

## **CHAPTER 3**

### **REVIEW OF RELEVANT PREVIOUS STUDIES AND HYPOTHESES OF THE PRESENT STUDY**

#### **3.1 An Overview of Relevant Previous Studies**

Employee reporting has assumed importance in recent few decades. Since 1970's in the UK and elsewhere an increased interest has been shown by accounting academics, researchers, professionals, employees and employers in the potential utility of financial and other information to the employees, while a number of studies have been conducted. An overview of some relevant studies has been given below:

Brown and Trumble (1995) conducted a five-year-long inquiry to test the belief that accounting data can be used to bring about speedier, more harmonious, and, hence lower cost labour-management negotiations, leading to a more productive and profitable (measured in terms of its broadest context) work environment. The basic methods used were: review of past literature and studies, administration and analysis of a questionnaire, a series of controlled experiment, and a field test. The results show that complete sharing of data have a positive impact on labour-management relations and on better negotiation settlements. Provided that information sharing must be continuous and the data should be audited. The study also found that approximately three-fifths of US companies provide a formal report of information to employees, generally on a routine basis, (quarterly or annually); 75% respondents indicate that company acted for such reporting on its own initiative. Majority of the employee respondents (75%) also indicate that they receive a little information from their company. Another key finding is that employees are doubtful about the truthfulness of the data provided and both labour and management agreed that the data should be audited independently. About 88% respondents believe that they would be able to comprehend such reports. They also believe that additional data would lead to more reasonable wage demands.

Malgwi (1993) investigated the stated usefulness of financial reporting to employees in the context of Nigeria with a particular reference to Value Added Statement (VAS). The study was based on the proposition that the provision of financial accounting information to employees is determined within the context in which it is used, rather than by consideration of those who determine the form which it should take. Three main hypotheses were developed and tested for the purpose of establishing the validity of the above contention. The study found that 83% top management identified employees as the target users of the VAS, 73% noted that the publication was influenced by external pressures rather than by consideration of its anticipated use by employees. Some other opined that VAS was for Government use rather than for employees. It was also found that more than 60% respondents neither considered any correlation between the VAS and employees' wages and salaries nor considered it as a measure of productivity. There was 69% readership and understanding of the VAS among the employees, but 67% did not found it useful. Moreover, t-test between the performances of producer and non-producer of VAS indicated no significant differences.

Morishima (1991b) examined the effects of information sharing on a firm's profitability, productivity, and labour cost. He conducted structured interviews using pre-tested questionnaires from a sample of 97 large firms, and used publicly available data and OLS estimates for the study. The results show that there is a positive association of information sharing with profitability and productivity and a negative association with labour cost.

Japanese firms often attempt to influence the process and outcomes of wage negotiation by sharing confidential business information with their unions and employees through the joint consultation system. In this context, Morishima (1991a) conducted another study with the proposition that provision of information voluntarily may develop unions and employees trust in management. More important, however, if information provided can convince the unions and employees that for their benefit to have a well performing firm and keep the firm competitive in the market, wages kept at competitive level, which will in turn make possible to maintain level and quality of current employment, employees will be less likely to demand a share of the firms' profits that may hurt the firm's performance. Using data from 97

large firms and OLS estimates, the author found that when firms engaged in sharing information, negotiation processes were shorter and easier, and unions tended to demand and accept lower wage increase.

A study of Kleiner and Bouillon (1991) re-examined the determinants and consequences of publicly traded manufacturing firms' sharing sensitive business data with their production employees. Using more detailed information sharing variables and reduced-form models of Logit and Tobit specifications, they found that more information sharing is associated with higher hourly wages and benefit for production workers in manufacturing firms. Their major finding was that executives generally do not share business information that they perceived to be relatively sensitive. The results further show that sharing information about market strategies or product lines has a modest but significant negative relationship with the profitability of manufacturing firms in the sample. However, researchers could not be definitive about the reasons for this result.

Peel, Pendlebury and Groves (1991) examines the relationship between employee share ownership schemes and the employee communication and consultation practices of companies. A questionnaire survey of 443 leading UK quoted companies listed in the Time's top 1000 for 1987-88 was undertaken. A total 180 (41%) usable responses were received. The results show that the existence of employee sharing schemes does appear to be positively correlated with employee reporting and consultation practices in major UK companies. Privatised companies having ownership scheme used formal methods to communicate financial information to employees.

