

HUMAN CAPITAL DISCLOSURE IN CORPORATE ANNUAL REPORTS

by

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SONGS AND QUOTES OF PRAISE

“To God be the glory, great things He has done,
So loved He the world that He gave us His Son,
Who yielded His life atonement for sin,
And opened the life gate that all may go in.

*Praise the Lord, praise the Lord,
Let the earth hear His voice
Praise the Lord, praise the Lord,
Let the people rejoice!
O come to the Father through Jesus the Son,
And give Him the glory, great things He has done”.*

“All the glory must be to the Lord,
For He is worthy of our praise,
No man on earth should give glory to himself,
All the glory must be to the Lord”.

“But there is a spirit in man; and the inspiration of the Almighty gives them understanding”.

“It is of the Lord’s mercies that we are not consumed, because His compassions fail not. They are new every morning, great is thy faithfulness”.

“A day with the Lord is like a thousand years and a thousand years like a day”.

“Not unto us, O Lord, not unto us, but unto thy name give glory, for thy mercy, and for thy truth’s sake”.

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DEDICATION

The work is dedicated to my late father – **PRINCE DAVID ADEBISI ADELOWOTAN** (aka Pa Teacher) for his commitment to our educational and life achievements.

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DECLARATION

I, Michael Olajide ADELOWOTAN declare that “**HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)**” is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of a complete list of references.

Signature

Date

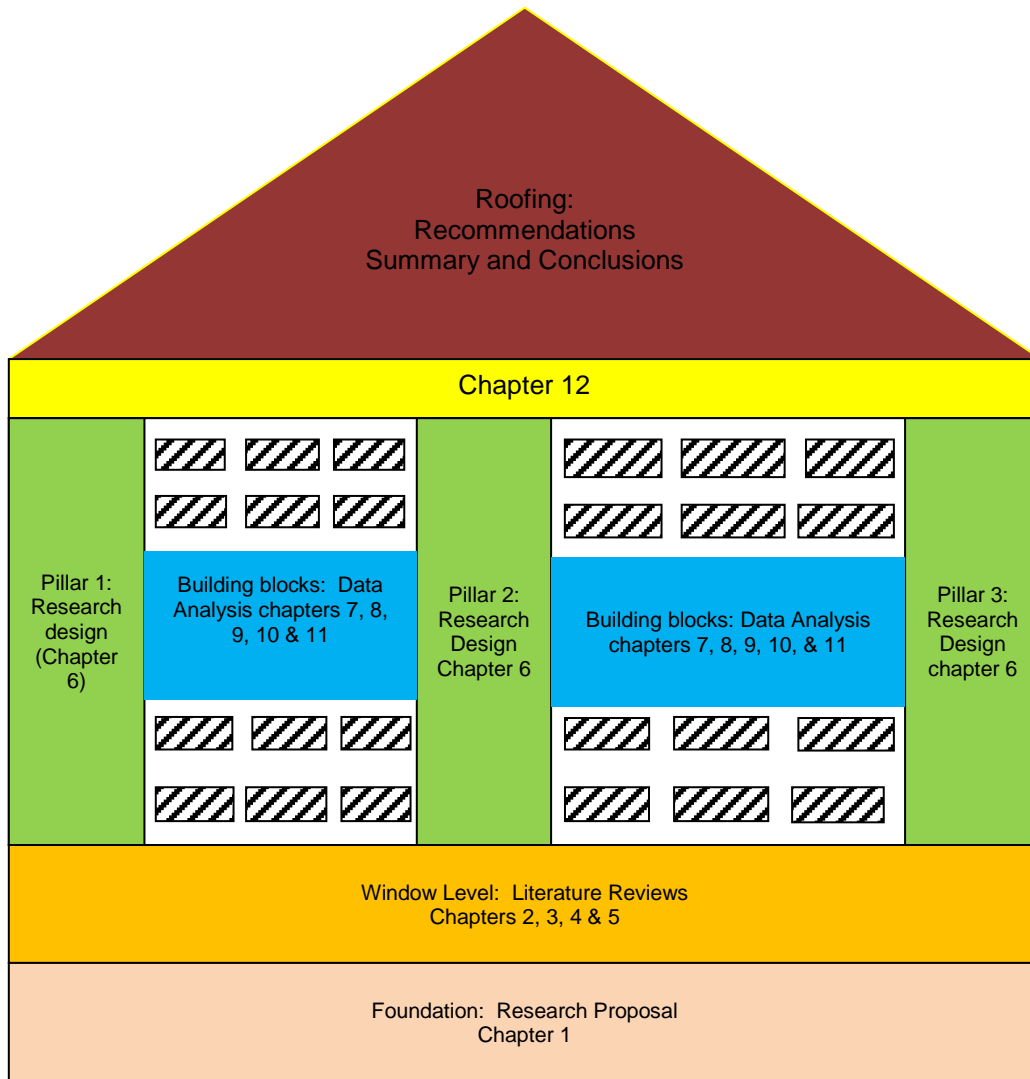
ABOUT THE ACCOMPANYING CD: ADEPhD-CD

The enclosed CD contains 11 files (about 20,000 pages) of raw data generated from the qualitative analysis via Atlasti software and quantitative analysis via the Statistical Package for Social Sciences (SPSS). **ADEPhD-CD** thus provides an “**AUDIT TRAIL**” for the results presented in this thesis report.

Enjoy your reading!

THE THESIS HOUSE

AN ARCHITECTURAL OVERVIEW OF THE THESIS STRUCTURE



Source: Own observation

ABSTRACT

It is generally acknowledged that human capital intangibles are major value drivers in the new economy characterised by information and technology. The main purpose of this study is to examine the extent to which companies listed on the Johannesburg Stock Exchange disclose information on human capital related issues. The study combined both qualitative (literature reviews and content analysis) and quantitative (survey questionnaire) methods to collect data of 60 corporate annual reports (CARs) of listed companies in South Africa from survey questionnaires administered on various categories of preparers and users of these CARs.

The study made use of 91 human capital disclosure checklists developed from literature reviews for the purpose of data collection. The data analysis was done with the aid of Atlasti-a qualitative data analysis software and SPSS- a quantitative data analysis software.

The findings show that majority of the items on the disclosure checklist are not yet disclosed in the CARs even though most of the items on the checklist are adjudged to be useful for organisational value creation. In view of the initial findings of this study, a human capital disclosure framework is recommended.

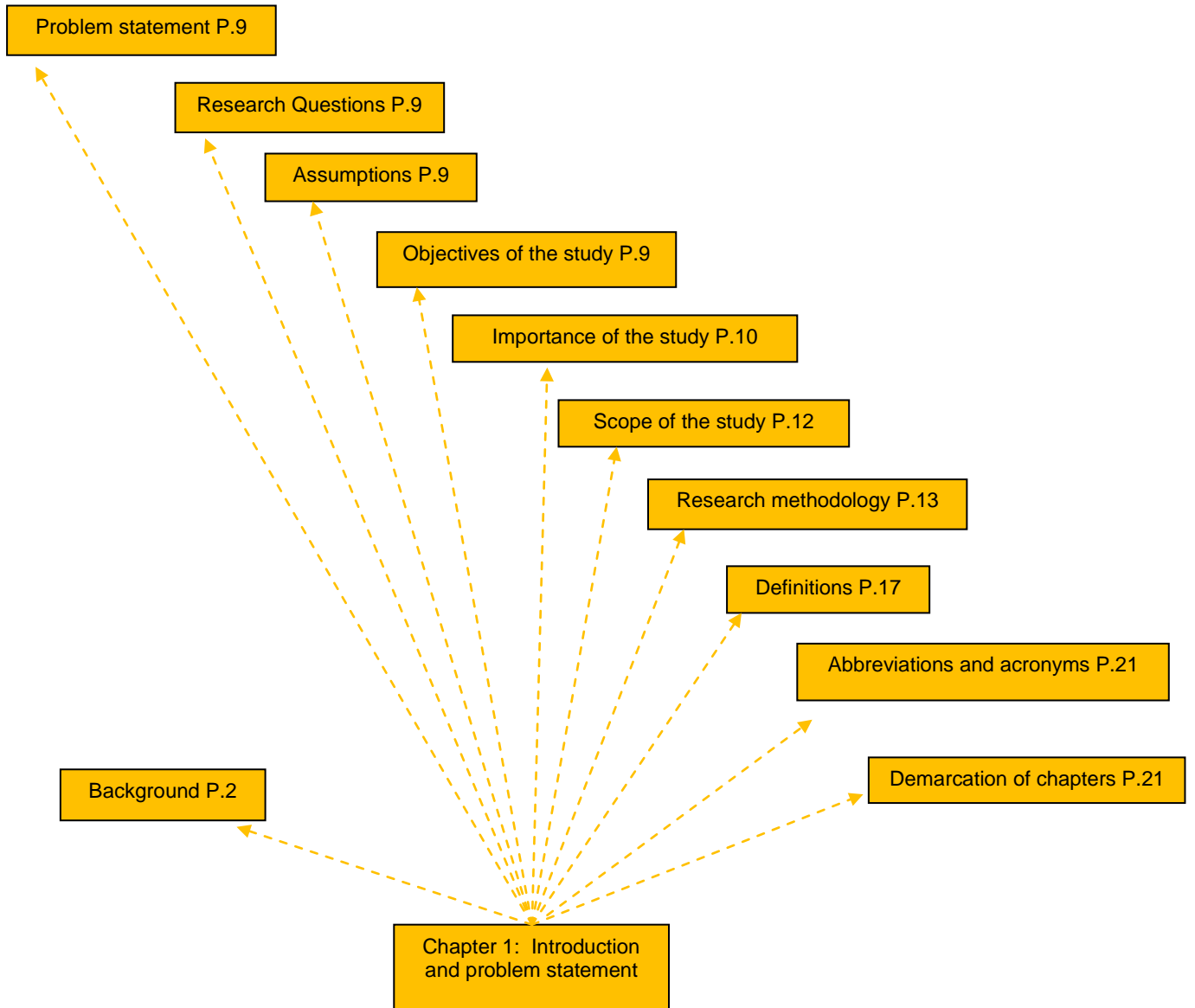
Key words

Intangible assets, human capital intangibles, human capital disclosures, mandatory disclosures, discretionary disclosures, new economy, old economy, value creation, human capital disclosure framework.

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

Figure 1.1: Network view of chapter 1



1.1 BACKGROUND

The International Accounting Standard (IAS) 1 describes financial statements as “a structured representation of the financial position and financial performance of an entity”. One objective of such financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions (International Accounting Standards Board [IASB, 2012]).

The second objective acknowledged by IAS 1 is that financial statements show the results of management’s stewardship of the resources entrusted to it. Thus the main purpose of financial reporting is to aid economic decision-making, because the statement of financial position provides the user with information about the entity’s financial position, and the statement of comprehensive income provides the user with information about the entity’s financial performance while the cash flow statement provides the user with information about the cash flows of the entity (Stainbank & Peebles, 2006:69–80).

It may be easy to assume that disclosure generally means the diffusion of information to individuals or bodies external to the company. In most cases, information is usually disclosed at various levels within an organisation in the form of raw data collected within the system before these processed data eventually become a worldwide disclosure on the websites of the organisations; this constitutes the mode of disclosure to the public.

Some researchers identified two groups within the public domain, the first is the privileged relationship that an accredited analyst (that is, those who are able to get through to some facts behind the figures) has with the company and the second and final level of disclosure is the web site (Pike, Rylander & Roos, 2002:666). The company’s website provides opportunity for accessing relevant information and data by those who are interested in the affairs of the company. Moreover, this group may have access to the mandatory information only while the first group may have the opportunity to access both

the discretionary information and the mandatory information. The discretionary information (for example information relating to corporate social responsibility and employment of physically challenged people) are those disclosures and initiatives in Corporate Annual Reports (CARs) arising from the use of discretionary accounting practices while the mandatory information (for example information relating to the statement of accounting policies used in preparing the CARs) are those disclosures that are required by law and the generally acceptable accounting practice.

Traditional financial statement information is centred on the company's ability to realise value from existing assets and liabilities. Moreover, its focus is largely backward looking. The fundamental shift from an industrial age to the information age highlights the fact that companies are now organisations based on knowledge, rather than tangible assets alone. Therefore, knowledge needs be reconceptualised and quantified as a basis of information related to the firm's performance (Rodgers, 2003:189).

A striking characteristic of the new economy is the significance of intangible assets (also known in the literature as intangible resources, intellectual capital, intangibles, and intellectual property). The current and the future competitiveness together with the firm's value and growth are being determined by the intangible elements as the economies are becoming knowledge and technology based. It has been observed that these intangible elements constitute between one-half and two-thirds of the market value of firms (Lev, 2001). Furthermore, research in intangible assets is strongly grounded in practice (Petty & Guthrie, 2000:160).

