers.

Lev (2001) stated that neither the US Financial Accounting Standards Board (FASB) nor the IASC came up with any new standards that encompass the specific aspects for the corporations for measurement and reporting of intangible assets. He criticises the FASB for still holding on to rules from 1974, requiring that incurred intangible assets costs have to be expensed off when incurred. In some cases like software development costs are permitted to capitalise on if the product has an economically viable future (Aboody and Lev, 1998).

By introducing the IAS 38 Intangible Assets, the IASC widened its prevailing view about intangible assets as it also permits and recognises items like training, advertising or start up costs on top of goodwill and Research & Development (R&D). Lundmark (1999) mentions that it is for the first time permitted by legislation to capitalise on *internally generated* and *acquired* intangible assets. Still many issues are far from being legislated since the capitalisation of intangible assets does have to fulfil the requirement list as set out in IAS 38. IAS 38 requires that for capitalisation purposes an item must meet the definition of intangible assets, must be separately identifiable and distinguishable from other assets, the company must demonstrate a clear control over the intangible asset, show that returns are feasible, and that the cost must be measured reliably (PricewaterhouseCoopers, 1998).

When taking human resources as intangible assets, IAS 38 makes it very difficult for a corporation to capitalise on. The requirement to identify and distinguish human resources separately from other assets, as human resources are often integrated in business processes and techniques where mind work is determined for the outcome. A further problem will arise for the corporation to show control over human resources as the result of their work is considered as less accessible as long as it resides in their heads. Lev (2001) reasons that capitalisation will be difficult due to uncertainty of future returns. The last criterion for capitalisation on

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human resources, the reliable measurement of costs, has been the centre of recent research (cf. Phillips et al., 2001; Becker et al., 2001; Fitz-enz, 2000; Cascio, 1999; Gröjer and Johanson, 1996) trying to measure the economic value of employee performance and the expenses incurred by for example establishing the return on investment from human resources.

To sum up the above discussion, it was illustrated that the human resource disclosure is largely unregulated and disregarded by legislative bodies like FASB or IASB. Those few requirements made in the IASs 19, 26 and 38 share the common traditional view of treating human resource expenditures as cost rather than as investments. Since human resources appears as a cost rather than an investment, corporations might have a tendency to underinvest in its development. This can contribute to recruitment and retention difficulties for corporations, which in turn can affect the profitability in the long run. A number of articles indicated that substantial benefits might be gained from better information about human resources (e.g. Gröjer and Johanson, 1997; Sackman et al., 1989). If this information is externalised more comprehensively in corporate annual reports, it might allow human resources to be assessed more effectively by the investor community. However, as information about corporate human resources is largely unregulated, it is up to the corporation to decide what, in which form and how much information they want to disclose voluntarily in corporate annual reports or elsewhere.

2.4 PRIOR DISCLOSURE STUDIES

There is an extensive amount of accounting literature relating to the use of disclosure scoreboards to measure the amount of information that is contained in corporate annual reports. The intention of this section is to provide a general overview of earlier disclosure studies that were used to generate the interview questions and the disclosure scoreboard (see Section 3.3.3). Although existing research showed considerable variations in the extent and measurement of disclosed items, they commonly share the interest in examining the relevance and usefulness of issued information for investors (Giner Inchausti, 1997). Many researchers have made varying attempts to provide a framework for disclosure literature (Street and Bryant, 2000; Wiedman, 2000; Adrem, 1999; Cooke, 1989). The most frequently used framework approaches the existing disclosure literature by dividing disclosure information into the categories corporate disclosure studies, considering mandatory and voluntary disclosure items,

and voluntary disclosure studies¹⁸. Inspired by the described structures, the following two sections review corporate disclosure studies and voluntary disclosure studies. The number of studies chosen is rather subjectively selected and should not be perceived as a complete literature review of disclosure research. However, a chronological review of some of the most frequently quoted disclosure studies helps to illustrate how current disclosure scoreboards have evolved and that many are built on earlier disclosure studies. The studies that are presented in the following sections are brief summaries, describing some highlights of studies' design and main findings.

2.4.1 STUDIES ON CORPORATE DISCLOSURE

One study singled out by many researchers as the beginning of disclosure scoreboards for measuring disclosure was a study carried out by Cerf (1961). For this study, a disclosure index was developed to measure the extent of disclosure in corporate annual reports of 527 US corporations. The focus of the disclosure index was on the information needs of financial analysts. Individual weights were attached to every disclosure item that Cerf established from interviews with analysts to assess the importance of disclosure items. The disclosure index contained 31 items and their weights with a range from one to four. Adjustments had been made for some disclosure items that were not applicable to specific corporations. The index scores were calculated for each company as a percentage of the maximum possible scores. Cerf's research showed that there was a positive association between disclosure scores and the three independent variables assets size, number of shareholders and the rate of return.

The study by Singhvi and Desai (1971) applied a sample of 155 US corporations, which was analysed to identify characteristics associated with disclosure quality. The disclosure index that Singhvi and Desai developed included 34 disclosure items, similar to Cerf's 31 items and weights, to investigate probable implications and quality for financial analysts decision-making process for investments. Their conclusion was that corporations with inadequate disclosure are small in total assets, small

¹⁸ Some researchers like Adrem (1999) or Meek, Roberts and Gray (1995) made further distinctions of voluntary disclosure by dividing voluntary disclosure into social disclosure and environmental disclosure.

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by number of shareholders, less profitable by the rate of return and earnings margin.

The contradictory findings between Cerf's and Singhvi and Desai's studies was recognised in Buzby's (1975) research. Cerf's study found assets size to be the most important characteristic in explaining variability in disclosure scores whereas Singhvi and Desai found listing status to be the most important characteristic. Buzby developed a disclosure scoreboard including 39 disclosure items, which were contained in a questionnaire that was sent to 500 financial analysts. The responses were used for weighting the disclosure scoreboard items that was applied on two samples with 44 companies each. The first sample contained companies that were publicly listed. The second sample contained companies that were unlisted but whose shares were traded over the counter (OTC). The empirical findings showed a positive association that the size of a company's assets is not affected by listing status and therefore confirming Cerf's results, but not Singhvi and Desai's.

The research by Barrett (1976) concentrated on the extent of financial disclosure and the comprehensiveness of a corporations' financial statements. This study concentrated on differences in the extent of disclosure between Japanese, European and US corporate annual reports. A weighted disclosure scoreboard with 17 items was largely based on 12 items from Cerf's and Singhvi and Desai's studies. The sample contained 103 corporations, the 15 largest publicly listed companies in West Germany, France, Sweden, US, UK, Japan and 13 companies from the Netherlands. A cross-sectional analysis from the years 1963 to 1972 revealed that the extent of annual report disclosure was higher in the US and UK than in Japan, the Netherlands, West Germany, France and Sweden.

The extent of disclosure in Swedish corporate annual reports from 1985 was the focus of Cooke's (1989a) research. The study elaborated upon whether identical company characteristics explain dissimilarities in the extent of voluntary and social disclosures. The sample consisted of 38 unlisted corporations, 33 nationally listed corporations and 19 nationally listed corporations with at least one foreign listing. Cooke developed a disclosure scoreboard consisting of 224 items, which were divided into two subsets of 147 voluntary disclosure items and 32 social disclosure items. An unweighted additive scoring approach assessed the extent of

disclosure. The results indicate that listing status, size and industry significantly explain the extent of voluntary disclosures. The empirical findings showed that listed companies disclose significantly more voluntary information than unlisted companies.

Giner Inchausti's (1997) study examined if disclosure by Spanish corporations is influenced by market pressure and pressure from regulatory bodies. Corporate annual reports from 49 publicly listed companies have been evaluated for the period 1989 to 1991. These were applied to company characteristics and attributes to empirically test hypotheses that considered the influence of positive accounting theory. A disclosure scoreboard including 50 disclosure items computed a disclosure index. The empirical findings revealed that time as a surrogate for regulation explains the level of disclosure in corporate annual reports. Nevertheless, the result also suggest that time does not influence the amount of voluntary disclosure.

2.4.2 STUDIES ON VOLUNTARY DISCLOSURE

The study conducted by Choi (1973) measured changes in financial disclosure practices of a sample of corporate borrowers upon entry to the Eurobond market. The disclosure index contained items that were included in previous studies. Changes in financial disclosure practices were considered to occur when there is a change in the disclosure index over time during a period of five years. This five-year period measured three years before, the year of entry and one year after entry in the Eurobond market. Overall, Choi found that the improvements in disclosure were significantly higher for companies with a Eurobond market entry than for the matched companies. Therefore, it was concluded that the international capital market for external financing significantly improves the disclosure practices of companies upon entry.

The research from Chow and Wong Borren (1987) examined the voluntary financial disclosure practices of Mexican firms for a sample of 52 manufacturing corporations listed on the Mexican Stock Exchange. A questionnaire with 89 voluntary disclosure items was sent to 106 loan officers in 16 Mexican banks, which was then used for weighting the items in the disclosure scoreboard. A cross-sectional regression used three independent variables, which were firm size, financial leverage and proportion of assets in place. The empirical findings showed a broad difference in voluntary disclosure practices. The disclosure extent was

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found to be positively related to firm size. However, there was no significant correlation between voluntary disclosure and financial leverage as well as between voluntary disclosure and assets in place.

Meek and Gray (1989) studied the extent to which continental European corporations comply with the London Stock Exchange disclosure requirements. Nearly all of the Dutch, French, German and Swedish corporations listed on the London Stock Exchange in 1986 were included in the sample. It was found that the corporations substantially exceeded the exchange's requirements through a wide range of voluntary disclosures. National characteristics were evident in the pattern of items voluntarily disclosed, as there was concern about forecast information in Sweden, changing price information in the Netherlands, employee disclosures in France, and social reporting in Germany.

Meek, Roberts and Gray (1995) analysed factors that influence voluntary disclosures in corporate annual reports of multinationals from the US, UK and Continental Europe. A disclosure scoreboard with 85 voluntary disclosure items was compiled based on an analysis of international trends, observations of reporting practices, relevant research studies and comprehensive surveys. The voluntary disclosure scoreboard items were categorised into three major groups, which are strategic information, nonfinancial information as well as financial information. The empirical findings show that both British and Continental European corporations provide more nonfinancial information than American corporations do. British corporations tend to provide less financial information than either US or Continental European corporations. A weak significance was found for multinationality concluding the more multinational a corporation is the more financial information it discloses, whereas the less multinational a corporation is, the more nonfinancial information it discloses.

The doctoral dissertation of Adrem (1999) contains four related essays that elaborate upon causes and effects of corporations' voluntary disclosure practices. The first essay examined why some corporations have a proactive disclosure strategy while others do not institute such a strategy. A questionnaire survey including 213 corporations listed at the Stockholm Stock Exchange. The results showed that corporations with greater information asymmetry seek to reduce agency costs by intensifying investor relations. The second essay analysed the influences of reactive or

proactive disclosure strategies on voluntary disclosures in corporate annual reports. A disclosure scoreboard based on Meek, Roberts and Gray (1995) contained 141 items. It was found that proactive corporations provide a more transparent picture of their business through voluntary disclosure compared to reactive corporations. The third essay analysed if and how international capital market pressures influence the voluntary disclosure amount of Swedish corporations. A disclosure scoreboard of 121 voluntary disclosure items that were checked towards Swedish GAAP and IAS requirements. The findings showed no significant relationship between international listing status and the overall voluntary disclosures. The final essay elaborated on the effects of disclosure strategy on analysts' decisions. The empirical evidence showed that more analysts covered corporations with a more active and informative disclosure strategy and that the resulting forecast precision is more accurate.

2.5 SUMMARY

In this chapter a short development of accounting research has been presented. This dissertation does not follow one specific theoretical approach like mainstream accounting or interpretive accounting research. It was discussed that the point of view taken is that various parts of different theoretical approaches are utilised in this research, which has some methodological implications.

This dissertation's focus is on the relationship between the information, providers and users. Therefore, agency theory was described briefly to provide an overview of causes and problems of information asymmetry. It was outlined that agency theory can be thought of as one approach of this dissertation to view voluntary disclosure in annual reports as a means to reduce informational differences between the providers and users.

Human resource accounting and its development throughout the past 40 years, showed that the disclosure of human resource information is not a recent phenomenon but it has regained attention. Despite a reclaimed interest in the importance of human resources for corporations, traditional accounting standards demand only very few legislative requirements on the information itself and external reporting of human resource disclosures. A brief review of the IASB's work to develop a common standard for intangible assets was made in order to discuss and assess the current regulatory state within the European Union.

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At the end of this chapter a review illustrated that the extent of disclosure in corporate annual reports has been investigated by numerous studies. Some researchers have examined overall levels of corporate disclosure, others have concentrated on voluntary disclosures, which included the investigation of social responsibility, or environmental disclosures. The chronological reviews showed that many prior studies are built on earlier disclosure scoreboards. The review of previous disclosure research was helpful to develop the disclosure scoreboard for the report study. Disclosure scoreboards measuring the amount of disclosure over a period of time have been done before as Choi's (1973) or Barrett's (1976) research showed, but these studies are comparatively rare. The review showed that traditionally disclosure scoreboard studies are rooted in mainstream accounting research applying statistical methods for hypothesis testing. Therefore, one area that disclosure scoreboard studies normally not discuss is the fact that the nature of volume measurements is limited to the amount of information. Consequently, the use of a disclosure scoreboard does not allow making a statement about why corporations disclose information or how users think of disclosed information, as the tripartite model proposes in Section 1.2.

The theoretical fundamentals have some methodological implications, which are presented in the following chapter.

Chapter III

METHODOLOGY

In order to facilitate the gathering of the empirical material of this dissertation there were many alternative methodological¹⁹ strategies to choose amongst. The following sections will illustrate the point of departure and methodological considerations for the dissertation's empirical orientation. The methodological discussion of this dissertation entails detailed descriptions of research approach, process, and strategy as well as a comprehensive statement to conduct and analyse the empirical data. In Section 3.1 a general methodological discussion is made on qualitative, quantitative methods and the combinations of both methods. In Section 3.2 a review of the process and the rationale for the empirical paths chosen are discussed, while Section 3.3 draws on the collection of empirical data using interview studies and a disclosure scoreboard. Section 3.4 elaborates upon the general analysis of the empirical data. Some practical constraints of doing this research are discussed before concluding this chapter with the reliability, validity and generalisability of the study's findings.

3.1 METHODOLOGICAL ISSUES

There is not just one best method in science for conducting research, since each methodological²⁰ strategy has its advantages, disadvantages and tradeoffs. This is not to say that there is no optimal methodological approach for each study but the choice of a sufficient method, or of adequate methods, is normally a result of finding a balance between research's problem, purpose, approach as well as its destination.

Research might be conducted by applying quantitative or qualitative methods or a combination of both. Quantitative research should be

¹⁹ According to David Silverman (1997:1) the term methodology implies a general approach to studying research topics, whereas the meaning of method is a specific research technique.

²⁰ In order to avoid misunderstandings, this section concentrates on discussing qualitative methodologies because the quantitative method applied for the report study is outlined in Section 3.3.3 and Section 3.4.

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performed under controlled circumstances and the results should preferably be repeatable. Qualitative research, on the other hand, is as much a reaction to artificial experiments and hypothesis as testing of the traditional positivistic science. Taylor and Bogdan (1984) have put it in plain words as qualitative research for them refers to research that produces descriptive data, such as individuals own written or spoken words and observable behaviour. When research wants to access the underlying assumptions to which people form their own world the application of the more flexible qualitative methods is suggested (McCracken, 1988). Moreover, Strauss and Corbin (1990) indicate that qualitative research is quite suitable for studying organisations, groups and individuals.

As pointed out earlier in Section 2.1, the US tradition of mainstream accounting, hypotheses testing by the utilisation of statistical methods, dominates empirical research. Despite this quantitative tradition, qualitative accounting research has gained popularity. At least this is so for Scandinavian accounting research where several studies are rooted in qualitative research (cf. Forsberg, 2002; Bukh et al., 2001; Mouritsen et al., 2001; Jönsson and Macintosh, 1997; Enquist and Javefors, 1996).

Laughlin (1995) categorised the dominant school of thought in accounting research by introducing a three-dimensional framework. The three dimensions are named theory, methodology and change, which are divided further into three levels high, medium and low. According to Laughlin (1995:70) mainstream accounting is categorised as high in theory, high in methodology and low in change. A low level of change implies that the status quo of the research is sufficient and need not be changed. Laughlin proposed an alternative approach *middle-range thinking* to accounting research, where the empirical detail is of high importance in order to complement the skeletal theory. The middle-range position regards accounting practices not as some technical, context-free phenomenon, rather as a social practice carried out by social actors. In turn, the skeleton metaphor points out that accounting theory should not be regarded as a single grand-theory of stand-alone nature, but as perceptual rules that allow empirical details flexibility and diversity.

Ryan, Scapens and Theobald (2002) note that Laughlin's framework provides a good illustration that helps a researcher to consider if their use of theory is appropriate for their research methodology. The

methodology characteristics of the middle-range position are depicted by Laughlin (1995) as a definable approach that tries to find heavily descriptive data by case studies. The conclusions of the middle-range approach should be conclusively tied to skeletal theory and empirical richness.

This dissertation can be positioned in Laughlin's middle-range category, as the empirical material from the studies is the focal point. The descriptive data from the case studies are in the centre of this research and the theoretical fundamentals (see Chapter 2) are regarded as the study's skeleton. The tripartite approach (Figure 1-1) proposed to pursue a combination of qualitative and quantitative research. Qualitative research seemed to be a very attractive approach to study users and providers of voluntarily disclosed information. The report study of this dissertation is of quantitative nature using descriptive statistics for illustrating the development of the amount of voluntary disclosure over the years.

The application of both qualitative and quantitative methods is not conflicting in itself. Glaser and Strauss (1967) reasoned that both forms of data is useful and can supplement another to increase understanding of the studied. The existing literature on qualitative methodologies represents considerable heterogeneity. However, Rudestam and Newton (1992) assert that all qualitative methods do share three fundamental assumptions: a holistic view, an inductive approach and a naturalistic inquiry. The holistic view stresses that the whole is greater than the sum of its parts seeking to understand a phenomena, person, program or situation in its entirety. The inductive approach begins with specific observations and moves toward the development of patterns that emerge from the cases under study. The naturalistic inquiry tries to understand phenomena in their naturally occurring states.

Although such an assertion of qualitative methods is a simplification, these three assumptions distinguish qualitative research traditions like phenomenology, hermeneutics or symbolic interactionism. The latter refers to grounded theory as being its origin. These qualitative research traditions differ in the problems and concerns of the researcher, the nature of knowledge and the relationship between the researcher and the subject matter (Hamilton, 1994). Phenomenologically oriented researchers are dedicated to the investigation and description of phenomena as a

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conscious experience. Hermeneutics requires textual analysis and interpretation to extract the meaning of texts (Alvesson and Sköldberg, 1994). Blumer's (1969) symbolic interactionism is a qualitative methodological approach to study the meaning of actions of human group life and human conduct.

Glaser and Strauss (1967) created grounded theory as a further development of symbolic interactionism subscribing to the exploratory approach suggested by Blumer. Grounded theory is generally more concerned with theory generation than with theory verification. Glaser and Strauss affirm that researchers should create their own theories, in step-wise manners that are grounded in reality by the researcher's empirical work. It is encumbered on the researcher that the theory should be analytic enough to allow sufficient generalisation, but at the same time allow people to sensitise their own perceptions by relating the theory to their own experience. Grounded theory promotes qualitative methods and theory generation by opposing traditional positivistic quantitative methods and theory verification (Alvesson and Sköldberg, 1994).

Another trademark of grounded theory is the way practical usefulness is stressed. The theory should be easy to understand even for students and prove useful to practitioners (Locke, 2001). Alvesson and Sköldberg (1994:91) see a risk with such a criterion as they point out that research may be reduced to no more than a help device for the practitioners. In addition, Silverman is critical to grounded theory, which he thinks at best is able to offer "... *an approximation of the creative activity of theory-building found in good observational work ...*" (Silverman, 1997:47). Other scholars, however, find grounded theory useful and promote its use. McCracken (1988) points to its virtue of allowing data collection and analysis to intermingle in a way that gives the researcher an opportunity to perform constant comparison.

Although grounded theory has not been utilised in this dissertation, it functioned as a source of inspiration for the analysis of the gathered empirical data of the user study interview and involves generating categories as suggested by grounded theory. In grounded theory, much time is spent on coding (see Section 3.4), the process of creating categories from the collected data. The categories in the user study (Chapter 7) have been derived directly from the interview transcripts.

Strauss and Corbin’s (1990) detailed description about the process of how to generate categories was helpful for the analysis of the user interviews.

The purpose of this section was not to pigeonhole the present dissertation into a certain research approach but rather to bring forward its most important features for the research process. The distinctiveness of qualitative research had certain implications for the write-up of a dissertation, as qualitative research designs are typically not intended to prove hypotheses or test certain theories but it permits the researcher to develop concepts to understand patterns in the data (Abnor and Bjerke, 1994).

3.2 RESEARCH STRATEGY AND PROCESS OF STUDY

The research process was marked by moments of reconsideration, which led to refinements of the research design and influenced the methodological strategy of how to carry out this research. This section deals with the description and considerations made for the practical work of this dissertation during its endeavour. The decisions made regarding the choices of the cases, interview partners as well as the studies’ design are presented later in Section 3.3.

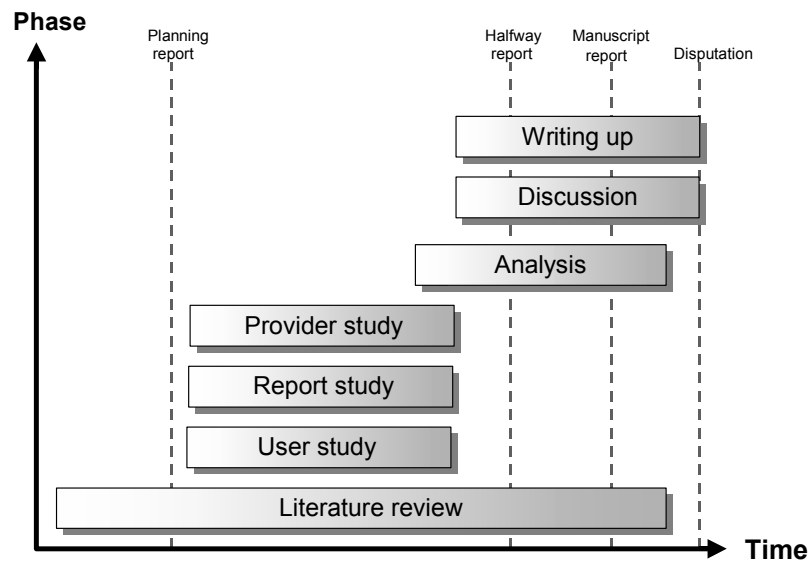


Figure 3-1 The dissertation’s development phases

The most influencing factor was the desire to attain a broad picture on the understanding about the practice of voluntary disclosure of human resource information. The chosen approach thus delimited the selection

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of methodology. The initial stage of the research process, in late 1990s, emphasised on learning more about the intended research by an extensive literature review to narrow down the area rather than deciding on a proper methodology. Having started with a general interest in the construction of intellectual capital statements, it later on altered into the specific interest in voluntarily disclosed information about human resources in corporate annual reports.

A common description on the research process is done by categorising a research project into the phases of literature review, formalising research questions, evidence collection, analysis, and finally ending in a set of conclusions (Yin, 1994). In the present study these phases became coexisting and cooperating elements rather than sequential phases (see Figure 3-1). For example, the literature review and formalising of research questions have taken place in later phases of the research project as well. This was due to the continuous change and refinement of the problem area under scrutiny.

Nevertheless, there was one decisive moment in the development, during the planning report seminar, whereby this dissertation was directed into this specific issue. The planning report aimed to study a company that is concerned with the construction of intellectual capital statements and how analysts perceive this statement. During the constructive discussion the opponents suggested not to limit this dissertation to the concept of intellectual capital but to generally open it up to additional disclosed information on intangible assets, especially focusing on human resource disclosures. Thus, this discussion resulted into contemplating a slightly different research angle but encouraged to maintain the suggested research approach.

Ryan, Scapens and Theobald (2002) illustrated that in accounting research case studies have become quite common. In their view, case studies offer the opportunity to understand and to describe the application of items or procedures as well as the nature of accounting in practice. The utilisation of case studies can identify patterns of empirical explanations, which are not suitable for predictions but intended to help to derive understanding (Ryan et al., 2002:148). Consequently, the application of case study research was regarded to be the best for this dissertation.

At the outset of the decision process to establish an appropriate research project, one of the companies to be studied was apparent from the very beginning. It seemed to be natural to study the company that practitioners, academics and media identified as the front-runner of intellectual capital and the disclosure on human resources. As mentioned above, the research focus shifted during the research process from intellectual capital to voluntary disclosure about human resources but this did not change the selection for the case companies. The decision to conduct a comparative case study was at hand, as it was not very difficult to recognise that not every company showed such a great interest in reporting nonfinancial information. Starting with the examination of Skandia regarding its business environment (see Section 4.4) the insurance industry showed very different corporation types. These differences are not meant to be understood as variations based on variables like size or multinationality alone. Journalists and academics applied different terms like progressive, conservative or active, reactive as well as experienced, inexperienced to describe corporations' business behaviours (Adrem, 1999; Johanson et al., 2001).

Skandia was often mentioned as an experienced company with a proactive disclosure strategy when it comes to measuring and controlling intangibles. This was often related to Skandia's successful business during the mid-1990s. The search for a corporation to compare with Skandia was not very difficult. Certainly some criteria (see Section 3.3.1) had to be fulfilled but in the end Allianz proved to be very appropriate, serving as a counterpart case. Researchers and media often mentioned that Allianz had the reputation of being a conservative corporation by traditional means of having a traditional business combined with a reactive disclosure behaviour.

The broad perspective and the empirical exploration in this dissertation may seem as a rational decision in hindsight but considered alternatives were always rejected as not being feasible. The research strategy and process determined the strong interdependence of both interview studies and the annual report study with the methods the empirical material has been collected by.

3.3 COLLECTION OF DATA

A first distinction of data collection can be made between two main categories of data sources, primary data sources and secondary data

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sources. For this dissertation, a multitude of secondary sources are used during argumentation in the form of articles about prior research and corporate annual reports (Chapter 5). Primary data was necessary to collect for the provider study (Chapter 6) and for the user study (Chapter 7), which has solely been done by interviews, as discussed in Section 3.3.2, in order to get further specific information answering the research questions. Although some choices regarding the case corporations have been made in previous sections, further choices made for the empirical inquiry are discussed in Section 3.3.1, in the same order as presented later in Chapter 5-7. How the interviews were conducted and the interview guides constructed are illustrated in Section 3.3.2. The final section shows choices made for the disclosure scoreboard.

3.3.1 CHOICES MADE FOR THE EMPIRICAL INQUIRY

Since this dissertation's empirical inquiry is a combination of qualitative and quantitative research the general purpose is not only to generate statistics but also to obtain insights from interviews with the providers and users of voluntarily disclosed information about human resources.

The choice of the two case corporations had already been presented in Section 3.2. The provider study aimed to conduct interviews with all persons involved with the decision on what information should be provided in corporate annual reports. However, the case corporations were quite reluctant with this all persons approach. On the other hand, the opportunity was provided to do interviews with the head of investors relations from both corporations. Analysts considered them to be the best-informed person in a corporation when it comes to decisions regarding what information to issue in corporate annual reports. While Allianz did not consider it possible and necessary to interview persons other than the head of investor relations, Skandia also agreed to an interview of their head of corporate accounting. This is why Figure 3-2 shows three interviews for the provider study.

Although it is not a very common approach in current disclosure research to cover a five-year span of corporate annual reports, it is not a novelty either. For example, Choi (1973) conducted a study on financial disclosure that used a five-year span. Following his reasoning, a five-year span is sufficient to derive a picture about corporations' disclosure as well as to obtain changes and differences in the extent of corporations voluntarily disclosed information. Consequently, this dissertation analysed five years

of corporate annual reports from the last available reporting year, here the year 2000, back to 1996.

In Section 1.2 it was mentioned that the chosen case study research design for this dissertation was with the two case corporations Skandia and Allianz. This predefined analysts and corporate experts as possible respondent groups. Statistic literature calls this limitation expert sampling, which involves the assembling of a sample of persons with known or demonstrable experience and expertise in the area of interest being studied (Schaeffer et al., 1990). The advantages in using experts are that it is the best way to obtain the views of persons who have specific expertise, which in turn increases validity due to comments based on their experience and insights of the field and topic.

In line with the delimitations of scope (see Section 1.4) the focus for the user study is exclusively on analysts, which serves two practical functions. One is that analysts are identifiable as a group and the other is that they are regarded as financial intermediaries serving advisory functions (Beaver, 1998). The latter was already discussed in Section 1.4. For the user study, the selection basically started of with a complete list that Skandia provided containing every analyst that covered Skandia on a regular basis. From this list only sell-side analysts were selected, which in Section 1.4 was reasoned to have a greater impact with their reports and recommendations than buy-side analysts. These analysts had to be located in one of the three countries: United Kingdom, Sweden or Germany. Sweden represents the home market for Skandia, Germany for Allianz. United Kingdom was chosen as Europe's most important financial market, where both corporations are present. An important factor for the user study was the comparability criterion, which demanded intensive knowledge of both corporations. To see whether analysts were covering both corporations, or not, a list of sell-side analysts covering Allianz was used to crosscheck this criterion.

The original list of analysts covering Skandia consisted of 21 sell-side analysts working for 17 different financial analysis firms and brokerage houses in three different countries. The crosschecking with the Allianz list resulted in 18 sell-side analysts working for 15 different financial analysis firms or brokerage houses that were covering both corporations (see Figure 3-2). Due to the fact that three sell-side analysts and two analysis firms were marked unclear, an initial check on all brokerage houses and

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financial analysis firms that were included in the lists was done by contacting them.

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

TYPE OF STUDY		SAMPLE CHARACTERISTICS	
Provider Study	<ul style="list-style-type: none"> • 3 interviewees • 2 in Stockholm • 1 in Munich 	Codes	C1 – C3
Report Study	<ul style="list-style-type: none"> • Skandia's corporate annual reports from 1996 - 2000 • Allianz's corporate annual reports from 1996 - 2000 		
User Study	<ul style="list-style-type: none"> • 18 interviewees • 14 brokerage houses and analysis firms included • All interviewees are sell-side analysts • 11 are in London, 4 are in Stockholm, and 2 are in Düsseldorf 	A1 – A18	

PARTICIPATING COMPANIES		
• Allianz Group	• Danske Securities	• JP Morgan
• BNP-Paribas	• Commerzbank Securities	• Merrill Lynch
• Carnegie	• Dresdner Kleinwort Benson	• Morgan Stanley Dean Witter
• Chevreux Nordic	• Goldman Sachs	• Schroder Salomon Smith Barney
• Enskilda Securities	• HSBC Investment Bank	• Skandia Group
		• West LB - Panmure

Figure 3-2 Sample characteristics and participating companies

In the end, this resulted in a maximum of 21 interviewees from a maximum 17 brokerage houses and financial analysis firms (see Figure 3-2). Numerically it may appear to be exactly the same constitution as the original Skandia list but it is not. The variations are explainable due to changes of analysts the within insurance analysts teams. However, each

analyst on the final list was sent an introductory letter with an interview request that would take approximately 30 minutes. The letter was followed up by a telephone call, where the interviews were booked. Three analysts were not willing to be interviewed, which reduced the final participant list for the user study to 18 interviewees from 14 brokerage houses and financial analysis firms.

This dissertation conducted case study research. Consequently, the number of corporations as well as the number of analysts included, are not intended to answer the question regarding statically representativeness of the researched population (Ryan et al., 2002). However, as discussed in the beginning of this section, expert sampling is used in this dissertation to obtain the interviewees' specific expertise.

3.3.2 INTERVIEWS

Research interviews are commonly characterised by two types of interviews: standardised survey research and unstructured interviews. The standardised interview type has not been applied in this dissertation, as it employs standard formats for interviews emphasising coded fixed response categories, systematic sampling in combination with quantitative measures and statistical methods (Ghauri et al., 1995).

The second type is unstructured interviews that are based on a non-standardised format giving almost full freedom to discuss reactions, opinions and behaviour on a particular issue (Abnor and Bjerke, 1994). The interviewers task is just to give guiding lead questions and to record the responses, which is necessary later to understand how and why (Fog et al., 1987). Thus, the questions and answers are unstructured and therefore are not systematically coded in advance. Due to time limitation this type could not be utilised for the interview studies.

A semi-structured interview approach was chosen for this dissertation, which differs from both unstructured and structured interviews as topic and issues to be covered, people to be interviewed, and open-ended questions to be asked have been determined in advance. There is a great quantity of literature available on standardised versus non-standardised or semi-structured interviews when it comes to question forming and respondent understanding (e.g. Denzin and Lincoln, 1994; Mishler, 1986; Beatty, 1986; Moser and Kalton, 1985; Taylor and Bogdan, 1984). This dissertation does not seek to participate in this discussion, but to provide

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an overview on the conducted semi-structured interviews and the interview situation.

In the beginning it had been planned to solely apply personal face-to-face interviews. McCracken (1988) suggested that open-ended questions should be used in order to gain access to assumptions and patterns of the interviewee. The advantage of face-to-face interviews is that a more accurate and clear picture of a respondent's position or behaviour can be derived (Ghauri et al., 1995). This comes mainly from the usage of open-ended questions and the respondents' freedom to answer in line with their own opinion instead of being restricted to a set of limited answer choices. The interviewer has also the possibility to ask for further explanation of answers to achieve richer data. Thus, this method of data inquiry was regarded as being very appropriate for both interview studies as it matched the purpose of this dissertation.

However, a relative disadvantage, compared to structured interviews, is that the interviewer has to be careful and should have an understanding of the research problem, its purpose and what information to look for (Fontana and Frey, 1994:366). For this dissertation understanding has been generated by the disclosure literature review (Chapter 2) as well as by getting familiar with the context field (Chapter 4). McCracken stated, "...the investigator who is well versed in the literature now has a set of expectations the data can defy" (1988:88). This should not create a set of preconceptions, which can be reduced by constant scepticism towards texts (Fontana and Frey, 1994:372).