In her study, Hill (1990) addressed the need to understand how and why voluntary employee reporting developed, examining its place in the wider organisational and social context. A three pronged inquiry was carried out in the UK, comprising documentary analysis, postal questionnaire survey and personal interviews, to find out management objectives and attitudes in employee communications. It also traced influences from specific organisational, social and societal factors on employee reporting. Analysis of qualitative data consistently demonstrated the importance attached by managers to reporting financial information to employees. Employee reporting developments result from strong faith or commitment to

communication on the part of management, and their perceptions of specific pressing organisational needs and wider social and moral issues. The study highlights the complexity of managers' perceptions and mixed feelings about the intrinsic value and conflicting social interests in employee information. This research contributed to the developing interpretive approach in accounting research, and to the debates about corporate accountability to the employees and related public policy.

The practice of preparing and issuing employee reports to an organisation's work force is now well established throughout many countries. A survey of companies listed in New Zealand Stock Exchange (Firth and Smith, 1984: p.5) indicated that about 22% of responding companies produce employee report. These employee reports often contain data that are not present in the firm's annual reports and accounts, and this has potential usefulness to stock market investors. If Employee report data have usefulness to stock market investors, then this raises policy issues about current disclosure requirements to shareholders. In order to test whether employee reports do have any incremental information content, an abnormal return analysis on 88 reports was carried out by Firth (1990). The results showed no evidence of abnormal returns, and so the incremental data contained in employee report either have no usefulness for investors and/or the information has discounted from other sources.

Murshed (1989) conducted a study to see whether financial information is an input in collective bargaining and potentially effective for controlling labour force. It is found that the decision whether or not to use financial information is a contingent one and such contingency largely depends on the context and environment in which both union and management negotiator work. He also attempted to identify the factors constraining and promoting the use of financial information in collective bargaining in the context of Bangladesh.

Purdy (1988) studied the effect of providing financial information to employees. After reviewing different literature concerned with financial information, industrial democracy, influence, power and social psychology, he constructed a model of various types of financial information and contexts for its presentation. The model posited that over time an employee,

with suitable opportunities for involvement in decisions and training to understand the financial information, would desire to become involved at a higher level in the organisation with its concomitant increase in financial information. On the basis of empirical data it was found that the construing of employees generally altered after financial information had been provided. The alterations were more profound in situations where some training relating to financial information was provided. There are indications that in suitable condition, employees do begin to understand the financial information which becomes more integrated into the construing of employees, simultaneously some employees construe more power, actual and desired influence, and wanted more financial information.

Andrews (1988) presented that as a response to the pressure from different corners and in an effort to improve industrial relations, many companies are now providing their employees with information to an extent which they would not have considered possible or practicable a few years ago. The author argued that a successful management will manage a well-informed work force and he finds support for this hypothesis. He examined historical development of employee reporting from a socio-political and statutory perspective. Andrew did not attempt to offer general theory of employee reporting but considered the theories propounded by other researchers in this field. He also assessed the company objectives for providing financial information to employees and employees' reactions to it.

Hussey (1988) examined the historical perspective of financial reporting to stakeholders and conducted a review and analysis of existing literature and previous studies. He constructed a conceptual model, which identified four main variables in financial reporting process and their importance in forming three functions or purposes of financial reports. The empirical research was conducted in a nationalized industry over an extended period of time using qualitative methodology. The ensuing evidence gave support to the conceptual model, illustrated the interaction of the main variables and their influence on the functions of financial reports, and emphasized the importance of understanding the complete process of financial reporting. The study also identified employees as stakeholder of the company and their rights to know the doing of the business.

Kleiner and Bouillon (1988) investigated the effects of a company's providing production workers with information on its financial condition, productivity, and relative standing in labour market. Analysing survey responses of business executives from 106 firms together with financial data on the companies, the authors found that information sharing was positively related to the level of wages and benefits and unrelated to productivity and that it had a significant negative relationship to profits and cash flows.

Jackson-cox, Mcqueeny and Thirkell (1987) studied the issue of disclosure of information to trade union representatives and employees. Thirteen firms involved in their study from nine industrial sectors. They found that largely in response to union challenge, though also influenced by the threat of legislation on workers' directors, the Confederation of British Industries (CBI) came to develop and elaborate its own standards for the voluntary provision of information to employees. It is also added that the requirement of periodic disclosure of *particular categories of information can be seen as promoting 'general intelligence' for employee representatives*. They also added that any further legal provision concerning disclosure of information to employees and their representatives should be assessed in the context of recent developments in both industrial relations and company law.

Yamaji (1986) conducted a study to see that whether accounting information has an impact on wage increase demanded by employees. The study found that a correlation between the accounting information and wage levels accepted by both the management and employees at least at the aggregate level, does exist.

