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Human Resource Disclosures

- A Comparison of Information, Providers and Users in Two Corporations

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Abstract: This paper is concerned with the relationship between information, providers and users of human resources disclosure in advanced annual reporting practice. Opposing prior disclosure research the focus of this study is not plainly limited to the pure amount of disclosure about human resource information made in corporate annual reports. The centre of attention is also to analyse and compare users' perception of voluntarily disclosed information on human resources with providers' intentions of making human resource information publicly available. Thus, it is aimed to establish a picture about human resource disclosures in annual reporting practice. Until now, there is no study available offering a multifaceted illustration on human resource disclosure. A comprehensive review of previous disclosure literature showed that information, providers and users have been studied separately. This study combines different aspects of prior research by applying a tripartite model studying information, providers and users together. The primary purpose of this research 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. The results from this study contribute to better understanding, possibly reducing deficiencies between providers and users of voluntarily human resources disclosures.

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).

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, 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 value of knowledge-based companies could be 10 to 100 times its 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

[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).

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 value[2] 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.

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

[2] Now, in the act of writing up this article, 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.

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 companies[3] 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.

Research Issues

Bearing in mind the previous discussion, the disclosure of intangibles and human resource disclosure in particular, are often described and thought of as problematic due to the researchers limited understanding of such information. The debate about the insufficient understanding and the resulting information gap is taken by this study as a starting point. 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 study, 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 development of a subset of three research questions that are addressed in this study. The first research question's intention is to analyse the amount of voluntary disclosure in corporate annual

[3] 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.

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 study 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 study examines corporate annual reports over a five-year period. 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 study is important for a number of reasons. Although proposed by various academics there is currently no study available that compares the understanding about human resource disclosure of providers to that of users or even between companies. This is one reason why this study 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 study will contribute to the knowledge about corporate voluntary disclosure practices that may assist to reduce possible deficiencies between providers and users of disclosed information as well as between companies.

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 illustrates 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.

Research Approach

Disclosure in corporate annual reports has been identified as *"… the companies' need to provide information externally to investors in order to attract capital"* (Frederiksen and Westphalen, 1998:287). Over a 40-year time span, a large amount of research on various and different aspects of disclosure has been accumulated, which in this study is referred to as disclosure research. The nature and extent of disclosure research often engage in the analysis of the user[4] 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*[5]. Very few authors carried out disclosure studies taking a *company approach*[6] (c.f. O'Dwyer, 2002). Common to both approaches is that they only take a single perspective without examining the other parts involved. Despite the interesting nature of these studies, taking either a company or user approach, no present disclosure research is available that has taken a tripartite approach where users, providers and the information are considered as interrelated parts. Therefore they need to be analysed together in order to obtain a deeper understanding on the practice of voluntary information on human resources in corporate annual reports.

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

[4] 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.

[5] 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.

[6] 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 CEO's disclosure beliefs on the volume of disclosure about corporate earnings and strategy, investigating the association between managerial disclosure beliefs and firms' disclosure activities.