The literature review helped to understand what to ask and listen for. The developments of both interview guides, containing the questions that have been asked in the provider study (Figure 3-3) and in the user study (Figure 3-4), primarily originates from the literature review. The provider study's questions 1-8 and their subquestions are derived from the questionnaire that Epstein and Pava (1993) developed in order to study the shareholder's use of corporate annual reports. Questions 9 and 12 in the provider study originate from Fitz-enz' (2000) book on the return on investment of human capital. The question on a possible content difference between IAS and a domestic GAAP prepared corporate annual report was raised by Adrem (1999). The questions 13 – 15 were found in Flamholtz' outlook on problems that have to be solved for human resource accounting (Flamholtz, 1999). The interview guide questions for

Relevance of Corporate Annual Reports
<p>1. How important do you regard your corporate annual reports to be for company valuation?</p> <ul style="list-style-type: none"> - Which parts of a report do you consider to be most important for company valuation? - On which items do you see the need for providing further explanation? <p>2. Who are the users of your issued information about your company?</p> <ul style="list-style-type: none"> - Do you know what kind of information the users acquire? - What medium do the users prefer? <p>3. How important is it for your company to issue voluntarily disclosed information in relation to financial statement information?</p> <ul style="list-style-type: none"> - Has your company increased the amount of disclosure information during the last years?
Corporate Accounting
<p>4. Does your company adapt its accounting system to foreign accounting requirements?</p> <p>5. How are differences in foreign accounting requirements treated?</p> <p>6. Do you regard differences in accounting regimes problematic when showing a true and fair view of your company?</p>
Company's Information Behaviour
<p>7. Does your company have an explicitly defined strategy for information disclosure?</p> <p>8. How important is the communication with investors?</p> <p>9. How important is it to your company to disclose information on human resources?</p> <ul style="list-style-type: none"> - What is your company's strategy on human resources disclosure? - Do you know if your investors use information on human resources in their valuation? - What kind of advantages or disadvantages may arise for your company when disclosing information on human resources? <p>10.S Why is Skandia emphasising on intangible assets and human resources?</p> <ul style="list-style-type: none"> - Why is Skandia working with the Navigator? - Is Skandia's Navigator model very different to models of its competitors? - Why does Skandia publish information about the Navigator in the annual reports? - Has the term Intellectual Capital become out of date for Skandia as Skandia has did not use this term since the 1999 annual report? - Why is Skandia providing the embedded value? - Is there a direct link between the Navigator model and the embedded value? <p>10.A Why is Allianz not emphasising intangible assets and human resources?</p> <ul style="list-style-type: none"> - Why is Allianz not disclosing more about its human resources than in its present form? - Does Allianz have an internal business process model comparable to Skandia's Navigator model? - Why didn't Allianz develop Intellectual Capital reports? - Is there any demand by investors that Allianz disclose more information on its intangible assets and human resources? - Why is Allianz not providing the embedded value?
Level of disclosure
<p>11. Do you find an important information content difference between corporate annual reports prepared according to IAS to those prepared according to domestic GAAP?</p> <p>12. Do you find that investors differentiate between companies in their valuations that voluntarily disclose more information about their intangible assets and human resources compared to those companies who do not?</p>
Operationalisation & Valuation
<p>13. What information about intangible assets and human resources should a company issue?</p> <p>14. Where should information about intangible assets and human resources be published?</p> <p>15. Is more regulation through laws and recommendations needed for the disclosure of companies' intangible assets?</p>

Figure 3-3 Interview guide applied in the provider study

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Relevance of Corporate Annual Reports
<ol style="list-style-type: none">1. How important are the corporate annual reports for company valuation?<ul style="list-style-type: none">- Which parts of a report do you consider to be the most important for company valuation?- On which items do you see the need for providing further explanation?2. How important is voluntarily disclosed information in relation to financial statement information for company valuation?
Company Analysis & Information Gathering
<ol style="list-style-type: none">3. Do you value a company's voluntarily disclosed information on intangible assets?4. Do you use the same valuation model for all companies, or do you make modifications?<ul style="list-style-type: none">- Do you have an in-house model for valuation of voluntarily disclosed information?5. Mention important information sources that you use when gathering information about a company's intangible assets?<ul style="list-style-type: none">- Do you assemble the information yourself, or do you acquire it within your company?6. Do you use a different model valuing Allianz' or Skandia's disclosure on human resources?<ul style="list-style-type: none">- How important is consistency in a company's disclosure policy?
Level of Disclosure
<ol style="list-style-type: none">7. Do you find an important information content difference between the corporate annual reports of Allianz (IAS) and Skandia (Swedish Accounts Act for Insurance Companies)?8. Do you find an important difference in the level of disclosure in the corporate annual reports of Allianz (IAS) and Skandia (Swedish Accounts Act for Insurance Companies)?<ul style="list-style-type: none">- Who disclose most information Skandia or Allianz?- Is this difference related to the application of different standards for the annual reports of Allianz and Skandia?
Pros & Cons of Voluntary Disclosure
<ol style="list-style-type: none">9. Does Allianz or Skandia benefit by voluntarily disclosing information about its human resources?10. Is there a difference with respect to the valuation between the companies who choose to voluntarily disclose more information about their intangible assets compared to those who do not?11. With regard to Allianz or Skandia what kind of advantages may arise with voluntary disclosure on human resources?12. With regard to Allianz or Skandia what kind of disadvantages may arise with voluntary disclosure on human resources?
Operationalisation and Regulation
<ol style="list-style-type: none">13. Are there variations in the valuation of Allianz' or Skandia's intangible assets with respect to country and stock market?14. Is disclosure of intangible assets, especially on human resources, something that facilitates company valuation?15. Where in the corporate annual report should information about intangible assets and human resources be published?16. Is more regulation through laws and recommendations needed for the disclosure of companies' intangible assets?

Figure 3-4 Interview guide applied in the user study

the user study are basically a reformulation of the provider study interview guide. The questions on corporate accounting and a company's information behaviour have been replaced with questions about company analysis and pros and cons of voluntary disclosure. The questions in these sections are derived from a book edited by Gröjer and Stolowy (2000) regarding the valuation and regulation of intangibles.

Through several discussions with both supervisors and colleagues, the interview guides established not only a logical order but also contributes to enhanced overall quality (Tessier Barone and Young Switzer, 1995:20). Hence, much effort was put on clarity and adequacy of the questions and all of them had been critically elucidated by weaknesses reducing questions e.g. are there traps for misunderstanding the questions, is the wording, clear, simple or ambiguous?

Although, the first drafts of the interview guides have informally been tested with colleagues, a pilot study formally tested the interview guides with the kind of respondents and settings that would come close to a real interview situation. Moser and Kalton (1985:48) compare the pre-tests of a pilot study with a theatrical costume rehearsal, where the costume has to be changed until it fits the actress perfectly. For both interviews studies pre-tests were performed with interviewees who were included in the original sample (Figure 3-2).

During the first contact by telephone three analysts and one company representative had been asked if they would participate in the pilot study. Surprisingly, all of them agreed right away. They were conscious about the fact that they would have been interviewed until the final version of the interview guide was ready. Another important feature of the pilot study was to prove if the time constraint, which was limited to a half-hour (as discussed in Section 3.1.2 and Section 3.5), holds. After the successful performance of the pilot study the results showed that only two questions had to change order to improve the interviewees' logic of answering. The results of the conducted interviews were of such good quality that it was not necessary to conduct these interviews again. Hence, the pilot study interviews are included in the empirical results of both interview studies.

Many authors (Silverman, 1997; Tessier Barone and Young Switzer, 1995; Fontana and Frey, 1994) remind one that the researcher should be aware of obstacles that may affect the communication, as in most cases both

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interviewee and interviewer are strangers. This had been the fact for every interview in both the provider study and the user study. The first five to ten minutes are a determining factor in how the interview works (Kjøller, 1975). Therefore, it is suggested to start with some individual data like name, education, or job description to retrieve a profile of the respondent and to relax the interviewee (McCracken, 1988). Even though it was not necessary for the study, individual data had been collected to generate a relaxed atmosphere where both parties felt comfortable.

Therefore, the purpose of a well-prepared interview guide is to protect the overall structure of the data inquiry, but also to free the researcher to attend immediate tasks during the interview. It is very important that the researcher does not anticipate too much, nor leads and exerts pressure on the interviewee and that the interviewee has sufficient time to answer in their own words and in their own way and (Hammersley and Atkinson, 1995). The interview situations were normally characterised by a natural free flow of answers from the analysts. However, when respondents began with what McCracken named (1988) topic-gliding were gently brought back on track.

Although it had been planned to apply personal face-to-face interviews solely for the inquiry of primary data, for three analysts and one company representative this could not be accomplished. In one case an analyst uttered that due to his tight time schedule he could only participate, if this interview would be done via telephone. The situation of conducting a telephone interview is in that way different as it lacks the face-to-face proximity, which may influence the answers of the interviewee (Tessier Barone and Young Switzer, 1995). For a telephone interview setting the immediate oral feedback between interviewee and interviewer is still existent, but it demands a higher degree of cautious listening from the interviewer sensing reactions, as the nonverbal feedback is absent. Despite the fact that the interview guide had not been especially designed for telephone interviews the open-endedness made it worth trying. After successfully conducting the first telephone interview it proved to be a good alternative to include respondents that had to cancel unexpectedly shortly before the scheduled interview²¹.

²¹ It happened two times that analysts were forced to shift the booked interview at short notice. After this situation occurred repeatedly, both analysts they agreed to participate in a telephone interview instead, even though they were told that it would take a little longer.

The recording of interviews is important as the data quality could be eroded if only memories were used to document the interview. The most common effective forms of recording interviews are note keeping, electronic recording and limited reliance on memory (Kvale, 1996). Handwritten notes during interview sessions have certain shortcomings, as the interviewer will be too occupied with writing them down. All interviews in this dissertation were tape recorded to document interviews. Tape-recording represents a decontextualised version of the interview, as it neither captures non-verbal behaviour nor does it always clearly preserve who is being addressed (Kvale, 1996). Moreover, there is a risk that, while tape-recording, the interviewer might cease to listen carefully, believing that all the information is going on tape (Tessier Barone and Young Switzer, 1995). At the beginning of every interview the technical equipment had been checked and the respondents were asked if tape-recording was acceptable as well as if their answers could be used for this dissertation. Some analysts mentioned that their interviews had to be anonymised, so that it is not possible to make a direct link between them and the company they are working for (see Figure 3-2).

Transcribing the tape-recorded interviews is a laborious but important part of interview documentation. Hammersley and Atkinson (1995) put forward that the ratio of recorded time to transcribing time is at least one to five. It turned out that this ratio came much more closer to one to ten. On average it took six hours to transcribe a half-hour interview conducted for this dissertation. Interview transcription is structuring the material from oral mode into written texts, which facilitates an overview and is in itself the beginning of the analysis (Kvale, 1996). For Hammersley and Atkinson (1995) the transcription phase presents a good opportunity for the researcher to become thoroughly familiar with the corpus of data that makes it easier for later data analysis.

3.3.3 ANNUAL REPORT STUDY

There is a large array of vehicles that a publicly listed corporation may use to spread information. Whilst information may be communicated in other forms, earlier research considered that the annual report represents the collection of important corporate information that has been issued during the year (Adrem, 1999). Furthermore, due to comparability and feasibility reasons other corporate documents such as separate intellectual capital statements, interim reports, analysts' briefings as well as other

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communication channels like face-to-face meetings or telephone conferences were considered to be out of the scope for this research (see Section 1.3).

The corporate annual report is not just a statement to shareholders but a general-purpose report serving different user groups, which has to be approved by the board of directors and normally consists of an administration report, balance sheet, income statement, statement of changes in financial position and notes to the financial statements (PricewaterhouseCoopers, 1998). Specifically, the administration report must contain information on employees and events that have occurred during the year or after the financial year.

The review of prior disclosure research (Chapter 2) has shown that a disclosure scoreboard is a useful research instrument for measuring the extent of voluntary disclosure. The disclosure scoreboard developed for this dissertation is based on a disclosure scoreboard used by Adrem (1999), which applied IAS²² reporting recommendations, and the disclosure scoreboard used by Meek, Roberts and Gray (1995). Earlier studies are predominated by a single report period. The examination of disclosure development over a longer period is rarely accomplished in this area of research. The report study in this dissertation regards the analysis of a five-year-period as a useful means to obtain valuable insight about the development of voluntary disclosure items over time.

In comparison to disclosure scoreboards used in other voluntary disclosure studies, the disclosure scoreboard used in this dissertation focuses much more on voluntarily disclosed information about human resources. Many of the previous studies on voluntary disclosure have limited themselves only to the financial statement. However, for this dissertation it is considered useful to examine the whole annual report in order to derive a better understanding of the extent of voluntary disclosure²³.

The disclosure scoreboard for the report study started with 224 potential voluntary disclosure items from Cooke's (1989) disclosure scoreboard,

²² Although Skandia reports according to Swedish GAAP, which is going to be harmonised with IAS in 2005, and Allianz recently started reporting according to IAS the disclosure scoreboard considers IAS disclosures to be most feasible for this dissertation.

²³ Limitations of volume measurements with disclosure scoreboards are discussed in 3.4.

METHODOLOGY

Strategic Information about the Corporation	
I.	General Corporate Information
1.	Introduction about the corporation
2.	Brief history of the corporation
3.	Organisational structure
4.	Financial summary
5.	General future information
II.	Corporate Strategy
6.	Statement of business vision
7.	Statement of business concept
8.	Comments on achievement of objectives - general
9.	Comments on achievements of general objectives
10.	Statement of strategy and objectives - financial
11.	Comments on achievements of financial objectives
12.	Statement of strategy and objectives - marketing
13.	Comments on achievement of marketing objectives
14.	Statement of strategy and objectives – human resources
15.	Comments on achievement of marketing objectives
16.	Market position
17.	Competition development
18.	Main competitors (disclosed by name)
19.	Description of market development
20.	Description of market development in comparison to competitors
21.	Impact of corporate strategy on current results
22.	Impact of macro-economic variables on current results
23.	Impact of corporate strategy on future results
III.	Acquisitions, Disposals and Alliances
24.	Reasons for the acquisitions
25.	Comments on general effects of the acquisitions
26.	Reasons for the disposals
27.	Comments on general effects of the disposals
28.	Reasons for the strategic alliances
29.	Comments on general effects of the strategic alliances
IV.	Research and Development
30.	Corporate policy on R&D
31.	Description of ongoing R&D activities
32.	Location of R&D activities
33.	Number of employees in R&D
34.	R&D expenses
35.	Future prospects of R&D
V.	Strategic Information about Business Segments
36.	Organisational structure per business segment
37.	Business concept per business segment
38.	Statement of strategy and objectives per business segment
39.	Comments on achievements of these objectives
40.	Geographic distribution per business segment
41.	Description of market development per business segment
42.	Market position per business segment
43.	Main competitors per business segment (disclosed by name)
44.	Competition development per business segment
45.	Description of market development in comparison to competitors
46.	Absolute and relative strength per business segment for the corporation
47.	Impact of macro-economic variables on business segments
48.	Description of investments and structural changes per business segment
49.	Description of products and services per business segment
50.	Description of distribution system per business segment
51.	General future information per business segment
Financial Information about the Corporation	
VI.	General Financial Information
52.	Historical financial review (at least three years)
53.	Historical financial review (at least five years)
54.	Dividend payout policy
55.	Quarterly sales data for the last four quarters
56.	Quarterly earnings data for the last four quarters
57.	Financial information in relation to industry average
58.	Market-share analysis - quantitative
59.	Market-share forecast - quantitative
60.	Profit margin
61.	Return on capital employed (ROCE)
62.	Return on equity (ROE)
63.	Capital turnover (Equity ratio)
64.	Net asset value
65.	Disclosure of intangible valuations (except goodwill and brands)
66.	Economic value added (EVA)
67.	Sensitivity analysis of foreign exchange risk
68.	Statement of interest rate policy
69.	General view about the corporation's sales prospects
70.	General view about corporation's earnings prospects
71.	Advertising expenditure
VII.	Financial Information about Business Segment
72.	Quarterly sales data for the last four quarters per business segment
73.	Quarterly earnings data for the last four quarters per business segment
74.	Business In-Force or contract information per business segment
75.	Return on capital employed (ROCE)
76.	Competitor analysis-quantitative
77.	Financial information in relation to industry average
78.	Market-share analysis-quantitative
79.	Sales forecast per business segment
80.	Sales forecast per business segment
81.	Earnings forecast per business segment
VIII.	Stock Information
82.	Market value at year end
83.	Share price trend during the year in relation to general index
84.	Share price trend during the year in relation to industry index
85.	Share price trend for at least last two years
86.	Share price trend for at least last five years
87.	Dividend yield
88.	Total yield (dividends plus change in market value)
89.	P/E-multiple
90.	EBIT-multiple
91.	Trading volume in company shares
92.	Development of share capital for at least three years
93.	Beta value
94.	Ownership structure (concentration)
95.	Significant shareholders
96.	Number of shares held by each of the significant shareholders
97.	Significant shareholders' ownership measured in votes
98.	Significant shareholders' ownership measured in capital
99.	Names of brokerage companies and banks following the corporation
100.	Names of analysts who produce earnings forecasts
Nonfinancial Information about the Corporation	
IX.	Information about Directors
101.	Age of board members
102.	Educational qualifications (academic and professional)
103.	Other directorships held by executive directors
104.	Date of election to the board
105.	Name of the directors (top management team)
106.	Age of directors
107.	Educational qualifications (academic and professional)
108.	Commercial experience of the executive directors
109.	Other directorships held by executive directors
110.	Date of election to the board
111.	Amount of shares held in the corporation
X.	Employee Information
113.	Number of employees by geographic distribution
114.	Employees distribution by gender
115.	Employees distribution by line-of-business
116.	Number of full-time or permanent employees
117.	Number of part-time or temporary employees
118.	Employee turnover
119.	Reasons for changes in employee numbers or categories
120.	Average years of service with the corporation
121.	Average age of employees
122.	Identification of senior management and their functions
123.	Amount of senior managers
124.	Senior managements distribution by gender
125.	Senior managements average years of service with the corporation
126.	Senior managements average age
127.	Management expense and acquisition costs
128.	Amount spent on training
129.	Nature of training
130.	Categories of employees trained
131.	Number of employees trained
132.	Time in training
133.	IT-equipment for work support (general)
134.	Data on accidents
135.	Cost of safety measures
136.	Redundancy information (general)
137.	Equal opportunity policy statement
138.	Recruitment problems and related policy
XI.	Social Policy and Environmental Information
139.	Statement of charitable donations program
140.	Statement of strategy and objectives of charitable donations program
141.	Amount invested in charitable donations program
142.	Comments on achievements of the charitable donations program
143.	Statement of community program
144.	Statement of strategy and objectives of community program
145.	Amount invested in community program
146.	Comments on achievements of the community program
147.	Statement of environmental policy
148.	Statement of strategy and objectives for the environmental program
149.	Description and implementation of environmental program
150.	Amount invested in environmental program
151.	Comments on achievements of the environmental program

Figure 3-5 Disclosure scoreboard used for the report study

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which due to accounting harmonisation from the EU directives was reduced by 25 disclosure items. The remaining items were then compared with the scoreboards from Adrem (1999) and Meek, Roberts and Gray (1995). Finally, the compilation of voluntary disclosure items was compared with PricewaterhouseCoopers (2000) disclosure scoreboard, which recognised the IAS requirements for the year 2000, and reduced the voluntary disclosure scoreboard for the report study to 151 voluntary disclosure items (see Figure 3-5).

This dissertation concentrates on the disclosure items about human resources for the report study's disclosure scoreboard, most of the items included in the categories *information about directors* and *employee information* were already applied by Cooke (1989); Meek, Roberts and Gray (1995) and Adrem (1999). The category *information about directors* is taken from Meek, Roberts and Gray's disclosure scoreboard and combined with the disclosure items contained in Adrem's *human capital information* category. However, some human resource disclosure items were not found in earlier disclosure studies but have been discussed in the literature. Edvinsson and Malone (1997) outlined in their book a very detailed list on human focus indices for Skandia's intellectual capital model. From this human focus index were six additional disclosure items derived, which are *number of full-time or permanent employees*, *number of part-time or temporary employees*, *average years of service with the corporation*, *average age of employees*, *time in training* and *IT-equipment for work support*. Flamholtz (1999) discussed senior managements importance for corporations, which generated five additional disclosure items about human resources. These five additional disclosure items are *Identification of senior management and their functions*, *amount of senior managers*, *senior managements distribution by gender*, *senior managements average years of service within the corporation* and *senior managements average age*. Tyson (1995) examined companies' motivation of management expenses and the willingness to spend money to recruit management. This generated the disclosure item *management expense and acquisition costs* for the report study's disclosure scoreboard.

The disclosure scoreboard derived its categorisation mainly from the study done by Meek, Roberts and Gray (1995). It consists of three major group categories: strategic information, financial information and nonfinancial information. The first major group category - strategic information about the corporation - consists of five subgroups: general corporate information; corporate strategy; acquisitions, disposals and

strategic alliances; research and development; and strategic information about business segments. The second major group category - financial information about the corporation - consists of three subgroups: general financial information; financial information about business segments; and stock price information. The third major group category - nonfinancial information about the corporation - also consists of three subgroups: information about directors; employee information; and social policy and environmental information.

This dissertation shares the view of Meek, Roberts and Gray (1995) that the reason for doing this type of categorisation is that the decision relevance of information is likely to vary by its type. It might be that way since investors do consider strategic and financial information to have a higher relevance, whereas the nonfinancial information category may direct more to the corporation's social accountability. This research is not about whether one category has higher relevance as another but to illustrate how the disclosure items from the disclosure scoreboard develop throughout the years. Accordingly, the analysis and presentation of the three major group categories provides the opportunity to obtain a picture about how human resource disclosures have developed compared to the other categories.

3.4 ON THE ANALYSIS OF THE EMPIRICAL MATERIAL

Now that the collection of the empirical data has been described in the previous two sections the framework for the analysis and presentation of the empirical material from all three studies will be discussed in this section. The analysis of the empirical material from the interviews and the disclosure scoreboard can be described as a three-step analysis. The first step is the descriptive analysis and presentation of the results from the three studies. The second step is a pair-wise analysis of the three studies following the tripartite model. The third step of the analysis is the analysis of the overall conclusions. The last two steps are performed in Chapter 8.

Ryan, Scapens and Theobald (2002) point out that beside giving quotes from interview transcripts, it is sometimes helpful for the presentation of case studies' empirical material to prepare tables or line charts. The first analysis applies three different approaches of presenting the empirical data, which is basically due to the number of interviews in the user and provider studies as well as the nature of the report study. While the provider study utilised quotes from the three interviews, descriptive

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statistics in the form of tables and line charts are used for presenting the report study and user study.

In the previous section (3.3.3) the report study's disclosure scoreboard has been illustrated. In order to obtain changes and differences in the extent of voluntarily disclosed information throughout the years, for both Allianz and Skandia, a five-year time span for the reporting years from 1996 to 2000 was considered to be suitable. The contents of each annual report were compared to the items on the disclosure scoreboard (see Figure 3-5) and coded as 1 or 0, depending upon whether the annual report contained or did not contain the voluntary disclosure.

The analysis of the disclosure scoreboard for the report study is additive and unweighted following the path of the studies conducted by Adrem (1999); Meek, Roberts and Gray (1995) and Cooke (1989a). All three studies referred to Spero's (1979) empirical findings that weighting of information is not relevant for several reasons. The most important one is to decrease subjectivity, which would be the case if applying special weights for different items, as the user's preferences are unknown. Hence, either a company discloses a voluntary item or not, which shows that the number of items measures the amount of disclosure. No ranking list for the importance of different items is applied nor is the number of words about an item used.

This procedure is corroborated by the criticisms discussed in the study by Hackston and Milne (1996). For both corporations and each year, a voluntary disclosure index is computed as the sum of the actual scores achieved. In contrast to studies that Adrem (1999); Meek, Roberts and Gray (1995) or Cooke (1989) conducted, in this dissertation the actual score is not divided by the maximum potential score to derive a percentage of the total score. This has been done on purpose, as the categories do differ in the number of items, which is why percentages are likely to be misinterpreted. The results of the disclosure scoreboard are illustrated in line charts representing the scores of the five-year time span according to the scoreboards categories.

Morse (1994:225) reflected on the fact that qualitative research opens the possibility to apply quantitative methods to evaluate interview data. She mentions that it is feasible to establish categories, which can quantify similar answers of respondents. The analysis of the empirical data from

the interviews are inspired by grounded theory, where coding is a very vital part to generate categories (Strauss and Corbin, 1990). The analysis can be named inspired as this dissertation only borrowed the idea of initial open coding from grounded theory. The initial open coding of the empirical data from the interviews with providers and users was made without predefinitions to generate central categories but the structure of the interview guides were applied relatively closely due to comparability reasons for the analysis in the later stage.

This approach was justified by Fielding and Fielding (1986) as the categories are named with terms that the interviewees have used. The initial coding of the interview transcripts was made without preconceptions in the sense that no attempt was made to aggregate categories. The selective coding stage after the open coding implied more systematic coding by selecting the preliminary categories in order to deduct the amount of generated categories to a more practical amount.

The presentation of the empirical material from the interviews with providers and users is performed in another way, which is attributable to the differing numbers of interviews for both studies. Morse (1994) examined that quantitative measures can be applied to administer qualitative data without affecting the comparison to a smaller study, when data triangulation²⁴ will be employed. Hence, the user study (Chapter 7) illustrated the generated categories in tables presenting quotes from the empirical material with the intention of showing the reader how the categories have been generated. The empirical data of the provider study utilises quotes from the interviews whenever it was valuable in enhancing understanding.

As mentioned in the beginning of this section, further analysis of the obtained material data is made in Chapter 8, aiming to generate a picture about human resource disclosure in annual reporting practice. Triangulating the empirical material from the previous three studies will generate this picture. The basic procedure in data-source triangulation is to perform a comparative analysis by checking links between concept and

²⁴ The term triangulation is derived from land surveying and is meant to be a tool for researchers (Denzin, 1978). A specific form of triangulation is data-source triangulation, which involves the comparison of data relating to the same phenomenon that was obtained in different stages or from different participants (Hammersley and Atkinson, 1995).

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statements that support the same conclusion. Glaser and Strauss (1967) discuss that a comparative analysis is a general method to liberate evidence from empirical material with findings from comparative groups.

3.5 PRACTICAL CONSTRAINTS OF DOING THIS RESEARCH

Naturally, all empirical research that is conducted to answer research questions has to face some constraints (Taylor and Bogdan, 1984). The practical constraints of doing academic studies could be expressed in many words e.g. access, time, motivation or money. This dissertation makes no exception to the rule. Consequently, a very important task was to generate a study design that produces the wanted information within the given constraints.

Since the report study builds on corporate annual reports that are publicly available, the main restriction was the design of the voluntary disclosure scoreboard (see Section 3.3.2). The most prominent constraints evident to the interview studies were essentially those of access and time.

In order to conduct the planned interviews it was necessary to gain access to the field. The field, in this case, should be understood as both the physical setting and the individuals themselves. Gaining access to the field requires a great deal of negotiation. Hammersley and Atkinson (1995) pointed out that negotiation is the delicate process of manoeuvring oneself into the position from which the necessary data can be collected. For this dissertation the negotiation process of getting access was quite demanding. Once the introductory letter was sent to the appropriate participants, the actual contact was made by telephone. In retrospect, extreme stubbornness turned out to be a very good tactic in passing the hurdle set by secretaries. Indeed, they do a very good job in filtering calls for analysts. It took on average ten calls to get hold of the direct telephone numbers, as the secretaries finally realised that they would be harassed until the contact with the analysts would be made. However, as soon as a call finally came through the negotiation process continued.

The accessibility of a possible interview partner, if the respondent has the required information that the researcher would like to obtain, has to be verified (Moser and Kalton, 1985). Generally, this concern resolved itself during the initial telephone conversations.

Quite another matter was to encourage tight scheduled analysts to spare some of their valuable time to take part in the user study. One analyst asked during the first telephone call “*What’s in it for me?*”. Since no monetary compensations could be made, the promise to send a copy of the final dissertation was obviously encouragement enough to agree to an interview. However, the time constrain was of very great importance to analysts. They generally mentioned that they would not have more than a half-hour available. Another problematic concern for the successful accomplishment of the user study was the monetary restriction of the travel budget. However, it was possible to coordinate all interviews that kept travel to the bare necessity.

The access and time restriction for the provider study were much more relaxed. During the user study interviews in London it happened that two analysts were very supportive. Not only that they had prepared themselves very well for the interview and provided a large assortment of their internal reports on both corporations, they also contacted the participants for the provider study to encourage their active participation.

3.6 ISSUES OF DATA QUALITY

In the beginning of this chapter it was discussed that qualitative and quantitative methods differ in many ways. Silverman (1997) makes it clear that qualitative methods are no less in need for the rigours of critical thought to prevent the temptation of believing that anything goes. Thus this section is devoted to discussing issues of data quality towards the concepts of reliability, validity and generalisability.

Reliability refers to the degree of consistency with which different researchers come to the same answer or with which one researcher came to the same answer on different occasions. Silverman (1997) criticises those in research who claim that reliability is only a concern for the quantitatively oriented researcher, and argue that such a view is naïve and should not be taken by a researcher. For quantitative research it is still helpful and meaningful to consider reliability for a qualitative perspective (Denzin and Lincoln, 1994b). As stated in Section 3.3.1 the way in which the researcher selects the sample differs. While quantitative studies typically are looking for a representative sample, qualitative research sampling is not as important as the researcher cannot bias the work by choosing with whom to speak (Hammersley and Atkinson, 1995). Further reliability will be added if field notes or selected parts of the transcripts

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from qualitative studies are made available to the reader in order to understand its context (Altheide and Johnson, 1994). This dissertation provides quotes made by the participants during the interviews for context building or to review the categories that have been generated. Since reliability depends on how empirical research is conducted, emphasis was put on the description of the interview procedures (see Section 3.3.2) that were used for the user study and the provider study.

The validity of scientific claims are relative to the paradigm within which they are judged (Hammersley and Atkinson, 1995). Kirk and Miller (1985:21) have rephrased this as for them every measurement is to a certain degree suspect, as no experiment can be perfectly controlled, and no measuring instrument perfectly calibrated. One risk that may be faced is what Silverman (1997) calls spurious or false correlation. The fact that A always seems to follow B does not mean that B actually causes A. Even if that could be the case, there might just as well be some third undetected factor that causes both A and B. One method to avoid false correlation is triangulation (Janesick, 1994), which has been applied in the last chapter to analyse the empirical data from all three studies in order to illustrate the broader picture about human resource disclosure. Finally, measurement procedures are regarded to construct theoretical validity if there is substantial evidence that the theoretical paradigm truly corresponds to observations (Kirk and Miller, 1985). Whenever the collected empirical data is presented in this dissertation, it is discussed, compared and analysed by referring to studies and literature to review the validity of the observed data.

The generalisability of qualitative research often is subject to being questioned (Alvesson and Sköldberg, 1994). In Section 3.3.1 it was discussed that the key interest of this dissertation was not on achieving a great generalisability, but to focus on the understanding of how voluntary disclosed human resource information is used and what intentions corporations have towards this subject matter. Nonetheless, considering the generalisability issue it can be assumed that financial analysts and insurance corporations, who have not participated in this study, have similar experiences to those that participated.

3.7 SUMMARY

This methodological chapter was deliberately made quite comprehensive, as it followed the objective of showing what and why different methods

are used for this dissertation and how the empirical material has been conducted. It was important not only to explain why this dissertation took an approach of combining qualitative and quantitative research rather than to describe what issues have been considered and how the research process was operated. Since this dissertation is of case study in nature, it heavily relies on the empirical material gathered. This dissertation is empirically orientated, treating the theoretical fundamentals in Chapter 2 as a skeleton to show the empirical richness. Consequently, a comprehensive methodology description is important for the study's validity and reliability.

The process and the strategy of carrying out this research was not confined to wandering around in circles when commencing this dissertation. Nonetheless, this has turned out to be a very valuable experience in maturing this research. The tripartite approach suggested conducting interview studies with users and providers of voluntarily disclosed information and for the analysis of corporate annual reports a disclosure scoreboard was deemed to be a suitable method.

For both interview studies semi-structured interview guides had been developed. The questions are mainly derived from prior research. Before starting the interview studies, the interview guides were pre-tested and slightly refined in structure. The applied technique of conducting personal interviews had been described thoroughly to illustrate the awareness of avoiding situations that influence the respondents during the interview session. All interviews are tape-recorded and were transcribed afterwards to facilitate the analysis. The presentations of the results of both interview studies are made differently due to the varying number of interviewees. In the provider study the interviews are primarily reported in text using quotations to illustrate some important statements. For the user study the interviews have been categorised and are presented in tables. Quotes from the interviews are given to present how categories have been established.

Prior research has shown that a disclosure scoreboard is a useful research instrument for measuring the extent of voluntary disclosure. The general structure, categories, and most of the items of the disclosure scoreboard are based on earlier studies. The analysis and presentation of the disclosure scoreboard is different from the mainstream studies, using disclosure scoreboards. The scores are presented in absolute numbers for each category and each year per corporation. The categories' scores are

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first aggregated to three main categories before adding up to the total disclosure scoreboard. The graphical presentations of the disclosure scoreboard results use line charts to illustrate changes and differences in the extent of voluntary disclosure. In order to obtain a better understanding on how voluntary disclosure about human resources have changed, the results from the other categories on strategic information and financial information are also presented for the report study.

Finally, the analysis of the empirical material from the three studies can be described as a three-step model. The first analysis is the presentation of the descriptive data, which is done in Chapter 5 - 7. The second step of the analysis is proposed by the tripartite approach (Figure 1-1) to carry out a comparison between the three studies. The third step performs an analysis of the dissertation's overall findings. Although the methodology might be perceived as confusing it is not a problem from a case study perspective. Even though the application of both qualitative and quantitative methods is not contradictory in itself, as both forms of data are advantageous and can supplement each other to increase understanding of the studied.

Chapter IV

CONTEXT OF THE FIELD

This chapter aims to provide an assortment of general background information to obtain an overview of what the field is about. A historical review on insurance shows how insurance terminology and products have developed. Three categories of insurances²⁵, namely non-life insurance, life insurance and united linked insurance are presented with their basic ideas and concepts. The volume and growth of the insurance markets outlines the international development of insurance business and the logic of the insurance markets. Due to the absence of an international insurance accounting standard, the recent progress of the IASB's insurance accounting harmonisation efforts is illustrated. A broad overview about Allianz and Skandia, as the providers of information, portrays their historical developments, organisations as well as some operational positions and results. The final section deals with the work performed by financial analysts. This chapter should not be mistaken for a detailed overview of insurance, both corporations or the financial analysts, rather as an overview of basic preparation on general insurance, the fore mentioned corporations' and the financial analysts.

4.1 ABOUT INSURANCE

Insurance products have become so common in everyday-life that it is hardly questioned what insurance actually is or where it has its origins. This section provides a short overview of the history of insurance and the development towards the modern insurance industry. The characteristics from three of the most common insurance product categories are presented with their specific concepts and functions. As insurance companies become increasingly internationalised, one section is devoted to the development of international insurance markets and the underlying logic of those insurance markets.

²⁵ This dissertation focuses solely on direct insurance, also known as the primary market, and will simply be referred to as insurance. Although it is important, business reinsurance, the secondary market, will not be explained as it is beyond the scope of this dissertation.

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4.1.1 HISTORY AND DEVELOPMENT OF INSURANCE

Literature and research on insurance history are uncertain in naming the exact date when insurance was invented (Koch, 1995). However, researchers frequently refer to the basic insurance idea dating back to ancient human societies. The Babylonians devised a system of contracts to reduce the risk of robbery, plunder, and being taken hostage for ransom. There, the lender of capital for a business purpose agrees to cancel the loan if the trader was robbed of his goods. The trader who borrowed the capital paid an extra amount for this protection, a premium, in addition to the usual interest. Collecting premiums from many traders made it possible for the lender to absorb the losses of few. This arrangement proved to be agreeable for traders and lenders alike and became a legalised practice in the Code of Hammurabi, which also included the insurance of the family home, theft or murder of a family member (Ardielli, 1995).

These arrangements spread to ancient Rhodes where the code of sea laws was developed, which included throwing goods overboard in order to save the ship if necessary. The loss of goods due to such action was compensated by a common contribution. The code of sea laws found their way into early Roman civil codes, which in turn influenced many other civil codes. They are still partially existent in current laws for protection against losses at sea. The very word *insurance* is derived from the Latin word for security.

Many terms in the present insurance terminology originate from the ancient practices of Mediterranean trade. The word *underwriter* for example stems from the ancient Italian system of signing marine insurance contracts. The practice of insurance on a *premium* basis can be traced back to the Italian city republics of Venice, Pisa, Florence, and Genoa around 1250 A.D. The earliest record of true life insurance with *insurable interest* dates back to 1430 in Genoa. The first comprehensive code of insurance laws in Barcelona dates back to 1435. With the decline of medieval guilds, so called *friendly societies* filled the function of mutual protection, where local groups of working people made regular contributions into a collective fund administered by elected persons of the society (Koch, 1995).

In 1666 the Great Fire of London, which destroyed 13200 houses, 89 churches, Saint Paul's Cathedral, as well as the Royal Exchange,

demonstrated the need for fire insurance. As a reaction to the Great Fire, Nicholas Barbon started to insure buildings. Due to this success, he founded a partnership in 1680 and established England's first fire insurance company, The Fire Office. Three years later The Friendly Society was established incorporating some mutual characteristics. Policyholders had to agree to contribute to the settlement of each loss incurred, although the founders retained a predominant interest in the profits. In 1762 the first mutual life insurance company was formed, The Equitable of London. Researchers refer to this establishment period as the beginning of modern insurance (Ardielli, 1995).