Lewis, Parker and Sutcliffe (1984b) investigated the history of the literature on financial reporting to employees with the intention of documenting developments during the 20th century. The period 1919-79 was identified for examination and the sample was selected from the publication of that time. They found that the level of publication interest has varied widely during the period as has the relative interest of accountant and non-accountant groups. The results of the investigation indicated the existence of fluctuating total publishing frequency over the sample periods as well as a repetitive development issues. An analysis of American business environment during the period of increased interest in financial reporting to employees was undertaken. It was also argued that lack of prior period bibliographic

references and inconsistent inter disciplinary interest over time appear to encourage repetitive issue development.

Lewis, Parker and Sutcliffe (1984a) provided a research design for investigating the question of whether employees demand corporate financial information - if so, what information they require - if not, the possible reasons for their lack of interest in such information. They focused upon the neglected issue of employee preferences for information. Accordingly, the researchers advanced seven propositions as the research foundation for the later derivation of testable hypotheses with respect to employee preferences for corporate employee reports. A logical progression for the determination of employee information requirements for decision-making has been constructed. It is argued that when the propositions contained in their research design have been thoroughly explained, a valid framework for the 'employee report' can be built.

Chr. Breviere (1983) presented a study covering legal aspects of information disclosure to employees, nature and amount of information to be disclosed, empirical observations and trends of employee reporting in Belgium. The author added that the disclosure of economic and financial information was meant to foster the growth of harmonious co-operation between employers and their staff. The employers hoped that workers would show greater understanding, greater motivation and greater solidarity in promoting the well-being of the undertaking. They also hoped to reduce absenteeism and staff turnover. By giving information, the employers thought they would be able to persuade the workers of the need to restrain their wage and other demands. The trade unions, for their part, hoped that the works councils would provide the vehicle for a rapid democratization of the undertaking. The right to be informed about economic and financial management should normally have brought the parties together. But in fact, both the parties were frustrated. The author concluded that legislation should be improved and both the parties should have to work on good faith to get better result.

Mitchell, Sams and White (1981) changed the focus of attention from information supplier (management) to information recipient and potential user (the employee). In a study conducted by them on a total 85 employees from middle-management, officer and clerical

occupations and from shop floor were interviewed and tested on their salient aspects of financial disclosure: (1) nature of demand for company financial information; (2) views on methods of disclosure and presentation of financial information; and (3) ability to interpret and use company financial information. The study found that over half of the respondents felt that they had a right to receive information from their firms. The employees also ranked themselves below both management and shareholders in their entitlement to company information. Almost half of the respondents believe that there were some information that should not be disclosed to employees. Indeed, half of the respondents supported the introduction of legislation to govern the practice of financial reporting to employees in order to ensure the continuity of supply of such information, and a similar number favoured an increase in the frequency of employee reporting (from annual to six-monthly basis). Considerable variety of company financial information was suggested by the respondents to provide as being of particular interest to them. Two-third of the respondents had read the report. The results relating to methods of presenting information show that the ratings of methods by the respondents were: special report 2.5; management meetings 2.0; notice board 2.7; and company newsletter 2.6. Results relating to interpretation and understanding of information show that more than two-thirds of the respondents felt that they understand the information that they receive from their company.

Maunder (1981) conducted a study concerned with the employee groups as users of published financial statements. That is the communication of information by companies in some printed form, usually on annual basis, to individual employees. The study presented some benefits of employee reporting such as positive motivation, greater job satisfaction, educate employee, greater goal congruence, lower resistance to change, greater understanding of organisational discipline and control, joint consultation, integrative bargaining and impart company responsibility. The study also outlined some headings of data to be disclosed to employees. The author also found that 60% (180 out of 300) relatively large companies in UK producing employee report. Some specimen employee reports of different companies were also presented.



The extent to which companies should disclose financial information to employees, and the form such disclosure should take has been studied by Pope and Peel (1981). They tested rational expectation hypothesis. The rational expectation hypothesis appears to indicate that the only constraint in the provision of information requested by employees should be processing costs. The regular disclosure of future oriented information, including planned changes in production or employment, should not carry any hidden costs for management even if the information is subject to uncertainty. Disclosure can only reduce conflict between management and unions which results from the existence of differential information sets. The question of which information employees and unions find useful in making their decisions can not be answered without further empirical research into wage determination at the level of the firm.

Lee (1981) stated that company financial reporting has expanded out of all recognition from its early nineteenth century beginnings. It is highly technical multi-statement function, covering a variety of aspects of corporate financial activity. He argued that most important change in attitude in company financial reporting in recent times has been that employees have been recognized as major potential consumers of reported financial information. The author also referred some studies relating to employee reporting practices in different countries.