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

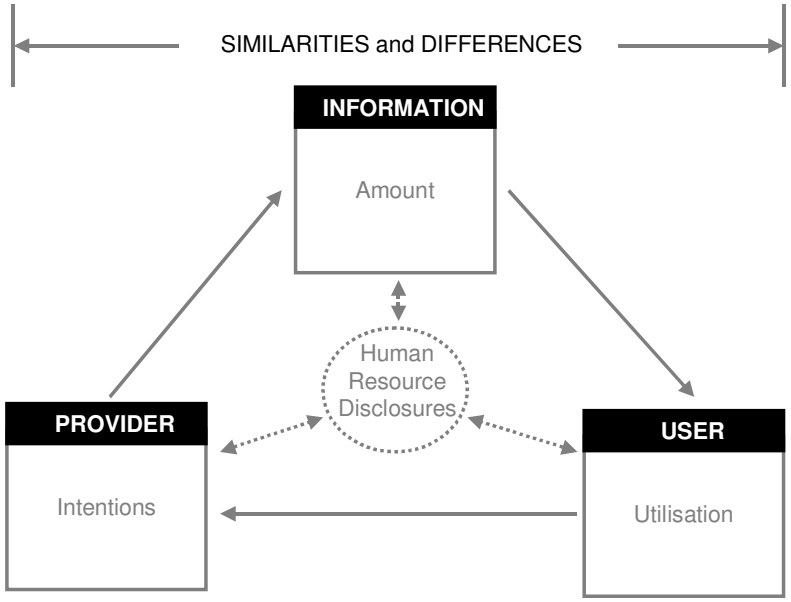

Figure 1 Tripartite model of human resource disclosure practice

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

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

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

The model as described above exemplifies how this study aims to generate a picture of voluntarily disclosed information about human resources in annual reporting practice. The tripartite approach embarks with a report study examining the general amount of

voluntary disclosure in corporate annual reports, which includes human resource disclosures. This is followed by a provider study investigating the intentions that providers have with their disclosed information. The user study elaborates on the users' perception and utilisation of disclosed information.

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

Research Methodology and Study Design

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

The overall approach of this study is a combination of qualitative and quantitative research. The application of both qualitative and quantitative methods is not conflicting in itself. Glaser and Strauss (1967) reasoned that both forms of data is useful and can supplement another to increase understanding of the studied. However, the purpose here is not to pigeonhole the present study into a certain research approach but rather to bring forward its most important features. The distinctiveness of qualitative research has certain implications for the write-up, as qualitative research designs are typically not intended to prove hypotheses or test a certain theory (Parker and Roffey, 1997). This does not allow the researcher to ignore theoretical perspectives of previous work cited in the literature review, but it permits the researcher to develop concepts to understand patterns in the data.

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

This study is limited to the analysis of voluntarily disclosed information provided in corporate annual reports. The annual report is just one of the many communication vehicles that a company can use to externalise information to the investor community.

Although other communication vehicles like interim reports, press releases on the Internet or shareholder e-mail are available faster, the corporate annual report contains the accumulated corporate information about development and events that occurred during the reporting year (Cooke, 1989). Many studies found evidence that the corporate annual report is the most important corporate report for company valuation (e.g. Hooks et al., 2002; Epstein and Pava, 1993; Marston and Shrives, 1991; Lee and Tweedie, 1990).

The type and extent of information disclosure of interest for this study is limited to voluntary disclosure. Voluntary disclosure is defined as additional information that is disclosed over and above the mandatory disclosure requirements, which are defined by national accounting regulations (Gray et al., 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 study to start off from the mandatory requirements of the existing IAS. The Swedish accounting standard, which Skandia uses, is to be harmonised with IAS, which Allianz has applied since the 1998 annual report. As a consequence of the current lack of specific accounting standards for insurance companies, this study will not go into detail with international insurance accounting diversity.

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

The focus for the user study is on financial analysts, as it serves two practical functions. One is that analysts are identifiable as a group and the other is that they are regarded as financial intermediaries serving advisory functions (Beaver, 1998). An important and decisive factor for a successful user study was the comparability criterion, which demanded intensive knowledge of both corporations. To see whether analysts where covering both corporations, or not, a list of analysts covering Allianz was used to crosscheck this criterion. The original list of analysts covering Skandia consisted of 21 sell-side analysts working for 17 different financial analysts firms and brokerage houses in three different countries. The crosschecking with the Allianz list resulted in 18 analysts working for 15 different financial analysts firms or brokerage houses that were covering both corporations (see Figure 2).