To conclude, the insurance idea dates back to ancient human societies and the basic modern insurance concepts evolved as the insurance industry's continuous response to new events (Kölmel, 2000). The development and expansion of the modern insurance industry is attributable to major influences of international trade and its need for insurance against catastrophic events (Outreville, 1981).

4.1.2 BASIC INSURANCE PRODUCT CONCEPTS

Insurance is not a homogenous product by itself, as there are various, non-interchangeable types of insurances today. A common distinction is made between non-life insurance and life insurance, which vary from one company to another as well as among countries. In the following paragraphs the basic concepts of non-life and life insurance are illustrated. Unit-linked insurance, a special form of life insurance, is also explained due to its great importance to Skandia's business.

Non-life insurance has many different names like property and casualty (P&C) insurance²⁶ or general insurance and is usually a short-term contract covering a one-year period that might be extended. Typical P&C products are accident insurance, fire insurance or car insurance. Technically, the insurance underwriter buys himself into a portfolio of individual risk-probabilities and has in case of incident occurrence the right to claim coverage by the insurance. Hence, the purpose of this sort of insurance contract is predominantly situated in the coverage of risks (Ardielli, 1995:36).

²⁶ This dissertation uses the expressions of both non-life insurance and property & casualty insurance.

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The second group is based on the *life insurance*²⁷ concept. Every insurance company wants to differentiate its life insurance product from its competitors but the common core is the basic life insurance concept that provides financial protection against premature death. The basic purpose of a life insurance product is financial stability for the beneficiary of an insurance policyholder. If the insurance policyholder dies or becomes otherwise incapacitated, the beneficiary will receive the specified financial resources to protect the home, income, maintenance and care of family members (Udén-Axelsson and Pettersson, 1991). Life insurance is a long-term contract that contains an economic risk for the insurance company. Thus, national regulators follow a stringent line to secure future claims of life insurance underwriters forcing insurance companies to invest life insurance premiums at low-risk to guarantee payments of the insurance contract. The mechanisms used are varying by country but generally regulator requirements call for a deposit made by the insurance combined with the fulfilment of certain investments rules (Lindgren, 1991:12-18).

*Unit-linked insurance*²⁸ contracts basically differ in three ways from traditional life insurance contracts. Firstly, a unit-linked insurance contract is not written to contain a certain amount of money but to *units*²⁹, which are an equivalent in one or more funds. Secondly, the financial risk may be put entirely on the policyholder. The third difference is the policyholder's choice in deciding which fund the units should be invested (Lindgren, 1991). The unit-linked policyholder's premiums are used to buy units in an assortment of investment funds, e.g. managed funds, equities funds or property funds, which are managed by the covering insurer. If the investment performance of the insurer is poor, unit-linked policyholders could find the value of their units decreasing. Although unit-linked insurance products have higher volatility, they offer some

²⁷ This dissertation applies the expressions life insurance or traditional life insurance even though the literature has an array of different expressions such as whole life or ordinary life and some specialised term insurance products.

²⁸ In 1957 the Scottish Widows company offered an equity-based life insurance where the policyholders received an insurance contract that was linked to a stock fund. The intention for this insurance was to develop a fairer system to distribute insurance company's profits (Udén-Axelsson and Pettersson, 1991).

²⁹ Unit prices for unit-linked funds change daily, like shares at the stock exchanges, and are quoted with two prices in financial newspapers. One is the offer price, at which the fund manager will sell units and the other is the bid price, at which the fund manager will buy units. The differential, the bid/offer spread, between these two prices is represents the Initial Management Charge, the entrance fee, which is how the fund manager earns money (Udén-Axelsson and Pettersson, 1991).

advantages e.g. if a policyholder decides to surrender the policy, the offer will be received (Udén-Axelsson and Pettersson, 1991).

4.1.3 VOLUME AND GROWTH OF INSURANCE MARKETS

The previous section showed that insurance is not a homogenous product. Therefore, it would be inappropriate to talk about the insurance market as a single market. International surveys (e.g. Swiss Re's Sigma market survey) generally distinguish between life insurance and non-life insurance but it is not common to make a distinction between life insurance and unit-linked insurance. Due to this fact this section is reviewing the general markets of life and non-life insurance and making comments on the specific business logic of each market.

A recent market survey from the insurer Swiss Re (2000), which is frequently used by financial analysts, provides an annual outlook at the worldwide premium income and its development compared to economic activity. The 1999 numbers from this market illustrate that more than 90 percent of the world insurance market is concentrated in North America, Europe and Japan. The ten largest markets account for 85.6 % of the world insurance premiums, i.e. in ranking order United States (36.02%), Japan (21.29%), United Kingdom (8.82), Germany (5.97%), France (5.30%), Italy (2.87%), South Korea (2.06%), Australia (1.67%) and Netherlands (1.63%). Sweden's insurance market was ranked 17th with a 0.71 % share of world insurance premiums. The global premium volume totalled € 2138 billion in 1999, of which € 1299 billion (60.8%) was attributable to life business (SwissRe, 2000). Life insurance premium income registered a stronger increase in 1999 compared to 1998 and the ten-year-average trend. The life insurance increase is not attributable to low interest rates alone. The reformation in many state pension systems has substantially contributed to the increasing demand in life insurance (ibid.).

Historical trends in most industrial countries indicate that saving through life insurance, compared to other forms of financial saving, have been declining through the seventies and the early eighties (Outreville, 1981). The inflation in the seventies forced the real interest rates in many countries below zero. High inflation rates can have a negative effect on the development of premium income. Life insurance business showed the lowest real growth rate occurred between 1975 and 1980. Life insurance

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business increased again between 1982 and 1990 after the insurers had introduced more flexible products (SwissRe, 2000).

Historically, the non-life insurance business has been cyclical. The *underwriting cycle* illustrates the combined movement of premium and claims, where rates and premiums, and therefore profits, alternately rise and fall rather than growing smoothly. The underwriting cycle has been subject to many debates in the insurance literature (Outreville, 1990; Cummins et al., 1991; Venezian, 1985). Causes of these cycles are interest rate and stock market fluctuations, flow of excessive new capital into the insurance industry during profitable years, social and economic inflation, catastrophic losses and competition.

Growth in non-life insurance was weak in 1999 and below the long-term trend, which illustrates clearly a noticeable slowdown in growth in the nineties (SwissRe, 2000). The economic and financial crises in Asia have drastically reduced the demand for insurance. The deregulation of national insurance supervision has resulted in Western European price decreases since 1994.

In summary it can be said that the non-life insurance business follows the underwriting cycle and as a result decreased during the past years. During the past years, life insurance business experienced increasing growth, which has benefited from the recent state pension systems reforms of some countries e.g. Sweden.

4.2 INSURANCE ACCOUNTING HARMONISATION

Although insurance corporations have become increasingly competitive in international markets, globally there are few similarities in the national insurance accounting frameworks. Currently, there is no international insurance accounting standard existent that enhances comparability and transparency by reducing the diversity of insurance corporations' reporting practices. Hence, this section aims to illustrate and discuss the current key issues within European insurance accounting, which is linked closely to the International Accounting Standard Committee.

Earlier the European Union based their insurance accounting rules on three directives, the Fourth Directive, the Seventh Directive, and the Council Directive on the annual accounts and consolidated accounts of Insurance undertakings, the Insurance Accounts Directive (IAD). A

comprehensive study by KPMG (1999) identifies 132 options contained in the IAD of which almost all have been eliminated by at least one member state. In some EU member states, insurance companies' financial statements were greatly restricted by national legislation leading to over-prudent estimation of liabilities, which caused the insurance companies' financial statements to not reflect the true performance. This is one of the many reasons why in 1995 the European Commission officially adopted a new strategy for accounting harmonisation (COM, 1995). In the European Commission's 2000 Communication, this strategy was strengthened by stating the intention to require all publicly listed EU corporations to prepare their consolidated financial statements using IAS (COM, 2000).

In April 1997, the Board of the IASC added the Insurance Project to its agenda, to fill the existing gap of insurance accounting. The IASC's Steering Committee on Insurance (SCI) focuses on the development of a suitable accounting standard for insurance companies (IASC, 1999). The work of the Insurance Project started with defining an insurance contract, which is as follows:

“An insurance contract is a contract under which one party (the insurer) accepts an insurance risk by agreeing with another party (the policyholder) to make payment if a specified uncertain future event occurs (other than an event that is only a change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable).” (IASC, 1999; paragraph 18)

The SCI's first tentative conclusions were published in the 1999 Issues Paper. These conclusions aimed to produce an internationally adoptable high quality standard for insurance accounting in order to achieve comparable, transparent and consistent reporting (IASC, 1999). This work addressed a number of basic issues and tentative conclusions surrounding the approach to insurance accounting (IASC, 1999; IASC, 2000). A meeting in mid 2001 discussed proposals for a Draft Statement of Principles (DSOP), which was submitted to the International Accounting Standards Board. In 2002 the Insurance Project will test the standard draft by carrying out field tests with some insurance companies to acquire knowledge about practicability and conceptual issues. The standard for insurance companies is scheduled to be verified and in place

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by 2005 as the European Commission will make IAS reporting a requirement for all companies, which also includes unlisted companies, banks and insurances (COM, 2000).

One of the SCI's tentative conclusions suggests some radical changes to accounting for both life and general insurance business compared to the existing traditional accounting practices of most countries. Current deferral and matching models typically seek to match income and expenses with revenue being recognised in the period in which it is earned. The SCI's accounting model wants to recognise the profit from contracts in the balance sheet at each reporting date. The determination of profits attributable to life insurance business is very complex. This is due to uncertainty as future cash flows originating from an insurance contract at the point of sale as well as the problem of matching revenue with expenses over the life of an insurance policy liability, which could extend for over 40 years or more. Life insurers typically incur high initial expenses in establishing long-term insurance policies. Thus, a major accounting problem is to determine how the revenue may be attributed to different time-periods of the policy before its termination (Klumpes, 1999:186).

The *embedded value* (EV) method tackles the problem with profits attributable to life insurance business. The embedded value method was developed within the UK life insurance industry to measure profits (Franklin, 1990). The embedded value approach is increasingly utilised by life insurers to report achieved profits that focus on expected future payments to shareholders from the current book of policies (Horton and Macve, 2000:10). Although EV is in practice in the UK, it has never been fully documented or codified. In practice, actuaries estimate the future stream of statutory solvency profits expected to arise from the policies already written, using assumptions about future morality risk, investment returns, policies lapsing, etc. The discount rate may be increased to reflect uncertainty about future assumptions.

Many discussion papers that responded to the SCI's Issues Papers were in favour of the embedded value. However, the discussion participants also showed that it is unclear if such an approach to measure life insurance liabilities results in meaningful information in the income statement. The discussants point out that the SCI has to develop guidance that will lead to more objectivity by avoiding over-prudent insurance requirements.

However, even if a specific insurance IAS was not available, some European insurance corporations, including the Allianz, have started to prepare their annual reports according to IAS. The guidance currently lacking in IAS standards on how to account for insurance transactions, is partially resolved by using US GAAP.

4.3 AN OVERVIEW OF ALLIANZ

Based on their total premium income of € 68.7 billion and a market capitalisation of € 98 billion in the fiscal year 2000 the Allianz Group is the largest insurance group in Europe and one of the largest in the world consisting of around 700 subsidiaries in 70 countries. Allianz became the leading insurer in Germany and grew during the past 20 years into the top tier of international insurance corporations. Its size, in combination with its strong earnings and great financial power, gave Allianz opportunities in strategic decisions to undertake and extend actions to expand its foreign business by keeping up with the pace of the rapidly progressing internationalisation of the insurance industry.

4.3.1 HISTORY, DEVELOPMENT AND ORGANISATION

Versicherungs A.-G. Allianz was incorporated in 1890 with headquarters in Berlin as the Royal Prussian government gave Allianz permission for the insurance divisions accident and transport insurance as well as reinsurance of accident, transport, fire and life insurance. The time period in which Allianz Versicherungs-AG had been established and started its business marks a significant turning point in German insurance history, as insurance was no longer only for the privileged upper classes but became accessible to the broad mass of the population (Borscheid, 1990).

In 1893 Allianz opened its first foreign branch office in London. Allianz' foreign business activities collapsed following the loss of the First World War. The financially turbulent 1920s' of the Weimar Republic set off a merger wave for the German insurance industry as many German insurers joined the Allianz Versicherungs-AG. The consequences of the Second World War for Allianz was the halt in foreign operations and the lost all foreign subsidiaries. With the constitution of the Federal Republic of Germany in 1949 the Allianz Versicherungs-AG headquarters was relocated from Berlin to Munich. As a result, Allianz concentrated on domestic business in order to regain its position in the re-emerging German market (Borscheid, 1990).

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In the 1950s, Allianz restarted foreign business operations. Together with Munich Reinsurance, Allianz established the Munich Management Cooperation in New York, in 1955. In the mid 1970s, Allianz acted in order to maintain their position as the leading German P&C insurer and started to offer their customers insurance products for direct foreign investments. As a result, the Allianz Insurance Company (AIC) was incorporated in the USA.

Due to of earlier experiences with its US subsidiary, Allianz adopted the strategy not starting businesses from scratch, but to enter important foreign markets by acquisition. Ever since, Allianz's acquisition strategy was to pursue acquisitions of renowned insurers, which where well positioned or profitable in specific segments or markets, such as the Italian Riunione Adriatica di Sicurtà (RAS) in 1984, the British Cornhill Insurance in 1986 or the French Assurances Générales de France (AGF) in 1997. In 1990 Allianz took over the German Democratic Republic's state-run insurance monopoly DVAG securing a strong position in the East German market (Hüning and Thielecke, 1994). In May 2000, the Allianz Group acquired the U.S.-based PIMCO Advisors to further strengthen Allianz' ambitions in asset management. Allianz had been the first foreign insurance company to receive permission to conduct business in China. The Allianz Group consists of approximately 700 subsidiaries in over 70 countries (Allianz, 2001).

Up to the year 1985, the Allianz Versicherungs-AG was regarded as holding company of the conglomerate of companies. A new corporate structure was adopted to cope with the international expansion strategy. Since then the holding company Allianz Group, which emerged out of Allianz' Munich based property & casualty division, sits atop of the Allianz corporation headed by the chairman of Allianz AG. Allianz' corporate structure can be divided into central functions and operational segments. The central functions are concerned with tasks within the corporation e.g. corporate controlling and accounting, or employees. The operational segments are P&C insurance, Life and Health insurance and Asset Management, which are regionally divided into Germany, Rest of Europe, North America and South America, and Australia, Asia, Africa.

Allianz Group's International Executive Committee consists of Allianz AG's executive management and executives of the group's most important subsidiaries. This committee is headed by Allianz AG's

chairman and serves the information flow within the Allianz Group to strengthen the responsibility of different corporate divisions to achieve common goals as well as to initiate and to take on strategic decisions at Group level (Kölmel, 2000).

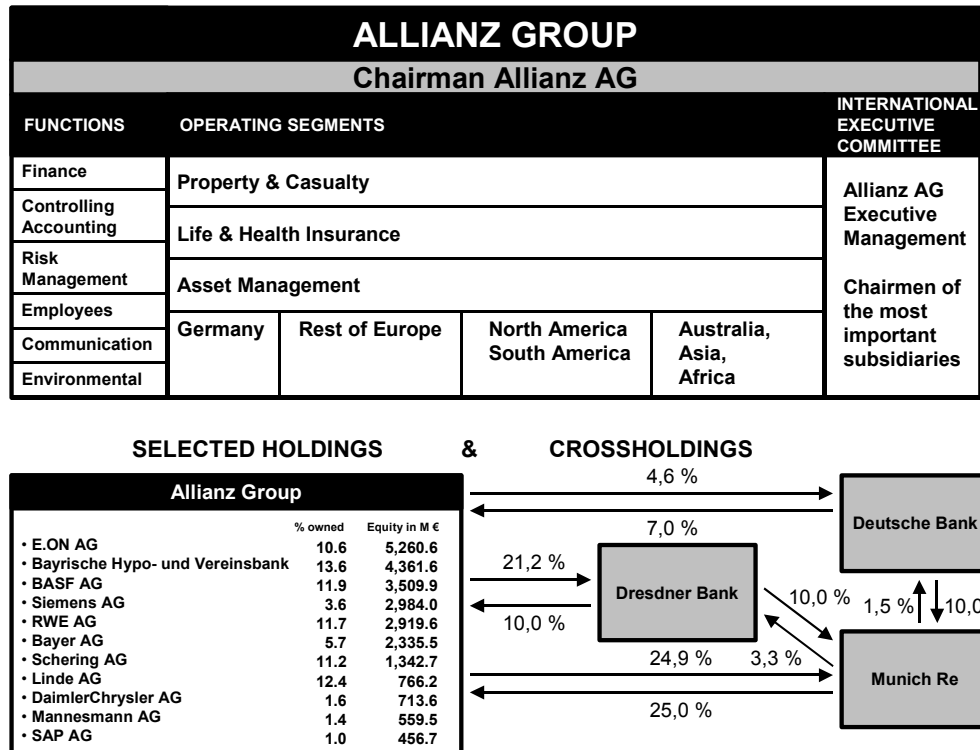


Figure 4-1 Allianz structure and crossholdings (Source: Allianz annual reports 2000 and 1996)

The Allianz Group has considerable investments in shareholdings of manifold corporations. As Figure 4-1 shows the selected holdings that Allianz lists in its annual reports reads like a who-is-who of German industry as well as of well-known multinationals. The crossholdings of the Allianz Group, Deutsche Bank, Dresdner Bank and Munich Reinsurance has led several authors’ to refer to this construction as *Deutschland AG*, revealing the financial power of these corporations on Germany (Reuter et al., 2000).

4.3.2 DEVELOPMENT OF SOME POSITIONS AND RESULTS

The Allianz Group is the largest insurance group in Europe and one of the world’s largest insurers in total premium income (Allianz, 2001). The market capitalisation more than tripled from 1996’s € 32.5 billion to 2000’s € 98.0 billion. In the fiscal year 2000, the Allianz Group increased

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the total premium income from 1999s € 60.6 billion by 8.1 € billion, to € 68.7 billion in 2000. In comparison with the total premium income of € 38.1 billion in 1996 the total premium income constantly increased during the five-year period by more than € 30 billion. This growth of total premium income was also due to the acquisition of other insurers. For example in 1998 French AGF was acquired and included for the first time in Allianz' 1999 annual report with an additional effect of € 2.6 billion. Otherwise the internal growth of the Allianz Group increased by 5.3%, which amounted for € 2.4 billion of total premium income.

ALLIANZ GROUP		2000	1999	1998	1997	1996
Total premium income (total sales)	€ bn	68.7	60.6	51.0	41.9	38.1
Total premium income by geographical distribution						
Germany	%	32.7	40.8	45.1	51.3	50.7
Rest of Europe	%	46.7	41.7	40.3	30.6	32.7
North/South America	%	16.6	15.1	14.0	17.6	16.2
Asia-Pacific Region, Africa	%	4.0	2.4	0.6	0.5	0.4
Pre-tax Results	€ mn	4913	4804	4910	3958	2129
Taxes	€ mn	176	1513	1920	1783	985
Net income	€ mn	3460	2317	2176	1706	1144
Assets under management	€ bn	713.3	381.5	343.2	243.5	176.0
Shareholders' equity	€ bn	35.6	29.7	25.1	19.4	7.9
Employees		119600	113400	105600	76900	65800
Share price	€	399	334	317	239	142
Earnings per share	€	14.10	9.46	8.97	7.30	4.65
Dividend per share	€	1.50	1.25	1.12	0.97	0.87
Market capitalisation	€ bn	98.0	81.8	77.6	54.8	32.5

Table 4-1 Allianz' development of some operational positions and results
(Source: Allianz 2001, 2000, 1999, 1998, 1997)

The geographical distribution of Allianz' business showed that the Group developed from a mainly German focus, as it was in 1996 (see Table 4-1), towards a global insurer with its main business in Europe. In Asia, Allianz entered the Chinese market as the first foreign insurer who received permission to conduct business in China, which contributed to the almost doubling of total premium income (Allianz, 2001).

Despite the globalisation of the Allianz Group, it still has an overrepresentation of non-life insurance business in its product line. In 1998, the Allianz Group established the Allianz Asset Management unit as

being responsible unit for organising Allianz' global asset management operations. In mid 2000 the US-based asset management company PIMCO had been acquired to strengthen this business segment as well as to decrease Allianz' underrepresentation in the USA (Allianz, 2001).

The articulated shareholder value approach of the Allianz Group seemed to pay off between 1996 to 2000. Not only did Allianz' share price increased from € 142 in 1996 to € 399 in 2000 but also that the earnings per share experienced strong, constant increases from € 4.65 in 1996 to € 14.1 in 2000. Allianz' strategy to grow internationally by mergers and acquisition showed that both the total premium income and the number of employees grew at the same pace by approximately 80 % from 1996 to 2000. The number of employees increased from 65800 in 1996 to 119600 in 2000. On the other hand, the market capitalisation more than tripled from € 32.5 billion in 1996 to € 98.0 billion in 2000.

4.4 AN OVERVIEW OF SKANDIA

The present-day Skandia Group represents the consolidation of 48 Swedish insurance companies that were tied together after five Swedish insurance groups joined forces during the first half of the 1960s. Although Skandia had international branch offices around the world, its main business was rooted in general insurance in the Scandinavian countries. After a restructuring program, Skandia transformed its business during the past decade into a leading global financial services and insurance group with a large franchise organisation. In the 1990s, the success of Skandia in the life assurance business that specialised in unit-linked products led its share price to outpace traditional stock market indexes. However, it was not only Skandia's dominate position in core markets alone that appealed to the investor community, but also Skandia's business model of entering new markets.

4.4.1 HISTORY, DEVELOPMENT AND ORGANISATION

Försäkrings AB Skandia was incorporated in 1855 in Stockholm. Skandia was permitted to be a mixed company, conducting business by writing fire and life insurance. The establishment of Skandia as a stock company is regarded as being the first Swedish insurance company in the modern sense. The Skandia share is the oldest of the 100-odd shares quoted on the Stockholm Stock Exchange. It was included in the Stockholm Stock

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Exchange's first auction in 1863 and has been present on their exchange list ever since (Kuuse and Olsson, 2000).

During the 1890s, industrialisation made its breakthrough in Sweden. Like other countries, this created increasing living standards and a growing capital base. These factors created favourable conditions for the establishment of numerous Swedish insurers, which is known as the decade of the golden age. This led to the Swedish market becoming increasingly crowded and stricter insurance regulation ensued. Due to the gradual increase in social insurance, a general compulsory national pension was initiated in 1915, which in 1959 resulted in the final change by enacting the ATP³⁰ scheme (Englund, 1982).

Inaugurated as a stock company, Skandia was profit oriented from its very beginning. From 1870 onwards, Skandia expanded its business by founding subsidiaries or acquiring other insurers, e.g. the unsuccessful business of Åter-Freja in fire and marine reinsurance led to the merger with Skandia. Unlike many other Swedish insurers, Skandia also had a strong focus on the international insurance market. In 1900, Skandia successfully entered the American reinsurance market. The San Francisco earthquake in 1906 incurred heavy costs, and as a direct consequence the reinsurance company Freja was established, which assisted Skandia by broadening the capital base for its international business (Kuuse and Olsson, 2000).

In 1948 a new insurance law was enacted in Sweden, which forced Swedish mixed insurance companies to split into separate divisions. In order to follow this new law, Skandia founded Liv-Skandia (Skandia Life) conducting Skandia's life and annuity business. Due to the separation of the division Skandia was allowed to obtain a licence to extend its business to non-life insurance (Englund, 1982).

During the period from 1960 to 1963, five large groups of Swedish insurer joined forces. In 1960, the Skandia Group in Stockholm took over the Svea Group in Gothenburg. In the following year, Skandia acquired the Skåne Group in Malmö and the Öresund Group also in Malmö. Two years later, the Thule Group in Stockholm was also acquired. After this last takeover, Skandia and its subsidiaries accounted for 27% of the

³⁰ ATP - Allmän tilläggspension - is the general supplementary pension scheme in Sweden.

Swedish direct insurance market, whereas in 1960 Skandia's market share was only 5,8%. During the period 1961 to 1967, merger activities involved 23 insurance companies, of which 20 were terminated through internal mergers. After the mergers, only three companies were left, the parent company Skandia, Skandia Life and Skandia Reinsurance. The Swedish insurance market became an oligopoly market with more or less eight insurance groups of which Skandia was the largest (Kuuse and Olsson, 2000). During the 1970s and beginning the 1980s Skandia, as well as the other Swedish oligopolists, concentrated on aggressive marketing, which led to a severe profitability crisis within Swedish on-life insurance. In the 1980s banks and insurers started to bring their products closer entering the all-finance sector, which became much stronger during the 1990s (ibid.).

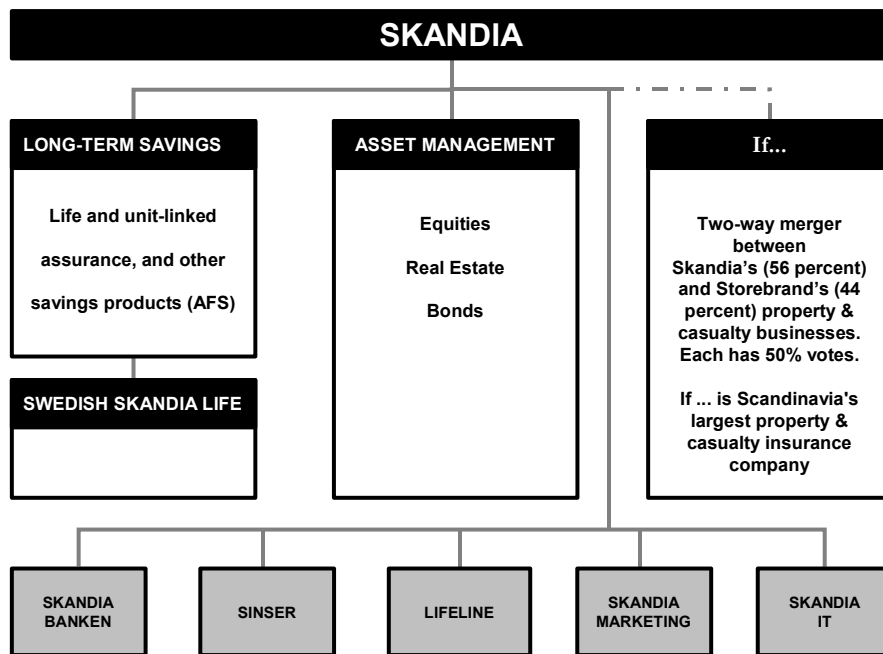


Figure 4-2 Skandia's organisational structure
(Source: Skandia's annual reports 1997 and 2000)

After having being affected by Sweden's financial crisis, Skandia launched a three-year restructuring programme in 1996 to focus on three strategic business segments: long-term savings; asset management; and property & casualty insurance. Each business segment is essentially self-sufficient (see Figure 4-2), but they accrue significant soft benefits, including the transfer

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of information technology and communicating best practice across the group (Skandia, 1997).

Skandia has built an international unit-linked life assurance franchise and its Assurance & Financial Service (AFS) business model is often mentioned as a great success story (Edvinsson and Malone, 1997; Stewart, 1997; Sveiby, 1997). The largest product group is unit-linked plans, which are adapted to local legislation and market conditions. AFS products are distributed through collaborating with independent financial advisors, insurance brokers, banks and established fund managers (Stewart, 1997). The dotted line in Figure 4-2 illustrates the completed two-way merger between the P&C businesses of Skandia and Storebrand resulting in the company “If...”.

The company has grown its business aggressively, with the objective of expanding into approximately two new countries per annum. Skandia’s mission going forward is to enhance its position as a leading provider of long-term savings products and to attain and to maintain a market-leading position in defined product areas (Skandia, 2001).

4.4.2 DEVELOPMENT OF SOME POSITIONS AND RESULTS

The restructuring programme transformed Skandia from a traditional P&C insurer into a leading international financial services corporation. The total sales volume grew from € 6.96 billion in 1996 to € 23.41 billion in 2000.

The geographical distribution of total sales in Table 4-2 illustrate that Skandia’s Swedish home market makes up only a relatively small portion of its business and this market decreased slightly throughout the past five years. The largest market for Skandia is the US market where in 2000 about approximately 57 % of the total sales are generated. Skandia’s second largest market is the UK, which in 2000 accounted for approximately 28 % of total sales.

The growth in sales for Skandia is strongly related to the unit-linked products. Skandia’s business mix has changed in a five-year period, almost a mirror image to that in 1992. While in 1996 half of Skandia’s sales came from unit-linked products, this figure rose to almost 80% in 2000. The market capitalisation increased almost eight times from 1996’s € 2.43 billion to 2000’s € 19.14 billion. Despite all the growth in the savings

business, Skandia migrated its traditional P&C business with the non-life businesses of the Norwegian insurer Storebrand and the Finnish Pohjola Insurance establishing “If...”, Scandinavia’s largest P&C insurer (Skandia, 2001).

SKANIDA GROUP		2000	1999	1998	1997	1996
Total sales	€ bn	23.41	15.84	10.94	9.06	6.96
Total sales by geographical distribution						
Sweden	%	5.5	4.9	6.8	8.8	9.0
Great Britain	%	28.1	23.3	27.5	28.7	29.9
United States of America	%	57.3	64.9	57.8	55.4	53.7
New markets (Spain, Germany, Italy, Japan)	%	9.1	6.9	7.9	7.1	7.4
Pre-tax Results	€ mn	467	548	146	577	195
Taxes	€ mn	46	151	- 1.5	138	132
Net income	€ mn	135	403	147	409	334
Assets under management	€ bn	117.4	98.5	70.3	55.8	45.1
Shareholders' equity	€ bn	2.5	2.1	1.8	1.7	1.3
Employees		7161	6592	10185	9709	9408
Share price	€	18.17	15.21	7.34	4.49	2.37
Earnings per share	€	0.13	0.39	0.14	0.40	0.33
Dividend per share	€	0.07	0.06	0.05	0.04	0.03
Market capitalisation	€ bn	19.14	15.57	7.51	4.59	2.43

Originally Skandia reports in SEK. The € numbers are translations made according to Skandia's € exchange rates for the year 2000 (1€ = 8.45 SEK).

The share data was adjusted according to the rights issue in 1994, the 5:1 stock split in 1998 and the bonus issue in 2000 (No. shares 1.023.542.520).

Table 4-2 Skandia’s development of some operational positions and results
(Source: Skandia 2001, 2000, 1999, 1998, 1997)

The share price for Skandia illustrates the successful business transformation related to the strong increase in sales. From 1996 up to 1999 Skandia’s share price almost doubled every year from € 2.37 in 1996 to € 15.21 in 1999. In 2000 the share price reached € 18.17. The earnings per share figures, however, do not reflect a constant increase. In fact the earnings per share reported for the fiscal year 2000 was the lowest since five years. The total sales in 2000 amounted to € 23.41 billion, which is about four times the total sales of 1996. On the first look, the number of employees seemed to have decreased from 9408 in 1996 to 7161 in 2000. However, the merger of Skandia’s P&C business stands for a decrease of approximately 3000 employees. With this in mind, Skandia’s number of employees increased annually by 300-500 employees.

4.5 ON FINANCIAL ANALYSTS

Financial analysts have mentioned in the limitations of this dissertation (see Section 1.4) and represent the user of corporate annual reports. Basically financial analysts are those who analyse corporate information and make recommendations to the investor community. This section gives a short presentation on how financial analysts' use corporate information.

The financial analysis profession divides themselves into two groups. They are either buy-side analysts or sell-side analysts, which is due to their different function in the investment community. In general investment banks or brokerage companies do employ sell-side analysts to analyse information about a specific company for purposes of valuation to forecast the company's performance. These analyses are the foundations for buy, sell or hold recommendations for stocks, which will be reported via the brokers to the external clients. The external clients can be individual or institutional investors. In contrast to sell-side analysts are buy-side analysts³¹ employed by banks, fund or insurance companies to make analysis, valuations and forecasts, which will be reported to a portfolio manager (Williams et al., 1996).

Much research has been conducted on the valuation models that are used by financial analysts to forecast future earnings ability. A wide range of valuation models are available. Research revealed that the most frequently assessed valuation models are the price/earnings (P/E) ratio, discounted cash flow (DCF) analysis, beta analysis and the net asset value (NAV) (e.g. Yap, 1997; Previts et al., 1994; Vergoossen, 1993; Arnold and Moizer, 1984; Lee and Tweedie, 1981). In order to increase accuracy in their forecasts, analysts apply a time-series approach to follow corporations' developments over time (Jacob, 1997).

Despite the impression of sell-side analysts as being homogenous, the multitude of valuation methods shows that they are not. Beaver (1998) points out that the value of information has many different notions due to personality and subjectivity. The demand for information is subject to the financial analysts interpreting skill, taste, preference, attitude and beliefs about the future. Because these attributes differ across financial analysts, their demand for information can also naturally differ. The

³¹ This dissertation only interviewed sell-side analysts (see Section 3.3.1).

valuations and recommendations can diverge greatly between financial analysts. This is corroborated by prior research as earlier studies provide mixed evidence on individual forecasting performance (Bushman, 1991; Lang, 1991; Brown and Kim, 1991). However, researchers like Trueman (1994) also found that analysts' forecasts are not necessarily unbiased, which would lead to individual forecasts, as he illustrated some cases where analysts show herding behaviour and report forecasts similar to those previously released by other analysts.

Nonetheless, analysts do not derive a picture about a corporation by financial information alone. Ellis and Williams (1993) presented a framework of how financial analysts combine nonfinancial factors, which are not covered by the financial statement or by the stock market valuation methods, with financial factors to gain a robust view of a company's value and its future earning capacity. In order to obtain a deeper understanding of a company's future earnings capacity financial analysts can complete their financial valuation with nonfinancial information stated in corporate annual reports' texts, e.g. chairman's statement, board of directors report or human capital review. This type of information is usually not intended to predict a company's prospects of the next year, but the content can be considered being as rich in providing context. Nonfinancial information can enlighten analysts about the company's competitive environment. Ellis and Williams (1993) pinpoint that triangulation of the results from the financial valuation with nonfinancial information sources reveal much about the context of a company and can even bring the competitors strategies to light.

This statement is also discussed by Beaver (1998) who points out that financial analysts will price in many disclosures in annual reports even though they are complex and difficult to interpret. It does not matter where in the corporate annual report or any other media this corporate information would be found. Brockington (1995) mentioned that even if the by law required disclosure continuously increased, from a financial analysts point of view this disclosure might be perceived as sketchy and inadequate. Consequently, further background information³² on corporations can help analysts to obtain a better understanding about the

³² In this dissertation the term background information is sometimes mentioned without further explanation on whether it is financial or nonfinancial in nature. In most of these cases the focus of background information should be understood as nonfinancial information that analysts can apply in order to get a better background of the corporation.

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corporate business environment, e.g. market development, products, employees, competitors.

In conclusion, financial analysts certainly have a common analysis method where they utilise corporate financial information. However, analysts also will put emphasis on non-accounting information as financial information about corporations do not necessarily provide a broad context on the corporate business environment.

4.6 SUMMARY

In this chapter, issues were outlined for a better understanding of this dissertation's context. In the beginning, a section on the theory and practice of insurance started with insurance emergence from ancient human societies and a brief overview of the historical development towards the modern insurance industry. Insurance is not a homogenous product by itself, as the thorough outline of basic concepts of non-life insurance and life insurance showed. Due to its great importance to Skandia, a special form of life insurance, the unit-linked insurance, was explained as a general idea. The national accounting requirements for insurance corporations vary considerably between countries. In 1997 the IASC established the Steering Committee on Insurance to develop a special accounting framework for insurance corporations to achieve comparable, transparent and consistent reporting that can be adopted internationally. The accounting standard for insurance corporations is expected to be verified and in place in 2005. Overviews about Allianz and Skandia portray their historical developments and how they are organised. The information about operational positions and results serves to form a picture of the current size and operations as well as important milestones for Allianz' and Skandia's business. A short review on financial analysts showed their use of different valuation models as well as their inclusion of nonfinancial information to forecast companies' earnings ability. Due to financial analysts personalities, the value of information has different interpretations, which led to different valuation forecasts for companies.