Hilton (1978) undertook a study to stimulate management to think about the problem of employee communication in the context of producing financial reports for their employees. This work also provided a focus for the debates which are continually raging within firms about how much information to give to employees, which employee should be given, how the communication should be carried out and who in the management team should have the prime responsibility for doing it. The author found that 44% respondents stated 'to improve industrial relations' is the most important reasons for employee reporting and 67% respondents are worried about 'information would be misunderstood'. The study also presented a model employee report. The author also found that there are differences in opinion of different groups as to the function and content of employee report. Lastly, Hilton

suggested that British industry management should create a climate where communication will become genuine.

### Employee Reporting and Industrial Relations

The following are some of the studies relating to the provision of information to employees in the context of employer-employee relations, wage bargaining and employee and union decision making:

Armenic (1985) in his study addressed the role, the accounting information appeared to play in the negotiations between a not for profit organisation and the association representing its professional employees. The study explored the impact of accounting on both the process and outcome of the negotiations, and concluded by offering some tentative hypotheses on the roles of accounting in collective bargaining.

Cooper and Essex (1977) argued that policies or recommendations regarding the provision of information for employee decision making can only be fruitfully developed within the framework of models of employee decision making. Descriptive model building, incorporating the model of a decision maker, his objectives and the environment in which he operates, is essential for the provision of information to help employees improve their welfare. The study developed alternative models and concluded by presenting a guide to future research and some tentative evidence about the decision making of employee representative in plant level negotiation in the UK.

Foley and Maunders (1977) in their works have shown that employees need financial information for collective bargaining. Some legal aspects (such as section 17 of Employment Protection Act 1975 of UK) relating to information disclosure are also covered in it. The authors stated that on the basis of research findings by organisation theorists it is possible to argue that feed back of information to employees will improve job performance via learning effects and also serve to increase motivation.

Climo (1976) regarded the corporate report as a breakthrough by the profession regarding the provision of information to employees. But in his view, the report still has serious shortcomings and more research is needed.

Financial information is now recognized as a part of labour-management negotiations, the question is what shall be told, and how. Dale (1950) examined the manner in which accounting information has been used in recent labour talks, and projected from this experience some ideas on how to decide what kind of accounting information is necessary, desirable or reasonable at the bargaining table. He discussed ability to pay, some misconceptions arising out of failure to understand accounting, and made recommendations as to how accountants can help in the settling of labour disputes.

Labour has become a major user of financial information. Many labours hold that wider use of significant financial information is the road to intelligent wage negotiation. But management and labour do not agree on what information labour is entitled to have. It seemed to Brubakar et al. (1949) apparent that financial information - which is the substance of accounting - can be said as a labour bargaining tool. So that accountants can be informed of the attitude and desires of labour leader on this question. The authors have excerpted certain expression from public statements and private correspondents of recognised labour leaders. The authors presented what labour leaders have to say about financial statements now used in labour negotiations but did not pass any comment.

### Employees' Desire for Information

Hussey and Craig (1979) conducted a study in cooperation with Touchi Ross & Co. (UK) to analyse the attitudes of employees towards employee reporting. They analysed data obtained from 298 completed questionnaires and 74 face to face interview with employees. From the study it is found that the art of employee reporting is in its infancy and absence of legislation and accounting conventions has resulted in the presentation of diverse types of employee reports. The extent of readership, interest and understandability of employee report was encouraging. It is also found that there is a strong demand by employees for the disclosure of additional and desegregated information in employee report. Employees were keen for the

disclosure of information of their own workplace. Employees were particularly eager to receive information on future plans and policies, the financial performance and structure of the company. They preferred narrative contents and photographs in employee report.

Flint (1958) in his paper considered report content and method from the perspective of employee interest in the business as a whole and draws on a survey of reporting objectives and practice conducted by British Institute of Management.

Schoen and Lux (1957) released the results of a survey of 164 managerial, professional and white-collar employees in a plant of large US company. The study covered readership of annual report and report sections, effective communication of information items, and a comparison between stockholder and non-stockholder's knowledge and comprehension of annual report information content.

Libby (1952) director of training for Johnson and Johnson, Chicago, USA, conveys his experience with the financial information needs and demands of employees. He focused his discussion on profits and growth, and went on to outline a set of principles for the preparation of financial reports for employees. He added that employees are keenly interested in the financial reports of their company. They are interested in profit figure, both as to its amount and its disposition. They look for indication of growth as described by accountancy data in the financial report. They want the statement to tell all the facts fully and clearly in a consistent manner from year to year.

Hennessy (1948) summarized responses of a series of corporate public including employees to a survey of their dissatisfaction with corporate annual reports. Not surprisingly, the survey found that traditional annual reports were inappropriate for an employee audience.

