

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Statement of The Problem**

In modern times employees have been identified as an important and valuable economic resource. This is because the success of business largely depends on their dedication, commitment, and constant striving (Lee, 1981: p.16). Employees of different levels need various information to carry out their tasks with maximum effectiveness and for the fullest possible commitment to the objectives of the company. Employees may use financial and other information to assess risk and growth potential of a company and therefore, job security and future promotional possibilities and also as a basis for making contractual wage and employment benefit demands (Lal, 1985: p.73). Therefore, keeping them in the dark success and progress of the business can not be assured. Moreover, employees have been recognized as stakeholder and user of accounting information and they have the right to know about the doing of the organisation (Hussey, 1988; Bollom, 1984; Lewis et al., 1985: p.558; and Gupta, 1995).

Traditionally, corporate accountability was defined mostly in relation to the interests of shareholders, creditors and Government. In recent times, corporate accountability towards wider social interest groups is actively considered in many countries (Gray et al, 1987). In Western Europe, the industrial relations and the related employee involvement and motivation issues were important, so that there was more emphasis on employee information (Hill, 1990).

Researchers have advocated that reporting financial data to employees is a valuable addition to the quality of corporate life, the benefits to management justifying the costs of disclosure. However, the credibility of such assertions has not been established. The specific benefits to employees and management which materialize as a result of reporting to employees have not been clearly identified and verified by empirical evidence (Lewis, Parker & Sutcliffe, 1984a: p.232).

In some countries management are legally liable to provide information to trade unions for collective bargaining though not to individual employee, but yet, the voluntary practice of preparing and issuing employee reports to an organisation's work force is now well established throughout many countries, being it is considered beneficial to the companies and to the employees also.

In USA, approximately 60% of the companies provide formal report to employees, generally on a routine basis quarterly or annually (Brown & Trumble, 1995: p.46). In Japan, information is shared with unions and employees through Joint Consultation Committee (JCC). In a study, Ministry of labour (1985) found that 72% of 3800 private enterprises with 100 or more permanent employees and 88.4% of the firms with permanent employees of 1000 or more reported they have a standing JCC (Morishima, 1991b: p.37). Approximately one-third of the large Australian companies produce a separate annual report addressed to their employees. Companies in France, Holland, Germany and Norway are required to report to employees. In United Kingdom, more than half of the larger companies voluntarily produce such a report (Bollom, 1984: p.51). In another study, it is found that 60% UK companies provide special or simplified reports to the employees (Maunder, 1981). In a survey among New Zealand stock exchange enlisted companies, it is found that 22% of the companies produce employee reports (Firth & Smith, 1984).

In India, it seems that the practice of reporting financial and other information to employees has not received desired attention from the practitioners and researchers, though such reporting may have some positive impact on industrial relations, companies and employees

may desire it and there may have some practices among the companies. However, such propositions need empirical evidence. Therefore, it is very important to investigate the views of companies and employees on employee reporting, its possible effects, the present practices in India (if any) and the related issues. The following are some of the questions which the present study sought to examine through empirical study in India :

- (1) What do the employees and companies think about employee reporting?
- (2) Is there any employee reporting practices in India ?
- (3) What are the possible effects of employee reporting ?
- (4) Is there any relation between employee reporting and firm performance?
- (5) Can employee reporting contribute in improving industrial relations?
- (6) Is legal provision required for employee reporting?

## **1.2 Justification of The Study**

The industrial arena of India is characterized by various problems such as industrial disputes, low productivity, absenteeism, turnover, etc. When disputes arise, the whole production process comes to a stand still. In India average number of industrial disputes during 1991 to 1995 was 1387, workers involved in those disputes were 1.01 million, which resulted in 22.05 million man-days lost (Pocket Book of Labour Statistics & Indian Labour Journal). Employee turnover being another problem has various costs to the firm including recruiting and training costs, complications in planning and operations, possible decrease in goodwill (Waller, 1985). Absenteeism is undoubtedly one of the major problems of industry. The rate of absenteeism ranges from 13% to 30% with seasonal variations. In addition to the loss of worker's income and efficiency, this results in a big production loss (about 5% to 25%) and productivity and thereby shatters the economy of the country (Mamoria & Mamoria, 1995).

These problems emphasize the need for evolving some ways and means to control and minimize. It is possible that provision of information to the employees may contribute in solving these problems. This proposition is supported by some research findings in different countries.

Some studies claimed that employee reporting will improve industrial relations, employee motivation, productivity, employee commitment and reduce absenteeism, turnover, industrial disputes & resistance to change (Foley & Maunders, 1977: p.27-34; Maunders, 1981; Pope & Peel, 1981: p.139-47; Hussey & Marsh, 1983: p.604; Bollom, 1984: p.51; Freeman & Medoff, 1984). In an empirical study Morishima (1991a) found that when firms engage in increased information sharing, negotiations become shorter and easier and unions accept lower wage increase. There is a positive association of information sharing with profitability, productivity and a negative association with labour cost (Morishima, 1991b). The motivation behind the voluntary information disclosure to employees seems to be economic gain, including improved firm performance (Lewin, 1984 in Morishima, 1991b). Some US managers claimed information sharing with employees leads to greater productivity and higher profits, but found no relation with productivity and negative relation with profitability and cash flows (Kleiner & Bouillon, 1988). Complete sharing of information with the employees have a positive impact on labour-management relations and better negotiation settlements (Brown & Trumble, 1995).