As a reminder, this chapter should not be mistaken as a detailed overview of insurance or both corporations, as the presentation made here is of rather selective in nature. However, it should be understood as a basic introduction to technical terms, insurance products and corporations' specifics that on occasion appear in the actual empirical studies.

Chapter V

THE REPORT STUDY

This chapter examines the disclosure of voluntary information contained in corporate annual reports, thus, providing evidence on the amount of voluntary disclosed information. Since corporate annual reports do not have just one, but rather multiple user groups, they have to be regarded as general-purpose reports, which also includes information on employees. Three main areas are assessed by the disclosure scoreboard (as discussed in Section 3.3.3) to measure strategic information, financial information and nonfinancial information about the corporation. Despite the fact that disclosure scoreboards are traditionally applied for testing hypothesis, this study will not follow this tradition, as descriptive statistics are used for presenting the study's results. It is not assumed that these areas are the only areas that could have been covered, or even that this is the only way of assessing voluntary disclosure information. The results of the disclosure scoreboard serve the purpose of illustrating the amount of voluntarily disclosed information as well as its development during the past five years. For the illustration of the disclosure scoreboard results it has been chosen to present each of the three areas separately, beginning with the aggregated result and then presenting the results for each subcategory (see 3.4).

5.1 STRATEGIC INFORMATION ABOUT THE CORPORATION

The results of the study's first main group *strategic information about the corporation* (see Figure 5-1) are the aggregated results of five subcategories: general corporate information; corporate strategy; acquisitions, disposals and alliances; research and development; and strategic information about business segments. The maximum number of scores possible for the category strategic information about the corporation amounts to 51 items. In 1996, Skandia was able to score 38 items and Allianz scored 35 items of the maximum score. In the following years Skandia received lower scores than in 1996. In other words, the amount of voluntarily disclosed information was smaller. In Skandia's 1998 corporate annual report the quantity of voluntary disclosed information had decreased by 9 scores compared with its 1996 annual report. The total score for the year 1998

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was 29 items out the maximum score of 51 items. Compared to Skandia's 1996 annual report this represents a decline of 23.7%, which is due to reduced voluntary information in four out of the five subcategories, only the subcategory general corporate information is an exception.

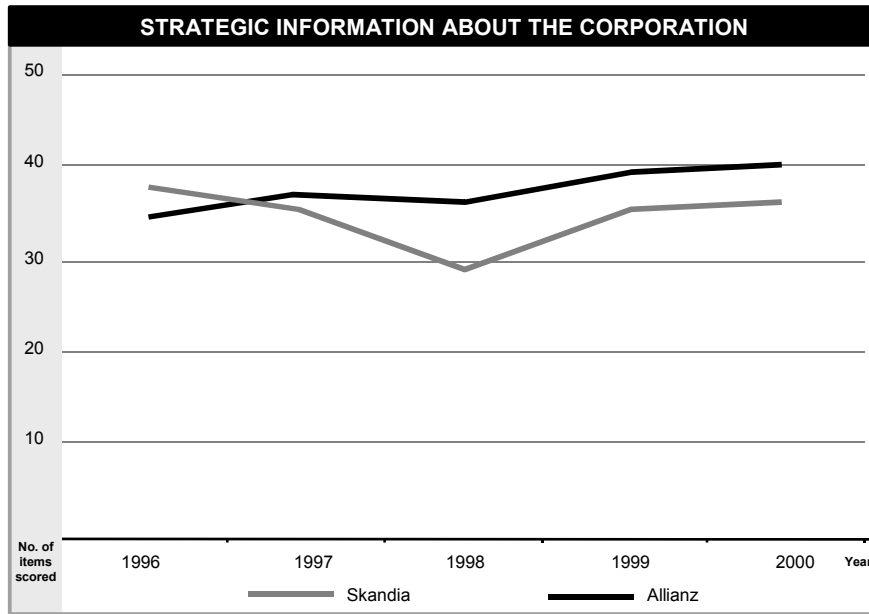


Figure 5-1 Strategic information about the corporation

Allianz has increased the amount of voluntary disclosure issued in their corporate annual reports over the years. The 1996 corporate annual report scored a total of 35 items, compared to 40 items for the year 2000. This is an increase by 5 items or by 14.3%. Although Skandia had a higher score in 1996, Allianz consistently issued more voluntary information in the following years, even if variation is only 2 items in 1997 and 7 items in 1998.

5.1.1 GENERAL CORPORATE INFORMATION

This subcategory on *general corporate information* measures five items in total. During the entire time span of the reporting years from 1996 to 2000, Skandia scored four out of five items. However, during the years 1996 to 1998 Skandia's annual reports gave no information on corporate history. Since the 1999 annual report this has changed. Despite the fact that information on the corporation's history was provided voluntarily,

Skandia is no longer making the corporation’s organisational structure available. This information was substituted by Skandia’s corporate network, where it is no longer possible to see how the corporation is structured.

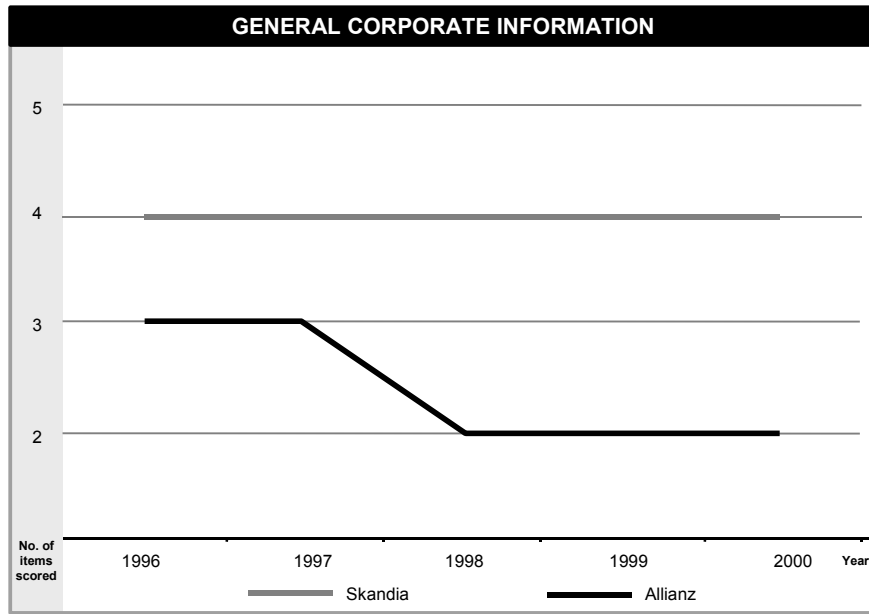


Figure 5-2 General corporate information

Allianz provided in its annual reports information on the organisational structure until 1997. Since the 1998 annual report this information was no longer provided which explains Allianz’ drop in Figure 5-2. During the five-year analysis Allianz’ annual reports were neither providing information on the corporation’s history nor a general introduction to the corporation given. In this subcategory, Skandia was constantly providing more information than Allianz.

5.1.2 CORPORATE STRATEGY

The largest subcategory represented in the area of strategic information about the corporation is named *corporate strategy* and included 18 items. Figure 5-3 illustrates the development of the aggregated scores for these items in this subcategory. In 1996, Skandia was able to score a little more than Allianz. In the corporate strategy subcategory 14 items were found in Allianz’ 1996 annual report compared to 15 items Skandia’s annual report.

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In the following years, from 1997 to 1999, Skandia's score declined by 5 items to 10 items.

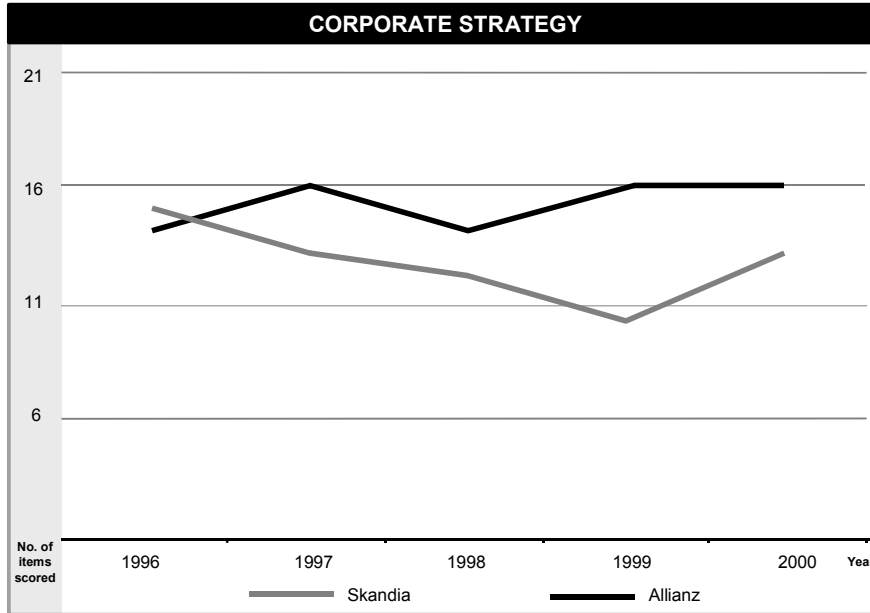


Figure 5-3 Corporate strategy

In plain words, Skandia decreased the amount of voluntarily disclosed information on its corporate strategy by one third. In the case of Skandia it is striking that the 1996 annual report included very detailed information about their market position and disclosing their main competitors by name. The latter has been absent in Skandia's annual reports ever since, whereas the market position was clearly disclosed in the 2000 annual report. Another item that contributed to the upswing in Skandia's scores in year 2000 was the re-introduction of corporate strategy and objectives.

Allianz' variations in the voluntary disclosure of corporate strategic information in the years 1996 and 1998 was primarily due to the inclusion of their human resource strategy and objectives as well as comments on the achievements of the stated human resource objectives. Although Allianz was disclosing fewer items than Skandia in the year 1996, Allianz scored more in the following years varying between a score of 14 items

and a score of 16 items out of a possible 18 items achievable for the subcategory corporate strategy.

5.1.3 ACQUISITIONS, DISPOSALS AND ALLIANCES

The range of scores (see Figure 5-4) for the voluntary disclosure information made in the subcategory *acquisitions, disposals and alliances* measures a total 6 items. There are variations in the amount of information observable for both corporations. Allianz' scores range from 5 items for 1996 to 4 items in 1997 to 5 items in the 1998 annual report. For the reporting years 1999 and 2000 Allianz had full-disclosure in the scoreboard's subcategory on acquisitions, disposals and alliances scoring each of the 6 items.

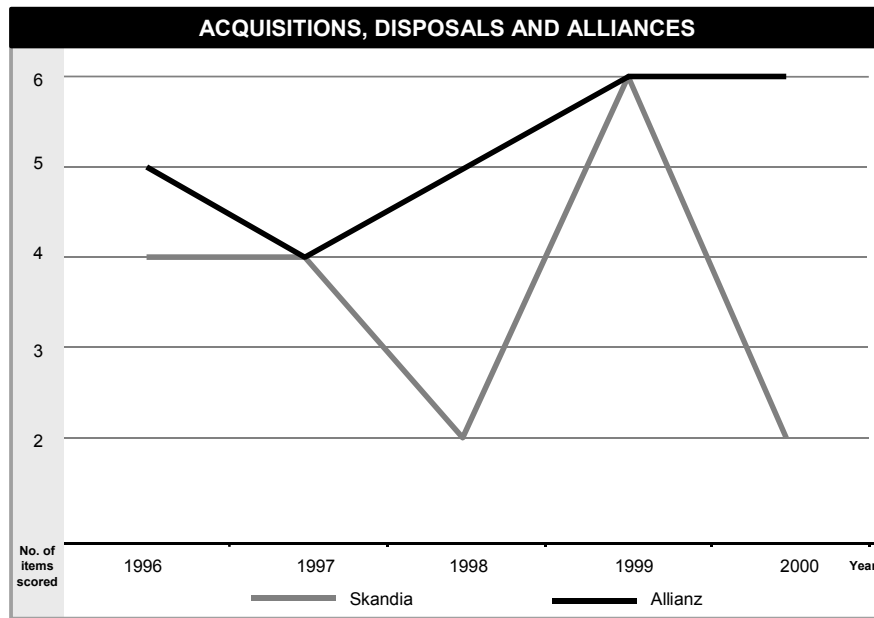


Figure 5-4 Acquisitions, disposals and alliances

Skandia's range of scores for the voluntary disclosure information made in this subcategory shows some variation. The amount of Skandia's scores for the years 1996 and 1997 were similar, scoring 4 out of the 6 items maximum. In 1998 Skandia scored only 2 items as they revealed information on the reasons for the strategic alliances and commented on the overall effects of these alliances. In the 1999 annual report Skandia had full-disclosure in this subcategory whereas the 2000 annual report

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presented the same amount of items as in the 1998 annual report. Although Skandia and Allianz had the same amount of items in the annual reports for the years 1997 and 1999, Allianz scored better in the other years of the five-year timeframe with more items than Skandia did.

5.1.4 RESEARCH AND DEVELOPMENT

The subcategory *research and development* (R&D) measures a total sum of 6 items. In Figure 5-5 it is shown that in the 1996 annual report Skandia scored 1 item more than Allianz. Skandia gave additional information about R&D expenses scoring 3 items compared to Allianz' disclosure of 2 items on the description of ongoing R&D activities and the location of those R&D activities, which were similar to Skandia's remaining 2 items.

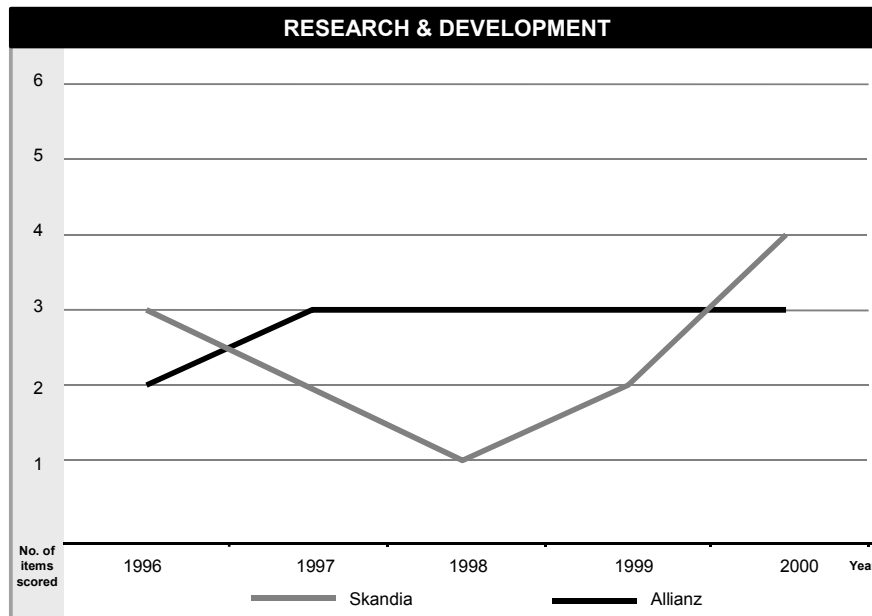


Figure 5-5 Research and development

Until the 1999 annual report Skandia's scores deteriorated to 1 item, providing a description of ongoing R&D activities. However, during the following years Skandia's annual reports increased the amount of disclosed information on the corporation's R&D by 3 items, which resulted in a total score of 4 out of the maximum 6 items possible.

In the 1997 annual report, Allianz increased the amount of voluntary disclosure information in this subcategory by a single item to 3 items. During the following years, no further changes were made to the amount or the nature of the disclosed items. Since then, Allianz has provided information in its annual reports about ongoing R&D activities and where they were located within the corporation. Starting from Allianz' 1997 annual report an outlook on future prospects of the R&D activities is provided continuously. In the annual reports for the years 1996 and 2000 Skandia supplied more information on R&D whereas from the year 1997 to the year 1999 the amount of disclosed R&D information was fewer.

5.1.5 STRATEGIC BUSINESS SEGMENTS INFORMATION

This subcategory *strategic information about business segments* is the second largest in the area of strategic information about the corporation consisting of 16 items. These items specifically assess strategic information about business segments. In the first two annual reports of the chosen time frame, for the years 1996 and 1997, Skandia was to marginally score better than Allianz (see Figure 5-6).

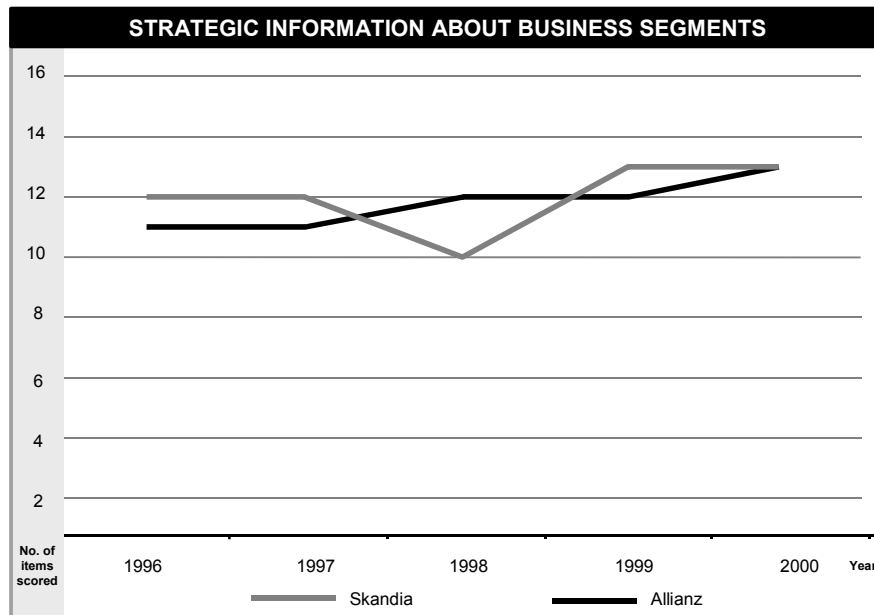


Figure 5-6 Strategic information about business segments

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Skandia presented information on 12 of the 16 items, compared to Allianz' score of 11 item. In the following annual reports, for 1998 and 1999, Allianz increased the amount of strategic information about business segments by one item to score a total of 12 items. Skandia's score first declined in 1998 by 2 items to 10 items and then rose in the 1999 annual report to 13 items. In Skandia's year 2000 annual report there was the same amount of information, 13 items, the same disclosure as for 1999.

Due to the decline in Skandia's scores for 1998 and because of the slight increase in Allianz' voluntary disclosure in the 1998 annual report, Allianz disclosed more strategic information about business segments than Skandia did. In the 1999 annual report Allianz made available the same amount of 12 items as they did in 1998. Allianz' year 2000 annual report scored 13 items representing 81,3% of the possible maximum score. For the year 2000 Skandia and Allianz were providing the same quantity of strategic information on business segments. However, the same amount of disclosed items does not mean that the items from Allianz and Skandia are identical. One item showing the difference is the disclosure of the market position per business segment. Here, as stated in Section 5.1.2, Skandia included this information in its 1996 annual report but it was excluded in the following annual reports. Allianz provided this information in almost every annual report, excluding the 1997 annual report. One item contributing to Skandia's increase in the 1999 annual report was the general information on the business segments future, which it began to disclose from the 1999 annual report. Both companies have consistently disclosed 7 identical items on the scoreboard during the analysed five years.

5.2 FINANCIAL INFORMATION ABOUT THE CORPORATION

The second main group *financial information about the corporation* of the applied disclosure scoreboard is composed of three subcategories: general financial information; financial information about business segments and stock price information. The highest possible score achievable for financial information about the corporation adds up to 49 items. During the first four annual reports, from 1996 to 1999, Skandia consistently scored 25 items or 51.0 % of the maximum score (see Figure 5-7). In the year 2000 annual report Skandia disclosed information on 31 items.

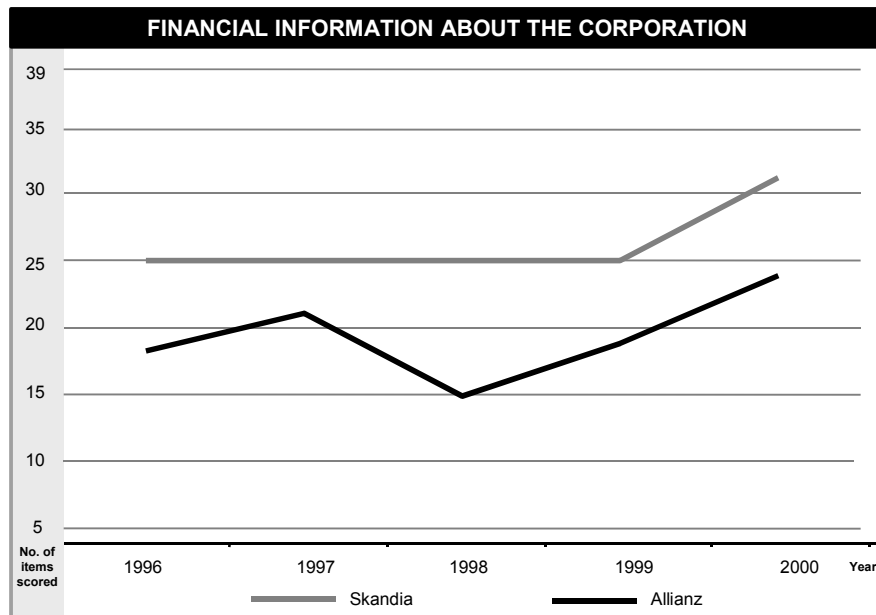


Figure 5-7 Financial information about the corporation

In 1996 Allianz disclosed 18 items of financial information about the corporation. In the following year this amount increased to 21 items. However, after the increase followed a decrease, in the 1998 annual report, the voluntarily disclosed financial information declined by 28.6% to 15 items marking Allianz' lowest score during the five-year analysis. In the 1999 annual report, Allianz' provided additional financial information, increasing by 26.7% to 19 items and therefore was slightly higher than in the 1996 annual report. In Allianz' 2000 annual report the amount of disclosed information improved further, scoring 24 items whereas Skandia disclosed 31 items for the same year. Nevertheless, Skandia consistently disclosed more voluntary financial information than did Allianz with a variation of 4 to 10 items more disclosed.

5.2.1 GENERAL FINANCIAL INFORMATION

This subcategory is the largest in the group of financial information about the corporation containing 20 items that are more general in nature. In the first year of the five-year analysis, Skandia in their 1996 annual report voluntarily disclose information on 11 items, representing a 55% achievement on the maximum score (see Figure 5-8). For 1997 this amount declined by 1 score to 10 items. Skandia's score then stabilised

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following the 1998 annual report whereas another decrease by 1 item to 9 items was recognised for the year 1999. In the 2000 annual report the amount of Skandia's voluntary disclosure on general financial information increased to 13 items.

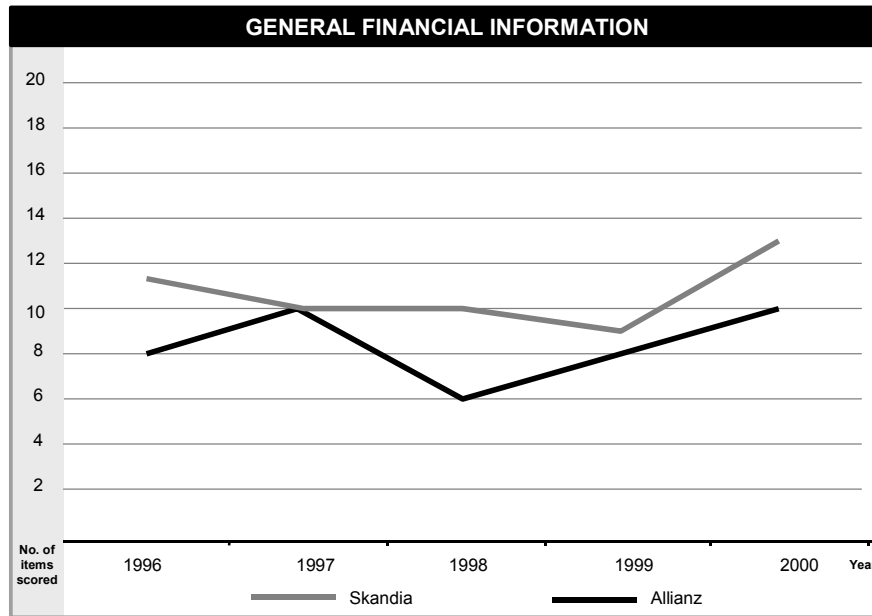


Figure 5-8 General financial information

In the 1996 annual report Allianz disclosed 3 items fewer than Skandia scoring a total of 8 items. Allianz' 1997 annual report contained 2 items more that it did for 1996. However, in the 1998 annual report the number of Allianz' voluntary general financial information declined by 4 items to a score of 6 items. This minimum score was followed by an increase in 1999 of 2 items to 8 items. Allianz' 2000 annual report increased the amount of voluntarily disclosed general financial information by another 2 items to 10 items, 50% of the maximum score, reaching the same level as in 1997. Skandia had in almost every year a higher score than Allianz. Only in their 1997 annual reports had both corporations a similar amount of disclosed information.

A noteworthy difference that is observable within this subcategory is that Skandia consistently discloses more ratios in the annual reports. Skandia provided, in every analysed annual report, the return on capital employed,

capital turnover, and net asset value whereas Allianz only infrequently reported the return on equity. Such occasional reporting was also detectable for Allianz’ historical financial review, for both items measuring at least three years and at least five years, lacking for the year 1997 and partially in the 1998 annual report. Partially, as in 1998 Allianz provided a historical financial review covering at least three years. Up to the year 1997 Allianz made additional information on advertising expenditure available, which Skandia never did.

5.2.2 FINANCIAL INFORMATION ABOUT SEGMENTS

The array of items measuring the amount of the voluntary disclosed information in this subcategory consists of 10 items. For 1996 Allianz scored 2 items on the disclosure scoreboard providing business in-force or contract information and a quantitative market share analysis (see Figure 5-9).

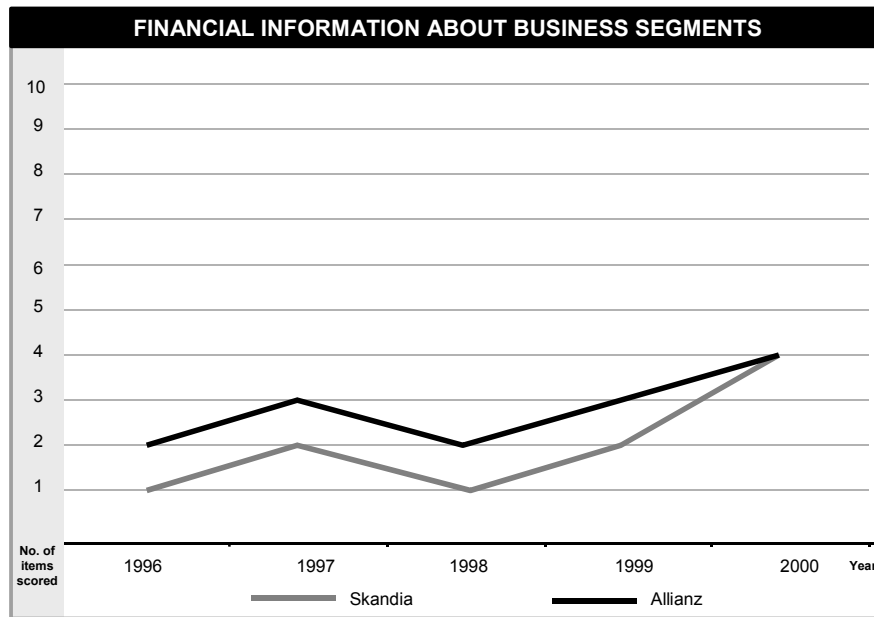


Figure 5-9 Financial information about business segments

Allianz’ 1997 annual report contained additional financial information in relation to industry average though the amount of scored items increased to 3, which is 30% of the maximum score. Allianz’ 1998 annual report did not provide as much information as the 1997 annual report and decreased to a total score of 2 items. The amount of Allianz’ voluntary financial

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information about business segments increased in the annual report for the year 1999 to 3 scored items and improved to 4 items for the year 2000. Like Allianz, Skandia was constantly providing business in-force information or contract information per business segment. For 1996 and for 1998 this item was the only one Skandia had included in its annual reports. The sales forecast that Skandia disclosed was inconsistent, as this information was missing for the years 1996 and 1998.

Since the 1998 annual report Allianz has been giving outlook information on their earnings, which Skandia did not supply in the analysed annual reports. During all five years Allianz issued more voluntary financial information about their business segments than Skandia. Finally, in their 2000 corporate annual reports both corporations disclosed equally, scoring 4 items.

5.2.3 STOCK INFORMATION

This subcategory *stock information* evaluates the amount information that a corporation voluntarily discloses about their stocks with the help of 19 items. In Figure 5-10 it is evident that in Skandia's 1996 annual report the amount of disclosed information scored on 13 items, accomplishing 68.4% of the maximum score. This quantity remained unchanged for the year 1997. Skandia's 1998 annual report showed a slight increase of additional 1 item, making a total of 14 items. For the years 1999 and 2000, Skandia continued to disclose the same extent of voluntary stock price information as in 1998. Beginning with Allianz' 1996 annual report, the analysis revealed that the voluntary information contained achieve a score of 8 items, which was the same for 1997. In the 1998 annual report Allianz' scores on voluntarily provided stock information eroded by 1 to 7 items. The 1999 annual report showed that the amount of Allianz' stock information was back to the level of 1996 and 1997 with 8 items scored. The increase continued in Allianz' 2000 annual report disclosing 10 items, 52,6% of the maximum score. However, during all the analysed years Skandia's corporate annual reports contained more voluntary disclosure information about their stocks than Allianz. Skandia disclosed between 4 and 7 items more than Allianz.

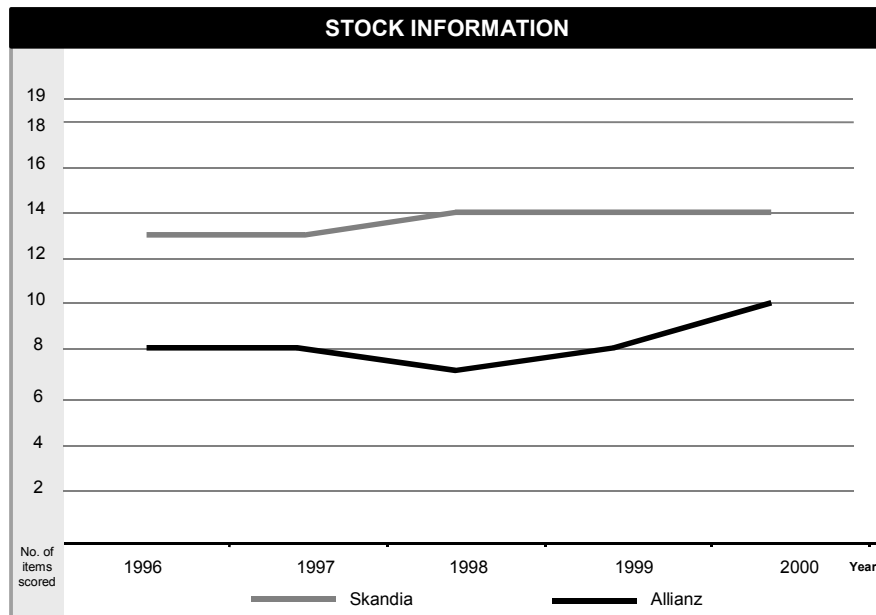


Figure 5-10 Stock information

In Section 5.1.2 it was observed that Skandia disclosed more ratios than Allianz, this is also evident in this subcategory. The ratios that Skandia provided in this subcategory are dividend yield, total yield, P/E-multiple, and new for the 1998 annual report and on the beta value coefficient. Another item that Skandia disclosed, but not Allianz, is the numbers of shares held by each of the significant shareholders. One more item that Skandia constantly included in their annual reports is the development of share capital for at least three years, whereas Allianz reported this item rather sporadically. The stock information item that Allianz started to report in their 2000 annual report is the trading volume in company shares, which Skandia made available in every analysed annual report. However, since the 1999 annual report Allianz commenced issuing information on their share price trend during the year in relation to an industry index, something that Skandia has not included in their annual reports.

5.3 NONFINANCIAL INFORMATION ABOUT THE CORPORATION

The third and final main group is designated *nonfinancial information about the corporation*. This group consists of the combined results of its three included subcategories: information about directors; employee

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information; social policy and environmental information. The maximum score attainable for the items included for voluntary disclosure on nonfinancial information about the corporation is 51 items. In the annual report of the year 1996, Skandia gave voluntary information on 28 items, which is 54.9% out of the maximum amount possible (see Figure 5-11). In the following year Skandia's 1997 annual report revealed a slight decline in the amount of voluntarily provided nonfinancial information as 27 items were scored. For the reported year of 1998, Skandia's score declined by 5 items to 22 items representing Skandia's lowest score of nonfinancial information during the five-year analysis. The corporate annual report that Skandia prepared for 1999 showed an increase in scores by 4 items to 26 items, which did not reach the heights of 1996 nor 1997. Skandia's year 2000 annual report decreased a little by the score of one item to 25 items.

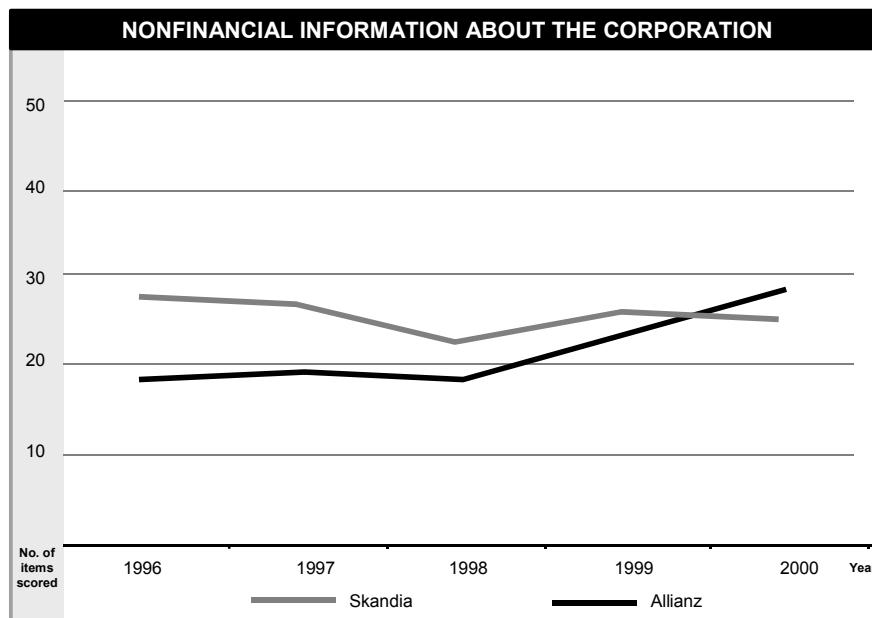


Figure 5-11 Nonfinancial information about the corporation

The Allianz 1996 annual report contained the voluntary nonfinancial information of 18 items, which improved by an additional item scoring 19 items for 1997. In 1998 Allianz' score slightly decreased to the level they achieved in 1996. The 1999 annual report showed that the amount of Allianz' nonfinancial information was improved by 5 items scoring 23

items. The increase continued in Allianz’ 2000 annual report by disclosing a further 5 items to a total amount of 28 items. The growth of the past two annual reports, for the years 1999 and 2000 resulted in the fact that Allianz voluntarily disclosed more nonfinancial information about the corporation than Skandia did in 2000.