Human Resources Accounting (HRA) was introduced in the accounting literature in the 1960s (Flamholtz, 1985), though support for the idea of accounting for human resource values can be found before this period (Sackmann, Flamholtz & Bullen, 1989; Grojer & Johanson, 1996). Hermanson (1964) published his pioneer work concerning the valuation of human assets, and the term "human resource accounting" was used for the first time by

Brummet, Flamholtz and Pyle in 1968. From this period, numerous articles have been published in this area. The American Accounting Association's Committee (1973) on Human Resource Accounting defined HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties". It provides information about human resource costs and values, serves to facilitate decision-making, and motivates decision-makers to adopt a human resource perspective (Sackmann *et al.*,1989). Grojer and Johanson (1996) express the management orientation of HRA even more clearly in the assertion that HRA concerns the management of human resources.

In the 1980s, there was a renewed interest in HRA as evidenced by a number of institutions showing interest in this area, one of such institutions is the Organisation for Economic Cooperation and Development (OECD). The OECD encouraged the measurement of intangible investments on national levels in the 1980s (OECD, 1988) and in 1992, the first proposal on the definition and classification of intangibles was advanced (OECD, 1992). The present interest focusing on encouraging the development of procedures to report on human resources and other intangibles dates back to 1996, since then, several conferences have been held to study the exigency of HRA, the supply of different models and the feasibility of introducing guidelines for a voluntary disclosure of information on intangibles. The OECD report outlines major issues relating to enhanced disclosure among which are that of reporting intellectual assets and their value drivers to improve the validity, accuracy, materiality, completeness and objectivity of non-financial discretionary information and to foster comparability across organisations, industries and over time (OECD, 2006).

HRA was introduced with the intent of assessing and quantifying the economic value of employees and their knowledge in order to facilitate better managerial decision-making (Sackmann *et al.*, 1989) and it is an attempt to report the financial consequences of human resource development, readjustment, reshuffling, acquisition, and turnover. HRA also focuses on the

knowledge of the organisation based on principles used in traditional accounting methods and has financial consequences because of payments received by employees (Danish Trade and Industry Development Council, 1998). Therefore, the concept of human capital was found in accounting thought in the context of human resource accounting.

The idea of human capital that was originally introduced in the 1960s, was given academic attention and applied experimentally in the 1970s and 1980s (Parker, Ferris & Otley, 1989:147), but was later relegated to the background relative to other accounting issues (Parker *et al.*, 1989:161). However, between the 1980s and 1990s, calls were repeatedly made by researchers and in the business literature for its development (Hermanson, Ivancevich & Hermanson, 1992; Vickery & Wurtzburg, 1992:12–16; Davidove & Schroeder, 1992; McCulloch & Ball, 1992; Geber, 1992: 31–34; Thornburg, 1994:50–56; Berkowitz, 2001:13–14; Guthrie & Petty, 2000:251; Gachman & Luss, 2002:26–29; Weatherly, 2003; Olsson, 2004:57–58). Studies that have made a notable contribution in this regard are those of Guthrie and Petty (2000) in Australia; Brennan (2001) in Ireland; Bozzolan, Favotto and Ricceri (2003) in Italy and Abeysekera and Guthrie (2004, 2005) in their study of Sri Lanka.

Hermanson *et al.*, (1992), argue that the present accounting systems have failed to recognise humans as assets with the resultant effect of workforce downsizing with the main objective of increasing short-term profits which may be dangerous in the long run and for the general economic welfare of organisations. Despite the uncertainty in the professional and academic mainstream, human capital accounting still occupies a place of accounting thought (Thompson, 1999:395) and therefore there is the need to broaden the scope of existing knowledge in this area.

Human capital (HC) represents the individual knowledge stock of an organisation as represented by its employees (Bontis, Keow & Richardson, 2000:87). It encompasses knowledge, skills and technical ability, personal traits such as intelligence, energy, attitude, reliability, commitment, ability to

learn, including aptitude, imagination and creativity, desire to share information, participate in a team and focus on the goals of the organisation (Fitz-enz, 2000). It comprises the competence, skills and intellectual agility of the individual employees (Roos, Bainbridge & Jacobsen, 2001:21–26). Human capital is considered to be the most important intellectual asset because it is the source of innovation and renewal (Stewart, 1997).

Human Capital Accounting (HCA) therefore is an attempt to report the financial consequences of factors possessed by individuals and the collective workforce of a firm. The difficulty of accurately determining the monetary value of HC is cited as a major reason for the lack of progress in recognising HC in traditional accounting statements and therefore the need to report in other forms such as discretionary disclosures in the annual reports (Rana & Maheshwari, 2005:79).

A major limitation of the current financial accounting and reporting model is that we do not measure and report human capital as assets in the financial statements (Adeyemi, 2006). Accounting for human capital will therefore require the invention of innovative new financial and management accounting concepts as well as reporting practices (Berkowitz, 2001). In human resource cost accounting which has been advocated by Pyle (1970), the expenses incurred in the acquisition, training and the development of human resources are treated as investments and hence shown in the statements of financial position as assets, and periodical write-offs out of these investments charged to the statement of comprehensive income.

The traditional statement of financial position does not account for the hidden value interest in people's skill, expertise and learning capabilities, the value in the network of relationships among individuals and organisations or the structural aspects relevant to servicing the customers. These hidden values or intangible assets assume an increasingly important role in this era of transition from the old to the new economy. In the old economy, capital is based on tangible assets while in the new economy; capital is based on intangible limitless assets (Malhotra, 2000:5; Berkowitz, 2001:13). Moreover, with the

proliferation of service, technology and other non-physical asset-based organisations, human assets constitute a substantial, if not major portion of these new economy organisations. In this context, the disclosure of human assets is needed if one is to obtain a true total valuation of these new economy organisations.

The value of human assets and their continuing successful management is a measure of sustainable competitive advantage as well as an indicator of overall organisational performance. Executives, academics and intellectual capital practitioners agree that the practical, objective valuation of human assets is needed and that the current state of corporate reporting lacks the inclusion of human assets which are playing a greater role in the success of organisations.

This increasing role is at least partially due to the confluence of increasing technological sophistication combined with the enhanced productivity of individuals available through computer tools and internet based knowledge. Nowadays, many individuals, business firms and other organisations have generated a range of proposals concerning the enhanced external disclosure of intangibles (Gates & Langevin, 2010:115; Dumay, 2009; Choong, 2008; Levy & Duffey, 2007; Green & Ryan, 2006; Eckstein, 2004; Boulton, Libert & Samek, 2000; Danish Ministry of Science and Technology, 2003; DiPiazza & Eccles, 2002; Eccles, Herz, Keegan & Phillips, 2001; FASB, 2001; Lev 2001 & Upton 2001).

Moreover, two multi-country initiatives related to measurement, management and reporting of value-creation activities are the MERITUM project involving Denmark, Finland, France, Norway, Spain and Sweden (European Union 2002); and the Value Measurement and Reporting Collaborative involving Australia, Canada, Germany, South Africa and the United States. The valuation of human capital is needed to focus on the potential of an organisation to perform successfully in the future.

Presently, there is no clear-cut policy or accounting standard to give preparers of CARs the opportunity to reflect on the huge human capital development expenditure in the statutory part of CARs. It then means that organisations would likely report on their human capital voluntarily. In this case, the CARs from such organisations cannot be said to be uniform and effective for decision-making. This information gap cannot be allowed to continue to exist. It is also important to fully understand and appreciate the nature of intangible assets in general and in particular human capital. They cannot be measured at fair value unlike tangible assets because they are generally not within the control of organisations.

The research problem follows from the fact that there is no generally accepted accounting standard for measuring and disclosing human capital. Although several researchers have developed models on the measurement of human capital (Bontis, 2004; Kaplan & Norton, 1992; Sullivan, 2000 & Sveiby, 1997), none of these has been accepted by the international accounting bodies. A possible solution to this dilemma is to develop appropriate reporting guidelines through the discretionary information system so that users of CARs can make use of these guidelines to assess and determine the fair value of human capital. The accounting profession has not been able to provide a standardised accounting solution to the financial reporting of human capital although efforts have been made to reflect other intangible assets such as purchased goodwill in International Financial Reporting Standard (IFRS) 3 and other measurable intangible assets in IAS 38 (IASB, 2012) through the mandatory information system in CARs. Therefore the research problem deals with this lack of the development of sufficiently conventional valuation and reporting models to accommodate a new framework of human capital reporting. This study therefore seeks to develop guidelines and a framework for reporting human capital in CARs.

1.2 PROBLEM STATEMENT

The research problem deals with the lack of the development of sufficiently conventional valuation and reporting models to accommodate a new framework of human capital reporting.

1.3 ASSUMPTION

Appropriate reporting guidelines should be developed through the discretionary information system of CARs, so that users can make use of these guidelines to assess and determine the fair value of human capital in their decision-making.

1.4 RESEARCH QUESTIONS

In this study, the following questions will be answered:

- (a) Why has the current reporting practice not made provision for full disclosure of human capital?
- (b) To what extent has business organisations in South Africa disclosed the large expenditures on human capital in their CARs?
- (c) What are the guidelines for full disclosure of human capital in the discretionary information content of CARs?
- (d) What form should such disclosures take in the CARs?
- (e) What will be the effect of such disclosures on the corporate performance, image and profile?

1.5 OBJECTIVES OF THE STUDY

The main objectives of this study are to develop guidelines for full disclosure of HC by corporate entities in the discretionary information part of CARs and to provide research evidence towards the improvement of financial reporting practice with respect to human capital disclosures in CARs.

Disclosure in accounting reports such as CARs is viewed as a means to create, sustain and legitimise activities in the private interests of the firm (Guthrie & Parker, 1990) and is suggested as a more suitable and relevant way of analysing human capital (Abeysekera, 2006:22). A study of companies in developing countries has become necessary in the light of increasing competition with firms in developed countries due to rapid globalisation, lower transaction costs and more freely available capital (Abeysekera, 2008:4). It has been noted that the competitive advantage of firms lies increasingly in intangibles (such as human capital) which are immutable (Daley, 2001:5), these immutable intangibles are used to differentiate between the products and services of firms (Abeysekera, 2008:4).

Secondly, there is little empirical evidence to suggest the usefulness of the financial models developed on human capital disclosure (Flamholtz, 1976; Grojer & Johanson, 1996). Thirdly, the emphasis of the South African government on strengthening corporate governance by putting into law some of the recommendations made by the King II report (IOD, 2004) in the Corporate Laws Amendment Act 24 of 2006 (RSA, 2006). It was observed that the largest stakeholder group identified by the King II Report and in the context of upliftment certainly the most important group is constituted by employees (McCall, 2001:196; Riley, 2002:112; Faure & De Villers, 2004:61).

1.6 IMPORTANCE OF THE STUDY

Human capital could be considered to be the most significant and most valuable asset which a company possesses and on which its long run profitability and sustainability depend, yet adequate attention has not been given to developing criteria to value human capital and to show them in the statement of financial position. In order to provide meaningful information on the state of affairs of an organisation, the development of guidelines for measuring and reporting the value of human capital is very necessary, this will invariably aid managerial decision-making.

Therefore research on human capital disclosure in CARs is important for a number of reasons:

Firstly, it will enable an organisation to account for the total value of its constituency by presenting a full and complete measure of total assets, including human assets. Thus, understanding the real value of all assets will provide a more accurate reflection of the worth of a company, which supports the corporate goals of transparency to shareholders, potential investors and market analysts.

Secondly, it will enable an organisation to justify its market value. This is because information on human capital would provide users of accounting data with a more accurate picture of true assets and strength of an organisation. Thus such data can be used to value assets when one company is attempting to purchase another.

Thirdly, it will form the basis for explaining competitive advantage in the market place. The success or failure of a company depends on the people who work in the organisation, as investors in the capital market place high value on human ability rather than factors like net worth, yield and price-earnings ratio which may not be readily available particularly in the case of new companies. Also, an organisation's competitive advantage over others could be explained by the degree of knowledge, skills and experience possessed by the organisation's employees.

Fourthly, it will form the basis for explaining the organisational performance over time. This is because accounting and valuation of human capital enables companies to realise the power of their people and to leverage them to their full business potential.

This study has far-reaching implications for the accountancy profession as the study will contribute to the body of knowledge of accounting reporting

practices and to the knowledge of the preparers and users of CARs as well as to accounting teachers, students and practicing accountants.

1.7 SCOPE OF STUDY

This study will focus on the disclosure of human capital in CARs. This has been taken from the framework of Intellectual Capital (IC) which several writers (Brooking, 1996; Edvinsson & Malone, 1997; Lev, 2001; Marr, Schiuma & Neely, 2002) regard as the interaction between human, organisational (structural) and customer (relational) capital. This framework emphasises the interaction of these forms of capital as the value-creating element of intellectual capital. In their study "Towards reporting human capital" Uliana, Grant and Macey (2005:168) state that the value of the asset arises from the interaction of these elements and that each element in isolation has little value.