TYPE OF STUDY	SAMPLE CHARACTERISTICS	
Provider Study	• 3 interviewees selected in total • 2 in Stockholm • 1 in Munich	Codes C1 – C3
Report Study	• Skandia's annual reports from 1996 - 2000 • Allianz's annual reports from 1996 - 2000	
User Study	• 18 interviewees selected • 14 brokerage houses and analysts firms included • All interviewees are sell-side analysts • 11 in London, 4 in Stockholm, and 2 in Düsseldorf	A1 – A18

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

Fig. 2 Sample characteristics and participating companies

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

During these contacts any unclear situations were resolved, and is 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 as excellent knowledge about the corporation that other analysts in their team are covering. This eliminated also some concern about Swedish based sell-side analysts as they were specialised merely on the Scandinavian market. Here, the contact call revealed that even when they were not covering Allianz actively they had good knowledge about Allianz due to competitor analysis.

In the end, this resulted in a maximum of 21 interviewees from a maximum 17 brokerage houses and financial analysis firms. Numerically it may appear to be exactly the same constitution as the original Skandia list but it is not. The variations are explainable due to changes of analysts the within insurance analysts teams. However, each analyst on the final list was sent an introductory letter with an interview request that would take approximately 30 minutes. The letter was followed up by a telephone call, where the interviews were booked. Three analysts were not willing to be interviewed, which reduced the final participant list for the user study to 18 interviewees from 14 brokerage houses and financial analysis firms.

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

The tripartite nature of this study suggested not only to interview provider and user of voluntary disclosed information but also to examine the actual amount of voluntary disclosed information in corporate annual reports. The annual report represents the collection of corporate information that has been issued during the year (Adrem, 1999).

This collection of corporate information is prepared by the board of directors and consists of an administration report, balance sheet, income statement, statement of

changes in financial position and notes to the financial statements (Cooke, 1989a, 1989b). Specifically, the administration report must contain information on employees and in fact on all significant events that have occurred during the year or after the financial year.

A review of prior research has shown that a disclosure scoreboard is a useful research instrument for measuring the extent of voluntary disclosure. The disclosure scoreboard developed for this paper is based on a disclosure checklist used by Adrem (1999), which is primarily influenced by the IAS recommendations on financial reporting published by the IASC, and the disclosure checklist used by Meek, Roberts and Gray (1995). The examination of previous studies applying a disclosure scoreboard brought to light that the vast majority analysed just a single report year. Very seldom research in this area considered the examination of a longer period. The report study in this paper regards the analysis of a five-year-period of time as a useful means to obtain valuable insight about the development of voluntary disclosure items over time.

The disclosure checklist development for the report study started with 224 potential voluntary disclosure items from Cooke's (1989a) disclosure checklist, which due to accounting harmonisation from the EU directives was reduced by 25 disclosure items. The remaining items were then compared with the checklists from Adrem (1999) and Meek, Roberts and Gray (1995). Finally, the compilation of voluntary disclosure items was compared with the disclosure checklist from PricewaterhouseCoopers (2000), recognising the IAS requirements for the year 2000, and reduced the voluntary disclosure checklist for the report study to 151 voluntary disclosure items.

Some human resource disclosure items were not found in earlier disclosure studies but have been discussed in the literature. Edvinsson and Malone (1997) outlined a very detailed list on human focus indices, from which 6 additional disclosure items were derived, as 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 5 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 checklist.

The analysis of the disclosure scoreboard (see Appendix A) 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 the weighting of information is not relevant for the amount of disclosure. Either a company disclose a voluntary item or did not disclose the information, which led to that the amount of disclosure is measured by the number of sentences. 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 score achieved and not as a percentage of the total score, since the categories do differ in the number of items and are likely to be misinterpreted.

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

The empircial data of the provider study was collected from the semi-structured interviews (see Appendix B). Due to the fact that the interviews were conducted with three employees in total from both corporations it was decided to present the answers different to the user study. Generating categories, as done for the user study, and presenting them in tables as descriptive statistics was not considered being inappropriate per se but the presentation of the empirical material could emphasise on the priorities of the given answers by stating quotes from the interview accounts. This technique allows showing a considerable latitude of the empirical data, which in turn can be contribute to a deeper understanding on the studied phenomenon. Due to the fact that only three interviews were conducted in the provider study this technique was favoured instead of the presentation of generated categories in tables as done for the user study.