5.3.1 INFORMATION ABOUT DIRECTORS

The subcategory *information about directors* evaluates the voluntary disclosure information about directors and consists of 11 items. As Figure 5-12 illustrates Skandia’s 1996 annual report contained 9 items. The annual report for 1997 Skandia provided the same amount of disclosure information about their directors as for 1996. This quantity improved in Skandia’s 1998 annual report by one additional disclosed item scoring 10 items out of the 11 items maximum.

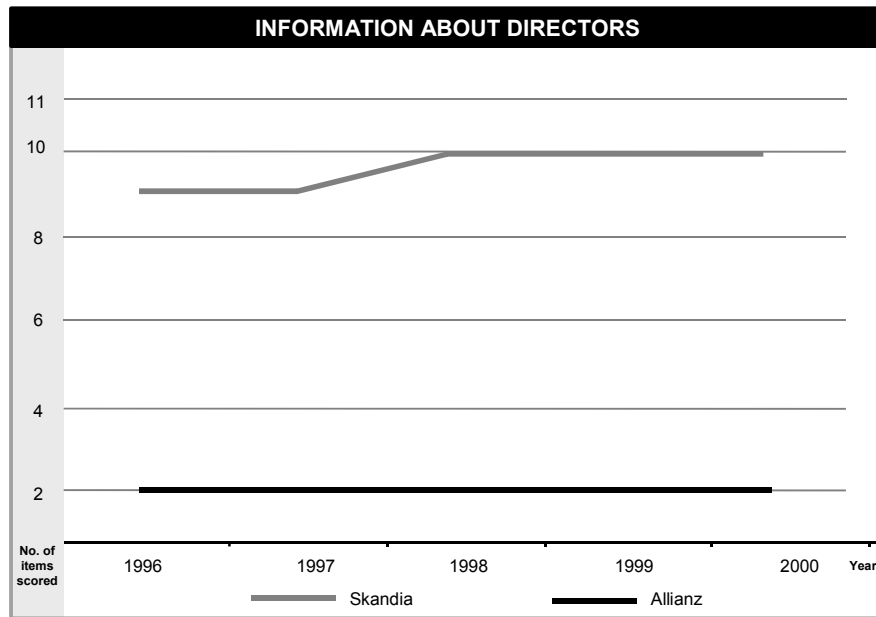


Figure 5-12 Information about directors

Since 1998, the level of Skandia’s disclosure information about their directors has remained unchanged scoring 10 items. During the five-year analysis, Allianz’ annual reports revealed little voluntary information about their directors as only 2 items were scored.

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Also worth to mention is that Allianz reveals only the items of other directorships held by the executive board directors as well as the names of the directors in the top management, which Skandia also provided. Furthermore, Skandia consistently discloses items such as the age of the board members, their qualifications, the date of election to the board, or amount of shares held in the corporation. Since the 1998 annual report Skandia also reports the commercial experience of the directors of the top management.

5.3.2 EMPLOYEE INFORMATION

The subcategory about employee information is the largest in the group of nonfinancial information about the corporation accounting for a total of 27 items. In their 1996 annual report, Skandia disclosed information about their employees scoring 14 items, indicating 55% of the maximum score (see Figure 5-13). In the following reporting year of 1997 this amount increased by an item to a total sum of 15 items.

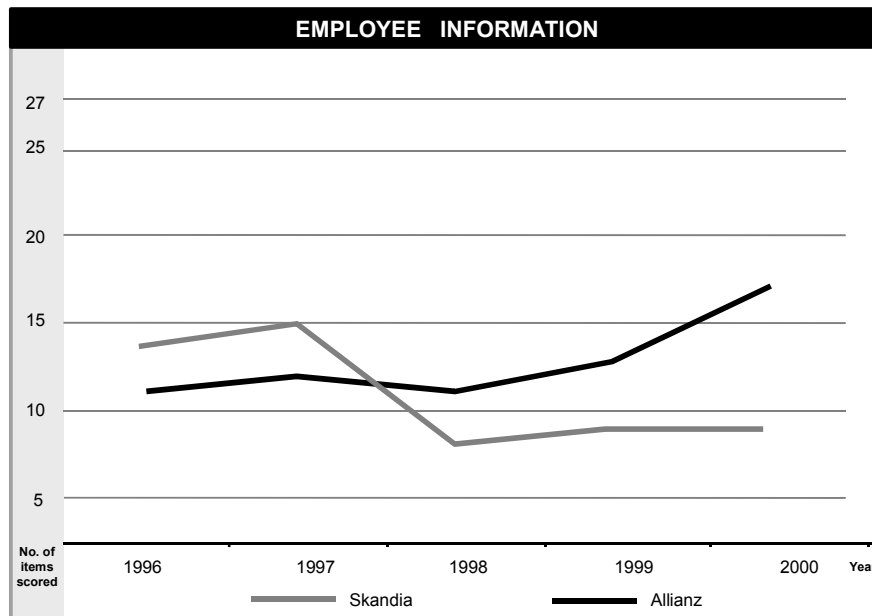


Figure 5-13 Employee information

Skandia's 1998 annual report showed a decline of voluntary disclosure information as the score dropped by 46.7% to 8 items. This level recovered slightly as the information that Skandia provided in the 1999

annual report increased by one item amounting to 9 items (33.3%). This level of disclosure remained the same for Skandia's 2000 annual report.

For 1996, Allianz' voluntarily disclosed information tallied 11 items. Allianz' 1997 annual report contained a minor increase in the additional information about their employees, thus raising the amount of scored items to 12 items. In the 1998 annual report Allianz did not provide as much information as in 1997 and decreased the score by an item achieving the same disclosure level as for 1996. The quantity of Allianz' voluntary employee information increased in the 1999 annual report by 2 items and enhanced the total score to 13 items. In the 2000 annual report Allianz increased the amount of voluntarily disclosed employee information by 30.8% to a total score of 17 items. Up to the year 1997 Allianz made a lesser amount of additional information available about their employees than Skandia. However, due to Allianz' increase as well as to Skandia's decrease of employee information, the result was that Allianz disclosed 3 items more than Skandia. This gap was further increased to an 8 item difference between the quantity of voluntary employee information disclosed by Allianz and Skandia.

The above mentioned difference is attributable to several different items. Allianz slowly increased their reporting on items such as the number of employees for at least three years or time in training while Skandia's reporting decreased. Skandia's annual reports for the years 1996 and 1997 provided information on items such as reasons for changes in employee numbers or categories; categories of trained employees, number of trained employees; or time in training. Allianz almost constantly reported these items, except for time in training, which was given rather infrequently. However, in the 2000 annual report Allianz started to disclose items such as employees' distribution by line-of-business, number of part-time or temporary employees, the average years of service within the corporation, and the average age of employees. These items mainly contributed to the strong improvement in the disparity in Allianz' scores. None of the analysed annual reports of either Allianz or Skandia made information on senior management available. Allianz gave in the 1996 and 1997 annual report information about their employees' gender distribution but not for the years to follow, whereas Skandia constantly provided this information. Nevertheless, such occasional reporting was also detectable for Skandia's information about the reasons for changes in employee numbers or

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categories as this information remains unreleased since the 1998 annual report.

5.3.3 SOCIAL POLICY AND ENVIRONMENTAL INFORMATION

This last subcategory *social policy and environmental information* includes 13 items and investigates the amount of voluntarily disclosed information about a corporation's social policy as well as environmental information. For 1996 Allianz scored 5 items (see Figure 5-14) and this level of disclosure remained unchanged until 1999. Allianz' 1999 annual report improved the disclosure on social policy and environmental information by 3 items to a total of 8 items. The increase of Allianz' disclosure improved a little by an item to 9 items for the year 2000.

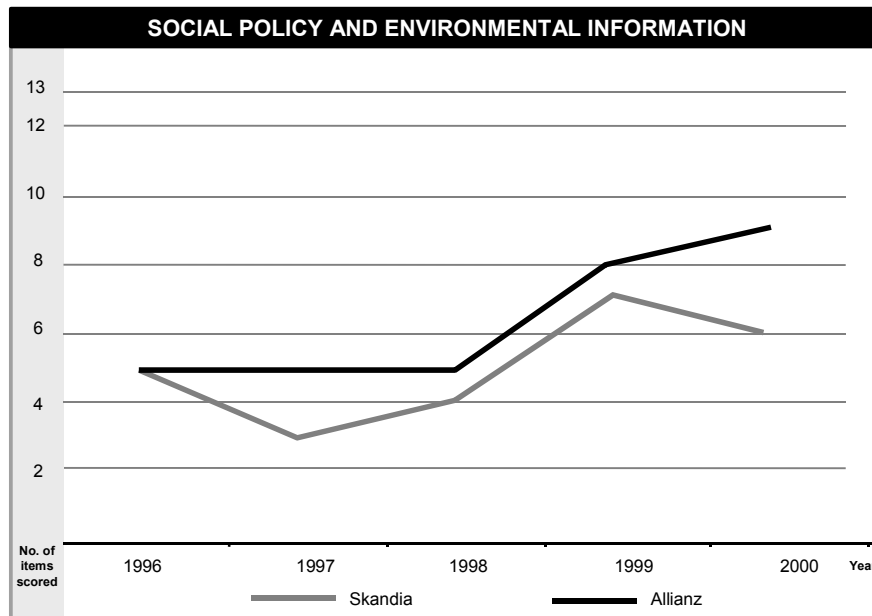


Figure 5-14 Social policy and environmental information

Although Skandia in their 1996 annual report provided the same amount of information as Allianz did, namely 5 items, their information about social policy and environmental information in 1997 decreased by 2 items to 3 items. This was the lowest score during the five-year analysis. Skandia's score regained the same item level in their 1998 annual report as they had for 1996. In 1999, the amount of voluntarily disclosed information improved by 3 items to a score of 7 items. This increase had

been followed by a small decrease of disclosed information in Skandia’s 2000 annual report by 1 item, down to 6 items.

Both corporations were largely providing information on their environmental program, whereas Allianz was providing information about the investment in the environmental program and its achievement. Skandia has infrequently reported the latter and the amount of money invested has never been made available in any of the examined Skandia annual reports. In Allianz’ 2000 annual report, information on the community program scored 4 additional items while the 1999 disclosed charitable donations program was not disclosed.

5.4 AGGREGATED RESULTS OF THE TOTAL SCOREBOARD

Finally, after having presented all the evidence in detail, the total scoreboard tallies the scores of the three main groups giving a comprehensive picture about the development of the amount of voluntary disclosure contained in the annual reports of Allianz and Skandia. The maximum number of scores attainable for the total scoreboard amounts to a total of 151 items. Skandia’s annual report for the year 1996 achieved a total score of 91 items, which represents 60.3% of the maximum score (see Figure 5-15).

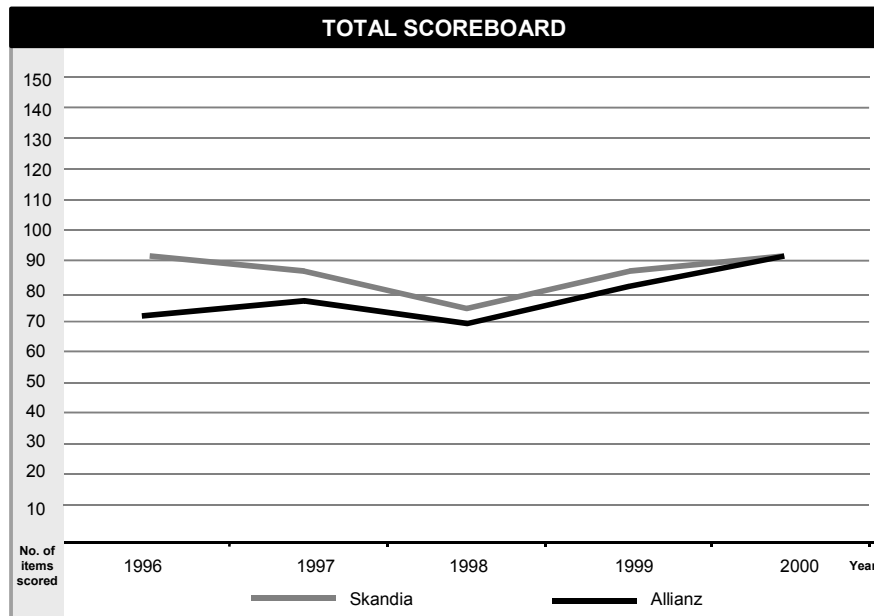


Figure 5-15 Aggregated results of the total scoreboard

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In the following, year Skandia's 1997 annual report started to show a decrease in the total quantity of voluntarily provided information by 4 items to a final score of 87 items. The following 1998 annual report for Skandia showed that the amount of voluntary disclosure declined further by 11 items scoring 76 items thus representing Skandia's lowest score of all examined annual reports. Skandia's 1999 annual report showed a recovery of the level of disclosure due to an increase in scores by 10 items to a final sum of 86 items, which still was lower than their 1996 annual report. The year 2000 annual report increased by a further 5 items to a score of 92 representing Skandia's highest score of the examined annual reports.

In the 1996 annual report Allianz gave much voluntary information and achieved an aggregate result of 71 items. Allianz' 1997 annual report revealed an improvement of the additional information increasing the scored amount by 6 items to a total of 77 items. In the 1998 annual report Allianz did not report the same level of voluntary disclosure as for 1997, decreasing the score by 8 items down to 69 items, which also represents the lowest disclosure level for Allianz. For the year 1999 Allianz' annual report showed improved reporting on voluntary information increasing the score by 12 items adding the total score up to 81 items. In the 2000 annual report Allianz improved by almost the same amount as for 1999. Another 11 items were scored to give a final score of 92 items. During the first four of the five-year analysis, from 1996 to 1999, Skandia was consistently providing more voluntary information and therefore scoring more items. Skandia and Allianz disclosed the same amount of voluntary information in their annual reports for the year 2000. Nevertheless, the gap between Skandia and Allianz on the quantity of voluntary disclosure diminished consistent every year. While Skandia reported 20 items more than Allianz for 1996 this deficit reduced to a 10 item gap for the year 1998. A year later Skandia provided 7 items more than Allianz and the gap was reduced further by 5 items based on the information given in the 1999 annual reports. An interesting observation from Figure 5-15 as illustrated by the total scoreboard is that both corporations experienced a significant drop in the amount of the voluntarily disclosed information for 1998. Even though it is not directly included in the focus of this study it is worth mentioning that it was the year where Allianz started to report according to IAS.

5.5 SUMMARY

The empirical evidence from the previous sections makes it possible to get a clear picture of both the amount of information voluntarily disclosed and the development of their levels of disclosure by Skandia and Allianz over a five-year period, as presented by this chapter.

This study found that for the first main group on strategic information about the corporation, Allianz provided fewer items than Skandia only in 1996. Whilst Allianz showed a continual increase in the amount of strategic information, Skandia fell behind in its voluntary reporting. One of the main factors for this decrease by Skandia was the evident decline of the voluntary information in the corporate strategy subcategory. Although Skandia continuously increased the quantity of strategic information beginning with the 1999 annual report, they were not only behind Allianz but also below their 1996 annual report score.

The result from the second main group on financial information about the corporation showed that Skandia, throughout the study, revealed more financial information voluntarily compared to Allianz. Despite the fact that Skandia's amount remained constant during the first four years, Allianz' information disclosure behaviour was unstable. After that, the number of items that Allianz disclosed increased for 1997 and this figure decreased for 1998. This recovery and increase of Allianz' voluntary financial information for the years 1999 and 2000 always remained below Skandia's scores. Furthermore, the study found that Allianz, at its highest score, never attained the lowest score achieved by Skandia. One of the main differentiators was the subcategory measuring the amount of voluntary stock information. Here Skandia always made more information available than Allianz.

The third main group of the disclosure scoreboard used by this study, analysed the annual reports for the amount of voluntarily disclosed nonfinancial information. In this group, the study showed that Skandia's amount of voluntarily provided information was slowly decreasing during the studied years. The surprising result, although not indicated in the literature and therefore not expected, was that Allianz distinctly improved their voluntary reporting of nonfinancial information. In the end, the study found that Allianz achieved a higher score than Skandia. This is a rather astonishing result as management literature indicated that Skandia was very active in providing nonfinancial information. However, the

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evidence of this study revealed that Allianz substantially increased its reporting of voluntary information on their employees, whereas the study found that Skandia had an opposite trend providing considerably fewer informational items than for 1996 and 1997.

Finally, from the evidence of this study, it has been shown that Skandia scored on the aggregated results of the total scoreboard noticeably more for 1996 and 1997 compared to Allianz' scores. For the year 1998 both corporations issued less information voluntarily whereas Skandia's drop was larger than Allianz'. Since then, the gap shrunk until it disappeared all together for the year 2000, where Skandia and Allianz disclosed equally. This finding is interesting as it showed that whilst Skandia had a higher score in the beginning Allianz continually improved and finally caught up with Skandia, in terms of the amount of voluntarily disclosed information.

The overall picture that emerges from the above analyses and conclusions is that even though there was a difference in the behaviour of voluntarily issuing additional information, this had been eliminated over the course of the study. Whilst Allianz improved the voluntary disclosure of information in the annual reports, the level of disclosure remained more or less the same for Skandia. Hence, in the area of nonfinancial information it is reasonable to say that this study found that Skandia lost its position of leadership in providing more nonfinancial information, which the literature attributed Skandia with, to Allianz.

Chapter VI

THE PROVIDER STUDY

This chapter descriptively presents the answers that the company respondents made during the interviews for the provider study. The study's focus is on the providers of information, namely those persons who are knowledgeable about the processes within the corporations and making decisions about the information that will be made available external to the corporation. For this study, the heads of investor relations from both corporations and one head of corporate accounting have been interviewed (see Section 3.3.1). Analysts singled them out during the interviews to be the most appropriate persons to be interviewed for this study. This is basically due to the fact that the head of investor relations' is the corporation's interface to the investor community, answering their questions and passing information requests further to the corporate financial information group. The empirical material presented here closely holds to the structure of the developed interview guide as presented in Figure 3-4. Whenever more detailed information appears to enhance the understanding of the sections, quotes from the interviews are given. As stated above, the interview guide for the provider study was closely used to structure this chapter, which should not presuppose that the structure is similar. All main questions are outlined as their own paragraphs in this chapter while the sub-questions are not necessarily analysed independently in a paragraph of their own.

6.1 RELEVANCE OF CORPORATE ANNUAL REPORTS

This section presents the empirical evidence that was generated during the interviews with Skandia's and Allianz' head of investor relations as well as Skandia's head of corporate accounting. Three main questions and five sub-questions were asked that deal specifically with the relevance of corporate reports. The first question is about the corporations' perception of the importance of the corporate annual and interim reports in terms of company valuation. The second question is if the corporations' know who the users of their issued information are. The third question is how important it is for the corporation to disclose voluntary information in relation to their financial statement information.

CHAPTER 6

6.1.1 IMPORTANCE OF CORPORATE ANNUAL REPORTS

All interviewees in this study mentioned that corporate annual reports are important for company valuation, which is represented by an increasing amount of information that is required to illustrate the corporations' business. This causes the annual reports of both corporations to be regarded more as a product that tries to contain a long-term perspective by trying to explain the company's strategy and operation, and even the markets it is operating in, in depth if necessary. Further, it is mentioned that the annual report is more of an in depth description of the different parts of the financial statements as it aims to describe how the company has developed financially. The interviews revealed that both corporations want to achieve a holistic company description, more than just highlighting certain aspects of the financial details. This result has been especially stated as such in the following quote:

In our annual reports we do have a very detailed description of our investments and we voluntarily issue information of some of the most important product lines for both insurance products and savings products. It is very important to show our company holistically and how it is doing in most of its important markets (C3).

All interviewees stated that such a general picture could not be represented to the same extent in the quarterly reports as it can in the annual reports. For both corporations the annual reports are usually released at their annual general shareholders meetings. During one interview, a Skandia representative drew special attention to the fact that the entire investor community very much appreciates annual reports, as they contain a lot of detailed information allowing them to get a historic perspective and to see the development from five years ago to now. Both Skandia's respondents pointed out that companies throughout the years were generally focusing too much on financial details and they predicted that there would be a move towards a more operational description of the company. Moreover they mentioned that at Skandia they have the credo that never too much of basic information can be released, as the basic questions are not always clear for investors. Basic information is simply the facts that show e.g. how many products a company has or how prices are set for these products.

Allianz' respondent indicated that there are two sides of the coin in examining annual reports relevance for company valuation. On the one

hand, it is very important to provide accounting numbers in the form of annual reports, since he believes that every analyst and investor does take a closer look at them, as they are taking these numbers as the foundation for further computation for making their estimates. On the other hand, he reasoned that the annual reports' numbers are a snapshot of activities of the past. It is a quite plausible argument to regard corporate reports as records of historical events as normally some months have passed, after the event has happened, until this event is published. The Allianz representative mentioned that this gives him mixed feelings, as the stock exchanges are taking the pulse of the future and not of the past.

One sub-question that was asked was which parts of the annual report are most important to the corporations. Skandia's interviewees named the section that contains product related information to be the most important to put emphasis on the businesslike aspects. They motivated this answer by showing the investors how the company developed or reacted to changes from the market and what strategy underlies those actions. This contrasts Allianz' respondent, who named the complete part that conveys the actual financial numbers to be most important. He especially mentioned notes, as the corporation has in the notes the opportunity to give far more detail in the accounts, explaining what really needs to be understood by a specific number or what had happened during the reporting period. Therefore the notes are very important to enhance investors' understanding. The difference between the notes and the numbers and figures are that the latter are computed for special reporting dates while the notes can communicate important events that happened during the year.

The second sub-question regarding the importance of corporate annual reports investigates for which items the companies see the need for providing further information on. Like the above findings the answers here were short and varying. The interviewee from Allianz pointed to the amount of work that the corporation's finance department was devoting in the development and establishment of Allianz' reporting to fulfil the US-GAAP requirements. Consequently, it was mentioned that Allianz, at that point of time, has no need to provide further explanation than in the present form. One of Skandia's respondents answered that it is a continuous process at Skandia to improve the reporting, which includes all items. Skandia's interviewee described that the sales figures and the information on margins are very important to the investor community.

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This statement was supported by the other respondent from Skandia who additionally mentioned that the introduced embedded value accounting, as a future oriented standard, is helping the investors to get a good understanding Skandia's business.

6.1.2 THE USERS OF ISSUED INFORMATION

The empirical material of this study shows that every interviewee started by referring to the many interest groups, which they generally call the investor community, which their corporations have due to the fact that they are publicly listed. However, the respondents subdivided the investor community into three main groups of users, namely institutional investors, analysts and private investors. The study reveals that all interviews assume that the professional investors, e.g. portfolio manager, buy-side analysts and also sell-side analysts, are for the most part interested in the financial numbers and figures but also in all other corporate information provided. The interviewees remark that private investors are also interested in the key numbers and figures, but that they have a greater interest in the descriptive written part of the annual report, which is mainly due to the fact that they are not following the corporations' development as closely as professional investors. Nevertheless, one of Skandia's respondents commented that the main users they are addressing the information to are the analysts covering Skandia, which is not only releasing ad hoc information but also annual reports.

The first sub-question in this section asks what information the users acquire. Here the representatives of both corporations referred to active communication with every group so that they know what information these groups acquire and how they are focused especially regarding communication with analysts. The respondents said that analysts commonly ask for information they need and that one-to-one meetings are for the analysts of very high importance, as they normally ask questions that are not answered by the information provided. One Skandia interviewee said that in the case that there might be some more analysts who asked for the same information it is likely to be discussed by investor relations department if this special information should find its way into the normal information scheme. He gave the example of Skandia's sales report that many analysts had asked for, and which is now

provided on a monthly basis. Noteworthy, is that all three respondents articulated in unison a general rule "... *analysts always want more information!*"

Which medium is used to provide information is the second sub-question that the corporations' respondents were asked. During each interview empirical evidence was given that apart from the print-media annual and interim reports, investor communication has increased extensively via the Internet. Both corporations revealed that information, which is obtainable in printed form, is also made available as downloads from the Internet. All interviewees describe the Internet as offering a number of different features that are impossible to incorporate in print-media such as telephone conferences or videoconferences, e.g. the CEO's speech. In addition, Skandia and Allianz offer their investors the opportunity to communicate by sending faxes and e-mails, e.g. weekly shareholder letters, as well as by telephone call-centres. Allianz' representative mentioned that the amount of faxes is decreasing as they do take quite a long time to deal with compared to e-mails. The empirical material reveals that the globalisation of information is prominent in the investor community and that this is one reason why e-mails are often used to spread information as they are sent directly and instantly to the recipient, who can access this information all over the world.

One of the Skandia interviewees referred to the globalisation of information and the different aspects to be considered. This is conveyed by the following quote:

When it comes to the globalisation of information one can easily observe that information spreads very fast around the world. Therefore, it demands from companies to have much higher knowledge of how to produce adequate information for the media. There are many aspects to think of, as there are many extremely stressed international journalists that are only screening through our press releases instead of very well prepared analysts who have a deeper understanding of our company. Due to this fact, I believe, that we do have to be much more proactive in information distribution and the management of information as well as the handling of very well qualified journalists (C2).

This leads to the conclusion that production of adequate information has to be present in any informational form no matter if on the Internet, in the annual report, or in the form of a press release.

6.1.3 IMPORTANCE TO PROVIDE DISCLOSURE

The final question on the relevance of corporate annual reports is how important it is for the corporation to disclose voluntary information in relation to their financial statement information. The respondents of both corporations almost identically defined disclosure information as encapsulated in the following quotes:

I would ask myself what is disclosure information? I would then say that it is a kind of information that is provided in addition to that information that a company is required to provide by the accounting law (C2).

Disclosure information, as I understand it, is information that has been made available out over the minimum requirement by the accounting regime your company is reporting (C1).

Every interviewee stressed that it is very important to give information exceeding the minimal legally required information, whether that is extra numbers and figures or as written text, as voluntarily disclosed information enhances the understanding about the corporation. This is important for increasing transparency and openness. Allianz' participant summarised it into a simple formula as transparency increases trust and the more transparency the more trust. He mentioned that trust is especially important in the insurance business, explaining why Allianz puts major effort into the communication exceeding the legal minimum requirements by a huge margin. Furthermore, he stated that these efforts strive to be better than the competitors and therefore beating the markets requirements. One of Skandia's interviewees said that the information required by law is "...*absolutely useless*..." as it does not help investors to understand how the corporation is functioning. In his view, this situation has both advantages and disadvantages. The disadvantage he named is that due to the lack of harmonised accounting standards, it is very hard for the analysts to make a direct comparison within the European insurance sector. This is even worse when it comes to a global view of the insurance sector. On the other hand Skandia's interviewee regards this uncertainty as an advantage as corporations have the chance to communicate on to the corporation's own terms.

Every respondent in this study mentioned that voluntary disclosure of information is essential to describe the reality that the corporations are facing as the actual legal requirements by law are not very useful for

presenting an understanding of what the business reality is, since the accounting standard is not made specifically for the insurance business.

Regarding the sub-question on the increase in the amount of disclosure information, all respondents answered directly with a straight yes. Whereas the participant from Allianz described the amount of voluntary disclosure information continuously increases and, more importantly, that the quality of observable voluntarily disclosed information increases. In his view this is very much attributable to the introduction of different kinds of controlling systems e.g. EVA. In summary he said that the amount of voluntary disclosure increased markedly during the last years while the quality of voluntary disclosure improved at the same time thus increasing trust by the investors. Both of Skandia's interviewees claimed that development of Skandia's financial communication constantly increased the amount of the disclosed information over years. They articulated that currently a stage is reached where the decision was taken to provide more detailed information about Skandia's business for different markets as well as for Skandia's financial development. One of them mentions that this information will also be released on the Internet to make this information available as downloads for anyone who is interested in this information.

6.2 CORPORATE ACCOUNTING

The empirical evidence obtained in this section is derived from the three main questions, which were to enquire if foreign accounting requirements have an impact on corporate accounting. The first question about how the corporations adapt their accounting systems to foreign accounting requirements. The question that followed draws on how differences in foreign accounting requirements are treated. This section is finished off by asking the third question if the differences in accounting regimes is an obstacle when striving towards showing a true and fair view of the corporation.

6.2.1 ADAPTATION TO FOREIGN REQUIREMENTS

The discussions in Section 2.3 and Section 2.4 put the focus on the lack of a harmonised or unified standard for insurance companies. The respondents were asked to elaborate on how the corporations adapt their accounting systems to foreign accounting requirements and the respondents revealed that these non-uniform standards makes it difficult

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for insurance analysts to obtain information that is directly comparable with other companies. Sweden and Germany, as EU member states, have an obligation towards the EU directives. One of Skandia's participants pointed to the fact that Sweden has to adapt its accounting regime to the EU directives, which generally will lead to greater harmonisation. However, those directives implemented by the EU consider the regulation of general traditional companies and not insurance companies, for which an accounting standard will not come into force until 2005. The other respondent from Skandia indicated that the national accounting law and recommendations have to be fulfilled but that Skandia had especially introduced embedded value accounting to describe Skandia's business to the investor community. In addition, he stated that the embedded value is not a Swedish GAAP requirement but that this supplement is more important to the international investors than the numbers and figures needed for the fulfilment of the requirements by the national authorities. Allianz' interviewee revealed that it is not in the interest to anyone that many different numbers and figures are provided for one and the same item that is why Allianz decided to have IAS accounting that is closely oriented to US-GAAP requirements. The reconciliation that Allianz produces shows that, except for minor differences, IAS numbers look basically similar to the numbers as for US-GAAP.

6.2.2 TREATING DIFFERENCES OF FOREIGN REQUIREMENTS

The empirical material on the question of how differences in foreign accounting requirements are treated, showed that Allianz regards the differences of foreign accounting requirements more to be of an organisational challenge. This is because all of their subsidiaries and associated companies have to fulfil their internal standards and therefore allows them to integrate these numbers into the consolidated company accounting system. Both Skandia interviewees stated that their approach is to begin with the requirements that the country's legislation demands, and apply these to the financial statement. After this procedure, additional information will be provided in accordance with the industry's practice and. On top of all this information comes the disclosure after Skandia's own ambitions, if they do not interfere with legal requirements. One of Skandia's respondents believes that Skandia, in comparison with their competitors, has a relatively high informational disclosure behaviour. He attributed this due to intensive communication with analysts that are covering Skandia. Moreover, he stated that this was done to reduce

differences with foreign legislation and accounting practices. Both Skandia interviewees mentioned that Skandia has standardised a number of scoreboards, which many Swedish organisations have used to evaluate annual reports and showing what scores they give for different areas, to show the priority of information disclosure.

6.2.3 EFFECTS ON THE TRUE AND FAIR VIEW

Then there is the question of how interviewees perceive differences in accounting regimes to show a true and fair view of their corporation, which led to different answers. The Allianz respondent referred to the results from the introduction of the US-GAAP requirements in addition to Allianz' own accounting system, which did not show many differences to IASs numbers and figures. Consequently, he concluded that the true and fair view is not affected and the trust is likely to increase as a result. Whilst Allianz mentioned the US-GAAP requirements Skandia's interviewees highlighted the issue of embedded value accounting which will provide the investor an opportunity to get a much truer and fairer view than with normal accounting standards.

6.3 ATTITUDE TOWARDS INFORMATION DISCLOSURE

This section represents the empirical findings, and draws on the corporations' attitude towards information disclosure and consists of three main questions. The first question that was asked was to find out if the corporations have an explicitly defined strategy for their information disclosure. The second question aimed to assess how corporations communicate with their investors. The final question of this section contains three sub-questions. These questions elaborated on how important it is to the corporations to disclose information on human resources.

6.3.1 STRATEGY FOR THE DISCLOSURE OF INFORMATION

The empirical material shows that Allianz does not have a written strategy that shows the necessary goals needed to achieve a certain level of disclosure at given point of time. Their strategy is more of an ongoing dialogue with their analysts and investors. The empirical evidence reveals that Allianz chose a close-to-the-market philosophy, always ready to provide information that will be asked and required by their analysts and investors. Allianz' interviewees remarked that if there are no requests for additional information, decisions are taken on information that Allianz

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wants to provide their investors as their business is constantly changing. Since this is stated to be an ongoing process, Allianz' disclosure strategy resembles a case-by-case decision. Both of Skandia's participants talked about the strategic decision that was taken to show transparently the growth opportunity in the savings market and the reason for Skandia's profitability. Both of Skandia's interviewees considered the traditional historical view of accounting to be inappropriate for insurance accounting. Therefore, Skandia developed a strategy for information disclosure that relies on greater detail of the embedded value accounts. Skandia regarded traditional accounting as not being sufficient, since it only reports the product costs that occur in the beginning, but does not consider the future cash flows that a new contract will generate. The empirical evidence shows that it was a conscious strategic decision to emphasise embedded value, which led to a positive change in improved disclosure of nonfinancial information.

6.3.2 COMMUNICATION WITH INVESTORS

All respondents acknowledged that it is very important for their corporations to communicate with the investor community in order to sense if they really understand each other or not. Generally, communication has become much better during the years. However, in turbulent times it is not always as easy to communicate in the same way as it would be in expansionary periods. The interviewees stated that this is quite natural, as corporations as well as investors do have a hard time keeping up with the pace of the stock markets and of all other external factors that influence the corporations' business environment. Therefore, all respondents regarded that it is essential to communicate with the investor community continuously at a high level. Furthermore, they gave evidence on the necessity of being very proactive in communicating corporate information, which demands personal visits with professional investors, to having individual discussions about how to improve the corporations' information. These individual discussions are valuable for both sides to improve the understanding of each other's perspective as well as what kind of information would improve this understanding further. Each participant described specifically their communication with analysts as they are also talking to other companies and have precise ideas about what should be done to enhance their valuation model. Therefore, very frequent regular contacts with analysts will result in additional

information that enhances transparency and gives the analyst security that their forecasting will improve, which creates trust in the corporation.

6.3.3 IMPORTANCE OF HUMAN RESOURCE DISCLOSURES

The results of this study gave evidence that both corporations are especially aware of the importance of disclosure on human resources. The interviewees referred equally to the insurance business' structure, as insurers are service companies that do not have products in the classical sense. All respondents stated that human resources have within their corporations a very important position. Allianz' respondent commented that humans are of threefold importance, as the corporations' products are services insuring humans that humans are selling to humans. Although the expressed importance of human resources to Allianz, the Allianz participant clarified that they have not thought about how to value their employees in terms of putting them on the balance sheet or elsewhere in the financial statement. Further, he stated that the disclosure information that Allianz provides about its human resources has improved throughout the years but also that it is more general in nature. Both Skandia interviewees remarked that it is important for Skandia to have human resources included in their annual reports, as it is of great importance to the corporation internally. Referring to Skandia's Navigator model both respondents described that the model's main purpose is to visualise, what they call, the intellectual capital throughout the application of different financial and nonfinancial measures, including human resources. Empirical evidence produced by the study shows that Skandia has used its Navigator model for many years and that it is as important to them now as has been since it was introduced. Owing to the Navigator model's ability to provide a holistic picture of the corporation, it became important to Skandia to communicate the developments in human resources to the investors.

A sub-question asks particularly to elaborate on the corporate strategy on human resource disclosure. Allianz' participant highlighted the management of human resources is very important for Allianz enunciating that employees are the motor of the corporation. Accordingly, the Allianz interviewee reasoned that it is important to have highly educated and trained staff since they drive the corporation's competitiveness. Mentioning his earlier statement on a strategy for information disclosure, the Allianz respondent assured that a written

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strategy is also absent for human resource disclosure. He concludes that the disclosed information on human resources that is contained in Allianz' annual reports is currently deemed to be sufficient, as investors did not ask for more information on human resources or other intangible assets. One of Skandia's respondents identified analysts covering Skandia as one target group for Skandia's disclosure on human resource information. He said that the strategy for the communication of human resource information started off as an internal process where the numbers and figures of the Navigator model are aggregated to a corporate level, which then may be communicated outside the corporation. Skandia's interviewees pointed to the fact that aggregation is not always desirable for any disclosed human resource information as relevance might be affected. He further elucidated that aggregated information might have to be explained thoroughly so that no misunderstandings will be made. Finally, he summarises that the basic strategy of voluntarily disclose information on human resources, as well as for other intangible assets externally, is that they have to be of sufficient value to increase transparency.