In the natural sciences, studies have been carried out on the general human body system in order to determine the interrelationship between the various organs of the human body. Others have chosen to study a particular organ, for example the eye, so as to discover its usefulness in the context of the general human body system. Likewise, in this study, it is believed that dealing with an element (human capital) will be very useful as long as there is a demonstration of how human assets will help in value creation through its interaction with other intangible and tangible assets of an organisation. Moreover, a majority of researchers (Sveiby, 2001; Edvinsson & Malone, 1997; Lev, 2001 & Bontis, 2001) have hitherto concentrated on the general framework of intellectual capital.

Furthermore, the concept of the old and new economies will be explored in order to show the significance of human capital in the new economies. In the old economy, land, labour, raw materials and capital were the main factors of production but in the new economy, human capital is a central resource. Capital is no longer based on tangible assets and scarce resources but

instead is based on intangible limitless assets. The new economy is dominated by science and technology which has increasingly rendered obsolete the existing financial accounting and reporting structure. In today's economy, knowledge and skills stand alone as the major source of competitive advantage. The skill needed in a new (knowledge) economy is very different from that of the old economy (Berkowitz, 2001).

This study will cover the history of human capital reporting, the characteristics and the importance of the information provided through CARs, the types of information needed by various users and the nature of decisions that could be taken by these users and in what ways the preparers of CARs could ensure that the information needed by users is meaningful for effective decision-making.

In summary, this study therefore focuses on the measurement and reporting of human capital so as to have a better understanding of this category of intellectual assets and that, if given proper attention, would improve the decision-usefulness of CARs.

1.8 RESEARCH METHODOLOGY

1.8.1 Introduction

In Cronjé (2008), systems theory was employed to interpret the relationships between the systems that generate disclosures in CARs. These systems were referred to as the Discretionary Information System (DIS) and the Mandatory Information System (MFIS). However, this research will focus more on the DIS because the introduction of human capital in management and accounting has led to the demand by external stakeholders for a different sort of information other than “financial data” which are generated from the MFIS.

In the past, the value of organisations have been measured in terms of hard assets such as property, plant, equipment, materials, supplies, inventory and

cash, but today and into the future, the real value of organisations depend on the ideas, insights and information in the minds of the employees. It could be inferred that organisations focusing on building human capital will provide greater value for their stakeholders. This research will be based on 60 out of the top 100 companies on the JSE listed according to market capitalisation in South Africa. The choice of these 60 companies was motivated by the fact that the CARs produced by these companies are most likely to contain more discretionary disclosures through the discretionary information system (DIS).

1.8.2 Research methodology

The research methodology for this study will be as follows:

A critical literature review will be undertaken to develop human capital disclosure content categories, thus providing a tool that will be used to assess the type, amount and quality of HC disclosures. Literature review entails “... the most recent, credible and relevant scholarship in your area of interest” (Mouton, 2005). According to Mouton, some of the reasons why a review of the existing scholarship is so important are as follows:

- to discover what the most recent and authoritative theorising about the subject is.
- to find out what the most widely accepted empirical findings in the field of study are.
- to identify the available instrumentation that has proven validity and reliability.
- to ascertain the most widely accepted definitions of key concepts in the field.
- to ensure a previous study is not merely duplicated.

In order to conduct a literature review, relevant articles, thesis, dissertations and books will be searched through the electronic library (i.e. Oasis) of the University of South Africa (Unisa).

Secondly, an analytical content analysis will be undertaken to discover the extent to which disclosures in CARs relate to identified HC content categories. This empirical method referred to as content analysis has been used in studies that analyse the content of texts or documents (such as letters, speeches, annual reports) and states that “content” refers to words, meanings, pictures, symbols, themes or any message that can be communicated (Mouton, 2005:165). Content analysis has become a widely used method of analysis in financial accounting research (Beattie, 2005:102).

Content analysis has been used to explore areas of intellectual capital (IC) disclosures by some researchers (Abeysekera, 2006:66; Guthrie, Petty, Yongvanish & Ricceri, 2004:282). Another area where the method has been used is corporate social reporting (Unerman, 2000:667). The content analysis research method is therefore the ideal method to use to discover certain trends in the disclosure of information in CARs (Cronjé, 2008).

Thirdly, this study involves administering survey questionnaires on four groups of respondents namely:

Preparers group 1: Financial directors/managers

Preparers group 2: Human resources directors/managers

Users group 1: Investment analysts and other technical users

Users group 2: Regulators and government departments.

The checklist for human capital disclosures used for content analysis also formed the basis of checklist questions used in the survey questionnaire. The questionnaire will be administered through electronic mail to various categories of respondents. The researcher initially considered the use of focus group interviews, but this idea was abandoned in view of the anticipated difficulty in getting the attention of busy finance and human resource directors for interviews. Furthermore, the cost of conducting the interviews is very high in addition to the length of time required. In addition, interviews may produce non-standard and/or substandard responses which are difficult to analyse

because the interviewer may ask leading questions, indicate the expected response or intimidate the respondent (Boyle & Neale, 2006:3). However, it is noted that mail questionnaires are usually characterised by low response rates particularly with this category of target group. It is believed that the response rate will be adequate to answer the research questions and proffer solutions to the research problem based on the procedures aimed at improving the response rate for this study enumerated in section 6.8.1 of the chapter on research design.

According to Beattie and Smith (2010:266), direct investigation into the significance of HC, its management and reporting are few and dominated by small samples using interview/case study based techniques. They further stated that the findings from interviews/case studies provide direct insight that cannot be generalised to a larger population of companies due to lack of a large representative sample. They are also of the opinion that “the questionnaire method overcomes the problems associated with the small sample direct method and the indirect content analytic method.

Verma and Dewe (2004) obtained in their study 288 questionnaire responses on the process of valuation and measurement of HC through the survey of a mix of human resources (HR) and accounting and finance professionals in the private sector companies and local authorities based in the UK. According to Verma and Dewe (2008:18), there is a need to further investigate how the views of accounting and finance executives can be reconciled with those of HR executives. It is noted that very few studies have used the questionnaire survey method to explore the significance of HC, its value creation potential and disclosure. Despite its limitations, the questionnaire survey method can immensely contribute to the understanding of HC and its disclosure through thorough investigation of large sample of firms (Beattie & Smith, 2010:267).

The questionnaire method will be used to determine the extent to which the preparers and users of CARs understand the significance of human capital disclosure items in the disclosure framework and how such disclosures can

improve the decision-usefulness of CARs. Questionnaires will also be used to understand the extent to which the disclosures portray the significance of human capital as a means of facilitating capital accumulation in organisations (Tinker, 1985:14–15).

The use of the results generated from the combination of the critical literature review, analytical content analysis and the survey questionnaire method will be used to develop guidelines for full disclosure of HC with a view to making recommendations for HC disclosure practice.

1.9 LIST OF DEFINITIONS USED

There are standard definitions for accounting terms in the literature. For the purposes of this research, these standard definitions have been used while some have been explained within the context of the thesis.

Business communication

This refers to the establishment and maintenance of mutually beneficial relationships between an entity and its relevant stakeholders through the exchange of information, inter alia through the feedback that is needed to facilitate optimal decisions on the allocation of scarce resources (Cronjé, 2008:12)

Corporate reporting

This includes all aspects of financial reporting as well as other means of communicating information that relates directly or indirectly to the information provided by the accounting system. (Examples are contextual disclosures by management and disclosures required by regulatory agencies).

Decision-usefulness

Decision-usefulness is defined as an objective of financial reporting that has moved away from the traditional narrow goal of stewardship to a much wider role of providing heterogeneous users with information for decision-making

purposes. It encompasses the accountability objective (Gouws, 1997:66, 68), and the information in CARs incorporates this objective (Cronjé, 2008:12).

Discretionary information

This refers to disclosures and initiatives in CARs from the use of discretionary accounting practices.

International Financial Reporting Standards (IFRSs)

The International Accounting Standards Board (IASB), through the International Financial Reporting Standards (IFRS) Foundation has the responsibility of developing, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon articulated principles so as to enable investors, other participants in the world's capital markets and other users of financial information make economic decisions.

International Financial Reporting Standards (IFRS) Foundation

The IFRS Foundation is the legal entity under which the IASB operates and is responsible for promoting and facilitating the adoption of International Financial Reporting Standards (IFRSs) being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and the IFRSs.

Human capital

Human capital may be defined as the employee-based and firm-based skill and knowledge component of intellectual capital.

Human capital accounting

This is an attempt to report the financial consequences of the skill possessed by individuals and the collective workforce of an organisation.

Intellectual capital

Intellectual capital may be defined as an intangible element that is likely to result in future benefits to the organisation, and is composed of employee-based and firm-based skills and knowledge, structures that facilitate the internal functioning of the organisation and structures that facilitate the interrelationships between the organisation and the external environment.

Mandatory information

This refers to disclosures that are required by law and the International Financial Reporting Standards (IFRSs).

Preparers of corporate annual reports (CARs)

The preparers of CARs are those involved in the preparation of the corporate annual reports.

Users of corporate annual reports (CARs)

The users of CARs are those involved in the use of corporate annual reports that may be considered to be heterogeneous.

Stakeholders

Stakeholders are defined as groups or individuals who can affect or who are affected by the achievement of an organisation's objectives. They use the disclosures of CARs to reduce risk and uncertainty and to maximise opportunities for making decisions on the control, conversion and allocation of scarce resources (Cronjé, 2008:14).

The new economy

The new economy is one in which capital is based on intangible and essentially limitless assets. It is otherwise known as the "knowledge

economy". Knowledge has now become the real capital of the developed economies.

The old economy

The old economy is one in which capital is based on tangible assets and scarce resources. In the old economy, land, labour, raw materials and capital were the main factors of production.

1.10 LIST OF ABBREVIATIONS AND ACRONYMS USED

Abbreviations and acronyms used in this study are:

BS: Balanced Scorecard

CAR: Corporate annual report

CARs: Corporate annual reports

FASB: Financial Accounting Standards Board

HC: Human capital

HCA: Human capital accounting

HCD: Human capital disclosure

HCM: Human capital management

HRA: Human resources accounting

IAs: Intangible assets

IASB: International Accounting Standards Board

IASs: International Accounting Standards

IC: Intellectual capital

IFRSs: International Financial Reporting Standards

1.11 DEMARCATION OF CHAPTERS

CHAPTER 1

INTRODUCTION

This chapter will introduce the research topic and will also make the research problem, the objectives and scope of the research as well as the methodology to be adopted in carrying out the research known to the reader.

CHAPTER 2

LITERATURE REVIEW ON INTANGIBLE ASSETS

This chapter will review existing literature on intangible assets.

CHAPTER 3

LITERATURE REVIEW ON HUMAN CAPITAL INTANGIBLES

This chapter will review the existing scholarship or the available body of knowledge. In other words, the chapter aims at finding out what has been done on human capital disclosures and to see how other scholars have investigated on the research problem.

CHAPTER 4

THEORETICAL FRAMEWORK

This chapter reviews the two major components of CARs, which is the mandatory information system, the discretionary information system as well as the decision-usefulness approach to corporate annual reporting.

CHAPTER 5

REGULATORY FRAMEWORK

This chapter will review the international and local policy documents, regulations and legislations such as the Global Reporting Initiative (GRI), the United Nations Global Impact with focus on Integrated Reporting, the South African Companies Act, labour regulations as well as the King reports on corporate governance. The provisions of IAS 38 on intangible assets will also be reviewed.

CHAPTER 6

RESEARCH DESIGN

This chapter introduces the empirical component of the study. It explains and describes the literature review, analytical content analysis as well as the survey questionnaire methods adopted.

CHAPTER 7

RESEARCH RESULTS ON CONTENT ANALYSIS

This chapter presents the results of content analysis of CARs of selected companies.

CHAPTER 8

RESEARCH RESULTS ON QUESTIONNAIRE TO PREPARERS GROUP 1

This chapter presents the results of survey questionnaire administered on the financial directors or managers of the selected companies.

CHAPTER 9

RESEARCH RESULTS ON QUESTIONNAIRE TO PREPARERS GROUP 2

This chapter presents the results of survey questionnaire administered on the human resource directors or managers of the selected companies.

CHAPTER 10

RESEARCH RESULTS ON USERS GROUP 1

This chapter presents the results of survey questionnaire administered on the investment analysts and managers.

CHAPTER 11

RESEARCH RESULTS ON USERS GROUP 2

This chapter presents the results of survey questionnaire administered on the regulators and government departments.