Moreover, the economic and business environment in the country is undergoing radical changes shifting from a planned economy to a market driver economy. The protected market with licensing and import control is being replaced by a competitive milieu. The new Industrial Policy of July 1991 with consequent delicensing and phased disinvestment of shares of Public Sector Undertakings has also thrown up a new set of challenges to compete and exist. The companies are gearing up their operations and realigning their strategic plans to meet the aforesaid challenges both in the domestic as well as in the international markets. In this context, Indian companies need to improve employee-employer relations, employee motivation, productivity, profitability and reduce industrial disputes, absenteeism, turnover,

resistance to change and labour cost. The findings of the proposed study may be useful to suggest some appropriate measures for the companies and industrial policy makers and thereby contribute in industrial peace, productivity and economic development of India. In addition, the researchers and academics will also get relevant information that will be helpful for their research and teaching in the respective fields. It will also be a useful guide to formulate pragmatic industrial policy at the national level.

### **1.3 Objectives of The Study**

The main objective of the study is to assess the views of employees and companies on employee reporting, to identify its present practices and determine possible effects. However, the present study will attempt to achieve the following specific objectives:

- (1) To see whether any legal provision exists and/or required for employee reporting in India;
- (2) To see whether employees want financial and other information from their company;
- (3) To assess the views of companies towards information disclosure to the employees;
- (4) To identify the types of information required by the employees and companies feel to be disclosed;
- (5) To determine suitable method/s of reporting information to employees;
- (6) To review the present practices of employee reporting in India (if any);
- (7) To workout the effects of employee reporting on productivity, profitability, growth rate, labour cost, industrial disputes, employee turnover and employee job satisfaction of the companies;
- (8) To identify the reasons for producing and non-producing of employees reports;

(9) To measure the influence of some factors of respondents such as age, education, experience, sex and rank of employees, and types and sizes of companies, on the information disclosure, impact of employee reporting and other related issues;

(10) To make some recommendations for policy making in the light of findings of the present study.

#### **1.4 Scope and limitation of the study**

The scope of the study is confined to measure, analyse, compare and examine responses of the subjects relating to employee reporting in stock exchange enlisted companies in India. The study was conducted considering both employee and company point of view. For employee respondents workers, trade union leaders and managers are covered. Company respondents are selected considering different industry categories and geographical locations. Both private and public sector companies are taken into consideration. Data are collected through well designed questionnaires containing open and closed ended questions for the employees and companies (Appendices - A, B, C and D). Questionnaires were mailed to the subjects but not getting satisfactory rate of responses, questionnaires were also administered personally through visiting the companies. The data were collected from factories, branch offices and head offices purposively. For the data related to the performance of the companies, annual reports of year the 1995-96 were collected and used. The study however, did not cover companies not enlisted in the stock exchange.

The present study is assumed not to be free from limitations. Although adequate precautionary measures have been taken in selecting samples and collecting data for the study, yet the study suffers from the following limitations:

(1) The sample had been selected from Calcutta, Chennai, Mumbai, New Delhi and some other places. To get more dependable results, it would be better if more geographic regions could be covered. But the volume of work and the cost involved, impeded the researcher to do so.

(2) Further study with larger sample than the present one may provide more accurate results.

(3) The study did not make any attempt to evaluate models relating to information disclosure to employees.

The limitations discussed above are however, very common in case of any field study. It can be stated that, the limitations would not affect the findings of the study as appropriate research methodology and proper statistical tools have been used to overcome the limitations.

### **1.6 Organisation of the Study**

For the convenience of presentation, the study is organised in the following way:

**Chapter 1** Introduction, deals with the statement of the problem, Justification, Objectives and scope and limitations of the study;

**Chapter 2** presents theoretical aspects including concepts and definitions, development of employee reporting, legal basis for information disclosure to employees, claimed advantages of employee reporting , possible contents of employee report, costs and benefits of employee reporting, annual report and employee report controversy and employee report, accountant and computer technology;

**Chapter 3** introduces review of relevant previous studies and hypotheses of the present study;

**Chapter 4** undertakes the methodology which includes brief sketch of economic and accounting profile of India, descriptions of samples and variables, sampling techniques, measuring instruments, data collection procedure, data processing and statistical tools used;

**Chapter 5** examines the results of the study from employee point of view;

**Chapter 6** represents the results of the study from company point of view;

**Chapter 7** discusses the results and hypotheses of the present study; and

**Chapter 8** contains summary, conclusions and recommendations of the study.