Another sub-question evaluates if the corporations knew if investors use information on human resources in their valuations. Allianz' interviewee drew the conclusion that as long as he did not get any questions from investors he would say that they did not use such information. He admitted that he has never asked investors directly on this particular issue, but due to intense communication he regarded it being reasonable to assume that he would know if it were otherwise. He believes that is not very likely that analysts would take this information so seriously, as to base their investment decision on it. Skandia's interviewees reasoned completely different compared to Allianz' interviewee. The empirical evidence provides insight on Skandia's respondents consideration of all information, which may somehow contain information on intangible assets and human resources, being as relevant as all the other information that Skandia provides. They pointed out that every analyst is interested in additional information and will take notice of any information provided. Further, they concluded that if information is internally important to corporate managers, analyst can not totally ignore the fact that Skandia is handling human resources in a structured manner to increase the value of their employees. Skandia's interviewees mentioned that they are aware of the fact that there is currently no valuation model in use that considers

either human capital or intellectual capital. However, they stated that analysts do use this additional information on human resources as background information to analyse the corporation in this context.

The final sub-question in this section seeks after the advantages or disadvantages that may arise for the corporation disclosing information on human resources. All participants remarked that human resource information should be treated as any other information. In general, to be advantageous for the investor, human resource information should be correct, trustworthy, and it should fill the function to enhance transparency. Disadvantages would emerge if human resource information would be incorrect, therefore not to be trusted, thus eroding the trustworthiness of the entire company.

6.4 REGULATION AND INSTITUTIONALISATION

The regulation and institutionalisation of disclosure information is the focus of this section's four main questions and single sub-question. The section starts by asking the question if the interviewees find any important informational content differences between corporate reports prepared according to IAS and those reports prepared according to the local GAAP. The question that followed was if the respondents found that investors make any differences in their valuation between companies who voluntarily disclose more information about their intangible assets and human resources compared to those companies who do not. The third question in this section asked what information about intangible assets and human resources a company should issue. In addition, a sub-question aimed to get empirical evidence on where the respondents would like voluntary information on intangible assets and human resources should be put. The fourth main question finally asked if more regulation and recommendations are needed for the disclosure of companies' intangible assets.

6.4.1 CONTENT DIFFERENCE BETWEEN STANDARDS

The empirical study revealed differing evidence. Whilst Allianz' respondent made clear that the Allianz IAS reporting comes very closely to US-GAAP requirements and shows only slightly differences for a few balance sheet items. He stated that the similarity of these results of the two different accounting regimes is not necessarily a general rule for other corporations. He concluded, however, that due to the advances in

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accounting harmonisation content difference would decrease in line with the new standards. One of Skandia's interviewees indicated that there are some differences between IAS and Swedish GAAP. These stated differences do not exist in very large amounts but some of them are significantly different. Furthermore, he remarked that these few differences basically do not lead to very different conclusions of a company valuation. These differences are to be found in the areas of classification, valuation, disclosure and preparation. The other Skandia respondent mentioned that Skandia's accounting department concluded that these differences are explainable and that skilled analysts do not have a great problem with the fact that Skandia is reporting in accordance with Swedish accounting law. Moreover, he expressed that the increasing globalisation of Skandia throughout the years showed that a globally harmonised accounting standard would be desirable, but that an insurance accounting standard globally is nonexistent as stated in the following quote:

What I always find difficult to understand, when it comes to insurance companies, is what insurance companies actually mean when they write that they reported according to IAS. There is no such thing as an accounting standard for insurance companies. Then it will be nothing more than to show that they followed the general requirements that are established for ordinary businesses. I think that it is not appropriate to refer to IAS, as there are no specific standard to value e.g. insurance depositions (C2).

Section 2.3 outlined that by the year 2005 every European company has to report in accordance with IAS. In that case the existence of content differences due to accounting regimes will become nonexistent. This will also hold for the insurance industry as the IASB's Steering Group on Insurance is currently developing a common standard for insurance companies.

6.4.2 VALUATION DIFFERENCES DUE TO DISCLOSURE

In this section, the results from the question that aimed to ascertain if corporations perceive that investors might distinguish between companies who voluntarily disclose more information about their intangible assets and human resources compared to those companies who do not. The empirical evidence contains varying answers by the corporations' respondents. Allianz' participant did not believe that investors really do care that much about the issue of more or less information, unless the

information is not completely absent. For him investors look more into the company's strategy and probably making an analysis of the top managements ability to achieve strategies. One of Skandia's respondents came forward with what really makes an impact on analysts are the humans that are working for a company, as it is the staff's ability to change and develop the company together with its business, concepts and business model. He admitted that it is difficult to put a number on analysts' feelings but the impression analysts get from disclosed information as well as from company visits and talks with employees are regarded as being important for Skandia.

6.4.3 WHAT NONFINANCIAL INFORMATION TO ISSUE

In order to answer what information about intangible assets and human resources to issue, Allianz' interviewee started by giving an example on the latest Allianz acquisition for their asset management division, which lead to huge goodwill numbers. He said that these goodwill numbers are basically nothing else than human resources numbers as almost no equity was involved for this acquisition since there are only people who are managing assets. Therefore, he concluded that this Allianz acquisition was plainly human capital in combination with a brand name. However, Allianz did not categorise this position as human resources or intangible assets, but goodwill. He carried on with his illustration that in accounting terms this is a real value for human capital, as the money paid was almost exclusively for the people and this number is understandable and measurable. Finally, he concluded that this is feasible on a macro level but that a company is seriously challenged to measure this for every single employee, as it is hardly possible to get a worthwhile result. Both of Skandia's respondents mentioned that at Skandia they have reached a development stage where it seems to be natural to have these kinds of information as supplementary or as a separate statement within Skandia's annual reports dedicated to human resources. One of Skandia's respondents pointed out that emphasis is not put on integration of human resource numbers in the financial statements but to provide a detailed description of Skandia's employees. Both Skandia interviewees assert the purpose of the section on human resources is to illustrate how Skandia's human resources have been developed through the years for their investors and that Skandia is working intensively with human resources. In their view this information is what every company should release on human resources.

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The only sub-question in this section asked was whether voluntary information on intangible assets and human resources should be published. Allianz' respondent specified that Allianz separates the various kinds of information including all aspects of intangible assets and therefore human resources. He described that they are trying to include detailed information, but not necessarily all information, in the annual report. Additionally, analysts are provided with analyst-handouts an information package that contains special information. The respondents make clear that it would therefore make no sense to put each and every number and figure available into the annual report, as the annual report's extent would reach an inappropriate size. Both Skandia participants answered that Skandia currently has reached a stage where this kind of information comes naturally as supplementary or as a special statement. However, they state that they will develop the methodology for this type of accounting further and at a later stage of maturity it may become possible to put this information in the profit and loss account. Although, they admit that this lies in the distant future.

6.4.4 ON THE REGULATION OF NONFINANCIAL DISCLOSURE

Basically Skandia's representatives articulated the same information that individual adoptions are favourable for every company but the problem the company's will face are not comparable. Both mentioned that the current accounting standards do not consider intangible assets correctly realised and that special regulation is required, as stated in the following quote:

Yes, I think that we are definitely in the need for more specific regulations. Especially, with the intentions we have with intellectual capital, were we are thinking about how to take the next step. We have many projects running also together with EU, as I described e.g. the accounting standard work, which should also contribute to show more how you have worked with our employees (C3).

Skandia's participants considered that a common standard for the insurance industry should also consider separating human resources and some other intangible assets from goodwill and consequently achieve a larger increase in transparency and comparability if these would be better regulated through a common standard. The Allianz interviewee stated that with the current regulation of goodwill, corporations do not have much choice in how to account for intangibles. He remarked that corporations

have little if any flexibility, or at least little option of how to account for intangible assets as it has been tightly regulated. The only choice corporations probably have is the goodwill depreciation, as corporations can determine the depreciation period but not much more. The Allianz interviewee commented that human resource, as a self-created goodwill, it is not allowed to realise these. Accounting law is very strict when it comes to this and he did not regard further regulation to be necessary.

6.5 ALLIANZ' ATTITUDE TOWARDS DISCLOSURE

In this section five additional questions have been asked to Allianz' interviewee exclusively in order to attain additional insight about Allianz' attitude towards information disclosure. A strong focus in this section is not only on intangible assets and human resource disclosure but also on embedded value accounting.

The first question is about why Allianz is not showing more information about its human resources than in its present format was first answered with a question asking what information on human resources is missing. The respondent of Allianz started by repeating the fact that he did not get any questions by the investor community related to further intangibles or especially on human resources, which would have lead them to decide to provide more information. This led him to the conclusion that everybody in the investor community seemed happy with the numbers and figures, e.g. number of employees, that Allianz is providing. The Allianz respondent stated that he did not exactly know what other companies are providing but it appeared that the end user of Allianz' numbers do not regard further human resource information to be relevant for company valuation. This was derived from the following quote:

Nobody really ever asked that he wants more details otherwise we would providing them. It is not a secret, but if it would matter more customers would have asked and then we certainly would have considered providing this kind of information. We have nothing to hide. In my experience that what analysts really want is let me say 90% numbers and the rest will be sorted out by company visits. They are not so much interested in company propaganda. It is nothing what they really read and need for their valuation (C1).

However, he expressed that it would be possible for Allianz to provide some more statistics on human resources. Allianz' respondent further

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explained that human resource numbers and figures are not mysteries, but that corporations have always to be aware of the fact that the annual report easily becomes more of the size of a telephone book leading to information overload possibly confusing the reader. Therefore, it is necessary for Allianz to concentrate on the really important facts. He finally concluded that the quality of information will not be maximised by increasing the amount of information and that this justifies a selective approach in how to provide all kinds of information, which includes additional financial information as well as further intangible assets such as human resources.

On the question that Allianz might have an internal business process model comparable with Skandia's Navigator and process model, Allianz' interviewee responded that he did not know Skandia's model in detail but that he had heard about Skandia's idea to develop an intellectual capital report. It is his belief that basically every company has a somehow more or less well-developed and also more or less well-functioning internal management information system that draws on any aspect of the business environment the company is operating in, which certainly includes some aspects of human resource variables as e.g. employees' training plans. In his mind it is very academic to develop intellectual capital reporting as in practice managers and the investor community would like to see hard facts and comparability. Explaining hard facts he drew an example that if Skandia would say: *"We do have 30% more academics and a better distribution system than Allianz."* This would be a statement on the quality of human resources and the distribution channels, which in return would become hard facts. However, he underpinned his argumentation by saying that it would still be problematic to build a comparable valuation on these statements. Summarising he said that Allianz certainly has a well-functioning internal business process model but that it is probably different to Skandia's, as Allianz does not have a stated Navigator model.

Why Allianz did not start to develop intellectual capital reports was revealed in the question that followed. Answering this question the Allianz participant revealed that they are very open to any idea that improves the quality and the presentation of information about the corporation but that the intellectual capital idea was far from being mature, which led them decide not to develop such reports. This is partially derived from the following quote:

It certainly, would be a nice feature for our annual report. However, it normally comes down to real numbers, and for analysts it really doesn't matter that I talk for hours about our human resources and great things. In the end they will come to me and ask what the latest share price is and how this is justified for our company (C1).

Furthermore, the Allianz interviewee remarked that if intellectual capital reports would find acceptance within the market and establish themselves as a good way of presenting this information, Allianz would take a closer look, as it is not that their intention to keep information the market requires from the market. He restated that up to now there was absolutely no demand from Allianz' investors to obtain information on intellectual capital.

This leads to the following more general question regarding demand by the investors that Allianz disclose more information on intangible assets and human resources. The Allianz respondent replied that there is nothing wrong in attempting to provide more information on intangibles and human resources, but that Allianz' investors are almost exclusively interested in hard facts, in the form of financial numbers and figures. In his opinion, there is a divergence between internal and external importance, whilst human resources and other soft-values such as intangible assets are without doubt internally highly important to run a business. However, externally the investors want something with substance that they can trust, in order to make estimates for their valuation models. Finally he repeated that it seems to be of no real interest for the user group because if any of the investors would have asked, they would have taken into consideration how, where and what information on human resources and additional information on intangible assets to issue.

On the question about why Allianz is not providing the embedded value the Allianz participant responded that Allianz is going to provide the embedded value by mid 2001 for the first time, which had been originally planned to be provided already in 2000. He mentioned that Allianz is following a slightly different approach to embedded value by integrating the embedded value in the internal controlling and corporate management. He remarked that the embedded value is not a number that will be provided simply because Allianz' investors asked for it, but that a decision was taken to integrate this approach into the corporate

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management information system, which therefore, made the requirements stronger than for some other competitors. Allianz had first to harmonise the definitions and ratios for embedded value accounting worldwide, which includes its subsidiaries and associated companies. The Allianz interviewee portrayed this harmonisation process, as being far from easy, as every company and product varies from country to country as well as business environment, interest rates, structures etc. He mentioned this being the reason why the embedded value for its provision in the mid of 2001. The market pressure on Allianz for providing the embedded value accounting has been relatively low, but the interest in these numbers will be relatively high, which comes from the following quote:

The pressure and requests from our customers had been very little, but we decide that the internal integration of embedded value accounting would be very beneficial for our company. So, our idea was, when we are going to introduce and use these numbers internally, why not providing them to our customers? In the end, we would not have a disadvantage by providing them but the introduction came from ourselves not by market pressure. We also know that, if we would not have decided of providing these numbers that we would not have had any disadvantage, as we are one of the few companies that had not provided these numbers (C1).

The Allianz interviewee claimed that retribution by the market for not providing embedded value numbers was up to now nonexistent, as the embedded value is one of many numbers for analysts.

6.6 SKANDIA'S ATTITUDE TOWARDS DISCLOSURE

In this section some seven additional questions have been asked to Skandia's interviewees exclusively in order to attain additional insight about Skandia's attitude towards information disclosure. A strong focus in this section is on intangible assets, human resource disclosure and also on embedded value accounting.

In the beginning it was asked why Skandia is working with its Navigator model. Both respondents described that the biggest benefit of the Navigator model is the holistic view that they derive about their own business, as their Navigator model enables the aggregation of additional information and thus the derivation of a holistic picture of the corporation. They mentioned that it was important to develop the Navigator model to get more valid information to manage the business

and to increase the corporation's efficiency. The Navigator model was an internally developed custom-made system that considers the different parts of Skandia's organisation generating additional information accompanied by traditional financial measures. At the management level the Navigator is especially applied as an information system to see how the different parts of the organisation are performing and to understand how the business is going to develop. A problem that Skandia saw with other existing management systems was that these concentrated entirely on the aggregation of the traditional financial part of the organisation but disregarding the soft values e.g. human resources of an organisation. Both respondents enunciated that their custom-made system is not only able to delegate and aggregate soft values but also enables to put the same scope and focus on external communication of intellectual capital as for financial measures. The interviewees' remarked that the main emphasise of developing the Navigator model was to derive a holistic overview of the corporation indicating that they saw a need for nonfinancial measures to complement financial measures. One of the participants explained the seriousness of Skandia's intentions with the Navigator model as Skandia founded a spin-off company to develop and market the Navigator concept externally. They concluded by mentioning that Skandia is currently working on the next phase of the Navigator model, which will result in an important improvement of capturing Skandia's intellectual capital but will not externalise the results until it is ready and functioning properly.

On the questions regarding if Skandia's Navigator model is very different to its competitors one of Skandia's participants answered that at least he would say that the largest difference lays in the integration between the financial and nonfinancial parts, which allows a holistic picture of Skandia's business, which led him to conclude that Skandia's model is very different to its competitors. This answer has been verified by the second of Skandia's interviewees that the Navigator model is more to be seen as a complement to Skandia's business model. He clarified that it would not be so difficult to copy Skandia's business model one-to-one but that this would not necessarily lead to a holistic understanding of the business allowing identification of strategic success factors enabling them to keep up with business models goals.

The question that followed asked why Skandia published information about the Navigator in their annual report. The response of both

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interviewees was that it was very important to show in detail what intentions Skandia have with the Navigator and how it is applied in the daily business. One respondent stressed that, beside from the normal information that Skandia includes about the Navigator in its annual report, it was important enough to dedicate the Navigator a large part of the 1999 annual report to show that Skandia have a strong focus on the Navigator model to illustrate how it works and that it has become an integrated part of Skandia's organisation. Further he alluded that they are currently reviewing intellectual capital internally to develop it further to the next step, which will have much more financial and nonfinancial functions thus opening additional possibilities in measuring Skandia's business. In conclusion he mentioned that the reason why information about the Navigator is contained in Skandia's annual reports is to show investors how the model is working.

A further question was straight forward in asking if the term intellectual capital became out of date for Skandia as they have not used this term since the 1999 annual report. Both respondents assured that it is not that they do not use the term intellectual capital internally and that they are not going to publish it again, talking externally about intellectual capital. At the moment Skandia has decided to take a step back and to look over intellectual capital to see how it can be improved. This statement has been derived from quotes like the following:

We certainly are going to use intellectual capital and illustrate it externally but sometimes you have to step back to decide how to go from here (C3).

The term intellectual capital as such has only been applied by very few companies, who sometimes put a numerical value on that term. One Skandia participant remarked that even if it is named intellectual capital, the capital aspect is very seldom taken literally by Skandia showing real numbers. He explained Skandia's backward step, working internally with intangibles rather than externally discussing them, as it depended on the fact that the business environment changes so fast that they are sometimes forced to reflect upon what it really is that they want to accomplish. Finally, he summed up that Skandia is in a new phase for intellectual capital and that a lot of activities are scheduled that are directly connected with intangibles assets, especially human resources, but that Skandia is currently not ready to present it publicly, which is basically the reason why it is not included in Skandia's annual reports.

Why Skandia is providing the embedded value was the next question. Both interviewees clarified that Skandia has decided to do so as they believed that the embedded value will result in the best possible illustration of the reality of Skandia's business and also that it is very important on the analysts part to account for. They explained that in organisations like Skandia, the embedded value has large effects during a time period e.g. a long-term business that is securing the company's value in the future but has, at the moment, high initial acquisition costs. Therefore, they concluded that embedded value accounting is a good way of showing the investors a better and future perspective, something that traditional accounting is not capable of doing.

This resulted in the final question if there is a link between the Navigator model and the embedded value. The interviewees both rejected the notion that there is a direct link between the navigator and embedded value *per se* but that some information from the embedded value accounts are used in the financial part of the Navigator. In this sense there is a link, they agreed, but normally the embedded value accounts will be regarded and treated as a freestanding actuary method to manage the organisation and to focus on Skandia's profitability. The Navigator then links all the other aspects of Skandia's operations together as staff or renewal processes, which cannot be illustrated by the embedded value accounts. Both concluded that it would be rather constructive to answer that there is a direct link between the Navigator model and the embedded value.

6.7 SUMMARY

This section's title consciously does not draw any conclusions but rather a summary, following Wolcott's (1990:55) advice that reporting qualitative material should not go beyond reporting *what is*. Due to the rich answers that the three interviewees gave, it seems to be best simply to summarise the empirical material by using this chapter's structure. Conclusions from this study are drawn later, in Chapter 8, comparing and analysing the results of all three studies pair-wise.

The provider study's empirical material shows that all interviewees consider that corporate annual reports are important for company valuation. The answers were divergent between the two corporations' respondents. Skandia's participants drew attention to the annual reports' ability to create a holistic picture of the business by using additional financial and nonfinancial information. They predict that companies will

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move their information behaviour towards a more operational description of the company, as current annual reports concentrate too much on financial details. The Allianz respondent focused more on the financial aspect of annual reports, judging the financial part to be the most important in discussing the two views of issuing information in annual reports. One side is that it is very important to provide accounting numbers in annual reports satisfying analyst's demands as they take these numbers as the foundations of their valuation models. On the other hand that all the information contained in annual reports are records of historical events.

The empirical material shows that every interviewee started by referring to the multiple users of annual report, but identified professional investors, analysts in particular, as the users who read the annual reports the most carefully. Every respondent in this provider study mentioned that voluntary disclosure of information is essential to describe the reality that the corporations are dealing with. One of Skandia's interviewees formulated this more explicitly as the factual formalities of financial information that is demanded by national law is absolutely useless for presenting an understanding about what the corporation's business environment is.

In the section on corporate accounting the study is evidence that both corporations do not see the adaptation to foreign requirements as problematic. For Skandia it has been uttered that additional information is provided to complement the Swedish GAAP requirement. Allianz' respondent mentioned that due to Allianz' strategy to align their IAS accounting closely to US GAAP so that few differences remain internationally. For Allianz, the treatment of differences in foreign accounting requirements was more of an organisational challenge since all subsidiaries and associated companies have to be integrated into Allianz' consolidated company accounting system. This leads to the empirical results that foreign requirements are regarded without affecting the true and fair view of the corporations.

The attitude towards information disclosure section reveals that Allianz general strategy on this issue is an ongoing dialogue with analysts. This general strategy is named close-to-the-market, which is signified by the fact that the quantity and quality of disclosed information is regarded as being sufficient until analysts request more specific information. Skandia

in contrast made a conscious strategic decision to show greater transparency on their own initiative with an emphasis on embedded value and improved nonfinancial information. Consequently, Skandia also provides additional information that they think is of value for the analysts. All respondents stressed the importance of the high frequency of regular contacts in communicating with analysts, which results in additional information to enhance transparency and improve trust.

The disclosure on human resources, is something that both corporations acknowledged to be of great importance, even if their approaches are different. Allianz does not regard human resource disclosures to be relevant for investors' company valuation, which stems from Allianz' observation that analysts have not asked for additional human resource information. For Skandia it is very important to include human resource disclosure in their annual reports, as human resources are of great importance internally. Skandia's respondents referred to analysts as being one of the target groups for aggregated human resource information, as this kind of information increases transparency. Skandia's interviewees revealed that analysts do use voluntarily disclosed information on human resources as background information. All participants named enhanced transparency and improved trust as the advantages that arise for companies disclosing human resource information. Possible disadvantages that might occur from human resource disclosure would be that it is incorrect and not to be trusted, thus affecting the trustworthiness of the entire corporation.

All interviewees pointed out that the IASB's upcoming insurance standard would resolve existing general comparability problems. The Allianz participant did not believe that investors care much about human resource information for company valuation. In his view information on intangible assets is properly valued by goodwill for which the current requirements do not need further regulation. One of Skandia's respondents has put forward that the humans that are working for a company do affect analysts but that this is hard to express in monetary terms. The empirical material shows that for Skandia the voluntary disclosure of human resources should be a supplement of a special statement and that a harmonised insurance standard should consider separating human resources and other intangible assets from goodwill.

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The section about Allianz' attitude towards information disclosure reveals that Allianz is currently not presenting more information on human resources as a response to the lack of requests by analysts and investors. However, the Allianz interviewee stated that it would be possible for Allianz to provide more information on human resources if demanded. The findings of the study show that Allianz choose to apply a selective information approach, concentrating on the important facts, because the quality of information will not be maximised by the amount of information. On the contrary, it is stated that an increasing amount will lead to a possible information overload, confusing the reader and lead to misunderstandings. Allianz' respondent mentioned that he regards intellectual capital reports to be of academic nature and less relevant for practitioners, as they demand hard facts and comparability.

The empirical evidence in the section about Skandia's attitude towards information disclosure shows that Skandia sees the biggest benefit in working with the Navigator model rooted in the holistic view they derive about their business. Both Skandia interviewees explained that the largest difference of Skandia's Navigator to other models is the integration of financial and nonfinancial measures to gain an internal understanding of the business. The purpose of the publication of Skandia's Navigator and intellectual capital was to illustrate to the investors' how this model works and that it has become an integrated part of Skandia's organisation. Both Skandia participants mentioned that the reason that Skandia currently do not publish information about intellectual capital is due to the reason that the Navigator is about to be developed further, which requires the revision of intellectual capital. One of Skandia's interviewees described that Skandia's apparent backstep with intellectual capital depended on the fast changing business environment that forced them to reflect upon what the accomplishments actually are.

Chapter VII

THE USER STUDY

In this chapter the responses from the analysts interviews are examined in a more survey type of style. This decision was made due to the number of interviewees participating in the user study. This is the final component needed to obtain a picture on voluntary disclosure information. The results of the study are derived from the analysts' interviews transcripts. The answers made by the analysts for each question were quantified in categories and then computed in table form to illustrate the responses. Due to the open-ended structure of the interview guide (Figure 3-4) no categories have been pre-defined, meaning that the answers were not fixed in the beginning, but generated during the analysis of the transcripts. This causes the results in the following tables to not necessarily add up to the sample size as some analysts might not have answered the question or that more than one category had been mentioned. The empirical material from this study is presented closely to the structure of the developed interview guide as discussed in Section 3.4. To show how the categories are actually generated characteristic quotes³³ are outlined for each category. The interview guide for the user study was followed closely in order to structure this chapter.

7.1 RELEVANCE OF CORPORATE ANNUAL REPORTS

This section consists of two main questions and two sub-questions focusing on the relevance of corporate annual reports. The first main question is directly asking how analysts view the importance of corporate annual reports. What the most important parts were in a corporate annual report, was the resulting sub-question that was asked. Another sub-question was pointed to financial analysts on what items they would like to see further explained. Finally, the second main question examined is how important disclosure information is for analysts in order to facilitate company valuations in relation to information in the financial statements.

³³ The quotes that will be given for each category are literal quotes as all interviews have been tape recorded and transcribed (see 3.4).

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7.1.1 IMPORTANCE OF CORPORATE ANNUAL REPORTS

As an introductory question to the interview, interviewed analysts were asked how important the corporate annual reports are for company valuation. All respondents answered this question. Table 7-1 shows how these categories are named and how many analysts responded in each category.

Categories	Extremely important	Very important	Important	Important to some extent	Unimportant
Number of Analysts	4	6	4	3	1

Table 7-1 Importance of corporate annual reports for company valuation

In order to show how the analysts' answers were actually sorted into the different groups, representative quotes from the analysts' interviews will be given in every question of the user study. Characteristic statements for the category "extremely important" were derived from the following quotes:

They are of extreme importance, especially for the company valuation process. This is the fundamental material we are using. It is the first stuff you are reading and analysing (A1).

In the category "very important" typical quotes were:

I would say the annual report is a very important part... (A3).

Several analysts gave following statements, which are representative for the category "important":

Surely, it is important. That is for sure. This is what feeds us with numbers to show how efficiency increases or decreases. It shows if solvency has changed. Therefore the numbers from the report are important (A18).

Important to some extent:

They are to some extent important as company reports provides us with the numbers and figures we appreciate for our analytical work. But this is not the whole story ... (A8).

Answers as the below are classified as "unimportant":

If I never saw them it wouldn't matter. What I do need then is a quarterly or half-yearly update on progress, which means the contracts' changes, which are essential to make a judgment on the pending claims (A5).

The responses in this study are consistent with findings from previous studies, such as Lang and Lundahl (2000), Nagar (1999), Marton (1998) or Meek Roberts and Gray (1995). These studies pointed towards the fact that corporate annual reports are an important source of information for financial analysts. The study’s findings in this question showed that all analysts, with one exception, consider corporate annual reports being at least to some extent important for their company valuation, which indicates that they probably read the entire corporate annual report thoroughly and not only the pure numbers and figures in the financial statements. Even if one respondent answered that he views corporate annual reports as being generally unimportant, he admitted that he uses them if no interim reports are at hand.

7.1.2 THE MOST IMPORTANT PARTS

Since all respondents made a statement about the importance of corporate annual reports the question that subsequently was asked to focus on which parts in a corporate annual report are the most important for company valuation. There is no limit as to how many parts of the corporate annual report the analysts could mention. The analysts answers are summarised Table 7-2.

Part	Mentioned by analysts
Income statement	16
Balance sheet	15
Management discussion & analysis	8
Embedded value accounts	7
Cash flow statement	5
Financial statement notes	5
Segmental information	4
General written text	3
Sales reports	2
Interim statements	2
Chairman’s statement	2
Projections & forecasts	1
Auditor’s report	1

Table 7-2 Most important parts of corporate annual reports for company valuation

The categories for this question are generated from answers containing very rich data from answering this question. A good example for such rich answers is illustrated by the following quote:

The financial payments itself are very important for insurance companies not the cash flow statement alone. Depending on the level of disclosure, it really depends on the business line you are looking at. For property & casualty

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insurance you are not to be worrying about combined ratio and the look of the income statement. For life insurance you are not going to look at statutory accounts. You are going to look at the embedded value accounts, if they are available. Anybody who follows a company like Skandia, want to know how are their sales doing? You also have to look at the balance sheet to know what the unbind net asset value is. Compared to what the reportables from your extracted model are it makes a lot of difference. The balance sheet, accompanied by the annual income statement is very important for my valuation. To get fresh data, or better-said updated data, you need the interim financial statements. For detail richness the segment information is good to have as well as the per-share-data. Last but not least I do look at the written text, which you will find everywhere in a report. I mean, from the management discussion to the notes (A7).

With respect to different preferences between the respondents and due to variations in the extent of the answers, the categories range from parts being mentioned very frequently to a single mentioned category. The empirical evidence from the analysts' interviews shows quite clearly that 16 respondents mention the income statement to be the most vital part for company valuation and 15 respondents indicated the balance sheet to be the second most important popular response. The management discussion and analysis followed in importance and then information on embedded value accounts. Just to mention that even though embedded value accounts originated in the UK, the interviewees who stated this part came also from Sweden as well as from Germany. The results of this question are supported by substantial prior research. Earlier studies of Lee and Tweedie (1990) conducted in 1977 and 1981, produced similar empirical findings confirming that the income statement is the most important part of a corporate annual report, followed by the balance sheet, which came before the management report and cash flow statement. Other researchers developed their studies in a single country context and generated almost identical evidence such as Vergoosen (1993) for Dutch financial analysts, Olbert (1992). An international study as carried out by Marton (1998) with financial analysts from the USA, UK and Sweden also supported the findings of this study. A look at the results in Table 7-2 gives the impression that financial analysts read the corporate annual reports carefully but pay the greatest attention on the main features of the financial statement.

7.1.3 USER DEMAND FOR FURTHER EXPLANATION

The interviewed financial analysts were asked next to name which items in a corporate annual report they see as necessary for further explanation. The empirical data for this question generated categories on statements as outlined in Table 7-3.

Item	Mentioned by analysts
Want embedded value accounts	7
Cash flow statement	5
Regional profit breakdown	4
Divisional profit breakdown	4
Profit margins per product	4
General market information	3
Growth rate per market	2
Comparison with competitors	2
Depends on the company	4
Further explanation is not necessary	5

Table 7-3 Desired further explanation on items

For this response the interviewees basically gave very long answers, which normally contained a multitude of items that they would like to see further explanations on. A typical statement is characterised by the following quote:

For myself I would like to get much more information on the management and their development, but clearly I know how to get this type of information anyhow. On many insurance companies, like Allianz, I basically want to see embedded value accounting, as to me one thing where traditional accounting crucially fails in insurance is to distinguish the old book from the new book. Insurance contracts are often long-term contracts. A lot of the earnings are coming out of the bottom line are generated may be two years ago, five years ago, or even ten years ago. At the same time there is a lot of new business coming on board ... with totally different margins. A regional profit breakdown, and divisional profit breakdown on a consistent international basis as far as it could be possible. Ideally, profit margins by product, which is never disclosed into detail.(A4)

The data for this question was evidence that the interviewed financial analysts generally would like to see the embedded value accounts. This coincided the active discussion of the SCI, as presented in Section 2.2.3; to establish with embedded value accounts as a requirement in the future insurance standard. This item was mentioned more on a general basis for the European insurance industry and not for Allianz in particular. Whilst

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Allianz did not issue embedded value some respondents mentioned that they would like to have further explanations toward a profit breakdown on regional or divisional basis. In addition, the profit margins per product would be appreciated. Even if the number of respondents added up to 4 each for the statements on the profits they were not coming from the same interviewees. Another category that was generated by analysts' answers was to the effect that they would like to have additional general market information. In particular, the respondents pointed to the lack of market growth rates and comparisons with competitors in the corporate annual reports from both Skandia and Allianz. Four financial analysts stressed that the desire for further explanation depends on the companies. Furthermore, five respondents stated that they do not regard additional explanations to specific items to be necessary.

7.1.4 IMPORTANCE OF VOLUNTARY DISCLOSURE

The final question addressed in this section asked the participating financial analysts how important voluntarily disclosed information is in relation to a financial statement's information. Table 7-4 shows the results in the obtained categories.

Categories	Extremely important	Very important	As important	Less important
Number of Analysts	9	3	3	3

Table 7-4 Importance of voluntary disclosure in relation to financial statements

Half of the study's sample of participating financial analysts responded for this question that voluntary disclosure in comparison to the information of financial statements are "extremely important" for their company valuation. This category was derived from statements as in the following typical quote:

If a company would just release the mandatory statements only, we would have to make guesses. Guesses our profession does not appreciate very much, I can tell you. So, voluntary disclosure information becomes extremely important. The more detailed the better. (A8)

The category "very important" generated in the following quote:

They are very important. (A7)

Answers classifying voluntary disclosure as being “as important” included the following quote:

Probably just as much. ... Some disclosures are useful some I can't use. (A14)

An example of financial analysts' quotes mentioning disclosure information being “less important” with respect to the financial statement's information in the following:

In principal, by the means of direct comparison, management reports or explanatory notes are less important than financial data. This would be the straightest answer. ... This is, above all, that what you as a financial analyst concentrate more on. You concentrate more on the financial data than on soft data. (A1)

The results of Table 7-4 support the assumption made in Section 1.2 that voluntary disclosure is useful for the investor community. Therefore, this research warrants further investigation on financial analysts' considerations regarding the usefulness and relevance of voluntarily disclosed information about intangible assets.

7.2 USER ANALYSIS AND INFORMATION GATHERING

Four questions are covered in this section and contain three sub-questions. The first question asks if financial analysts evaluate the company's voluntarily disclosed information on intangible assets. Consequently, the second question asks if financial analysts use the same valuation model for all companies or if they adjust their models with specific modifications. In the third question the respondents were asked to mention important information sources that they use to gather information about companies' intangible assets. The last main question in this section addressed whether the interviewees apply different models valuating Allianz' or Skandia's disclosure on human resources.

7.2.1 VALUATION OF DISCLOSED INTANGIBLE ASSETS

In the beginning of this section, the financial analysts were asked the question if they value the voluntary information on intangible assets that corporations disclose. All respondents made a statement on this question. The interviewees' responses on this question are classified into the three categories as illustrated in Table 7-5.

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Categories	Yes, do put value on	Not in a numeric sense but in other ways	No
Number of Analysts	8	7	3

Table 7-5 Financial analysts' evaluation of voluntarily disclosed intangible assets

Quotes typically made, generating the “Yes, do put value on” category are:

... yes, we do put value on intangible assets. The way we do it is linking it to growth expectations, as it is the only way we can do it. (A4)

Yes of course that is central to what I do. ... Essentially, I am looking at what makes the company worth more than the capital invested in and that's my valuation of intangible assets then. (A11)

Yes, we do implicitly. ... So, let's say as an example, if you have very clever people and you would value this as an intangible asset, then I would say that hasn't got any value. Unless, it turns something intangible in something tangible. (A14)

During the interviews, 7 respondents stated in this question that they consider voluntarily disclosed information not numerically but otherwise. The following quotes describe this quite well:

When I say I don't value it I mean I do not put a number on it. But I do take account of them. It is a company's advance, the company's abilities and that is just as real as the balance sheet. ... However, if we say the top-management is worth a billion Deutsch Marks and that would be a net asset value. It is a very difficult exercise, very hard to do and very hard to justify. (A5)

... it is not a numerical position in our spreadsheets for valuation. ... That means that a company will probably have better growth than those who have not invested in staff training. However, as times showed right now are investors likely to return to the traditional measures. Once burned twice shy. (A18)

A small number of analysts neglected the question as exemplified by this quote:

I would answer this question with a no. (A2)

The responses in this study are comparable to the findings from studies by Roberts and Gray (1995) and Meek and Gray (1989). Their research revealed that financial analysts consider voluntary disclosure information

for valuation, although not necessarily in a numerical sense. This result is important in proving that analysts consider voluntary disclosure on intangible assets for building up their knowledge about the corporation’s context as described by Ellis and Williams (1993).