Bennett (1941) spelled out employee interest in three categories and then proceeded to evaluate report content for its ability to attract interest. He concluded that better financial report or reports supplementary thereto, which actually tell a story, or emphasis an event couched in language at the level of workers.

### Practices of Reporting

Hussey and Marsh (1983) presented a comprehensive work covering different aspects of employee reporting including relevant legal provisions and operation of Acts (particularly Industrial Relations Act 1971 and Employment protection Act 1975 of UK). They presented a broad list of financial and non financial information to be disclosed to the employees. Hussey and Marsh identified advantages and objectives of producing employee reports. They found that 41% (421 out of 1022) sample companies producing employee reports. The study showed that principal methods of disclosure used were: special employee report (43%) company newsletter (39%), notice board (9%) and other methods (8%). It is also found that most of the companies used more than one methods. In employee report most of the companies used simplified financial statements, diagrams, and financial highlights. Regarding reasons for providing employee reports employee respondents mentioned: 'to involve employees more in the company' (34%), and 'it is part of the company personnel policy' (29%) are two of the important reasons. The employee respondents were 33% very satisfied, 36% fairly satisfied, 12% fairly dissatisfied and 11% very dissatisfied on the contents of employee reports. The study concluded with some recommendations in favour of employee reporting for sound industrial relations.

Holmes (1977) examined a number of UK company reports, detailing their content and presentation approaches. He stated that there are no rules or accounting standards regarding types and contents of report. He also stated that employee reporting is a comparatively new idea and one which is growing popularity and importance.

The communication of information concerning corporate financial performance by presentations specifically designed for employees is a relatively new and growing phenomenon in Australia. It has taken the form of individual company experiments and has not been recognised by Australian accountants, both professional and academic. Parker (1977a) studied the form of reporting, its potentials and problems, and its significance for Australian business and accounting profession.

Myers (1956) presented a comprehensive analysis of some sixty corporate financial reports to employees. His analysis concentrated upon presentation of distribution of sales dollar, statistical data, qualitative data and the tone of the report. The author found that there is no standard against which effectiveness of employee report can be judged.

Derry (1948) presented an extensive work on actual US corporate reporting to employees. He covered different types of reports, information that appeals to employees, ways and means of presenting information and other related issues.

Hartwell (1941) considered annual report as a means of building employee goodwill and stated that it is an obligation of business management to tell its employees what big business is all about. The essentials of a good report are described and the present reports of major corporation analysed. He provided a comprehensive overview of US corporate involvement in reporting to employees at the beginning of 1940's. Thirty-five companies are listed and their reports ranked by quality of disclosure against ten standards set by him. Particular issues are discussed by reference to actual corporate reporting examples.

Heacock (1940) provided a first hand account of communicating financial information to employees. He focused upon an experiment with a radio broadcast following the issue of an annual report mailed to both stockholders and employees.

### Reporting Methods

A company may use a large number of media for communications with its employees, but if policy is lacking on what top management wants to communicate, when, why, how and by whom, there is no assurance that these tools are being used to best advantage, nor, indeed that all of them are needed. The study by Seybold (1966) shows the relation of communication media to communication policy. Examples from companies' policy statements illustrated the considerations that enter into determination of long term objectives. A number of media can be used in implementing communication policy are described with reference to their special uses.

Newcomb and Sammons (1961) presented their work covering management's new willingness to speak up, communicating by pie chart, program works, multiple device reporting, the combined shareholder-employee report, comments on employee reporting and ten tips on report communication.

A comprehensive treatment of employee reporting is provided by Heckert and Willson (1952). They studied objectives, information presented, financial statements, simplified and 'per employee' statements, format, media, and dangers in reporting to employees.

Burnham (1949) made an academic contribution to the literature of employee reporting. He examined the format of simplified income statement as well as items of significance to employees and then presents a proposed income statement for the employees.

Derry (1949) stated that too many reports to employees have failed in their missions and more than simple words and presentations needed. He listed five categories of information in which workers are interested, and twelve media for getting it to them. He also described two cases where successful techniques were worked out.

Fuller (1948) undertook a broader-brush approach to the subject. Influenced by the scientific management school of thought, he conceives employee reporting as being part of a "human engineering" strategy. His discussion included employee magazines and hand books, company information programs, meetings and conferences of supervisors, simplified financial reports, and timing of such reporting.

The study of Wallace (1946) is based on a number of proposed normative standards for employee report effectiveness. These are making it understandable to readers, giving confidence in the validity of figures, appealing to the employees' view point, being factual and accurate, and being short in length.