The picture of current human resource disclosure practice will be derived from a comparative analysis of the empirical analysis from the previous three studies. Glaser and Strauss (1967) discuss that a comparative analysis is a general method to illuminate evidence from the empirical material with findings from comparative groups. Practically, in the tripartite approach findings from e.g. the user study are compared with the empirical evidence from both the provider study and the report study. In that way similarities and differences between the intention, use and existence of information are analysed.

Context of the research

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

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

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

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

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

Empirical findings from the Report Study

The empirical evidence obtained from the disclosure scoreboard (Appendix A) makes it possible to get a clear picture of both the amount of information voluntarily disclosed by Skandia and Allianz and the development of their levels of disclosure over a five-year period. In this paper only selected empirical results are discussed in detail, those who are explicitly dealing with human resources, whilst remaining categories are only illustrated on an aggregated level.

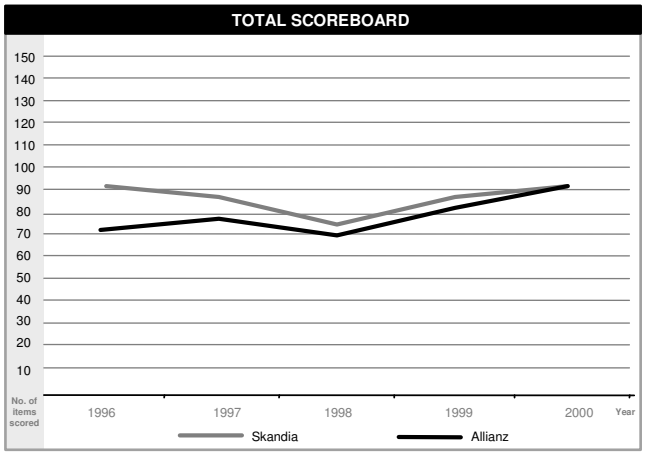

Fig. 3 Aggregated Results of the Total Scoreboard

Such is the presentation of all the evidence found in the total scoreboard, which 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 3).

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.

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 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 4).

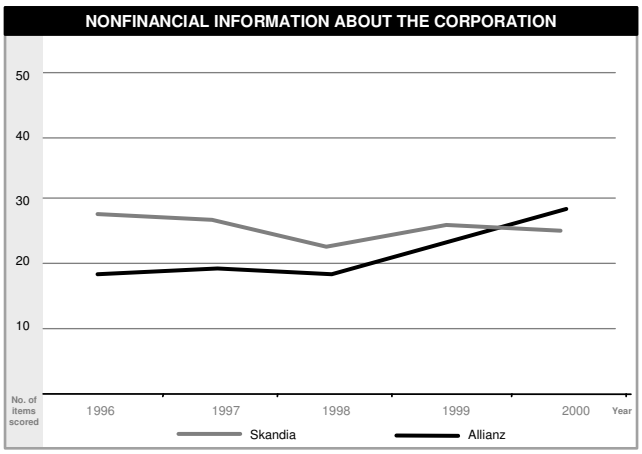

Fig. 4 Nonfinancial Information about the Corporation

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. 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.

Two subcategories from the main group nonfinancial information about the corporation are explicitly dealing with human resources. Consequently, they present detailed information about both corporations human resources. The subcategory *information about directors* evaluates the voluntary disclosure information about directors and consists of 11 items. As Figure 5 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.