7.2.2 VALUATION MODEL APPLICATION

Building on the previous questions the respondents were then asked if they use the same valuation model for all companies, or if they make company specific modifications. The results in Table 7-6 below illustrate the answers to this question.

Categories	One model, no modifications	One model, minor modifications	One model, many modifications	Different models
Number of Analysts	10	3	2	3

Table 7-6 The valuation model for all companies, or with modifications

The generated category “One model, no modifications” are characterised by quotes as:

Generally, we are trying to keep ourselves to one methodology and one analysis format. This we do in order to get comparability with other companies. (A1)

Yes. The same model and the same methodology to standardise our valuation across the whole of Europe. Otherwise, you cannot compare. (A9)

The model will not be modified, as we do regard it as a necessity that we are transparent and comparable. Therefore we do have to work with the same model in order to compare every company with another. Otherwise it will be hard to achieve any comparison at all and our investors want to know what is underlying. They are also very used to our model and as a matter of fact we do not want to change it company specifically. (A15)

The following statement was classified as “One model, minor modifications”:

Some factors and variables are more attached to one company then to another one. Therefore you have to make minor modifications in the standard model. (A14)

Comments that indicated the respondents apply one model with many modifications include:

The model is the same, but we make a number of quite different adjustments, because they are very different companies. (A12)

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Some financial analysts commented that they use different models for company valuation:

No, here we are very much trying to understand the companies' business and then we decide about what valuation methodology would suit us and the company best, to get a real picture of the company. (A3)

The empirical findings on this question are in line with the research conducted by Block (1999), Vergossen (1993) or Moizer and Arnold (1984). These studies showed that empirical evidence for the majority of financial analysts conduct a detailed analysis on a small range of stocks and use much the same method of valuation without making adjustments or modifications to their valuation model, indicating that neither a corporation's nationality nor its nature of business should matter. However, Olbert (1992) expressed that some analysts will make a lot of modifications or even will develop a specific model for each company they cover. Hence, the findings for this question are generally supported.

7.2.3 VALUATION MODEL FOR VOLUNTARY DISCLOSURE

With the answers from the previous question at hand, a sub-question wanted to investigate if the interviewees have an in-house model for valuation of voluntary disclosure information. The responses generated three categories as presented in Table 7-7.

Categories	Yes	Yes, but ...	No
Number of Analysts	5	6	4

Table 7-7 In-house model for voluntary disclosure information

The first category "Yes" was classified by a typical quote as:

Yes, absolutely. As I said my model is totally different to those of other analysts. Therefore I will do a disclosure valuation just to make it computable for my model. (A5)

Some interviewees were agreeing but mentioned some relationship to other models:

I would say that we have. Basically, it is a similar to the model Goldman-Sachs' is working with. ... The thing that is so special in our model is that we are just trying to quantify the equity capital cost of a company. (A15)

In the category “No” the respondents had no unique valuation model, as the following quote indicates:

No, I think the general sort of model we have is fairly generic. It bases itself almost on the growth model and is fairly generic across many equity analysts. It's more a fact of how people treat individual details within the model, adjustments to particular balance sheets or earnings that makes the difference in the actual models. (A6)

It can be seen from the above responses to this question that the majority of the participating financial analysts do think of their valuation model for the valuation voluntary disclosure information as an in-house model. An in-house model is described by the literature as a valuation model that originates within the analysts’ company. It was also mentioned by O’Shaughnessy (1998) that most valuation models are slight variations from the textbook valuation models but that some companies developed their own models, e.g. as the previously mentioned Goldman-Sachs model.

7.2.4 IMPORTANT SOURCES FOR INFORMATION GATHERING

After discovering that corporations do disclose voluntary information about their intangible assets differently it was decided to ask the interviewees which important information sources they use when gathering information about a company’s intangible assets. The analysts’ answers are classified and summed up in Table 7-8.

Part	Mentioned by analysts
Company visits	10
Industry bodies reports	7
Contact top-management	6
Regulatory authority reports	6
Competitor companies reports	5
News services	4
Printing press	4
Contact with other analysts	4
General market statistics	3
Sales statistics	2
National statistical bureaus	2
Contact business-area managers	1

Table 7-8 Important information sources for financial analysts

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As in the earlier paragraphs 7.1.2 and 7.1.3 the answers for this question are very rich in their statements contributing to many classifications. A typical response is exemplified by the following quote:

When it comes to intangibles an important source of information is definitely done by company visits. Meeting not only top-management, but also business-area managers. Because I do believe that management is important. Since I do believe that if I get a stringent view from different people on what their strategy is. ... There are some companies that have a strategy today, which some years ago, when you talked to them, happened not to have a strategy, and that is an intangible to me, which makes up 10% in figuring out what the company is going for and how they will succeed. But intangible assets information I mainly access by having physical contacts and conversations with people from that company. ... But I do use quite a lot of other sources, if we are going back to Skandia they just released their latest sales figures that were pretty poor, and everybody expected them to be pretty poor. The reason why is, because you followed the underlying flows of the US mutual funds market. ... I use general market statistics as well as competitor reports. Simply, I'm doing a peer group valuation of competitors. (A3)

Confirming the findings from earlier surveys the most mentioned source for gathering information on intangible assets is company visits. This corresponds with the results from Lee and Tweedie's (1981) study describing that company visits are essential for analysts to get functional additional information on how a company is working, which is impossible to get out of corporate reports. Six respondents made more detailed descriptions and mentioned the direct contact with the corporation's top-management in order to get additional information on intangible assets. An item mentioned seven times by the respondents were reports by industry bodies containing additional information. The corporate annual reports have been referred to by 5 interviewees supporting the, as stated in paragraph 7.1.3, need for further explanation on the general market. Furthermore, the contact with other analysts seemed to be an important source of information about the corporation's intangible assets as 4 respondents remarked.

7.2.5 USE OF THIRD PARTY INFORMATION FOR VALUATION

Table 7-9 describes the results of the respondents' answers of the sub-question, relating to the previous question. This question aims to

investigate whether financial analysts assemble information themselves, or if they rely on information from a third party.

Categories	Combination of own information and mostly third party information	Rarely use third party
Number of Analysts	12	5

Table 7-9 Use of third party information for valuation

An example indicating the use of a combination of their own numbers and mostly third party information is shown in the following quote:

Yes, we do build our own models and we do physically put in the numbers ourselves for calculations. That is basically what we do. It is our job. But certainly we base our calculation on the numbers from the embedded value accounts. Or, if not provided, we take numbers from third parties, as industry bodies, to derive an estimate. (R7)

Rarely use third party information:

... Rather rarely I use third party information. ... I look at consensus data and clearly the consensus is generally a broad cross-section of the market, which also includes general market development information making up your background. (R13)

Most of the respondents confirmed that they take financial as well as nonfinancial information from third parties into their valuation model. This empirical finding is supported by Williams, Moyes and Park (1996) as their study revealed that analysts’ recommendations involve the gathering of formal and informal information from a variety of sources. Some analysts acknowledged in the first category that they benefit from a wide assortment of corporate information available on the Internet, which also has been proven by Turmarkin and Whitelaw (2001).

7.2.6 USE OF DIFFERENT VALUATION MODELS

The last of the four main questions in this section examined whether the participating financial analysts have a different model to facilitate a valuation of Allianz’ or Skandia’s human resources. All respondents made a statement on this question, which contains three main categories as illustrated in Table 7-10.

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Categories	No	Not really different	Yes
Number of Analysts	13	2	3

Table 7-10 Use of different models for valuating human resource disclosures

Some 13 interviewees denied using different models for valuating human resource disclosures, which seemed to be supported by the findings in section 7.2.2 that financial analysts usually applied one model for company valuation with no modifications. A typical quote that is characteristic for the respondents who confirmed that they are using different models for the valuation of Allianz’ or Skandia’s human resource was stated as follows:

Well, clearly I value the humans that are employed by companies and they are the reason why companies are more worth than their net assets. In any business, if you took Allianz and you would sack all the staff, then Allianz would be worth its net assets. Cause we would know that they wouldn’t sell any products ... That’s why I do use different models for them. (R11)

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

7.2.7 IMPORTANCE OF CONSISTENCY WITH DISCLOSURE

Finishing this section a sub-question was made to ascertain how important it is for financial analysts that a company shows consistency in their disclosure policy. The results are summarised in Table 7-11 consisting of four categories.

Categories	Very important	Important	Favour evolving disclosure	Desirable, but not a necessity
Number of Analysts	12	4	1	1

Table 7-11 Importance of disclosure consistency

A characteristic statement of the “Very important” category is:

...Consistency is very important because it provides guidance to the valuation on a historical basis. Is Allianz expensive or cheap compared to Skandia, or to five years ago? (R12)

An example from a respondent concerning consistency being important:

Yes, sure it is important. For example Skandia has a very horrible reputation of dropping and changing things. Just think about the practicality of it. ... I would like to see that a company clearly sticks to its format of reporting as often changes are not a necessity or requirement. (R5)

One interviewee explained that he favours evolving disclosure:

I am a fan of an evolving disclosure issue. That means you have a standard and you follow that consistently. However, you continue with these proofs until you understand that the market wants more. I am fan of that approach. (R4)

Another respondent pointed out that consistency is desirable, but not a necessity:

It is desirable, but not a necessity for company valuation. Normally, I would say the more consistency accompany has the lesser job I have to put on readjusting my model. (R1)

The most common answer that the participating financial analysts gave to this sub-question stressed that consistency of corporations’ disclosure policy is very important or at least important. Many recent studies, e.g those conducted by Lang and Lundholm (2000); Frank, McNichols and Wilson (1995) or Kasznik and Lev (1995), elaborated on the consistency of discretionary disclosures uncovered advantages and disadvantages but commonly all asserted the importance of consistency for analysts.

7.3 LEVEL OF DISCLOSURE OF ALLIANZ AND SKANDIA

In this section two main questions and two sub-questions are generally used to obtain empirical evidence on the level of disclosure. In the beginning, interviewees were asked if they found an important informational content difference between the corporate annual reports of Allianz and Skandia. The ensuing question addressed whether the respondents find an important difference in the level of disclosure between Allianz’ and Skandia’s corporate annual reports. Referring to the second main question the first sub-question aimed to find out whether financial analysts perceive Allianz or Skandia as disclosing most voluntary information. Finally, the second sub-question asked if there is a difference

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in the valuation between the companies who choose to voluntarily disclose more information about their intangible assets compared to those companies who do not.

7.3.1 PERCEIVED INFORMATION CONTENT DIFFERENCES

In Table 7-12 the answers from the section's first question generated four categories. The respondents had been asked whether they find an important information content difference between the corporate annual reports of Allianz and Skandia. This question is important, since it might indicate if corporations are affected by the accounting regime they are following.

Categories	Basically no differences	Differences not attributable	Yes, different in some areas	Yes, completely different
Number of Analysts	8	3	5	2

Table 7-12 Information content difference between Allianz and Skandia

One category collated statements showing that basically no differences exist:

Basically they are the same. The problem is that Skandia is, on the whole, using the European basis of accounting, which is based on a very traditional way of accounting for life insurance. Allianz is following the same European basis, which means that there is basically no differences related to accounting. (A2)

A following quote was classified “differences not attributable to accounting regimes”:

Information content difference is explainable by the different company structures. This explains why the provided information may turn out to be very different. My impression of Skandia, which also have been approved by some of my colleagues I discussed with, is that they use a little bit the tactics: “Can’t you convince your enemy, confuse him!” Whereas Allianz offers information to lesser extent but better understandable. (A15)

“Yes, different in some areas” was expressed in the following quote:

If generally comparing IAS with Swedish GAAP, I would say yes there is a difference in some areas, which creates some problems for us analysts

to compare companies directly. But the bottom line is that it should play no role for valuation, as it primarily is our assignment to put a value on the share price. (A1)

The last category “Yes, completely different” showed answers like:

I think that there are big differences in the accounting regimes but it is important, as an analyst, that I understand these differences. It is important to understand how to make adjustments to the standardised model. Therefore, is the information content between Allianz and Skandia totally different until I adjust them. (A13)

Generally, financial analysts do not notice any important information content differences between Allianz’ and Skandia’s corporate annual reports. At least if differences exist, the interviewees will adjust for them. An empirical study by d’Acry (2001) underpins these findings as her data showed that the European accounting directives have led to more homogeneity. However, the answers to this question should not be regarded as a quantification of harmonisation related content differences as Aisbitt’s (2001) study demonstrates how hard it is to measure the extent of de facto harmony in financial reporting. This paragraph’s question focused on the subjective impressions of participating financial analysts’ towards the information content differences of Allianz and Skandia. Hence, the empirical data from the interviews revealed that analysts believe that they can resolve information content differences based on their extensive knowledge about their covered companies.

7.3.2 PERCEIVED LEVEL OF DISCLOSURE DIFFERENCES

Attributable to the fact that both corporations develop their corporate annual reports in accordance with different accounting standards the interviewees addressed the question if they find any important differences in the level of disclosure in the corporate annual reports of Allianz and Skandia. The respondents’ answers are categorised in Table 7-13.

Categories	Differences that are not attributable to the regime	No, there is no difference	No great difference	Yes, important differences
Number of Analysts	9	4	3	2

Table 7-13 Important difference in level of disclosure

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“Differences that are not attributable to the accounting regime” was derived from quotes as the following:

The reality is that I think that the accounting conventions are less significant for providing understanding than people think. Due to this reality I can say, yes, Skandia does produce accounts according to Swedish GAAP and, yes, Swedish GAAP has certain idiosyncrasies that would make a direct comparison with other international insurers hopeless, but since Skandia also produces embedded value accounts this does not matter. The remaining differences are therefore not attributable to the accounting regime. The same is valid for Allianz if they would provide the embedded value it would not matter what regime they currently apply. (A11)

The category “no great difference” was generated by such quotes as:

I think that maybe, at the end of the day, if you make some growth adjustments, the remaining differences is, I would assume and believe, not that great. ... That this is not a big issue, I think, has to do with that I have been in the insurance business for more than ten years. You really have to dig beneath the figures in order to get the right opinion on any company. (A3)

Some respondents stated that there is no difference, which the following quote exemplifies:

No, I wouldn't say that you have a difference. (A2)

An example of the respondents that there is an important difference in the level of disclosure:

I would say that IAS is getting better at Allianz, but far from being perfect. The information you get is, you get statements of their main equity holdings. You get a kind of segmented property loss, and balance sheet report. It is not complete, but it is mostly there. I suppose that these are the things that you get, what you do not get from Skandia in Swedish accounts. (A12)

The empirical data that this question brought up is that the majority of the interviewed analysts do not regard the accounting regimes as being any less relevant when it comes to corporations' level of disclosure. This indicates that voluntarily provided information, e.g. embedded value accounts, is of importance to financial analysts. Hence, this supports the findings from section 7.1.4 that financial analysts do consider voluntary disclosure as being useful and relevant. This is a possible explanation of the competitive market pressure on the international stock markets for companies to disclose more than the minimum requirements, as found by

Meek and Gray's (1989). Nevertheless, two respondents expressed that there is a difference referring to equity aspects confirming Botosan's (1997) findings that this information is of interest for analysts and therefore beneficial for reducing cost of equity capital.

7.3.3 DISCLOSING THE MOST VOLUNTARY INFORMATION

From the previous question a resulting sub-question addressed the respondents directly asking them which corporation discloses the most voluntary information. The interviewees answered not just black or white, as categorised and aggregated in Table 7-14.

Categories	Skandia	Almost even	Allianz less, but much more usable	Allianz
Number of Analysts	10	5	1	2

Table 7-14 Disclosing the most voluntary information

An example indicating that both corporation disclose almost even:

Again, I think that there is not a great deal of difference of how Allianz or Skandia disclose. Except for one thing and that is that Allianz is not yet disclosing the embedded value of all its life business. But it is much less relevant for Allianz. (A11)

The statement Allianz discloses less, but much more usable:

Probably that Allianz discloses not as much in volume, compared to Skandia. But the information Allianz is providing is much more usable than Skandia's. (A4)

At first glance it seems that Skandia clearly dominate, for the reason that 10 respondents pointed out Skandia as disclosing more information. According to Bloomfield and Wilks' (2000) laboratory study one could jump to the conclusion that Skandia's greater disclosure leads to higher prices and to greater liquidity. Still it has to be remembered that Bloomfield and Wilks' linked this to greater disclosure quality and one respondent directly attributed this to Allianz. Some 5 interviewees acknowledged that both corporations' level of disclosure is almost even. The two financial analysts who pointed out that Allianz discloses most mentioned in their statements that Allianz also had much more useful information. However, as only the amount was of importance the data

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revealed in this question that most of the interviewees believed that Skandia provides the most voluntary information.

7.3.4 DIFFERENCES RELATED TO ACCOUNTING STANDARDS

Related to the previous two questions the remaining sub-question is whether this difference is attributable to the application of different accounting standards for the corporate annual report, as Allianz reports according to IAS and Skandia according to the Swedish Accounts Acts for Insurance Companies. Table 7-15 presents the results for this question.

Categories	No	Yes	In part	Do not know	Does not matter
Number of Analysts	11	2	3	1	1

Table 7-15 Different disclosure level related to different standards

In the “no” category a typical quote collected was:

No, not by the application of different standards per se. It has much to do with the companies' commitment and volume of disclose. Mainly this turns out to be a decision by management. (A1)

Two respondents confirmed a difference in the level of disclosure by this comment:

I would say yes. IAS is much clearer, but Skandia could through additional information easily live up to this standard, which they are not doing. (A18)

A response classifying “in part” is:

In part it is related to the differences, but it is actually more related to Skandia's decision to disclose more information as just additional notes to the accounts. (A6)

Whilst one respondent was unsure if a different level of disclosure could be traced exactly back to different standards, two respondents expressed that it does not matter, explaining that in their profession it is not so much the accounting standard but the corporations' willingness to issue more information. The latter is conformed by the respondents in the no-category. The empirical findings of this question show that most of the financial analysts do not find important information content differences

between Allianz’ and Skandia’s corporate annual reports. If differences exist, the interviewees will adjust for them.

7.4 PROS & CONS OF DISCLOSURE

In this section a set of four questions was developed elaborating on the Pros and Cons of voluntary disclosure to get an insight about whether the disclosure of human resources is beneficial for the users or not. It began by addressing the question if Allianz or Skandia benefit from human resource disclosure. Secondly, the study’s participants have been asked if they differentiate between companies who choose to voluntarily disclose more information about their intangible assets compared to those companies who do not with respect to valuation. The third question required the interviewees to mention what kind of advantages might arise with voluntary disclosure of human resources. Addressing the interviewees to mention what disadvantages, for Allianz or Skandia, might arise with voluntary disclosure of human resources, ended this section.

7.4.1 BENEFITING FROM HUMAN RESOURCE DISCLOSURE

This section opens with interviewing financial analysts on whether Allianz or Skandia benefits from voluntarily disclosing information about its human resources. Table 7-16 illustrates the results from this question in five categories.

Categories	Yes	Probably	More beneficial for Skandia	Probably not	No
Number of Analysts	6	3	1	4	4

Table 7-16 Benefits from voluntary disclosure of human resource information

A typical quote for the “yes” category:

Any disclosure is beneficial that is the philosophy within our company. So even if human resources may be fuzzy and subjective, it still gives you a hint if the company has staff problems or if the company has a highly motivated staff that could sell everything as gold. (A8)

Comments that were collected in the “probably” category:

I think that this has a rather marginal significance for the stock market, to be honest. I think, that this has an importance in another association for valuation. We are looking on growth and other types of ratios, which maybe take good human resources into account. But I think that one has to see this apart from a direct valuation of a company. (A16)

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

They are probably not beneficial, as I don't think it matters to anyone, because it is not a big issue. Because you have so many other issues that you are wrestling with. (A17)

This question generated interesting empirical evidence. While Table 7-1 showed that the vast majority of the respondents do not consider human resource disclosure for valuation, the data from the question in this paragraph reveals that more than the half of the interviewees regarded the disclosure of human resource information being beneficial or at least probably beneficial. This seems to indicate that voluntarily disclosed information has an effect on analysts' context building about corporations, which was also articulated in the Ellis and Williams (1993) framework.

7.4.2 VALUATION DIFFERENCES DUE TO DISCLOSURE

The question that follows relates to the previous question. The participating financial analysts were asked whether a difference with respect to their valuation is found between the companies who voluntarily disclose more information about their intangible assets compared to those companies who do not. The statements were categorised as illustrated in Table 7-17.

Categories	No	Uncertain
Number of Analysts	17	1

Table 7-17 Difference in valuation due to voluntary disclosure on intangible assets

Only one interviewee expressed uncertainty:

It is very hard to built in a premium for something, which is intangible. The whole concept of brand, idea, etc. as Skandia has, justifies a high premium but how much it is, is very difficult to say. What I think is that it is fair to say that companies who disclose less are tended to be fiend upon, by a market, which is evolving from an information perspective. The more you disclose the least you have the perception of that they are hiding something. So, my comparison, if you compare Skandia with Allianz, Allianz discloses very little on anything that it isn't required. Now, that gives you the perceptions of perhaps that there are some elements within the business, which are less attractive. ... But on the intangible side it is very unclear if I make a difference or how this has an impact. (A13)

All the other respondents stated clearly that they do not differentiate with respect to valuation between companies who choose to disclose more about their intangible assets than those who do not. The results obtained from this question reflect a discussion from Ittner and Larcker (1998), who studied nonfinancial indicators of investments in intangible assets as possible predictors for future financial performance. They found, however, this might be true but that it is hard to quantify.

7.4.3 HUMAN RESOURCE DISCLOSURE ADVANTAGES

A more general question was addressed to the interviewees whether they can think of advantages that Allianz or Skandia might obtain from the voluntary disclosure about their corporations’ human resources. There was no limitation to the number of advantages but usually the interviewees mentioned one or two advantages. The analysts’ answers are collated in Table 7-18

Categories	Number of analysts
Increased transparency	4
Higher valuation	3
Good marketing to recruit good people	3
It is nice to have	2
Impression to employees that company cares	2
Increased trustworthiness	1
Less disclosure will be punished by the market	1
Showing customer focus	1
Pleased investors	1
No sustainable advantage	1
Neither advantages nor disadvantage	1
It does not matter	1

Table 7-18 Advantages of voluntary disclosure on human resources

Characteristic statements for the category “increased transparency” was derived from the following quote:

To get a better picture of the company and how it is functioning internally as an organisational entity. (A16)

A characteristically quote in the “higher valuation” category:

..., if well done it definitely could improve valuation and share price. (A3)

Some analysts mentioned “good marketing to recruit good people” as the following quote:

I think it is good marketing to recruit the people they want to have.

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Surely, one should take care of the employees one would like to have. And this is generally positive, as it is an individual based business. (A2)

“It is nice to have” is summarised as follows:

I suppose it is information, which is nice to have to make a particular point from time to time. So, it would be nice that you could say this company is more productive, because it sales more per employee or it has more profit per employee, or stuff like that. (A11)

The category “impression to employees that the company cares” was classified by a typical quote as:

It is positive to think highly of your customers and it is good for your employees to be valued. But it only will have a value to the investors, if companies have translated this feeling to higher sales and better margins. (A4)

The findings here show that analysts can think of a large array of advantages that could arise for companies who voluntarily disclose human resource information. Most often mentioned was that human resource disclosures could lead to increased transparency. One respondent underpinned this argument indirectly by a contrasting statement that the market would punish less disclosure. Another potential advantage of human resource disclosure was higher valuation as 3 respondents expressed that this kind of information might improve valuation. One of these 3 respondents explained the higher valuation due to increased trustworthiness. An additional 3 interviewees saw an advantage from human resource disclosure arising from a marketing viewpoint. In their view human resource disclosure could be a marketing tool to attract good potential employees to join the corporation. The articulated statement gives employees the impression that the corporation cares about them and would also serve as a marketing function. This was explained, as human resource information in the corporate annual report might be a positive signal that is satisfying to the staff. Two financial analysts uttered that human resource information is nice to have but they also pointed out that human resource information is quite complex and not easy to quantify. This was outlined by Parker, Ferris and Otley (1989) as being one critique to human resource accounting that the measurement models are too complex to generate comprehensive and useful information.

7.4.4 HUMAN RESOURCE DISCLOSURE DISADVANTAGES

Since all respondents made a statement about potential advantages it seemed to be a natural consequence to ask the participating financial analysts about disadvantages that Allianz or Skandia could get from voluntarily disclosing information about their corporations’ human resources. In the previous question there were no limitations made to mention only one advantage and some financial analysts pointed out more than one disadvantage. Every respondent made a statement on this question, which constitutes Table 7-19.

Categories	Number of analysts
Too much disclosure	6
It is very biased	4
Not meant seriously	3
Dishonest with the market	3
Overaged staff	2
Organisation not functioning	2
Not as good as other companies	1
Deadweight to productive part	1
No disadvantage, if not over exaggerated	1
Neither disadvantages nor advantages	1

Table 7-19 Disadvantages of voluntary disclosure on human resources

The category “too much disclosure” was represented by quotes like:

There is an information overload in the world today. We have far too much information thrown at us by the companies. So, we actually found out that some companies have actually suffered from too much disclosure. Especially, if they disclose things which are not of their interest. Things which are of use for their competitors which could be used to work against them. Companies really need to be careful about what to disclose and how much. (A9)

The analysis of the responses classified the following quote as very biased:

The disadvantages I think is most important is that it is very biased. (A7)

An example of “not meant seriously” is:

If it is something to you are just doing to paying lip service, because it happens just to be popular ... you are keep on doing it but actually do not mean it. And this will be negative. So, it all depends on how seriously you mean it internally. (A17)

Dishonest with the market was derived from the quotes as the following:

If you are honest with the market it is good, if you are dishonest with the market it is bad. (A3)

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Overaged staff:

Certainly, there is a dark side to every information. If your staff is overaged and you do not show any programs to recruit young people it would certainly contribute to some negative adjustments in our forecasts. (A8)

Organisation not functioning:

Where good is bad. If you can read out of such statement that it is not a functioning organisational entity, you have to worry about the business results in the long run. (A16)

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

7.5 OPERATIONALISATION AND REGULATION

The final section in the interview guide that was used in this user study contains four questions. In the beginning of this section it was asked if financial analysts find variations in the valuation of Allianz' or Skandia's intangible assets with respect to country and stock market. If disclosure of intangible assets, especially on human resources, is something that facilitates company valuation was asked thereafter. In the third question the interviewees were asked to mention what kind of information about intangible assets a company should issue. The last question was whether there is more regulation through laws and recommendations than needed for the disclosure of companies' intangible assets.

7.5.1 DIFFERENCES DUE TO COUNTRY OR STOCK MARKET

Responses to the question if there are variations in the valuation of Allianz' or Skandia's intangible assets with respect to country and stock

market are basically answered with yes or no. The number of respondents answering either yes or no is illustrated in Table 7-20.

Categories	No	Yes
Number of Analysts	13	5

Table 7-20 Valuation variations with respect to country and stock market

Examples of quotes answering with “no” are:

No, for comparability reasons you assume that it doesn't matter ... (A5)

For us it does not matter whether a company is Swedish, German, American, or Japanese. We do not adjust our valuation... (A7)

Respondents agreeing are exemplified by the following quote:

Yes, absolutely because the valuation model includes an interest rate assumption ... The environment a company is operating is crucial to its outlook because if you have tax and pension legislation past, which reduced sales of products than it will be a big determines of that company's progress or possibilities. (A10)

The results of the obtained empirical data from the interviews showed that a large number of financial analysts do not make variations in their valuation. This coincides acknowledgements from many studies (d'Arcy, 2001; Hirst and Hopkins, 1998; Alford et al., 1993) indicating that accounting harmonisation and the harmonisation of markets is diminishing as a factor influencing company valuation. However, some of the respondents pointed to the fact that despite globalisation and harmonisation, markets do have specific commercial legislation, which might be important for company valuation.

7.5.2 VALUATION'S FACILITATION BY INTANGIBLE ASSETS

The question that followed asked the interviewees if the disclosure of intangible assets, especially those of human resources, is something that facilitates company valuation. The results presented in Table 7-21 distribute the answers into four categories.

Categories	Yes	Marginal	Not currently	No
Number of analysts	5	4	3	5

Table 7-21 Company valuation facilitation by the disclosure of intangible assets

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Agreeing that intangible assets disclosure facilitate company valuation:

Yes, as it gives you a richer background on the companies environment and internals. (A3)

Stating marginal facilitation:

Marginal, as it somehow will enrich your understanding about the company. (A14)

Responses as the one below classified “not right now”:

Not right now, but may be in the future. (A1)

The findings of this question show a draw with 5 responses each, if just the yes and no would be compared. However, 4 interviewees mentioned that company valuation is probably marginally facilitated by the disclosure of intangible assets, which is also in agreement. Aggregating these four answers with the “yes” category, then the agree responses would be most. This result indicates that financial analysts are affected by the disclosed information about intangible assets as they use it as background information on the company they are covering.

7.5.3 WHERE INTANGIBLE ASSETS SHOULD BE PUBLISHED

Since financial analysts, in some way or another, perceive intangible assets information a question was asked where in a corporate annual report they would like that information about intangible assets to be published. The categorised multiple answers are illustrated in Table 7-22.

Categories	Not in the financial statements	Notes to the accounts	As separately provided information	In separate statements	Do not care
Number of analysts	6	5	5	3	1

Table 7-22 Where to publish information about intangible assets

The category “Not in the financial statements” was exemplified by quotes such as the following:

One thing I can say is that it should be kept absolutely separate from the financial statement. (A1)

The category “notes to the accounts” is exemplified by:

It should be put as notes to the accounts. It is quite sufficient. (A6)

Some interviewees wanted intangible asset information separately provided:

I would like to have them separately provided information giving me guidance showing how the company is performing. If they are doing well or not. (A3)

“In separate statements” was explicitly mentioned like:

I think that if, then the intellectual capital statement would be the right way of doing it. But again it reflects that you cannot bring everything into the core numbers or into the statements. So, to have separate press releases or comments combing different elements that is fine. In the annual report that is something which should probably come up front, what the strategy of the company is, what they are doing and intellectual capital are all part of, it should come right after the chairman statement. (A13)

The statements answering this question provided insights about many suggestions as to where intangible asset information should be published. The highest frequency of answers was 6 responses. Two categories each had 5 statements from interviewees indicating that intangible asset information should be provided as notes to the accounts or as information provided separately from the financial statement. Three financial analysts from Sweden, UK as well as Germany pointed out that separate statements would be suitable to provide intangible asset information. Two of them referred to Skandia’s attempt to develop an intellectual capital statement. This seems to lead to the conclusion that financial analysts do not want intangible asset information in the financial statement but that they can think of to get this kind of information in a separate statement.

7.5.4 FURTHER LAWS AND RECOMMENDATIONS NEEDED

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

Categories	Yes	No	Regulation through market pressure
Number of analysts	9	6	3

Table 7-23 Further laws and recommendations needed for intangible assets disclosure

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

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

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

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

A few respondents stated that regulation through market pressure:

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

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

7.6 SUMMARY

This chapter presented the empirical evidence taken from interviews with financial analysts establishing the user study. This section aims to summarise the 23 tables that were outlined and discussed previously, which were generated from the interview transcripts.

The analysis of the user study's empirical material indicates that most of the interviewees consider corporate annual reports as being important. The exception was one respondent who stated that corporate annual reports are unimportant, due to his use of interim reports. The most important part of corporate annual reports mentioned was the income statement, closely followed by the balance sheet. On a further question half of the interviewees answered that they regard voluntary disclosure, related to financial statements, to be of extreme importance.

In the chapter's second section the empirical material shows that the interviewed financial analysts seem to use one and the same model for company valuation without modifications for company specifics. Company visits were pointed out to be the most important source of information on voluntary disclosure about intangible assets for financial analysts. Second came reports from industry bodies. The first was specified more with management contact. The empirical data from the user study showed that the majority of the interviewees denied using different models for human resource disclosure valuation. The question on the importance of disclosure policy consistency ascertained that most of the interviewed financial analysts find it very important.

The comparison of the level of disclosure between Allianz and Skandia was at the heart of the questions asked in the third section of the user study. The question about financial analysts' perception on whether they find an important informational content difference between the corporate annual reports of Allianz and Skandia showed that almost half of the interviewed respondents gave the impression that they do not find any important information content differences. However, some of the respondents said that existing difference are not attributable to the accounting regimes as such. The direct question about which corporation disclosed the most voluntary information brought clear empirical evidence that more than half of the interviewees mentioned Skandia. However, 5 respondents mentioned that the level of disclosure of both corporations is almost even. The resulting question whether this difference is due to the application of different accounting standards for the corporate annual reports was rejected by most of the interviewed financial analysts.

The fourth section addressed questions on the Pros and Cons for corporations to voluntarily disclose human resource information. The

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empirical result from the user study showed that for half of the respondents human resource information might be beneficial. More or less every interviewee acknowledged that no difference in valuation is made between companies who voluntarily disclose more information about their intangible assets than those companies who do not. A variety of different advantages that may arise with voluntary disclosure of human resources came from the interviewees. The most often mentioned was increased transparency before higher valuation of the corporation. Some of the financial analysts mentioned human resource disclosure being good marketing for the corporation to recruit skilled staff. The resulting question about the disadvantages of disclosing human resource information provided a broad array of answers. Most often pointed out was that too much disclosure followed by a possible disadvantage that human resources disclosures might be very biased or not meant seriously.

The user study's final section started off by addressing the question whether the respondents make a difference in their valuation of Allianz and Skandia due to country or stock market. The vast majority denied making any differences in valuation with respect to country or stock market. The results from the question if the disclosure of intangible assets is something that facilitates company valuation showed as many agreeing as disagreeing responses. The answer that was given most often was that such information should not be published in the financial statements. Two categories that shared the second place showed that the voluntary information about intangible assets should be published as notes to the accounts or as separately provided information. Half of the participating financial analysts acknowledged in the user study's final question that further laws and recommendations are needed for intangible asset disclosure.

It appears from the generated evidence of this user study that the interviewees do not necessarily include voluntary information about intangible assets in their company valuation. The respondents in this study showed that they generally do not differentiate between companies who voluntarily disclose more information than those with a lower amount of voluntary disclosure. However, it seems that voluntarily disclosed information about human resources is considered as background information and therefore might indirectly find its way into the analysts' company valuation.

Chapter VIII

ANALYSES AND CONCLUSIONS

This chapter analyses the empirical data, as presented in the previous three chapters, draws conclusions about the major findings and discusses their implications. In Section 8.1, the research questions are answered by highlighting the most important general findings. In order to fulfil the dissertation's purpose, the analyses entail pair-wise comparisons of the three studies' findings, as described in Section 3.4. This starts off in 8.2.1 by examining the providers' justifications with the measured amount of human resource disclosure. Section 8.2.2 compares the amount of human resource disclosure with the users' utilisation of such information. Section 8.2.3 elaborates on the communication between providers and users. The overall conclusions in Section 8.3 reflect the study's important findings in conjunction with the literature. A more general elaboration about the study's findings moves towards generalisations and wider significance. The last section suggests future research.

8.1 HIGHLIGHTING THE GENERAL EMPIRICAL FINDINGS

This section highlights the general empirical findings from the report, provider and user studies. First of all this section attempts to answer the overall problem statement "*How is voluntary information about human resources in corporate annual reports justified, disclosed and utilised?*" by addressing the three research questions as stated in Section 1.1. For each of the three questions, this section summarises the most important observations from the previous chapters.