CHAPTER 12

CONCLUSIONS AND RECOMMENDATIONS

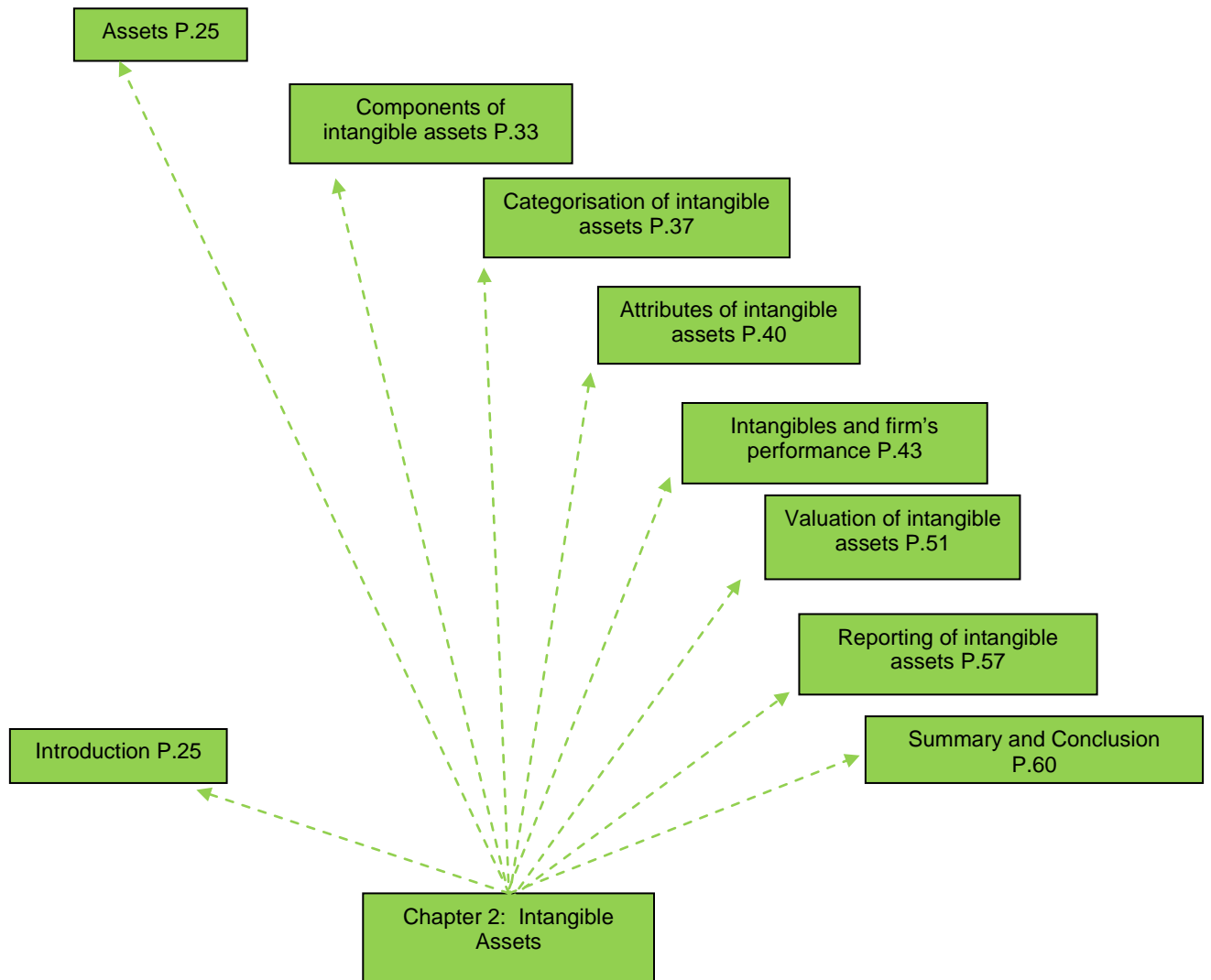
Conclusions are reached from both the quantitative and qualitative components of the study. Also, recommendations will be made about the potential for improving CARs through guidelines and a framework for full disclosure of human capital.

The next two chapters present the review of relevant literature on intangible assets in general and human capital intangibles in particular.

CHAPTER 2

INTANGIBLE ASSETS

Figure 2.1: Network view of chapter 2



2.1 INTRODUCTION

It was noted in chapter 1 that many research studies have been conducted on the general framework of intangible assets (IAs). This is why this chapter focuses on the review of relevant literature on IAs in order to provide a necessary background for the discussion on human capital (HC) disclosures in Corporate Annual Reports (CARs). The literature provides various terms used to refer to or describe IAs, such terms include intellectual capital, intellectual property, intellectual knowledge, intangible resources, knowledge assets and intangible assets (Boedker, Guthrie & Cuganesan, 2005:514). However, for the purpose of this study, the term “intangible assets” will be used because the study is focussed on the financial accounting discipline.

2.2 ASSETS

The definition of an asset in the Conceptual Framework, paragraph 4.4(a) (IASB, 2012) states:

An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

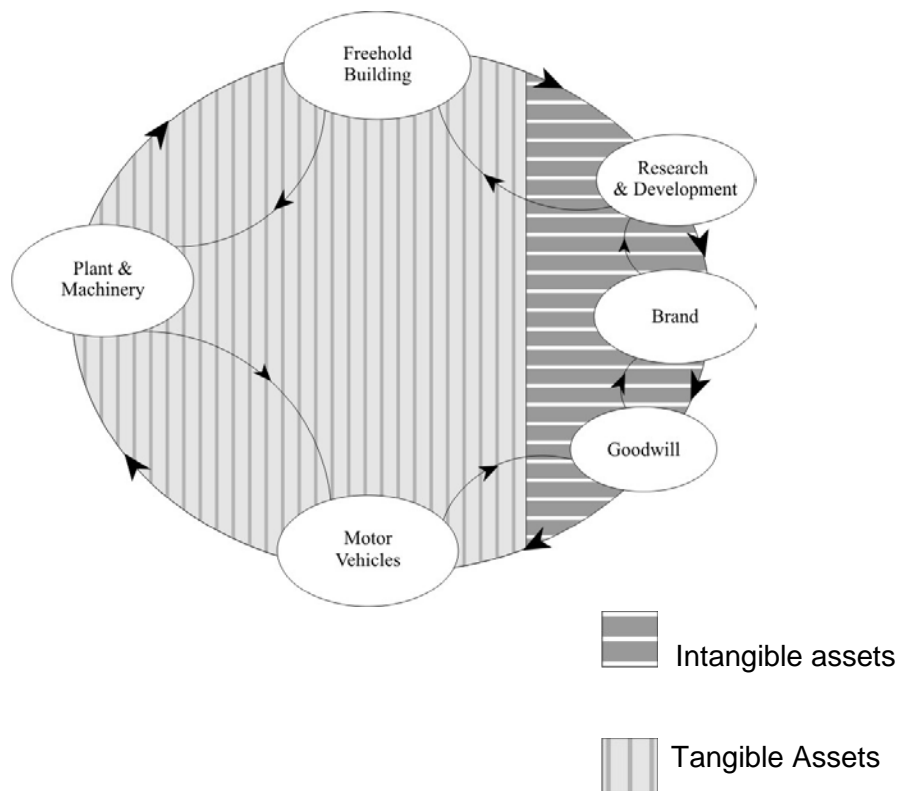
The term “asset” has been used to describe a resource under the ownership of a business that expects to derive economic benefits from the exploitation of that resource (Brockington, 1995:11). An asset may be physically existent, for example, plant and machinery, or it may not be physically existent, for example, cash at the bank. Brockington (1995:12) further affirms:

A resource will not, however, be regarded as an asset if it is merely hired by the business and used on terms which leave the ultimate risks and rewards of ownership with another party nor will it be seen as an asset if there is no expectation of economic benefit such as a machine that

although having physical existence, has become worn out or obsolete, cannot be used and has no saleable value.

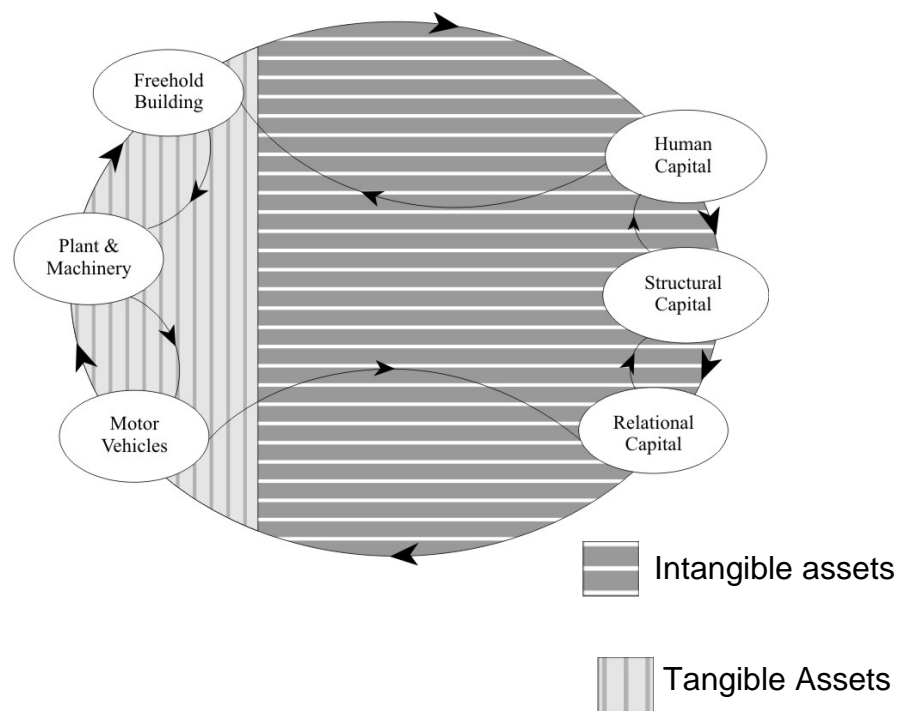
Assets can be broadly classified into tangible and intangible assets. Assets that have physical substance and/or are monetary in nature (for example a freehold building, plant and machinery, equipment, furniture, etc) are generally referred to as tangible assets, while those that have no physical substance and are not monetary in nature (for example, research and development expenditure, employees' knowhow, brand, patents, trademarks, goodwill, etc) are generally classified as intangible assets. The figure below pictures assets as a set, with both tangible and intangible assets as its subsets.

FIGURE 2.2: REFLECTION OF ASSETS IN THE OLD ECONOMY



Source: Own observation

FIGURE 2.3: REFLECTION OF ASSETS IN THE NEW ECONOMY



Source: Own observation

2.2.1 Tangible assets

A tangible asset is an asset that is physical in nature and consists of the supporting resources and infrastructure of a firm. Examples of tangible assets are land, buildings, plant, machinery and equipment. The following are the features of a tangible asset:

- It can be bought and sold in an organised and readily available market or realised in the ordinary course of business.
- It is not specific to the business and so can be transferred to and used by another business.
- Its disposal does not affect the fundamental operations of the business and it can easily be replaced or dispensed with as required.
- Its existence can be verified by inspection.
- It usually has a finite life.

- Over its finite life, its value diminishes in a systematic way (Brockington, 1995:13).

2.2.2 Intangible assets

On the other hand, an intangible asset is an asset without a physical substance but is capable of generating future benefits. Some of the characteristics of intangible assets are:

- It cannot be bought and sold in an organised market. Its realisation depends either on the continuation of business operations or on the ability to find a specialised buyer.
- It is likely to be very specific to the business that owns it, sometimes to the extent that it may have no value at all to anyone else.
- Disposal of the asset will affect and may prevent the continuance of all or a substantial part of the activities of the business.
- Direct verification of its existence may be impossible. It may merely manifest itself in conferring trading advantages over those not possessing the asset.
- It may not have a finite life. Its life may be indefinite, nevertheless, subject, at the whim of fortune, to abrupt curtailment.
- Its value may fluctuate in an unpredictable way (Brockington, 1995:13).

Having considered the general framework of assets, the discussion will now focus on intangible assets which are one of the two broad categories of assets. The concept “intangible assets” has been described by various terms depending on the discipline of the researchers. For example, in the law discipline, it is referred to as “intellectual property”; in the management science, it is known as “intellectual capital”; while in the economics literature, it is often denoted as “knowledge assets”. Some researchers also used the word “intangibles” when referring to the term “intangible assets”. Lev (2001: 5) states:

All these three terms are widely used – intangibles in the accounting literature, knowledge assets by economists, and intellectual capital in

the management and legal literature – but they refer essentially to the same thing: a non physical claim to future benefits. When the claim is legally secured (protected), such as in the case of patents, trademarks, or copyrights, the asset is generally referred to as intellectual property.

Kaufmann and Schneider (2004:366) ascertain that not only different terms are used to express the concept “intangible assets”, but also different definitions are proposed for each of these terms by various researchers. The field of study into intangible assets (IAs) is also known as intellectual capital (IC).

A review of literature across disciplines reveals that there are many definitions and terms denoting intangible assets (IAs). The majority of these definitions and terms are either describing IA with similar or different information. On the one hand, non-accounting researchers, refer to IA as the “difference between the firm’s market value and the book value of the entity” (Edvinsson & Malone, 1997; Mouritsen, Larsen & Bukh, 2001). On the other hand, accounting researchers, refer to the difference between the market value of the entity and the book value of the entity’s identifiable assets as “goodwill” (Beaver, 1998). Goodwill has therefore been defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised (IFRS 3, 2008).