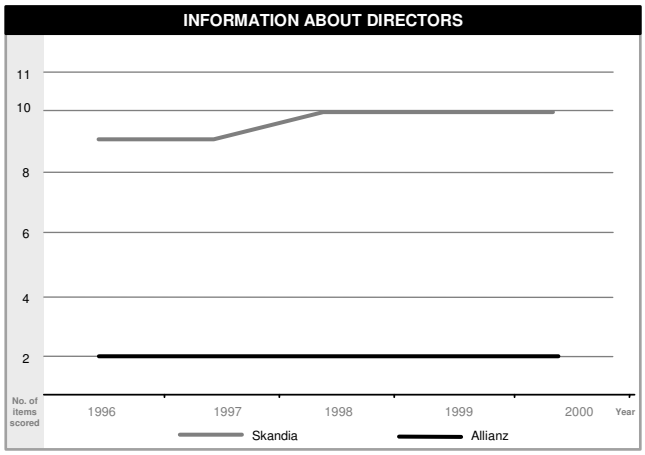

Fig. 5 Information about Directors

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. 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.

The subcategory about employee information is the largest in the group of nonfinancial information about the corporation accounting for a total of 27 items.

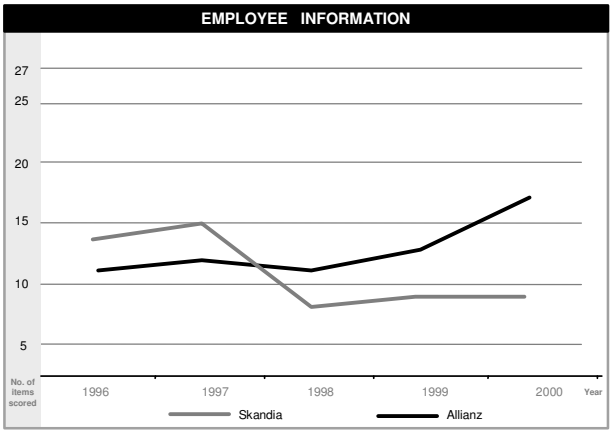

Fig. 6 Employee Information

In their 1996 annual report, Skandia disclosed information about their employees scoring 14 items, indicating 55% of the maximum score (see Figure 6). In the following reporting year of 1997 this amount increased by an item to a total sum of 15 items. 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 categories as this information remains unreleased since the 1998 annual report.

Empirical findings from the Provider Study

This section descriptively presents a selection answers that the company respondents made during the interviews for the provider study, applying the interview guide as presented in Appendix B. For this study the heads of investor relations from both corporations have been interviewed. Analysts pointed them out during the interviews, which answers will be presented in the chapter to follow, 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' functions as the corporations interface to the investor community answering their questions and passing information demands further to the corporational financial information group.

The answers of this study give evidence that both corporations are especially aware of the importance of disclosure on human resources. All respondents stated that human resources have for their corporations a very important position. Although the expressed importance of human resources to Allianz the Allianz participant clarified that they have not thought about how to valuate 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 of more general 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's possibility to provide a holistic picture of the corporation it became important to Skandia also to communicate developments in the human resources to the investors.

A sub-question was asking to deliberate on the corporations' strategy on human resource disclosure. Allianz's participant accentuated that the management of human resources is very important for Allianz speaking out that the employees are the motor of corporation. Therefore, Allianz interviewee reasoned that it is important to have highly educated and trained staff since they sustain the corporation's competitiveness. Allianz respondent assured that a written down strategy is also absent for human resource disclosure. He concludes that the disclosed information on human resources that are contained in Allianz's annual reports currently seem to be sufficient, as investor did not asked for more information on human resources or other intangible assets. One of Skandia's respondents expressed 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. Finally, he summarises that the basic strategy to voluntarily disclose information on human resources, as well as for other intangible assets externally, is that they have to be of value to increase transparency.