1.) *How much voluntary disclosure is made available in corporate annual reports?*

The report study applied a disclosure scoreboard to examine corporate annual reports from Allianz and Skandia for the reporting period 1996 to 2000. The outcome from this study showed that even though Skandia is widely acknowledge by the literature (e.g. Edvinsson and Malone, 1997; Stewart, 1997; Sveiby, 1997; Brockington, 1995) as being renown for leading nonfinancial disclosure, including a proactive strategy for human resources, it is Allianz who increased the total

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amount of voluntarily disclosed information during the years under study by 21 items advancing to match Skandia's leading position in the 2000 corporate annual report with 92 items.

This result was repeated in the aggregated category of nonfinancial information about the corporation, which specifically focused on human resources disclosures. The subcategory of employee information revealed a drop of voluntary human resource disclosures for Skandia, from a maximum score of 15 items in 1997 to 8 items in 2000. Allianz on the other hand continuously increased its voluntary disclosures, from 12 items in 1996 to 17 items in 2000. It could be argued that Skandia already had a very high rate of voluntary disclosure so that stagnation might be expected. The aggregated results illustrate, however, that there are plenty of opportunities left to increase the amount of voluntary disclosure.

Both corporations provide a considerable amount of additional information voluntarily. During the five-year-period Skandia lost their leading voluntary disclosure position, as Allianz constantly increased their total amount of voluntary disclosure and nonfinancial disclosures, especially employee disclosures.

2.) *Why is voluntary human resource information disclosed in corporate annual reports?*

The empirical findings from the provider study illustrate that both corporations issue human resource disclosure in their corporate annual reports as they regard them as an important aspect in illustrating their corporation. However, the corporate strategies on disclosing human resource information are relatively different. Skandia's respondents explained that Skandia has a clearly formulated proactive strategy when it comes to voluntary disclosure. The human resource disclosure strategy was included in the corporate annual reports due to its importance to Skandia internally. The Skandia interviewees elucidated that because of its internal importance this information was provided externally to highlight for the users the importance of this information.

In the provider study, the Allianz strategy has been described as a close-to-the-market approach, which is signified by the fact that the quantity and quality of human resource disclosure is regarded as being

sufficient until users indicate that they would like to have more specific information. Although the Allianz' participant assured that a clearly formulated strategy is absent for human resource disclosures it was emphasised that employees are the key to sustainable competitiveness. Instead of simply maximising the amount of disclosed information, Allianz puts emphasis on important facts, thus enhancing the quality of voluntarily disclosed information. Both companies drew attention to the fact that voluntary disclosures issued in their corporate annual reports are regarded as being well thought-out and disclosed due to reflected action.

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

The empirical evidence from the user study showed that although users do not regard voluntary disclosure about human resources as being appropriate for their traditional financial valuation methods, this disclosure type contributes to the users overall perception of the company. Users stated that detailed information about human resources e.g. number administrative employees could give a clue about the corporations' financial development, as an increase administrative staff would imply increased costs. In that sense this kind of information is appreciated and considered important for users' context building.

The findings from the user study revealed that the disclosed information does not quite meet the users expectations. The users indicated that voluntary disclosure is hardly comparable amongst corporations due to the lack of standardised reporting of human resources. It was mentioned that additional numbers and figures would likely increase the utilisation of voluntary human resource disclosure.

The idea behind the approach chosen in this dissertation was simply to expand the empirical knowledge of human resource disclosure practice by applying a new approach to existing research. This was done by means of taking a mediating approach towards the analysed companies, as mentioned earlier it was not intended in this study to say that one corporation is disclosing better or suggesting that their strategy is right or wrong. Instead, the focus is on the providers' justifications with human resource disclosure and the users utilisation of such information for both

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corporations, which in the next step of analysis (in 8.2) allows for the comparison of empirical results pair-wise. Therefore, the next step of the analysis is to give a deeper understanding about the practice of voluntary human resource disclosures.

8.2 PAIR-WISE COMPARATIVE ANALYSES

The overall research purpose of this dissertation proposed to describe the practice of voluntary disclosure about human resources in corporate annual reports by means of justification, disclosure and utilisation. Returning to the introductory discussion that pinpointed deficiencies in the disclosure about human resource information, the analysis of the empirical results from the three studies can be expanded by comparing them in a pair-wise manner. As stated in the beginning of 1.1 and to attain a deeper understanding about voluntary human resource disclosures, the research should take a step further by analysing information, providers and users jointly rather than separately.

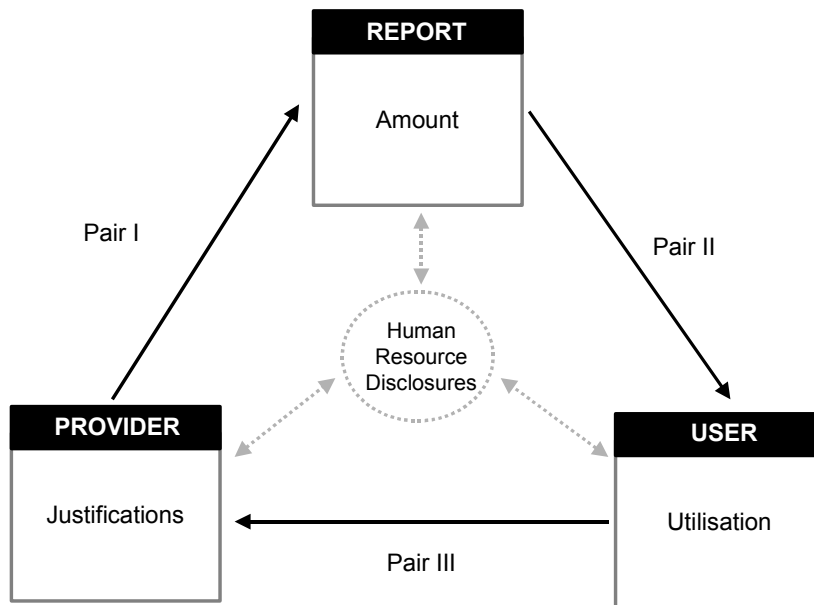


Figure 8-1 Pair-wise comparative analyses

In this dissertation the tripartite approach sought to complement current knowledge about human resource disclosures in advanced annual reporting practice by following suggestions of Bukh (2002) and Eccles et al (2001). Consequently, the tripartite approach as depicted in Section 1.2,

structures the pair-wise comparative analyses as shown in Figure 8-1, and then compares the empirical findings from the three studies (see Chapters 5, 6, 7) with each other. The first pair is a comparison of findings from the provider study with the findings from the report study. The second comparative pair puts the report study's results side by side with users' utilisation. The third comparative pair analyses the users utilisation of human resource disclosure with the providers' justifications of such disclosure by focusing on the communication between users and providers. The results from the pair-wise comparative analyses are important as they illustrate not only the virtues and shortcomings of providers justifications of voluntary disclosure, information and utilisation, or the communication between providers and users, but they provide a richer picture about the annual reporting practice of voluntary human resource disclosures.

8.2.1 JUSTIFICATIONS AND AMOUNT OF DISCLOSURE

Following the description of Figure 8-1, this section performs a comparative analysis (see Section 3.4) of the first pair comparing how the answers from the provider interviews fit with the results from the report study. At first, the answers are examined in order to illustrate the providers' justifications with the amount of more general nonfinancial disclosure. Afterwards, the analysis is narrowed down to compare the providers' justifications with the amount of human resource disclosure in particular.

If Skandia follows Johanson et al.'s (2001) assumptions for an experienced company it could be expected that the results from the report study would subsequently show more nonfinancial information disclosure for Skandia than for Allianz. The empirical evidence from the report study (see Figure 5-11) revealed the opposite. Allianz almost constantly increased the amount of voluntarily disclosed nonfinancial information from during the five-year-period from 18 items in 1996 to 28 items in 2000, while the 2000 annual report of Skandia contained five items less disclosure compared to its 28 items in the 1996 annual report. Consequently, Allianz finally disclosed more nonfinancial information than Skandia.

Hence, the findings from the report study contradict the statements obtained from the provider study. Despite the fact that Skandia's interviewees referred to business' complexity that obligate nonfinancial

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disclosure in corporate annual reports, the results from the report study showed for Skandia a stagnation of such disclosure. Allianz' interviewee clarified the lack of a specific nonfinancial information strategy, as they believe that their users main concern is not on the amount of nonfinancial information. The results from the report study observed, however, a constant increase of nonfinancial disclosure in Allianz' corporate annual reports.

Intellectual capital literature depicts Skandia as being consistently the leading company when it comes to human resources, which is much due to their effort in developing the Navigator and intellectual capital statements. This creates an expectation that Skandia should disclose more voluntary information about human resources due to their experience than other companies. The empirical findings from the report study reveal a contrary development for Skandia and Allianz, in terms of voluntary disclosure about human resources. Consistent with the intellectual capital literature, both of Skandia's interviewees stressed the importance of providing human resource information in corporate annual reports, as they are important internally for Skandia's organisation. Skandia's disclosure strategy was described as being proactive, which generally implies that information is voluntarily produced before the market demands it. The evidence from Skandia's interviewees showed that voluntary disclosures about human resources are believed to make an impact on users, as it helps them to build an overall picture about a corporation's business. However, this statement is rebuffed by the report study that shows Skandia's amount of human resource disclosure as decreasing.

Allianz, on the other hand, gradually increased their reporting practice on human resources. The empirical material showed no changes for Allianz' information about directors, but an increase of more detailed employee information after the 1998 corporate annual report (see Figure 5-13). Still, Allianz' respondent elucidated clearly not having considered human resource disclosures in terms of measuring the economic value of employees performance like Fitz-enz (2000) human resources performance measures. Although not externalising specific human resource measures, Allianz' interviewee referred to the voluntary disclosure about human resources as gaining importance due to the increasing amount of general information. This line of reasoning is strongly supported by the report study's empirical findings, as Allianz'

quantity of voluntarily disclosed human resource information strongly increased throughout the years.

To sum up, these contradicting results from the provider study and the report study for both case companies challenge the assumptions of several authors (e.g. Adrem, 1999; Johanson et al., 2001). The common assumption that companies who are experienced in measuring and controlling intangibles do provide more nonfinancial disclosure does not hold in this study, as the reverse occurred. This study reveals that the amount of voluntary disclosure is not just a matter of being experienced or inexperienced, but rather the disclosure strategy. The empirical material did not indicate changes in the corporations' disclosure strategy from proactive to reactive or vice versa. Consequently, it can be concluded that having a proactive disclosure strategy does not automatically create the highest rate of voluntary disclosure about nonfinancial information compared to a reactive disclosure strategy.

8.2.2 DISCLOSURES AND THEIR UTILISATION

This section presents a comparative analysis of the second pair in Figure 8-1 between the amount of disclosure in corporate annual reports and the users' answers towards the utilisation of such disclosure. Pursuing the structure of the previous section, the beginning of this section takes a broader view on the nonfinancial disclosure behaviour of both companies. The ensuing analysis focuses on the assessment of human resource disclosure by users.

At the outset of this pair-analysis, it can be questioned if Skandia's proactive disclosure strategy on a general level really decreases users' uncertainty and therefore is more helpful for the users than other companies, like Allianz', as several authors assert (e.g. Stewart, 1997; Edvinsson and Malone, 1997; Sveiby, 1997). The report study illustrated in Section 6.4 that during the first four years, Skandia disclosed more information than Allianz. Answers from the user study (see Section 7.3.1) brought to light that Skandia's proactive disclosure strategy made it especially difficult for some users to retrieve the required information. In contrast, Allianz was singled out as providing less but more usable disclosure (see Table 7-14). According to Sengupta (1998) high disclosure quality lowers the cost of capital due to increased users' understanding of corporate disclosures. Hence, a high amount or increase in voluntary

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disclosure does not necessarily imply a reduction of uncertainty, as more disclosure might confuse users and create greater uncertainty.

The findings from the user study seem to reflect the reports study's findings regarding the amount of voluntary disclosure of both corporations correctly on an overall level. The users acknowledged in Section 7.3.3 Skandia as the corporation who discloses the most information and this is principally corroborated by the report study results (see Section 5.4). Looking closer at the nonfinancial disclosures and human resource disclosures in particular the users' impressions are not quite reflected in the report study's results. Allianz increased its nonfinancial disclosure (see Figure 5-11) and provided more information about their employees than Skandia (see Section 5.3.2). Hence, there is a gap between users' perception of corporations' voluntary disclosure and the actual disclosure obtained in the report study. However, it might be hard to prove why this gap exists and if it is attributable to a chosen proactive or reactive disclosure strategy and which strategy is more beneficial financially.

Some studies (c.f. Botosan, 1997) argue that it is difficult to quantify the exact impact of voluntary disclosure on the users' decision-making process. The findings from the user study in Section 7.4.1 reveal that more than half of the interviewees regard human resource disclosure as being somewhat beneficial. While the majority of the respondents did not make any specifications, one analyst named especially Skandia as being the corporation that benefits most from human resource disclosures (see Table 7-16). However, the report study found in Section 5.3.2 that the amount of Skandia's employee information disclosure nearly halved. To put it briefly, although many users attributed human resource disclosures as being beneficial for corporations, they do not differentiate the amount provided between the corporations. Otherwise, users would have mentioned that Allianz increased their employee reporting, whereas Skandia decreased the amount of employee reporting.

The report study in Section 5.3.2 illustrated that both Skandia and Allianz did not make any information on senior management available. The user study, on the other hand, further specific information about directors or employees was mentioned explicitly (see Section 7.4.4), as they could increase corporate transparency to analysts. The user study findings in Table 7-18 and Table 7-19 list many advantages and disadvantages that

users might receive from more detailed human resource disclosures. Analysts' valuations could be affected negatively in the short-term by detailed human resource disclosure e.g. a too large administrative staff or overaged salesforce. This in turn, would affect the corporation's cost structure, and diminish the revenues. On the other hand, users also referred to potential benefits in 7.4.3 that might occur due to increased human resource disclosure e.g. higher valuation and trustworthiness.

This pair-wise comparative analysis makes it clear that there is a gap between the users' perception and the actual amount of corporate voluntary disclosure on a general level and specifically at a human resource disclosure level. For both levels, users appointed Skandia as disclosing most information voluntarily. The report study contradicts the users perception as it shows that Allianz caught up to Skandia on the general level of disclosure and surpassed Skandia's amount of human resource disclosure. However, it was indicated that the role of a corporation's reputation is important to users, as Allianz' disclosure was perceived as less but more useable than Skandia's. Users' incorrect perception about the corporations' amounts of disclosure may be attributable to inertia, which could be explained by the different disclosure strategies. Skandia's proactive disclosure behaviour could have influenced the perception of their disclosure amount as being higher than Allianz' reactive strategy.

8.2.3 MATCH BETWEEN UTILISATION AND JUSTIFICATION

Finishing off the pair-wise analysis of Figure 8-1, this section is devoted to the comparison of the third pair, analysing the match between utilisation and justification by focusing on the communication between the providers and users regarding disclosed information. Effective communication between the providers and users of information is of fundamental importance for valuation. The more sophisticated the users' analyses are, the more crucial it is for providers to disclose appropriate information (Parker et al., 1989). The reporting of nonfinancial disclosure demands attention as this play an important role in a corporations' overall disclosure, which in turn is of specific interest for analysts (Clarkson et al., 1999).

The users' complex information environment affects their decision for stock market recommendations. To achieve greater transparency about a corporations' current state the financial analysts have an incentive to

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cultivate management relations (Francis and Philbrick, 1993). The answers from the user study in Section 7.2.4 support this incentive relation as company visits and contact with corporate management was mentioned very often. In the provider study (see 6.1.2), the interviewees from both corporations described that the communication with analysts in personal one-to-one meetings is vital. In these meetings, questions are asked that are not answered in the corporate annual report disclosure e.g. commercial experience or personal background of executive directors. Gilson (2000) mentioned that analysts' opinions are highly informative for the provider side because they develop expertise about a company, as they normally cover only a small number of corporations in a few industries. As well as providers appreciating communication with user groups, the interviewees from the user study named (see Table 7-8) company visits as the most important source of information, verifying the necessity of cultivating management relations. During the interviews, some analysts mentioned that they often ask managers directly when they need further details on employee information.

The feedback through financial analysts' personal meetings was also acknowledged in Section 6.5 and Section 6.6 to be very important for both corporations in order to sense if users correctly understand disclosed information as it was intended by the providers. According to the interviewees from the provider study, such user feedback contributes to increased disclosure quality. Nevertheless, answers from the user study in Section 7.1.3 and Section 7.5.4 illustrate that there is gap between the corporations' perception and the users' information demands. The Allianz respondent mentioned in Section 6.5 that users' frequently requested specific types of information is discussed in the investor relations department, if this special information should then find its way into the corporate annual report. Still, users mentioned that they lack some information they would like to have and asked for e.g. more detailed information about the board of directors, which is not found in Allianz' corporate annual reports. Both of Skandia's respondents mentioned that Skandia's decision to provide information sets out to improve the users' understanding about the business, which includes voluntary human resource disclosures. During the interviews some users pointed out that Skandia's voluntary disclosure about directors is sufficient and easy to find. However, several analysts criticised that Skandia's human resource

disclosures are often too vague, as they lack numbers and figures, which could help analysts.

Improving users' understanding about the company, by issuing of voluntary disclosure is not without its problems. It has to be taken into consideration that too much disclosure might be harmful if significant business information is hidden by information unimportant to the users (Hendriksen and VanBreda, 1992). According to FASB's Business Reporting Research Project, the premise for voluntary disclosures is that they should make the capital allocation process more efficient, which in turn lowers the average cost of capital (FASB, 2001). During the interviews, some analysts (see Section 7.4.4) articulated that Skandia's frequent changes in voluntarily disclosed items made it difficult for users to interpret this information in a proper context. Consistency in the communication of voluntarily disclosed information, together with careful consideration about the impact of further disclosure is very much appreciated from the users, as the results from the user study in Section 7.1.4 revealed. In Section 7.4.3 users mentioned that current human resource disclosures hardly make any statement about how employees add to corporate productivity. Although the current state of human resource disclosures may be unclear, they should not be absent, as they can provide users with clues about the corporate condition regarding employees or management (see Section 7.4.1).

The empirical evidence from the user study (Table 7-23) suggests that providers and regulators should go on to debate valid and reliable measures. Although the respondents from both companies pointed out that their corporations voluntarily disclose more information than required by law, many users would appreciate a more structured and standardised use of issuing nonfinancial information. In Section 7.5.4 some users suggest that providers could benefit from more standardised disclosed human resource information as users could achieve greater transparency.

To conclude the analysis, the results in this section show a slight gap between providers and users. Both users and providers confirmed good communication on a general level. When it comes to specific information findings from the provider and the user studies a gap is indicated between users disclosure demands and corporations' issued information. Users' suggested that more detailed voluntary disclosure would be beneficial for

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their context building. Moreover, some users mentioned that a more structured and standardised nonfinancial disclosure would be appreciated, as it would increase transparency and comparability.

8.2.4 SUMMARY

The pair-wise analyses compared the empirical findings from the three studies with each other, as illustrated in Figure 8-1. The analysis of the first pair compared the provider study's findings with the report study findings and did not confirm the common assumption that an experienced corporation with a proactive disclosure strategy discloses the most information. The amount of disclosure is addressed as a matter for a disclosure strategy. Nevertheless, in this study the reactive disclosure study led to more nonfinancial and human resource disclosures than the proactive strategy. The second comparative pair analysed the report study results with the user study results and found a gap between users' perception and the amount of corporations' voluntary disclosure. Users wrongly perceived Skandia as disclosing the most but less usable information compared to Allianz, as the report study showed that Allianz disclosed the most nonfinancial and human resource disclosure. This incorrect perception might be due to inertia, as Skandia appears to have built a reputation of disclosing more than other corporations. The third pair compared the users utilisation of human resource disclosure with the providers' justifications of such disclosure and indicated a gap between users' demands and providers' justifications. The pair-wise comparative analyses of this study's findings showed that the practice of voluntary disclosure about human resources in corporate annual reports towards justification, disclosure and utilisation could be described as a threefold divergence between providers' justifications, the information found in corporations' annual reports and the information demanded by the capital market users.

8.3 OVERALL CONCLUSIONS

The general empirical findings of this study revealed that users would appreciate more structured and standardised issuance of nonfinancial voluntary disclosure. This section will investigate this matter and discuss the issues of standardised and non-standardised voluntary disclosure. Consequently, the purpose of this section is to reflect on the study's most important findings in conjunction with human resource and disclosure literature. Besides engaging in the debate about different disclosure

strategies on a more general level, this section concentrates on two characteristics: comparability and relevance to structure the discussion. Comparability and relevance are pointed out as necessary elements for making voluntary information useful (Sundgaard, 2000).

8.3.1 DIFFERENT DISCLOSURE STRATEGIES

Corporations do adapt their disclosure policies and strategies so that they match their organisation's internal and external business environment, which is why corporations do adopt different disclosure strategies (Gibbins et al., 1990). Holland (1998) illustrated that there is no one single optimal disclosure strategy for corporations, as they have a large array of distinct disclosure strategies to choose from that meet with certain aims and constraints. Despite this customisation, researchers often distinguish disclosure strategies according to their characteristics as proactive or reactive (Adrem, 1999). While a proactive disclosure strategy implies that corporations understand and exceed the informational needs of the investor community, the reactive disclosure strategy is characterised by corporations waiting for regulators or investors to demand otherwise.

When it comes to the corporations' disclosure strategies several authors (e.g. Holland, 2002; Bukh, 2002; Johanson et al., 2001; Adrem, 1999) assume that corporations, which have experience in the measurement and reporting of intangibles, choose a proactive disclosure strategy and therefore disclose more information voluntarily in their corporate annual reports than inexperienced, reactive corporations. Although Allianz adopted a reactive disclosure strategy, they increased their nonfinancial disclosure constantly during the years. Departing from the common assumption, this eventually led to a higher disclosure level than Skandia, which pursues a proactive disclosure strategy. Since Allianz has applied a close-to-the-market strategy, they responded to market pressure in providing analysts with voluntary disclosure that they need to close their information gap. Following this line of argumentation, the increase of Allianz' amount of nonfinancial disclosure can be taken as an indication of the growing importance of nonfinancial information. In Skandia's case the nonfinancial disclosure decrease could then be interpreted as poor judgement of the users demand and the actual disclosure situation. Consequently, the stagnation in voluntary nonfinancial disclosure could also stem from an incorrect impression about the actual disclosure situation, as competitors might have increased the amount of disclosure.

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However, this study illustrates that Allianz' disclosure is perceived by some users as less in amount but better in quality with comparison to Skandia. This might indicate that Allianz meet users' information demands better due to their close-to-the-market disclosure strategy. From this perspective, one explanation could be that users perceive the voluntarily disclosed information as more useful since they requested for this type of information. On the other hand, this would imply for Skandia that their self-created nonfinancial metrics may not have quite met and satisfied users information demand.

According to the empirical findings of this study, it can be concluded that the reactive strategy is more appreciated by users than a proactive strategy. This can be explained by the fact that corporations with a reactive strategy listen to what information users want, which in turn leads to a disclosure that is more beneficial for users than self-created disclosure that a corporation decides to be valuable to the market. Furthermore, the different disclosure strategies illustrate that due to the lack of standardisation and regulation, the magnitude of voluntary disclosure can diminish comparability among corporations for users.

8.3.2 COMPARABILITY OF HUMAN RESOURCE DISCLOSURES

The previous section indicated that the usability of voluntary disclosure is associated with their comparability. This study illustrated that voluntarily disclosed information about human resources could be more detailed, in the form of numbers and figures or statements in the text, as they do have the potential to enhance corporate transparency for users. However, due to the fact that most nonfinancial information is voluntary, the choice of information to be issued depends on both the view of providers and users regarding the voluntary disclosure's importance. Consequently, the comparability of human resource disclosures will be affected as corporations can individually choose what information about their employees to provide.

The issues of what voluntary information corporations should provide in their corporate annual reports to the investor community has been the focus of many investigations. Most frequently quoted is the Jenkins Committee Report from the American Institute of Certified Public Accountants (AICPA) (1994), which was instigated to improve the value of information in business reporting. Just recently, FASB's Business Reporting Research Project (FASB, 2001) published its study about

voluntary disclosures, which proposes greater standardisation of corporate voluntarily disclosure in order to achieve greater corporate transparency and better comparability for users. The latter would possibly reduce the existing information gap that currently exists between the information found in corporate annual reports and the information demanded by the market.

The user study reveals that analysts consider themselves capable of adjusting information to compensate for non-comparability between corporations and industries, if they know the procedures of how the information is developed and provided by a corporation. However, they mentioned that they usually are not capable of adjusting for inconsistent disclosure. In the user study, statements have been made regarding the comparability of Skandia's voluntary disclosure due to inconsistency. It was mentioned by users that several changes and adjustments of voluntary disclosures diminished their confidence. Frequent changes in Skandia's voluntary disclosure and the recurring restructuring of their measurements have reduced a users ability to analyse and detect the magnitude and scale of the disclosure's changes over time.

Upton (2001) states that the use of similar terminology and similar computation of nonfinancial measures would increase voluntary disclosure comparability between corporations and consistency in reporting. Such identical methods of measurements would enable comparability from one period to the next over time. Users mentioned that the problem they generally have with voluntary nonfinancial measures e.g. employee satisfaction indexes is that they remain highly company-specific. Although users do not suggest that regulatory bodies should issue more regulations and recommendations, in the users view, a certain degree of standardisation of voluntary nonfinancial disclosure would be appreciated, as it is crucial for the comparability of such information.

One potential danger that other users pointed out is that tighter regulations would eliminate a companies' flexibility in explaining their unique story to the investor community. Bukh's (2002) remarks about the experiences from the Danish guidelines illustrate that the companies' flexibility would not necessarily be in danger, but that users could make comparisons between companies with greater ease. However, it was

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corporations and academics that developed the Danish guidelines, this does not necessarily mean that the users demands have been fully met.

In conclusion, the comparability of human resource disclosures remains difficult for users due to the lack of standardisation. The establishment of guidelines for corporations to provide voluntary disclosures about human resources in a standardised manner would increase the comparability of such information for users. In relation to comparability, an implication from this dissertation would be that standardised voluntary disclosure guidelines should be developed in conjunction with users, in order to achieve not only a high degree of comparability but also of higher usability.

8.3.3 RELEVANCE OF VOLUNTARY DISCLOSURE

The concept of relevance has numerous definitions. The IASC's conceptual framework (IASC, 2000a:50) expresses that information has to be relevant for the users' decision-making process, whereas Hendriksen and VanBreda (1992) characterise relevant information as information that has a bearing on the matter at hand. In an article, Botosan (1997) puts forth a discussion on how corporate background information is relevant for investors to develop a context about corporations. Most respondents in both interview studies stated that an overall picture could not be obtained from quarterly reports, since these do not contain human resource information that build a cost and revenue context. In the user study analysts revealed that they apply corporate annual report numbers for computation of estimates for their company valuation, but they also established that they do acquire additional information e.g. about a corporations' human resources to establish a context of the corporation.

Although the IASB's conceptual framework is devoted to the qualitative characteristics of financial statements, researchers (e.g. Gröjer, 2001) noted that even voluntarily disclosed information must be relevant for users to be useful. Consequently, the voluntary disclosure description made in the conceptual framework shows that information is of relevance when it assists users to assess past, present or future events (IASC, 2000a). The FASB's Business Reporting Project (2001) distinguishes between the types of information that users need and the types that are interesting but not essential to their work. Although interesting information rarely results in key decisions, it has to be examined towards the relative usefulness (Gröjer, 2001).

In this dissertation, the user study illustrated that more detailed information about human resources is desired but absent. Therefore it could be concluded that more detailed disclosures about corporations' human resources in the form of numbers and figures would be relevant to users. According to Upton (2001) more detailed innovative metrics e.g. employee satisfaction together with more traditional metrics e.g. employee turnover can provide considerable insight about a corporation for users. In the user study, the relevance of voluntary disclosures was discussed as it is related to a reliability problem. Even though voluntarily disclosed information has a bearing at hand and therefore is of relevance for users, such information is a matter of reliability.

Obviously, users demand relevant voluntary disclosures, but they also need them as reliable as possible. FASB's Business Reporting Project (2001) comments that users need to be able to distinguish between voluntary disclosures that are reliable and those that are less reliable. Accordingly, users need to understand the measurement processes of information. Upton (2001) stated that an understanding of measurement reduces uncertainty about voluntary disclosures and therefore increases the reliability of voluntarily disclosed information, which might contribute to increased relevance. Some users mentioned the reliability of voluntary disclosures. They put forward that inconsistency and the lack of comparability of voluntary disclosures have an effect on reliability and therefore diminish the relevance.

In brief, the relevance of voluntarily disclosed information should, like the relevance of financial information, assist users in making decisions. This study, however, illustrates that users regard the relevance of voluntary disclosures as being affected by the deficiency in current standardisation and inconsistent availability. The user study revealed that users obtain a more detailed picture about a corporation's human resource development from numbers and figures rather than from general descriptions in text. Despite the current lack of standardisation, one proposition may be that corporations should disclose detailed human resource information as numbers and figures accompanied by text, for a more transparent picture about the corporation and increased utilisation of such information. One implication that could be derived from this dissertation is that voluntary disclosures could obtain greater relevance, if the providers would issue information over time and reveal how numbers and figures are measured

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and computed. Then users would have the chance to evaluate past, present and future events that they can base their decisions upon.

8.3.4 SUMMARY

The voluntary disclosure of nonfinancial information and about human resources is important for users to derive a broader context on corporations. Additionally, disclosed information can be potentially valuable for improving the users understanding about corporations, as the information gap between users and providers narrows. Due to the lack of regulations, corporations apply different disclosure strategies. It was shown that a reactive disclosure strategy is more appreciated by users than a proactive strategy. More standardisation of voluntary disclosure could reduce the users' costs of gathering and analysing information as well as the corporations' costs of disseminating information, as the production of unnecessary information diminishes. Users should decide whether voluntary disclosure is relevant for them. Due to the fact that voluntary nonfinancial disclosures currently remain highly company-specific, their reliability is affected by the lack of standardisation and inconsistency. Since corporations adopt different disclosure strategies, the comparability of nonfinancial disclosures is compromised.

In a more general sense, the empirical findings of this dissertation indicate that corporations and regulators should be aware that even voluntary disclosures about human resources do have the potential to enhance the users' overall perception about the corporation's performance. The fact that users do build a clearer picture of a corporations' overall situation by considering human resource disclosures, this implies a general demand on the quality of such information. Consequently, the results from this study show that regulatory bodies should focus their attention on greater standardisation and relevance of more specific disclosures, amongst them human resource disclosures, in future regulations. Comparable facts and figures of voluntary disclosures would increase users' understanding about the corporations' overall situation.

8.4 WIDER SIGNIFICANCE

Olsson and Sörensen (2001) indicated that even the most specific research has the potential ability to draw some general conclusions. Therefore, this section puts forward a comprehensive discussion towards the study's wider significance.

One source of criticism could be that the empirical basis for this dissertation only reflects voluntary disclosure of one specific context, which is highly unique, with possibly a low impact on the investment decision process, and with a very small sample of corporations and users. Such potential criticism can be opposed, as the empirical results of both interview studies revealed that neither the providers nor the users perceived voluntary disclosure in general, coupled with human resource disclosures specifically, as being unique. Prior disclosure research (see Section 2.3) covered voluntary disclosure by regularly including human resource items. Researchers predominantly tackle voluntary disclosure problems by designing statistical studies of large samples. In this dissertation a different approach was chosen in order to open up existing research by exploring these issues in the broader context. In this dissertation, emphasis was not put on the insurance industry but on examining two corporations, Allianz and Skandia. Nevertheless, the theoretical fundamentals of Chapter 2 are far from being specific to both corporations and the insurance industry.

It has to be remembered that the comparisons between providers and users that are encountered in the present context are distinguishing for this dissertation. Due to the different qualitative and quantitative methods it cannot be guaranteed that all the empirical findings on voluntary disclosure about human resource encountered in this study will be possible to replicate exactly.

Nevertheless, the developed research framework of the tripartite approach ought to be of sufficient relevance in other settings to increase the current understanding of voluntary disclosure in general as well as human resource disclosure in particular. Research of Adrem (1999); Meek, Roberts and Gray (1995); Gray, Meek and Roberts (1995b) as well as Cooke (1989) pointed to the importance of encountering knowledge not only the amount of voluntary disclosure but also the users and providers ability to enhance the understanding on voluntary disclosure. Consequently, the tripartite approach is generally feasible for all publicly listed corporations regardless of industry, nation or business environment.

This dissertation has shown the importance of voluntary disclosure in the light of human resource disclosures that need to be considered carefully by the providers for their annual reporting practice as users do regard this information as valuable information in their efforts to piece together an

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overall picture of the corporation. The conducted research in this dissertation touches upon a more generally expressed concern that also caught the attention of other research areas, e.g. social accounting (Gray, 2002) or environmental reporting (Gray et al., 1993), of how to understand the practice of voluntary disclosures. Although this dissertation introduced a new approach to disclosure research on how to study voluntary disclosure, this approach is as easily applicable to other voluntary disclosure types as well as other corporations and different industries.

8.5 FUTURE RESEARCH

Suggestions for the selection and design of future research are central to this section. The research in this dissertation encompassed three partial studies on the information, provider and users, which provided the necessary insights to establish a picture about the current practice. Due to the empirical findings, the experiences made, and the dissertation's limitations, many options seem to be available for future inquiry.

The first thought that comes to mind, when thinking about future research issues, is to pursue the dissertation's research approach further to extend the studies to a larger sample of corporations, analysts as well as communication vehicles. Despite the nature of the insurance industry, an extended sample containing corporations from various industries would be interesting to study. This would allow a comparison between the annual reporting practices of disclosure about human resources between not only corporations but also different industries. Since corporations' increasing use of electronic media for the distribution of information to the investor community, including newsletter emails and the Internet as information vehicles this area could extend the dissertation's approach. To study the direct interaction between the investor relations' employees with analysts in private meetings would be very interesting, but due to the experienced access problem this would be rather hard to achieve. Nonetheless, on a larger scale, the interaction between provider and user might be studied on corporations' general analysts meetings or investor relations' road-shows, as the providers of information here have the opportunity to interact with users.

A different approach, unlike the case study approach chosen for this research, is practiced in mainstream accounting. This would imply that future research could study human resource disclosures by following the

stream of previous research, such as Marquardt and Wiedman (1998) or Lang and Lundholm (1993), to examine the characteristics of disclosure by statistical means. A statistical study on human resource disclosure could be used to see if the results from this dissertation might be found in a larger sample.

This dissertation did not focus on the costs of disclosure from a macro perspective. However, all decisions regarding voluntary disclosure in one way or another have economic consequences for the provider and the user of information, which can be direct costs or indirect costs. For users, direct costs are the cost of gathering and analysing information, while corporations do have costs of producing and disseminating information. Indirect costs are diffuse and difficult to measure, as the disclosed information might be of value to competitors (Lev, 2001). Consequently, a cost perspective of the disclosures' costs would be interesting to study for standardised and non-standardised disclosure. This dissertation raised some possible questions for future research. Does non-standardised voluntary disclosure imply higher costs for users in gathering and analysing such information? Could a reduction of cost of capital be achieved with greater standardisation of voluntary disclosure?

What type of information to disclose was a question that frequently put in an appearance in other studies as well as in this dissertation. Even where detailed disclosure is mandated, corporations do not articulate clearly what they actually disclose. This gets even more nebulous when it comes to voluntary human resource disclosures. Detailed disclosures about the board of directors, management structures or employees are often lacking or barely comparable. The Danish guidelines for intellectual capital statements illustrates that the standardisation process is already on the way. This dissertation revealed that a user perspective could result into disclosures that are more useable for the market. Consequently, this study proposes that future research should be focused on asking users what information they would like to have disclosed and in what format.

This dissertation has just shown one way of how to carry out research on human resource disclosures in annual reporting practice. There is plenty of room left for further studies' exploration of several potential dimensions of the fore mentioned suggestions for future research, as they represent only a small glimpse of the possible research areas.

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