The table below depicts a grouped summary of the terms used by various authors to describe intangible assets.

TABLE 2.1: DEFINITION OF INTANGIBLE ASSETS

Term/Concept	Authors	Definition
Intangible resources	Hall (1992:136)	"Intangible resources are value drivers that transform productive resources into value-added assets".
Intangible assets (IAs)	Edvinsson and Malone (1997:22) in Choong (2008:610)	"Intangible assets are those that have no physical existence but are still of value to the company".
	FASB NN (2001:6)	"Intangible assets are noncurrent, non-financial claims to future benefits that lack a physical or financial term".
Intellectual capital (IC)	Brooking (1997:13)	IC as "market assets, human-centred assets, intellectual property assets, and infrastructure assets".
	Nahapiet and Ghoshal (1998:245)	IAs as "knowledge and knowing capability of a social collectivity, such as, an organisation, intellectual community or professional practice".
	Stewart (1998:xi) in (Choong 2008:610)	IC is "intellectual material-knowledge, information, intellectual property".
	Brennan and Connell (2000:1)	"Knowledge-based equity of a company".
	Harrison and Sullivan (2000:34)	"Knowledge that can be converted into profit".
	Sullivan (2000:228) in Choong (2008:610)	IC is "knowledge that can be converted into profit".
	Heisig, Vorbeck and Niebuhr(2001:60)	IC is "valuable yet invisible".
	Intellectual capital	Organisation for Economic Cooperation and Development (OECD) (1999:3) in Petty and Guthrie (2000:158)
	Pablos (2003:63) in Choong (2008:611)	"A broad definition of intellectual capital states that it is the difference between the company's market value and its book value. Knowledge based resources that contribute to the sustained competitive advantage of the firm from intellectual capital".
	Rastogi (2003:227)	"IC may properly be viewed as the holistic and superordinate capability of an enterprise to create value through creative orchestration of its knowledge resources under conditions of constant change".

TABLE 2.1: DEFINITION OF INTANGIBLE ASSETS (CONT...)

Term/Concept	Authors	Definition
	Mouritsen, Bukh and Marr (2004:48)	IC mobilises “things such as employees, customers, information technology (IT), managerial work and knowledge. IC are intellectual resources comprising employees, customers, partners, virtual infrastructure and technologies”.
Intellectual property(IP)	Smith (1994) in Choong (2008:610)	“Intangible assets are all the elements of a business enterprise that exist in addition to working capital and tangible assets. They are the elements, after working capital and tangible assets that make the business work and are often the primary contributors to the earning power of an enterprise. Their existence is dependent on the presence, or expectation, of earnings”.
	Granstrand (1999)	IP “is property directly related to the creativity, knowledge and the identity of an individual”.
Intangibles	Lev (2001:5)	“An intangible is a claim to future benefit that does not have a physical or financial (a stock or a bond) embodiment”.
	Gu and Lev (2001:14) in Choong (2008:610).	“Intangibles are defined by their value drivers, Research & Development (R&D), advertising, IT, capital expenditures, and human resources practices”.
Invisible assets	Itami (1991)	“Intangible assets are invisible assets that include a wide range of activities such as technology, consumer trust, brand image, corporate culture, and management skills”.
Immaterial values	Sveiby (1997:10)	IC has “three dimensions (employee competence, internal structure and external structure.) This term has been used by researchers and bodies in countries like Germany, Sweden and France because they do not adopt UK/US-based accounting systems. However, immaterial values as used in these countries mean an asset without monetary value and physical appearance”.

The focus of early researchers, in the field of intangible assets, was on definitions and classifications. Unfortunately these researchers were unable to reach any consensus about definitions and classifications. Hall (1992) divides intangibles into assets and resources, while Stewart (1997) pictures intangible assets as the “sum of an organisation’s patents, processes, employees’ skills, and technologies, information about customers and suppliers, and old-fashioned experience”. Mortensen, Eustace and Lannoo (1997), from the

financial point of view, distinguish between innovation capital, structural capital, executory contracts, market capital and goodwill.

Sveiby (1997) in his own work categorises intangibles into three groups:

- employee competence (individual's ability to act in a wide variety of situations to create both tangible and intangible assets)
- internal structure (patents, concepts, models, computer and administrative systems, organisational structure or spirit)
- external structure (relationships with customers, suppliers, brand names, trademarks, organisational reputation and image)

Hendriksen and Van Breda (1992) state that intangibles can be classified into traditional intangibles and deferred charges from the accounting perspective. Davenport and Prusak (1997) declare that the intangible asset is related to technology, technological changes and management of information technology. Andreou, Green and Stankosky (2007:53) believe that, to enable business enterprise gain intangible assets, it has to become "intelligent" to its environment; this will enable the enterprise to acquire adequate knowledge about all environmental factors that may affect its activities and then value its intangible assets.

Itami (1991) states, "... intangible assets are invisible assets that include a wide range of activities such as technology, consumer trust, brand image, corporate culture and management skills". Mouritsen, Bukh and Marr (2004:49) maintain, "IC cannot stand by itself as it merely provides a mechanism that allows the various assets (employees, customers, Information Technology (IT), managerial work and knowledge) to be bonded together in the productive process of the firm". Hall (1992) claims, "intangible assets are value drivers that transform productive resources into value added assets". In addition, this author explains that intangible assets can be divided into two major categories; these are intellectual property and knowledge assets. Rastogi (2003:230) indicates that IC is the result of the "collaborative effort

among the firm's human and social capital, and knowledge management". This means that IC does not exist alone, but is a result of the combination of these identifiable elements of IC.

Intangible assets has been defined by Smith (1994) as "... all the elements of a business enterprise that exist in addition to working capital and intangible assets, that make the business work and are often the primary contributors to the earning power of the enterprise with their existence depending on the presence, or expectation, of earnings". Lev (2001:5) defines an intangible asset as "a claim to future benefits that does not have a physical or financial (a stock or a bond) embodiment". The researcher further explains that a patent, a brand, and a unique organisational structure (for example, an internet-based supply chain) that generate cost savings are intangible assets. Brooking (1997:13) argues that value creation is effected when identified IC, such as, market assets, human-centred assets, intellectual property assets and infrastructural assets are combined with other productive resources of an organisation.

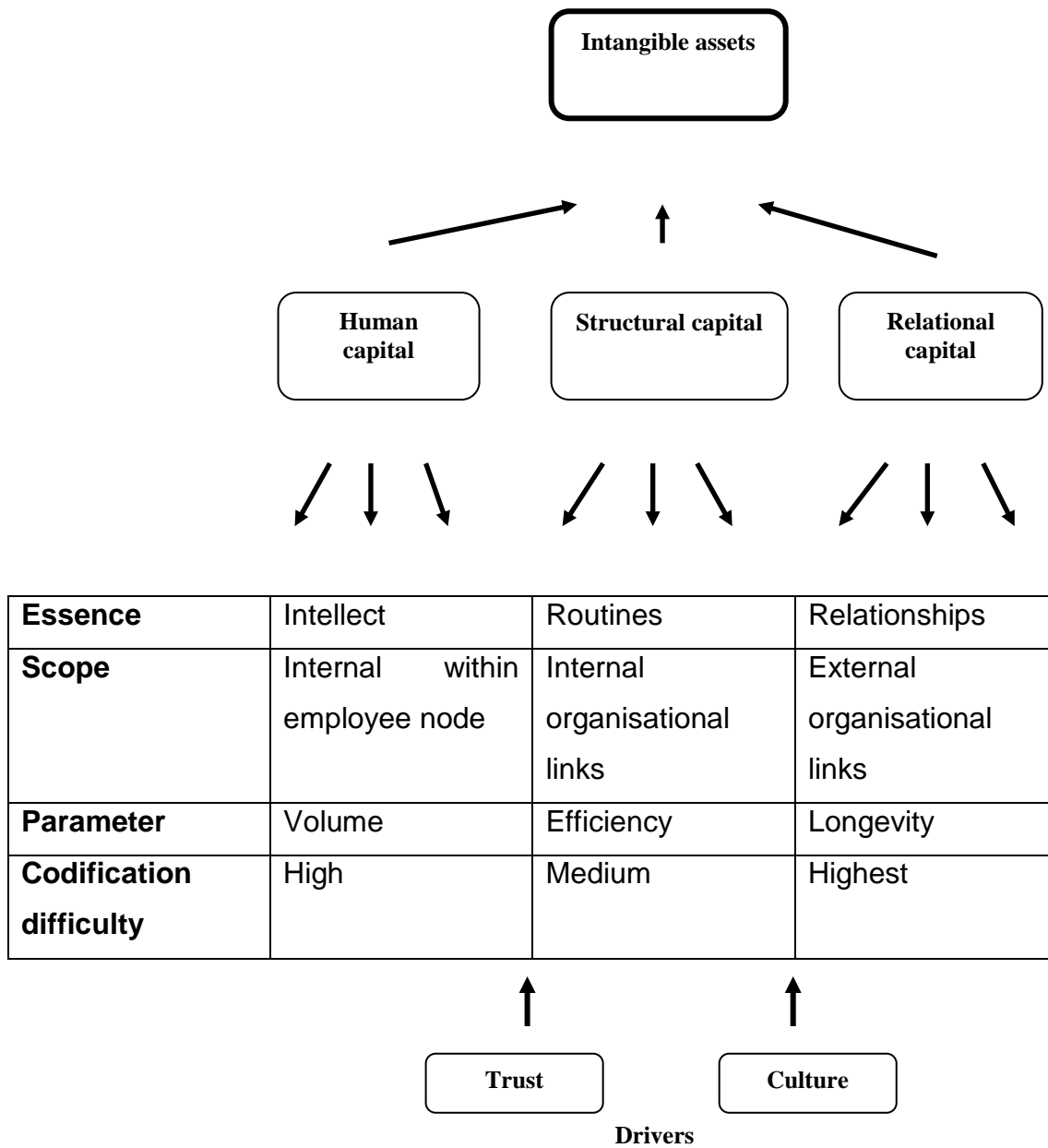
Intangibles have been defined by Sullivan (2000:5) as "... knowledge that can be converted into profit". This author further states that firms depend on intangibles, such as reputation, customer loyalty, name recognition, leadership, and standard setting combined with human capital in order to generate value from the profit generated from the sale of goods and services. In explaining the term IC, Davenport and Prusak (1997) affirm that IC is related technology, technological changes and management of information technology, this is in line with the definition of Stewart (1997:x), "... the management of information technology that can be put to use to create wealth".

2.3 COMPONENTS OF INTANGIBLE ASSETS

The widely accepted components of intangible assets are human capital, structural (organisational) and relational (customer) capital (Stewart, 1997;

Bontis, 1998). Figure 2.4 depicts these major components and their constituents:

FIGURE 2.4: MAJOR COMPONENTS AND CONSTITUENTS OF IAs



Source: Bontis (1999:445)

2.3.1 Human capital

Human capital (HC) is often recognised as one of the largest and most important intangible assets in an organisation. It is referred to as the stock of knowledge of an individual in an organisation as represented by its employees (Bontis, Keow & Richardson, 2000). HC includes the collective knowledge,

competency, experience, skills and talents of people within an organisation and it is also said to include the competence, skills and intellectual agility of the individual employees (Roos, Bainbridge & Jacobsen, 2001:23), it cannot be owned by the company (Bontis, 2001:45). In addition, HC is considered the most important intellectual asset as it is the source of innovation and renewal (Stewart 1997), because it includes creativity and innovativeness.

HC creates ideas and therefore generates innovation, whilst a flexible organisation may allow more scope to its members to collect information, interact more with each other, generate more ideas, and hence generate higher innovation (Bianchi & Labory, 2004:31). HC has also been defined as the knowledge, skills, competencies and creativity that each person who works in a firm or organisation has (Edvinsson & Malone, 1997). Examples of intangible assets embodied in human capital are the employees' competences, skills, knowledge, personal networks and so on (Roos, Pike & Fernstrom, 2005).

2.3.2 Structural (organisational) capital

Firms need channels through which knowledge can be shared and transported. These channels have been referred to as structural assets which include laboratories, competitive and market intelligence, as well as management focus (Stewart, 1997). Structural capital is "... everything that gets left behind at the office when employees go home" (Bontis, 2001). It consists of the supporting resources and infrastructure of a firm. It reflects the collective capabilities of the organisation that enable it to function to meet market requirements. Structural capital can be owned by the whole organisation; and can be reproduced and shared (Stewart, 1997). Structural capital is a significant link that enables intellectual capital to be measured at the organisational level of analysis (Bontis et al, 2000:88). Organisational capital is, according to Edvinsson and Malone (1997), "... all those things that remain in the organisation when the employees have left the building but that you cannot find in the statement of financial position". Examples of intangible

assets that are embodied in organisational (or structural) capital, are brands and intellectual property, the patents, the computer software, automation systems and certain management techniques, the organisational routines, procedures (Reilly & Schweih's 1998; Grasenick & Low, 2004; Roos *et al.*, 2005).