On the sub-question if investors use human resource disclosures in their valuations the Allianz interviewee concluded that as long as no questions are asked by investors he would say that they do not use such information. He believes that is not very likely that analysts would take this information so serious to base their investment decision on it. Skandia's interviewees reasoned completely different compared to Allianz's interviewee. The empircial evidence provides insight that Skandia's respondents consider all information, which may somehow contain information on intangible assets and human resources, as relevant as all the other information. They pointed out that every analyst is interested in additional information and will take notice of any provided information. Further, they concluded that if information is internally important to corporate managers, analyst have not a chance of totally ignoring 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 sought 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 human resource information should be correct, trustworthy, and it should fill the function to enhance transparency. The disadvantageous opposite would emerge if human resource information would be incorrect, therefore not to be trusted, thus eroding the trustworthiness of the entire company.

Empirical findings from the User Study

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's or Skandia's human resources. All respondents made a statement on this question, which contains three main categories as illustrated in Figure 7.

Categories	No	Not really different	Yes
No. Analysts	**13**	**2**	**3**

Fig. 7 Use of different model for valuating human resources disclosure

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

Elaborating on the Pros and Cons of human resource disclosure the question was addressed whether Allianz or Skandia benefit from voluntarily disclosing information about its human resources. Figure 8 illustrates the results from this question in five categories.

Categories	Yes	Probably	More beneficial for Skandia	Probably not	No
No. Analysts	**6**	**3**	**1**	**4**	**4**

Fig. 8 Benefits from voluntary disclosure of human resource information.

A typical quote for the "yes" category:

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

Comments that were collected in the "probably" category:

> *I think that this has a rather marginal significance for the stock market, to be honest. .... I think, that this has an importance in another association for valuation. We are looking on*

> *growth and other types of ratios, which maybe take good human resources into account. But I think that one has to see this apart from a direct valuation of a company. (A16)*

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

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

This question generated interesting empircial evidence. While Figure 8 showed that the vast majority of the respondents do not consider human resource disclosure for valuation, the data from the question in this paragraph reveal that more than the half of the interviewees regards the disclosure of human resource information being beneficial or at least probably beneficial. This seems to indicate that voluntarily disclosed information has an effect on analysts' context building about corporations, which was also articulated in Ellis and Williams (1993) framework.

A more general question was addressed to the interviewees whether they can think of advantages that Allianz or Skandia might obtain from the voluntary disclosure about their corporations' human resources. There was no limitation to the number advantages but usually the interviewees mentioned one or two advantages. The analysts' answers are aggregated in Figure 9

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**

Fig. 9 Advantages of voluntary disclosure on human resources

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

Since all respondents made a statement about potential advantages it seemed to be a natural consequence to ask the participating financial analysts about disadvantages that

Allianz or Skandia could get from voluntarily disclosing information about their corporations' human resources. As the previous question there were no limitations to mention one advantage only and some financial analysts pointed out more than one disadvantage. Every respondent made a statement on this question, which constitutes Figure 10.

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**

Fig. 10 Disadvantages of voluntary disclosure on human resources

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

An Analysis of the Assessment of Human Resource Disclosure

By analysing the similarities and differences between information, providers and users of human resource disclosure, as presented in Figure 1, a simplified holistic picture of human resource disclosure is aimed to be generated.

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

Early human resource accounting research (e.g. Heikiman and Jones, 1967; Flamholtz, 1971; Lev and Schwartz, 1971) tended towards putting human resource disclosures on the balance sheet or elsewhere in the financial statement. Allianz's respondent elucidated clearly not having considered human resource disclosures in terms of measuring the economic value of employees performance like Fitz-enz's (2000) human resources performance measures. Although not externalising specific human resource measures, Allianz's interviewee referred to that voluntary disclosure about human resources gained importance due to increasing amount of general information. This line of reasoning is strongly supported by the report study's empirical

findings, which reveals that Allianz's quantity of voluntarily disclosed human resource information strongly improved throughout the years.