Barloon (1941) considered appropriate technology, content and format, narrative explanations, and graphics for employee reports. Barloon argues against the inclusion of a balance sheet, warns of the potential dysfunctional employee response to president's statement, and calls for an auditors' certificate to counteract managerial bias in reporting information to employees.

### Employee Reporting Rationale

On the basis of the analysis of employee report usage in other countries, Bollom (1984) advocated for a separate report for the employees. He identified advantages (such as improve productivity, industrial relations, public relations and reduce unionism) and disadvantages (such as possibility of misunderstanding, information leakage to the competitors, etc.) of employee reporting. He also outlined a list of possible employee report information and suggested that management, including management accountants of US companies should take initiative to improving communications with employees by issuing employee reports to break down the existing labour/management barrier.

Marsh and Rosewell (1976) presented brief history of information disclosure, reasons for disclosure, practical and technical problems of disclosure and information to be disclosed. The authors concluded that management for their part is being encouraged to believe that whatever their personal inclinations, it is better to give more information than less, and to do so systematically and as a matter of policy.

Dyson (1973) argued that corporate reporting is highly biased in favour of shareholders and companies Act, 1948 (UK) is largely responsible for that. The employee right to know is recognised, but until he has the opportunity of verifying what he knows, his right turns out to be toothless. The author suggested that a statutory audit of employee report would be very effective.

Anderson (1961) emphasized on the provision of information to employees as supplier of labour, just as information is disclosed to the shareholders as supplier of capital. Such provision of information is said to be influenced by trade unions, legislation and public opinion. He considered merits and demerits of reporting to employees, and some approaches.



Yorston (1960) urged for the provision of maximum information to interested parties, including employees. He considered reporting rationales based upon management's morale obligation to inform, employees' decision making needs, employees commitment of time and skill to the organisation and the need to foster better understanding between employees and management. Yorston went on to consider report producer and recipient's reactions and methods of reporting.

### Reporting at Early Stage

BIM (1957) conducted a study with the objectives that (1) the examinations of methods which are being used in Britain and overseas, or which might be used, for the disclosure of financial information to employees, together with an assessment of their effectiveness and value; and (2) the classification of opinions among both management and employees as to what is practicable and desirable in the disclosure of financial information to employees. The results show that companies giving financial information to employees is less than 20% although the percentage is increasing, more public than private companies appear to give information and among public companies more large than small ones. The methods used frequently were: works magazine, annual report, special report for employees, consultative committee, special meetings and personal contacts. In written reports diagrams, photographs and other devices used to make the meaning of the figures clear to the layman. In certain European countries, notably France, Austria and Belgium, it has been made legally compulsory to give financial information to employees. The results also show that employees, on the whole, are interested in having financial information about their company. The objectives of employee reporting most frequently mentioned according to importance were: (1) to promote identification of employees with their companies; (2) to help employees understand the company and economic affairs; (3) to stop rumor, and remove misconception; and (4) to improve workmanship. Most of the respondents understand the information and 15%-49% want more information. Most management consider providing information to employees is a worthwhile effort.

Irwin (1939) emphasized on to make a special employee edition of annual financial report really informative and understandable. He suggested, to sustain interest, annual report should be supplemented by interim reports. He also suggested that one policy must be followed very carefully. The employee version must give all, if not more, facts that does the regular report, and the employee must be given the opportunity to receive the regular stockholders' report if he so desires and only through such a policy, frankness and understanding between employee and employer can be furthered.

Bennett (1939) advocated producing financial information to employees. He provided some introductory comments on the contents of employee reports to make easily understandable and effective to the employees.

Telling Your Story to Employee (1939) stated that employees are being taken into the confidence of their employers to an increasing extent by presenting data to employees in clear and intelligible language. And also forwarded the report to employees as management's means of reacting to bitter attacks of business in the community. As an example, he discussed in detail the Laclede Steel Company's model employee report.

Eakin (1938) stated that financial reporting to employeeed is a constructive movement to inform workers in a large number of points. He argued that if information is provided to employees it would be used as a basis for developing demand for increased wages, improved working conditions, and possibly for demanding a larger share in the management of the business. He analysed employee report of some US companies and concluded that report should be understandable to all.

Budd (1923) in his study deals with communication with both employees and customers. He advocated both educating and informing employees on financial matters. He also stressed on readability of reports and interest of users.

Bostford (1923) urged that employee reports can be used to offset the lost intimacy between employees and employers. He argued for the production of a plant publication as an investment in employees' morale and pride in their work - explaining corporate financial

condition, demonstrating employee contribution to corporate performance, and promoting attention to organisational efficiency.

### Studies in India

Sharma and Agarwal (1990) described how Rajasthan State Transport Corporation (RSTC) gets their employees involved in budget formulation and keeps them informed about the performance and variance through various reports. This information strategy together with other financial and non-financial incentives has motivated the employees to perform better.