2.3.3 Relational capital

According to Stewart, relational capital of the firm is the value of its franchise, its on-going relationships with people or organisations; to which it sells (Stewart, 1997). The main content of relational capital is the knowledge of marketing channels and customer relationships (Bontis, 1998). Relational capital is more often measured and counted than human and structural capital. The ultimate form of relational capital is shared knowledge (Stewart, 1997). Relational capital comprises not only customer relations but also the organisation's external relations with its network of strategic partners and stakeholders. The value of such assets is primarily influenced by the firm's reputation. In measuring relational capital, the challenge remains in quantifying the strength and loyalty of customer satisfaction, longevity and price sensitivity (Zambon, 2004:162). Relational capital is defined as the set of external relationships that a firm or organisation develops (Grasenick & Low, 2004:270). Intangible assets, which can be seen as relational capital, are the customers, potential customers, partners, suppliers, investors, creditors, et cetera (Roos *et al.*, 2005).

2.4 CATEGORISATION OF INTANGIBLE ASSETS

In the literature, a number of distinct categorisation approaches have been introduced for intangible assets (Reilly & Schweih's, 1998; Grasenick & Low 2004; Kannan & Aulbur, 2004; Porta & Oliver, 2006). Some of these authors classify intangible assets depending on the valuation methods that are more suited to the term, while others classify intangible assets according to the economic performance. To this end, Porta and Oliver (2006) provide a

framework for identifying and classifying intangible assets in the case of clusters of enterprises. The classification of intangible assets into human capital, structural or organisational capital and relational capital was originally introduced in the works of Edvinsson and Malone (1997), Roos, Roos, Edvinsson and Dragonetti (1997) and Sveiby (1997). This categorisation is widely accepted and has also been employed in the work by Bontis (2002) and the “Measuring Intangibles to Understand and Improve Innovation” research programme (Meritum, 2002). It has also been studied by Grassenick and Low (2004) and Choong (2008). The table below shows a summary of some of the numerous researchers who have attempted to categorise intangible assets.

TABLE 2.3: CATEGORISATION OF INTANGIBLE ASSETS

Term/concept	Authors	Categorisation
Intangible assets	IASB (2004b)	Advertising (marketing), distributing, training (human resource), start-up, RD, brands, copyrights, covenants not to complete, franchise, future interest, licenses, operating rights, patents, record masters, secret processes and trademarks (trade names)
Intellectual capital	Petty and Guthrie (2000)	Human capital and organisational (structural) capital
Intellectual capital	Mouritsen, Bukh, Larsen and Johansen (2002)	Human capital, organisational capital and customer capital
Intangibles and intellectual capital	Meritum (2002)	Human resources, structural resources and relational resources
Intangibles	Lev (2001)	Discovery, organisational practices and human resources
Intangible assets	FASB NN (2001)	Technology, customer, market, workforce, contract
Intangibles	Sanchez, Chaminade and Olea (2000:320)	Human capital, structural capital and relational capital
Intellectual capital	Harrison and Sullivan (2000)	Human capital, intellectual assets that include IP
Intellectual capital	Brennan and Connell (2000)	Internal structure, external structure and human capital
Intangibles	Andriessen and Tissen (2000)	Assets and endowments, skills and tacit knowledge, primary and management processes, technology and explicit knowledge, and collective values and norms
Intellectual property	Granstrand (1999)	Creativity, knowledge, identity of individuals
Immaterial value	Sveiby (1997)	Internal structure, external structure and personnel competence
Intellectual capital	Brooking (1997)	Market assets, human-centred assets, intellectual property assets and infrastructure assets

2.5 THE ATTRIBUTES OF INTANGIBLES

The major attributes of intangibles as pointed out in the literature are; non-rivalry, increasing returns, network effects, partial excludability, non-tradability and risk and information asymmetries. These attributes facilitate the potential of the intangibles to create value and generate growth and are discussed in more detail below.

2.5.1 Non-rivalry

As Lev (2001:22) points out, physical, human and financial assets are characterised by rivalry in the sense that alternative uses compete for the services of these assets. This means that, once a rival asset has been deployed, it cannot be used in another place at the same time. This will lead to positive opportunity costs for such rival asset and the opportunity cost, which represents the benefits derivable from the best alternative. On the other hand, intangible assets are, in general, non-rival; in this case, they can be deployed at the same time in more than one area, such that the use of the specific intangible asset does not hinder its usefulness in other areas.

Lev (2001:22) concludes that, many intangible inputs have zero or negligible opportunity costs beyond the original investment. For example, the use of an organisation's website by customer A does not preclude customer B from using it at the same time as this value creation potential, often referred to as scalability of intangibles, is limited only by the size of the market, in which the organisation operates.

2.5.2 Increasing returns

Arising from the non-rivalry attribute of intangibles is that they are generally characterised by substantial fixed costs and low or negligible marginal costs (Lev, 2001:22). Knowledge assets have been said to be expensive to produce, but cheap to reproduce (Desrochers, 2001:25). For example, the

development of a drug or a software program generally requires heavy initial investment, while the cost of producing the pills or software diskettes is negligible. Physical assets are subjected to the law of diminishing returns, to which intangible assets are not.

Moreover, heavy investment in plant and machinery is required if the volume of production is to be doubled in a drug manufacturing company, but quadrupling the volume of drugs sold does not require any change in the underlying intangible assets, for example, patents or research and development. The non-rivalry (non-scarcity) attribute of intangibles, that is the ability to use such assets in simultaneous and repetitive applications without diminishing the usefulness thereof, is a major value driver at the business enterprise level as well as at the national level (Lev, 2001:23). This may be seen as a major reason why intangibles-intensive companies dominate respective industries' markets.

2.5.3 Network effects

The benefits from a network increase with size, primarily because there are more people with whom to interact or to conduct business (Lev, 2001:26). Although there is a presence of network effects in tangibles-intensive industries, such as transportation networks (railroads, trucking, airlines and shipping), fixed-line telephone, car rental companies, and automatic tellers, in recent years, it is more notable in intangibles-intensive companies. Network effects, accordingly, are often predicated on intangible assets (Lev 2001:31). The development of some products and services are based on network centred innovation.

2.5.4 Partial excludability and spillovers

The ownership rights of physical and financial assets are specific and well defined so that other users can be excluded from the enjoyment of the benefits of these assets, which is not the case with intangible assets. For

instance, an organisation might have invested a considerable amount of funds in the training of its staff. This training may be in the form of skills acquisition, higher academic degrees or professional training; other companies may not be excluded from benefiting from the training received by these employees particularly when such employees move to another organisation. Therefore, when a firm invests in training its employees, other companies (and society) will benefit from such an investment, when the trained employees change jobs (Lev, 2001:33). Moreover, in the case of intangibles protected by well-defined property rights, there are substantial benefits to non-owners (Di Tamaso, Paci & Schweitzer, 2004:89).

2.5.5 The inherent risk of intangibles

Generally, all investments and assets are risky, because business operates in an uncertain environment; however, the degree of riskiness of intangible investments is higher than that of the physical and financial assets. Kothari, Laguesse and Leone's (1998) comparative study on the uncertainty associated with research and development (R&D) as well as property, plant and equipment; confirmed the large risk differentials between intangible and tangible investments. The study's findings confirmed the earnings volatility (a measure of risk) associated with R&D were, on average, three times higher than the earnings volatility associated with physical investment. This high risk of intangibles is driven by the respective roles in the process of innovation. Romer (1998:10) states that the driving process in these increases in value, gross domestic product and wealth, is the discovery of new and better formulas, recipes, instructions for rearranging things; it's also the carrying out of those instructions, the reworking of that knowledge into physical forms, which allow for practical application. The inherently high risk associated with intangibles has important managerial, capital market and policy consequences, however under proper management; the higher risk of intangibles can be leveraged into considerable value (Lev, 2001:41–42).

2.5.6 Market in intangibles

The imperfections and the failure of a free market for knowledge and information are in line with the lack of organised markets for intangible assets (Stiglitz, 1985:23). It is possible to consider failures in the creation of markets for intangibles, because of the inability to write complete contracts with respect to the outcomes of intangibles (Teece, 1998:68). As noted by Lev (2001:43), markets exist in principle whenever trade and exchanges take place, but that which distinguishes intangibles from other assets, is the absence of organised, active exchanges with numerous participants and transparent prices. Therefore, the high transaction costs, exchanges of intangible assets, take place mainly by informal contacts made possible by frequent interactions and trust.

2.6 INTANGIBLES AND FIRMS' PERFORMANCE

Many studies have been conducted on the relationship between intangible assets and the performance of firms. The table below adapted from Kalpeko (2006:10) with other studies from years 2007 to 2010 shows the major findings of some of these researchers.

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Diez, Ochoa, Prieto and Santidrian (2010)	Influence of representative variables of human capital and structural capital	Explanatory analysis on the relationship between human and structural capital and a set of variables representing value creation	Independent variable, value-added intellectual coefficient	Survey on Spanish firms with staff strength of 25 or more	Positive relationship between the use of human and structural capital indicators and value creation measured by sales growth
Salamudin, Bakar, Ibrahim and Hassan (2010)	Intangible assets	Financial performance		Development of intangible assets in Malaysian companies from 2000–2006 using Landman's balance sheet identification model Cross-sectional multi-regression procedure	Book value of net assets still dominating Malaysian corporate valuation Positive trend in intangible assets development in Malaysia consistent with advanced economies in Europe, USA and Australia
Kamath (2008)	Human, structural and physical capital	Profitability, productivity and market valuation		Value added by IC for top 25 firms Correlation and simple linear multiple regression	Domestic firms efficiently utilising their IC Human capital has major impact on the profitability and productivity

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Tovstiga and Tulugurova (2007)	Intellectual capital practices on enterprise performance in small innovative enterprises	Structural and human capital		Survey questionnaire on technology intensive small innovative enterprise in St Petersburg, Russia	Structural and human capital perceived to be a primary determinant of enterprise performance
Chen, Cheng and Hwang (2005)	Value Added Intellectual Coefficient (VAIC™) R&D expenditures/book value of common stocks Advertising expenditures/book value of common stocks	Market value of common stock= number of shares outstanding* stock price at end of the year Book value of common stocks=book value of stockholders' equity-paid-in capital of preferred stocks Return on equity (ROE) Return on assets (ROA) Growth in Revenue (GR) Employee productivity (EP: pre-tax income/number of employees)		Quantitative/Regression/ Firms listed on Taiwan Stock Exchange.	Companies with greater physical, human and structural capital efficiency and greater R&D expenditure tend to have higher market-to-book value ratios Intellectual capital efficiency is positively related with firms' current and future performance

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Wang and Chang (2005)	The indicators of human capital, customer capital, innovation capital and process capital adopted from literature	Return on assets (ROA) Adjusted return on assets Return on stockholders' equity (ROE) Adjusted return on shareholders' equity Operating income ratio Stock price Market value Market value-Book value Market-to-book		Quantitative/Partial least squares method (PLS)/Listed firms in the IT Industry in Taiwan	Innovation, process and customer capital have direct, positive influence on performance Human capital positively affects innovation, process, and customer capital; process capital and customer capital in turn affect performance. Human capital positively affects innovation and process capital, and process capital affects customer capital, which then affects performance
Carmeli, Tishler (2004)	Subjective measures of managerial capabilities, human capital, perceived organisational reputation, internal auditing, labour relations and organisational culture taken from literature assessed on 7-point Likert scale	Financial performance (Self-income ratio and collecting efficiency ratio) The employment rate Municipal development Internal migration	Environmental uncertainty Community size Geographical location	Quantitative/ multivariate analysis (Robust Canonical Analysis, RCA) Local authorities in Israel	Intangible assets and interactions among them impact positively performance Organisational culture and perceived organisational reputation as the most important elements in performance No impact of community size on performance Impact of environmental uncertainty and geographical location on performance

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Villalonga (2004)	Tobin's q: Firm's market value/ Replacement cost of the firm's tangible assets Hedonic q: predicted value obtained from the regression of Tobin's q on three accounting measures of intangible assets (R&D stock, advertising stock and intangibles-in book)	Firm-specific profits: difference between firm profitability and the average profitability of the industry in any given year, Profitability (ROA)	Industry	Quantitative/Dynamic panel data regression model/ US public corporations derived from Compustat	The greater the intangibility of firm's resources, the greater the sustainability of its competitive advantage or disadvantage The impact of resource intangibility on the sustainability of firm's competitive advantage differ significantly across industries
Li, Wu (2004)	Human capital: the number of the total personnel, the education level of the personnel Structural capital: R&D expenses, Advertisement expenses	Total profits, Sales growth, Profit growth, Return on total assets (ROA)	Industry size	Quantitative/ Factor and Regression analysis/Public firms in China	Level of human and structural capital has a positive effect on performance Structural capital plays more important role in firm performance than human capital