The empirical evidence from the report study showed quite the opposite development for the voluntary disclosure about human resources in Skandia's case. In the past three corporate annual reports from Skandia the amount of human resource disclosures strongly decreased. This outcome somewhat surprised as it opposed the answers from the provider study were both Skandia interviewees stressed the importance of providing human resource information in corporate annual reports because this subject is important internally within Skandia's organisation. Skandia's decreased scores in the report study, however, might be explained by a change in the information content's reporting in human resources in more general terms and no longer mentioning specific issues e.g. number of trained employees. The FASB's projected framework concluded that a corporation might lower the quality or quantity if the risk of competitive harm outweighs the expected benefit from voluntary disclosures (FASB, 2001; p. 15).

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

Skandia's strategy for providing voluntary human resource information started off as an internal process. Through the development of Skandia's Navigator model additional information about human resources was voluntarily externalised in the corporate annual reports. Skandia's interviewees named the general disclosure strategy as being proactive. The proactive disclosure strategy generally implies that information is voluntarily introduced to users before the market demands it. Skandia's intention with a proactive disclosure strategy corroborates with FASB's (2001) insights into enhancing voluntary disclosures, the idea behind voluntarily disclosed human resources information is to increase transparency for the users, which in turn will lower the cost of capital. Consequently, the evidence from Skandia's interviewees showed that voluntary disclosures about human resources make an impact on users, as it helps to constitute the overall picture about a corporation's business.

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

The findings from this research support the FASB Business Reporting Research Project's (FASB, 2001) results that there are many ways of how voluntary disclosures, including voluntary human resource disclosures, help to describe and explain investment potential to users. The provider study showed that both corporations

assessed different disclosure strategies, but they generally served the users demand to improve their understanding about the corporations' background by examining additional information on human resources.

The providers of disclosures have to consider several dimensions that disclosed information would have than simply what information to disclose (Gibbins et al., 1990). Unlike mandatory disclosures, voluntary disclosures do not directly point out the beneficiaries or what kind of negative impact they might have. According to Lev (1992) voluntarily disclosed information has three receiver parties. One party is the investors' community, which might reduce their cost of search for information due to voluntary disclosure. A second party would be made up from people inside the corporation's organisation, as Hendriksen and VanBreda (1992) emphasised that employees do read corporate annual reports to get informed about the state of the corporation's development and policies. Last but not least, competitors would also receive voluntarily disclosed information. Consequently, what is valid for general voluntary disclosure do hold for the more specific information about human resources.

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

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

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

of both corporations stated another aspect, as careful consideration will create trust in the corporation in the long run.

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

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

In a nutshell, this section tried to shed light on the similarities and differences as well as the pros and cons that may arise for corporations when voluntarily disclosing human resource information. Two of the main issues outlined were elucidating human resource disclosures role towards cost of capital as well as the received credibility by users. Summing up it can be assumed that providers and users regard human resource disclosures if they are correct, trustworthy, and fill the function to enhance transparency. This would lead to increased trust and lower cost of capital. The contrary would be that voluntarily disclosed human resource information might be considered disadvantageous. Eroded trustworthiness could fall back on the overall perception of the corporation causing increased cost of capital.

Conclusions

The overall research purpose of this study 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 to attain a deeper understanding about voluntary human resource disclosures.

Consequently, the tripartite approach as depicted in Figure 1 can be used to structure a pair-wise comparative analyses of the empirical findings from the three studies. 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.

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 4) 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 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.

Some studies (c.f. Botosan, 1997) argue that it is difficult to quantify the exact impact of voluntary disclosure on the users' decision-making process. The findings from the user study reveal that more than half of the interviewees regard human resource disclosure as being somewhat beneficial. While the majority of the respondents did not made any specifications, one analyst named especially Skandia as being the corporation that benefits most from human resource disclosures (see Figure 8). However, the report study showed in Figure 6 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 user study findings in Figure 9 and Figure 10 list many advantages and disadvantages that users might receive from more detailed human resource disclosures. Analysts' valuations could be affected negatively in the short-term by detailed human resource disclosure e.g. a too large administrative staff or overaged salesforce. This in turn, would affect the corporation's cost structure, and diminish the revenues. On the other hand, users also referred to potential benefits that might occur due to increased human resource disclosure e.g. higher valuation and trustworthiness.