Kulkarni (1978) discussed that accountants help in negotiation by providing following information to the employees: 1) internal data; 2) external data; 3) cost of living data; 4) productivity data; 5) ability to pay data; and 6) other analytical data. On the basis of his research the author recommended that the use of management accounting information in the labour negotiation process be increased and that broad disclosure of management accounting data be made to the union negotiators.

The studies presented above are conducted in different countries other than India (except Kulkarni, 1978 and Sharma and Agarwal, 1990). Because of the dissimilar socioeconomic conditions in those countries and India, the results of those studies can not be generalised and applied in the context of India without further empirical investigation. In addition, the author is unaware of any extensive study conducted on employee reporting in this country. Therefore, the present investigation assumes greater significance.

### **3.2 Hypotheses of the Present Study**

In view of the objectives of the study and in the light of previous studies the following hypotheses were formulated to evaluate employee reporting in India:

#### Employee Point of View

From the review of literature it was found that employees of different levels and groups need financial and other information from their organisation where they work and thus it was hypothesised that

*(1) Employees desire financial and other information from their company and there is no significant difference between the responses of employees according to their levels and groups.*

Since some researchers found that employees require different types of information from their company including profit and loss, production, pay and benefits, future plans, manpower, new developments and trade prospects, thus it was hypothesised that

*(2) Employees of different levels want various types of information from their company including profit and loss, production, pay and benefits, future plans, manpower, new development and trade prospects.*

Some study results show that among the methods of reporting information to employees such as employee report, notice board, newsletter, audio-visual aids and others, employees prefer employee report and newsletter as the important methods to be followed, thus it was hypothesised that

*(3) Employees tend to give more importance to 'employee report' among some common methods of communicating information such as employee report, notice board, newsletter, audio-visual aids and others, and there is correlation between the rating of relative importance by different groups of employees.*

Some previous studies reveal that employee reporting will improve employee motivation, industrial relations, productivity, employee commitment, job satisfaction and cost consciousness, thus it was hypothesised that

*(4) Employee respondents of different companies perceive that employee reporting will improve employee motivation, industrial relations, productivity, employee commitment, job satisfaction and cost consciousness; and there is no significant difference in responses of employees according to their levels and groups.*

From the literature review it is observed that employees' perception is, reporting of information to them will reduce turnover, absenteeism, grievance, resistance to change and industrial disputes, thus it was hypothesised that

*(5) It is employees' perception that reporting of information to them will reduce turnover, absenteeism, grievance, resistance to change and industrial disputes, and there is no significant difference between the responses of employees according to their levels and groups.*

As findings of different studies show that legal provisions are demanded by employees for continuous and sincere employee reporting, therefore, it was hypothesised that

*(6) It is employee respondents' realisation that legislative provisions are required for employee reporting, and there is no significant difference between the responses according to levels and groups of employees.*

Some studies show that employees get copy of annual reports and annual reports satisfy employees' information needs and there is no need for separate report, thus it was hypothesised that

*(7) Subjects of this study get copy of annual report from their company and annual report satisfies the information needs of employees and therefore, there is no need for separate report for employees.*

From literature review, it is evident that there are employee reporting practices in different countries and employees get such report, thus it was hypothesised that

*(8) Some respondents of the study get employee report from their companies irrespective of their levels and groups.*

As findings of different studies show that 'involve employee more in the company', 'encourage to work hard', and 'part of personnel policy' are some of the predominant reasons for issuing employee reports, thus it was hypothesised that

*(9) Employees tend to give more importance on 'involve employee more' and 'encourage to work hard' as the first and second important reasons for issuing employee report, and there is significant correlation between the rating of relative importance by respondents according to their levels and groups.*

It has been observed from the previous studies that employees receive report of information from their company feel that information provided to them is very important and always true but they are not satisfied with the quantity of information though they understand fully, thus it was hypothesised that

*(10) Information provided in employee report is found by the users very important and always true but not satisfactory though the respondents understand the information fully; and there is significant association between the responses according to levels and groups of subjects.*

From the literature review it is found that some companies think employee reporting will cause excessive costs, waste of employee time, misunderstanding of information, and information leakage to competitors but employees think in different way, therefore, it was hypothesised that

*(11) Employee reporting will not cause excessive costs, waste of employee time, misunderstanding of information, and information leakage to competitors; and there is no significant difference in responses of the subjects.*

Different studies claimed that provision of information to employees will improve job satisfaction, thus it was hypothesised that

*(12) Respondents receive employee report have higher job satisfaction than those who do not receive, and such reporting has positive contribution and significant individual effect on job satisfaction.*

In addition to testing hypotheses mentioned above, the study also considered the following: the reasons for not issuing report to employees; distribution of report at a special meeting; inter correlation among some major variables such as age, experience, education, employee report and job satisfaction; mean difference of employee job satisfaction according to types of organisations and levels of employees; individual effect and interaction effect of types of organisations, employee report and levels of employees; and contribution of employee report, types of organisations and experiences of employees to job satisfaction.