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Engstrom, Westnes and Westnes (2003)	Subjective measures of intellectual capital based on Bontis (1998) and ICAP methodology of evaluating intellectual capital specific for each organisation	Organisational performance: Degree of sickleave and working climate, Financial performance: Gross Operating profit (GOP) perfect, Revenue per available room, Occupancy percentage, Rooms profit, F&B profit (comparing cost of food sold with food sales), Personnel cost		Qualitative, embedded case study Benchmark analyses to test the relationship between intellectual capital and business performance Hotels in Radisson SAS Hotels and Resorts hotel chain in Norway	Weak relationship between ICAP and GOP No relationship between ICAP and total climate Relationship between human capital and total sick leave and personnel cost Relationship between structural capital and rooms profit as well as F&B profit Relationship between customer capital and occupancy rate Relationship between human capital and structural capital
Riahi-Belkaoui (2003)	Relative measure of trademarks	Net Value Added over Total Assets (VATA)	Relative prior years' performance (relative value added/total assets) size Debt structure Multi-nationality (foreign sales over total sales)	Quantitative Regression Forbes' magazines' most international 100 American manufacturing and service firms	Intellectual capital is associated with future firm performance

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Firer and Williams (2003)	Value Added Intellectual Coefficient (VAIC TM)	Profitability: ROA (net income/book value of total assets) Productivity: ATO (total revenue/ total book value of assets) Market valuation: MB (total market capitalisation/ book value of net assets)	Size of the firm (natural log of total market capitalisation) Leverage (total debt divided by book value of total assets) Return on equity (ROE) Industry type	Quantitative/Linear multiple regression/ Publicly traded African companies from sectors extensively reliant on intellectual capital	Moderately positive association between structural capital and profitability Negative association between human resources, profitability, and market valuation Positive association between physical capital and market valuation Control variables contribute very little to performance
Delios, and Beamish (2001)	Expenditures on R&D/Total sales Expenditure on advertising/ Total sales	Profitability (managerial assessment between three categories: loss, breakeven and gain) Survival	Experience abroad Size Age	Quantitative/ Ordered logit regression/ Sample of Japanese multinational firms	Positive relationship between intangible assets and survival Technological assets are positively related with profitability No significant relationship between advertising assets and profitability

TABLE 2.4: STUDIES RELATING INTANGIBLE ASSETS WITH FIRM PERFORMANCE (CONT...)

Author(s)	Intangible dimensions and their measurement	Performance: dimensions and measures	Which other variables were used for control?	Character of the study/method/sample	Main results and conclusions
Bontis et al (2000)	As Bontis (1998)	As Bontis (1998)	Industry type: service and non-service industry	Quantitative/ partial least squares method/ MBA students in Malaysia.	Human capital is positively related to customer capital regardless of industry and to structural capital only in non-service industries Customer capital is positively related to structural capital regardless of industry sector Structural capital is positively related to business performance regardless of industry
Bontis (1998)	Subjective measure of intellectual capital: statements to which respondents indicated their agreement on a 7-point Likert scale for human, structural and customer capital taken from the literature	Subjective measures of performance: industry leadership, future outlook, profit, profit growth, after-tax return on sales, overall response to competition, success rate in product launch, overall business performance assessed on 7-point Likert scale		Quantitative, exploratory study Principal components analysis and partial least squares MBA students in Canada	Intellectual capital has a significant impact on performance Human capital is useless without supportive structure of structural capital There must exist constant interplay between human, structural and customer

Adapted from: Kapelko (2006:10)

Some of these researchers consider current and future performance of firms from different angles, such as, profitability and survival (Delios & Beamish, 2001:1028) or a firm's financial performance and market value (Chen, Cheng & Hwang, 2005:159). The study of Bontis (1998:63) shows a significant causal link between the categories of intangible assets and business performance. This study also confirms that the three intellectual capital categories (human, structural and relational) affect each other, for example, human capital without the support of structural capital will not be useful to an organisation. The importance of the linkage between the intellectual capital categories is portrayed by the studies of Wang and Chang (2005:222) and Engstrom, Westnes and Westnes (2003:287).

The discussion on the relevance of interactions between the various components of intellectual capital was taken further by Carmeli and Tishler (2004:1257). These authors find that this interrelationship would promote organisational performance, that is, the larger the effect of any intangible element on the performance of an organisation, the larger the effects of the other intangible elements on the organisation. Therefore, there is definite evidence of a reliable causal link between the various categories of intangible assets, in line with the resource-based view that there is a positive relationship between intangibles and firm performance (Bontis, Keow & Richardson, 2000:85, Riahi-Belkaoui, 2003:215, Li & Wu, 2004). In the South African context, the study of Firer and Williams (2003) shows that the relationship between intellectual capital elements and the performance of the firm is limited. These authors' findings suggest that physical assets are still the dominant factor affecting corporate performance (Kapelko, 2006).

2.7 VALUATION OF INTANGIBLE ASSETS

Business organisations in the new economy are discovering that nurturing growth in the intellectual capital can improve performance and are, therefore, attempting to quantify and report this in corporate reports. This will make it possible for investors and lenders to have access to better information,

reports that are more transparent and capital market efficiency through a more effective allocation of resources. Business organisations that are actively measuring and reporting IC apparently see value or benefits in such practices.

Researchers in the field of intangible assets have developed various models for the valuation of intangible assets. Some were used to value IAs as a whole (holistic models) while others were directed at a particular category of IA (analytical models). A brief discussion of these models or methods will now follow:

2.7.1 Market-to-book ratios

The difference between the market value of a company and its book (equity) value or net asset value is being referred to as the value of intellectual capital. This is often because of the higher price that an acquiring company usually pays for the acquired company. This difference is often referred to as goodwill in financial accounting. However, in the new economy characterised by intangibles-intensive companies, the difference between market value (MV) and the book value (BV) is based on the intangible assets of a company (Bianchi & Labory, 2004:165).

2.7.2 Tobin's Q

Tobin's Q is a method which compares the market value of a company with its assets replacement cost. The method was primarily used for predicting investment behaviour by using the ratio (the "Q") to predict the investment decisions of the firm, without considering other macroeconomic conditions, such as interest rates. The calculation of the replacement cost of a fixed asset can be arrived at as the reported value of a company's fixed assets, in addition to the accumulated depreciation, after adjusting for inflation. Technology and human capital assets are typically associated with high "Q" values (International Federation of Accountants 1998 in Bianchi & Labory, 2004:168). As a means of reflecting the market value of assets, which are not

reported in the statement of financial position, Tobin's Q can serve as a measure of intellectual capital. The indicators reflected through the comparison of firms within the same industry can be used as performance benchmarks. These can be explored to improve internal management or corporate strategy of the firms (International Federation of Accountants 1998 in Bianchi & Labory, 2004:168), thus enabling an organisation to monitor its performance in key areas defined as success factors.

2.7.3 Calculated intangible value (CIV)

This method was developed by NCI Research in the late 1990s; CIV computes the value of intangible assets by comparing the firm's performance with an average competitor, having similar tangible assets. CIV enables the comparison of one firm with another making use of its audited financial data, thus it can be used as a benchmarking tool (Bianchi & Labory, 2004:168).

2.7.4 Economic value added (EVA™)

EVA™ is a measure developed in the 1990s by a New York consultancy firm Stern Stewart & Company, as an indicator of earning to the owners of business. In simple terms, EVA can be stated as the net operating profit minus an appropriate charge for the opportunity cost of all capital invested in the business, that is, $EVA = \text{net operating profit after taxes} - (\text{capital} \times \text{the cost of capital})$. As such, EVA is an estimate of the amount, by which returns are greater or less than the required minimum rate of return that capital providers could get by investing in other securities of similar risk. Stern Stewart & Co. developed EVA as the cornerstone of a financial management and incentive compensation system that changes not only how executives view their company, but how they manage it (Stern Stewart Leadership Institute). "By assessing a charge for using capital, EVA makes managers care about managing assets as well as incomes, and for properly assessing the trade-offs between them. All key management decisions and actions are thus tied to just one measure, EVA" (Bianchi & Labory, 2004:169).

2.7.5 Real options-based approach

This approach is based on “real option theory”. This method is closely tied with the application of the theory and methodology of financial options to the valuation of intangible assets. In effect, in determining the value of assets capable of producing future economic benefits, the intervention of the market forces comes into play. Although real options is gaining significance, it is faced with a number of limitations such as the difficulties in measuring accurately the value of a firm’s non-financial assets as well as that of finding a similar option (Zambon, 2004:172).

2.7.6 Human resource accounting (HRA)

Human Resource Accounting (HRA) refers to “the process of identifying and measuring data about human resources and communicating this information to interested parties” (The American Accounting Association, 1973). HRA involves the measurement of all costs/investments associated with the recruitment, placement, training and development of employees and the quantification of the economic value of the people in an organisation. Flamholtz (1971) also defined HRA as “the measurement and reporting of the cost and value of people in organisational resources”. There are four basic human resource accounting models according to the Danish Trade and Industry Development Council (1999). These are:

- *The anticipated financial value of the individual to the company.* This value is dependent on two factors: the person’s productivity, as well as the individual’s satisfaction with being in the company.
- *The financial value of groups,* describing the connection between motivation and organisation on one hand, and financial results on the other.

- *Staff replacement costs*, describing the financial situation in connection with recruitment, re-education and redeployment of employees.
- *Human resource accounting (HRA)* as complete accounts for the human resource area. This model concentrates on cost control, capitalisation and depreciation of the historic expenses for human resources (Bianchi & Labory, 2004:173).

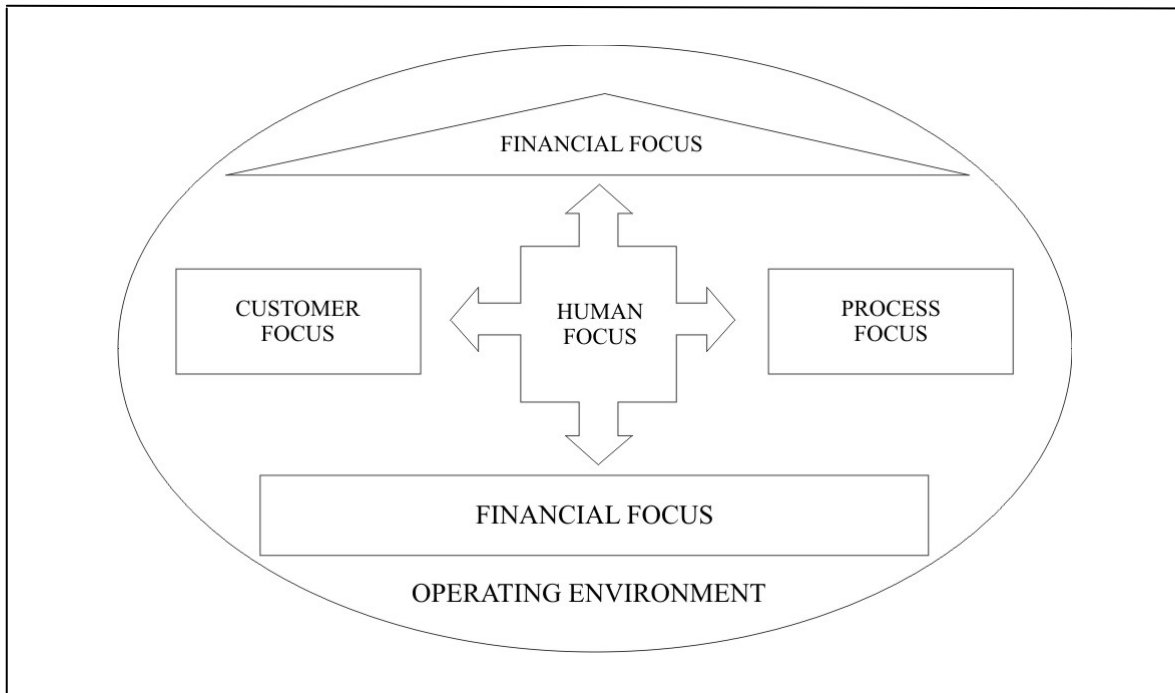
2.7.7 Intangible asset monitor

In an attempt to demonstrate how the intangible assets account for the difference between a company's market value and book value, Karl-Erik Sveiby was one of the first to develop a method for measuring intangible assets in the late 1980s. The "Konrad Group", to which Sveiby belonged, introduced the division of intellectual capital into external structures, or customer capital, internal structures, or organisational capital, and individual competence, or human capital. This concept has become the basis for many IC measurement systems including Sveiby's Intangible Asset Monitor (Bianchi & Labory, 2004:174).