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.

Finishing off the pair-wise analysis is 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 cultivate management relations (Francis and Philbrick, 1993). The feedback through financial analysts' personal meetings was also acknowledged to be very important for both corporations in order to sense if users correctly understand disclosed information as it was intended by the providers. According to the interviewees from the provider study, such user feedback contributes to increased disclosure quality. However, several analysts criticised that Skandia's human resource disclosures are often too vague, as they lack numbers and figures, which could help analysts.

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

The empirical evidence from the user study (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. 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 of this study 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 like disclosures about human resources 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 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.

Appendix A

	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

Appendix B

Relevance of Corporate Annual Reports

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

2. Who are the users of your issued information about your company?
   - Do you know what kind of information the users acquire?
   - What medium do the users prefer?

3. How important is it for your company to issue voluntarily disclose information in relation to financial statements information?
   - Increased for you company the amount of disclosure information during the last years?

Corporate Accounting

4. How does your company adapt its accounting system to foreign accounting requirements?

5. How are differences in foreign accounting requirements treated?

6. Do you regard differences in accounting regimes problematic to show a true and fair view of your company?

Company's Information Behaviour

7. Does your company have an explicitly defined strategy for information disclosure?

8. How important is the communication with investors?

9. How important is it to your company to disclose information on human resources?
   - 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 disclosing information on human resources?

10.S Why is Skandia emphasising on intangible assets and human resources?
   - 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 you did not use this term since the 199 annual report?
   - Why is Skandia providing the embedded value?
   - Is there a direct link between the Navigator model and the embedded value?

10.A Why is Allianz not emphasising on intangible assets and human resources?
   - Why is Allianz not showing more about its human resources than in its present form?
   - Does Allianz have an internal business process model comparable to SkandiaE's Navigator model?
   - Why didn't Allianz develop Intellectual Capital reports?
   - Is there no 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

11. Do you find an important information content difference between corporate annual reports prepared according to IAS to those prepared according to domestic GAAP?

12. Do you find that investors make a difference in their valuation between companies who voluntarily disclose more information about their intangible assets and human resources compared to those companies who do not?

Market efficiency

13. What information about intangible assets and human resources should a company issue?

14. Where should information about intangible assets and human resources be published?

15. Are more regulations through laws and recommendations needed for the disclosure of companies' intangible assets?

Appendix C

Relevance of Corporate Annual Reports

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

Company Analysis & Information Gathering

3. Do you valuate company's voluntarily disclosed information on intangible assets?
4. Do you use the same valuation model for all companies, or do you make modifications?
   - Do you have an in-house model for valuation of voluntarily disclosed information?
5. Mention important information sources that you use when gathering information about a company's intangible assets?
   - Do you assemble the information yourself, or do you get hold of it within your company?
6. Do you use a different model valuating Allianz's or Skandia's disclosure on human resources?
   - How important is consistency in a company's disclosure policy?

Level of Disclosure Allianz & Skandia

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

Pros & Cons of Voluntary Disclosure

9. Does Allianz or Skandia benefit by voluntarily disclosing information about its human resources?
10. Is there a difference with respect to the valuation between the companies who choose to voluntarily disclose more information about their intangible assets compared to those who do not?
11. With regard to Allianz or Skandia what kind of advantages may arise with voluntary disclosure on human resources?
12. With regard to Allianz or Skandia what kind of disadvantages may arise with voluntary disclosure on human resources?

Market Efficiency

13. Are there variations in the valuation of Allianz's or Skandia's intangible assets with respect to country and stock market?
14. Is disclosure of intangible assets, especially on human resources, something that facilitates company valuation?
15. Where in the corporate annual report should information about intangible assets and human resources be published?
16. Are more regulations through laws and recommendations needed for the disclosure of companies' intangible assets?

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