### Company Point Of View

From review of literature it is found that companies think in favour of disclosure of information to employees, thus it was hypothesised that

*(13) Most of the respondent companies think that financial and other information should be disclosed to employees; and there is no significant difference in responses of the subjects.*

Since it is found in different studies that companies think various types of information should be disclosed to employees including work instruction, achievements, production details, market condition and profit and loss, thus it was hypothesised that

*(14) Respondent companies intend to disclose various financial and non financial information to employees including achievements, production details, market condition and profit and loss.*

From different studies it is observed that companies used various methods including employee reports, newsletter, notice board, audio-visual aids and others, thus it was hypothesised that

*(15) Company respondents tend to give more importance to 'employee report' among some common methods of disclosing information to employees like employee report, notice board, newsletter and audio-visual aids, and there is significant correlation between the ratings of relative importance of methods by respondents according to their groups.*

In some studies authors argued that employee reporting will improve employee motivation, industrial relations, productivity, employee commitment, job satisfaction and cost consciousness, thus it was hypothesised that

*(16) Respondent companies perceive that employee reporting will improve employee motivation, industrial relations, productivity, employee commitment, job satisfaction and cost consciousness; and there is no significant difference in responses according to the groups of subjects.*

Since it is concluded by some researchers in this field that employee reporting will reduce turnover, absenteeism, grievance, resistance to change and industrial disputes, thus it was hypothesised that

*(17) It is respondent companies' perception that reporting of information to employees will reduce turnover, absenteeism, grievance, resistance to change and industrial disputes, and there is no significant difference between the responses of companies according to their groups.*

It is found from literature review that there is a strong proposition that legal bindings are necessary for sincere and regular employee reporting, therefore, it was hypothesised that

*(18) Company respondents are in favour of legal provisions for employee reporting; and there is no significant difference in responses by different groups of companies.*

From literature review it is found that some companies provide copy of annual report to employees and annual report cover all information that are needed by employees, thus it was hypothesised that

*(19) Respondent companies provide copy of annual report to employees and annual report satisfies information needs of employees.*

Accounting researchers advocated that the benefits of reporting financial information to employees justify the costs of disclosure to management, therefore, it was hypothesised that

*(20) Employee report producer respondent companies consider both costs and benefits of such reporting.*

Since some research findings show that there are practices of voluntary employee reporting in different countries through out the world, it was hypothesised that

*(21) There are practices of producing employee report among respondent companies, irrespective of their types and sizes.*



Findings of different studies show that 'no legal requirement', 'it would be expensive' are two of the important reasons for non-producing and 'involve employee more in the company' and 'encourage to work hard' are two of the reasons for producing employee reports, thus it was hypothesised that

*(22) Respondent companies tend to give more importance on 'no legal requirement' and 'involve employee more in the company' as the most important reasons for non-producing and producing employee report respectively; and there is significant positive correlation between the rating of relative importance of reasons by group respondents.*

From previous studies it is observed that companies produce quarterly employee report and distribute at workplace, therefore, it was hypothesised that

*(23) Company respondents prefer to produce quarterly employee report and distribute at work place irrespective of their types and sizes.*

Previous studies show that there is positive relationship between information sharing and productivity, profitability, and negative relationship between information sharing and labour cost, thus it was hypothesised that

*(24) There is significant positive correlation between employee reporting and productivity, profitability and growth rate; and significant negative correlation between employee reporting and industrial disputes, employee turnover and labour costs.*

Since some studies found that companies provide employee report have higher productivity, profitability and lower labour costs and industrial disputes than those do not produce such report, therefore, it was hypothesised that

*(25) There is significant difference<sup>c</sup> in productivity, profitability, growth rate, industrial dispute, employee turnover and labour cost of two sets of respondent companies, i.e. Companies producing employee report have higher productivity, profitability and growth rate; and lower industrial disputes, employee turnover, and labour cost than those of non-producers.*

In addition to the above hypotheses to be tested, following aspects are also covered in the present study: Year of starting employee report by the subjects, reaction on such report, relationship among some major variables, individual and interaction effect of some independent variables on some dependent variables, contribution of employee reporting to some variables and mean difference of the variables according to types and sizes of companies.