2.7.8 Skandia Navigator

Skandia (the Swedish financial services firm) was the first to prepare the world's first annual intellectual capital report known as the Skandia's 1994 IC report, titled *Visualising intellectual capital*. The Skandia "Navigator" is one of the best-known business models developed to identify the intangible assets crucial to a company's operation. Skandia Navigator's definition of the intellectual capital includes the processes and systems developed for capturing and exploiting knowledge as well as the expertise and skills of the entire workforce. The Navigator is designed to provide a balanced picture of the financial and intellectual capital as depicted in the figure 2.5 below:

FIGURE 2.5: SKANDIA BUSINESS NAVIGATOR



Source: Intellectual Capital Report, Skandia 1998 in Bianchi & Labory 2004:177

The key indicators include the following:

- for customer focus, the number of accounts, brokers and lost customers
- for process focus, the number of accounts and administrative costs per employee
- for human focus, personnel turnover, the proportion of managers as well as female managers and the training and/or education costs per employee
- for development/renewal focus, the satisfied employee index, the marketing expense/customer and the share of training hours (Bianchi & Labory, 2004: 177).

2.7.9 The Balanced Scorecard

The Balanced Scorecard (BSC) is an organisational framework for implementing and managing a strategy at all levels of an enterprise by linking objectives, initiatives and measures to an organisation's vision and strategy (Kaplan & Norton, 1992). The vision and strategy of a business are translated

into objectives in major areas, such as financial performance, customers, internal business processes, and organisational growth, learning and innovation. In simple terms, the BSC is a way, by which targets are communicated, and as such, it ensures the measurement, management and communication of the intangible assets of organisations, be it corporate, private or public sector organisations (Bianchi & Labory, 2004:179).

2.8 REPORTING OF INTANGIBLE ASSETS

From the numerous studies conducted on the roles of intangible assets in the performance of firms (table 2.4), there appears to be a general agreement among researchers that intangibles are important factors affecting the performance of firms. Reporting information on intangible assets will facilitate a holistic recognition of assets, efficient allocation of resources and improvement in internal management of business organisations.

To examine why business organisations will attempt to report on their intangible assets, Zambon in Bianchi and Labory (ed.) (2004:163) broadly classifies reasons for reporting on intellectual capital, both internally and externally. The reasons for internal reporting are as follows:

- align IC resources to strategic vision. Support the implementation of a specific strategy via a general upgrading of the work with the company's human resources (support and maintain a strategy concerning the composition of staff as regards seniority, professional qualification and age). Through the description of the staff profile, measuring, discussion and adjustment become possible.
- support or maintain various parties' awareness of the company. In particular, make the company appear to the employees as a name providing an identity for each employee.
- help bridge the gap between the present and the past (this stimulates the decentralised development of the need for constant development and attention towards change).
- assess the effectiveness of a firm's IC utilisation.

- allocate resources between various business units.
- extract full value from acquisitions and joint ventures.
- determine the most effective management incentive structures and, more in general, relate employees' contribution to IC into profits.
- reply to the growing demand for effective governance of intangibles, of which social and environmental reporting are already evident.
- focus on protecting and growing those assets that reflect value ("what gets measured, gets managed").
- report on current and future income from IC.

Information on intangible assets is not only useful for internal purposes only, it is also useful for facilitating improved and better information to the investors, other providers of fund and capital markets for a more efficient allocation of resources. Zambon in Bianchi & Labory (ed.) (2004:164) also gave some reasons for external reporting which are summarised below:

- reflect the actual worth of the company by giving information that is more useful to current and potential investors.
- improve the accurateness of stock prices through providing a more comprehensive picture of a firm's assets. In this sense, external reporting supports a corporate goal of enhancing shareholder value.
- reduce the uncertainty about a company's growth potential and in this way have a positive effect on the cost of capital.
- stimulate the pursuing of a set of policies – by means of the knowledge embodied in the employees – aimed at increasing customer satisfaction and loyalty.
- help young and knowledge-intensive organisations, which generally encounter great difficulty in attracting external financiers, to develop a reliable and accepted way to quantify the intellectual capital to investors and financiers.

It is important to note that the key to achieving substantial improvement in the disclosure of information on intangible assets both within and outside

business organisations, is the construction of a comprehensive and coherent information structure that focuses on the essential goal of value creation process in business organisations while placing intangible assets in their proper role within the structure (Lev, 2003:522). Business organisations, which develop a deep understanding of the role of knowledge in the business, treat it as an asset, cultivate and exploit it, are gaining significant comparative business advantage and competence. Examples of such organisations that have benefited from the reporting of intellectual capital as reported by Zambon in Bianchi and Labory (ed.) (2004:164) are:

- PLS Consult, a Danish consulting firm that has worked with intellectual capital issues since the early 1980s. PLS Consult credits the considerable growth in its firm (in particular, the systematic and future-oriented management of this growth) experienced in the past five years to the use of own IC accounts. At PLS Consult, the IC accounts focus on objective statistical information about the education, age and experience of its human resources;
- Skandia, the first company to release an intellectual capital supplement to its annual financial report, found that its stock price rose by approximately 40%. Leif Edvinsson, its former vice president for intellectual capital, reports that Skandia considers 25 of those percentage points to be a direct response to the IC supplement (Sullivan 1998:30). In addition, Skandia, through the re-use of knowledge and transfer of experiences, have been able to reduce the time involved with the administration aspects of acquisitions by 60–70%;
- ABB Sverige is Sweden's largest industrial company and has an internal and external IC management. Since introducing the system, ABB has become more productive. It has increased in turnover, per employee, from approximately SEK 65,000, to approximately SEK 150,000. In addition, there has been important lead-time reduction. ABB have been using human resource accounting (for external purposes) and the EVITA system (for internal purposes, such as, developing corporate strategies) to bring the upgrading of employee qualification and responsibilities into focus,

simultaneously improving the co-operation with suppliers and customers and

- At WM Data, Sweden's fastest growing IT Company, intellectual capital accounts have been used to identify problems with the composition of the company's staff, such as, age structure, seniority, and educational background. Staff turnover ratio is used to assess whether knowledge, crucial to the company, can be maintained.

2.9 SUMMARY AND CONCLUSION

This chapter attempts to lay the foundation to the main focus of this study by considering the general framework of intangible assets, the various definitions, categorisations and components. The chapter further reviewed relevant literature on the characteristics of intangible assets as well as the need for measurement and reporting of intangible assets. Lastly, the chapter provided a brief discussion on the some models that have been developed for measuring intangible assets.

There have been arguments among accountants on the availability of strong reasons for their inability to treat intangibles as assets in the statement of financial position. The possible reasons for this are the definitional and measurements problems with the consequential effect of an inability to value intangible assets on a historical basis as in the case of tangible assets. Nevertheless, the need for a system of reporting, which will ensure that the statement of financial position is forward-looking in terms of future economic benefits cannot be overemphasised and developing an acceptable and viable system of accounting and reporting for intangibles is one of the greatest challenges of the accountancy profession today. It is interesting that an increasing number of researchers, practitioners, scholars, institutions and countries are rising to this challenge.

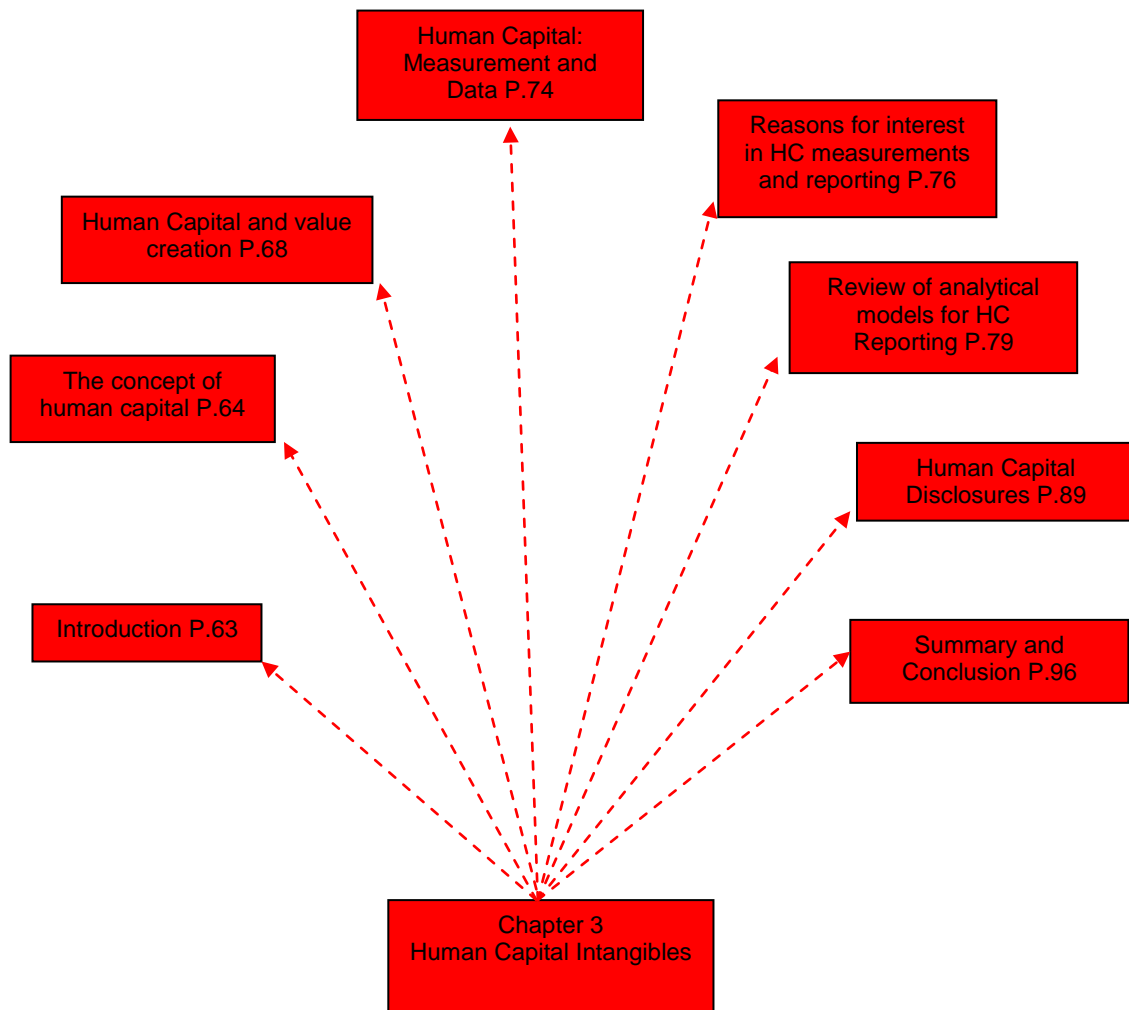
In conclusion, it is important to note that the transition from the old economy to the new economy, which is knowledge-based, has shifted the emphasis from investment in tangible assets to intangible assets, such as, investment in human resources, information and communication technology, research and development, and advertising as the driver and determinant of competitive position of business organisations. In effect, investments in tangible assets are becoming increasingly smaller compared with expenditures on intangibles, which are not recognised as investments in the companies' corporate annual reports. Therefore, in order to aid decision-making, both investors and managers need accurate and reliable information on the intangible assets of business organisations.

The next chapter will focus on human capital intangibles.

CHAPTER 3

HUMAN CAPITAL INTANGIBLES

Figure 3.1: Network view of chapter 3



3.1 INTRODUCTION

The primary aim of the previous chapter was to establish a theoretical foundation for intangible assets in general . It was pointed out that the most acceptable categorisation of intangible assets is the one that divides them down into three components as follows: Human Capital (HC), Structural Capital (SC) and Relational Capital (RC) in line with the tripartite classification from the work of Sveiby (1997). The role of intangible assets in the firm's performance and value creation was explored. The various methods and attempts implemented by valuing and disclosing intangible assets as a whole, were highlighted.

The objective of this chapter is to create a theoretical base for human capital intangibles as a major input in creating value today. The term "capital" has been described as an institutional system which facilitates the progressive development of technology and organisational structures, the differentiation and legitimisation of organisational processes to enhance capital accumulation and development (Clegg & Dunkerley in Abeysekera, 2008:16).

In today's new economy, intangible knowledge and intelligence that emanate from human capital are critical inputs in the value creating process (Hai-Ming & Ku-Jan, 2003:470). Human capital (HC) has also been portrayed as a significant component of intangible assets (IAs) which constitutes a major driver in the value creation process in the new economy of knowledge-intensive companies (Abhayawansa & Abeysekera, 2008:51). Therefore, it could be said that the dawn of the new economy has prompted the shift of companies' value drivers from physical tangible assets to non-physical intangible assets.

The accounting literature portrays human capital as being significant, but greater emphasis has not been placed on human capital disclosures (HCDs) by the preparers of corporate annual reports (CARs) due to the generally agreed upon measurement problem. However, this problem should not

preclude HCDs in other forms as part of the discretionary information in CARs. It should be noted that most information now being disclosed in the mandatory section of CARs originated through the discretionary information system. It was concluded that the value relevance of CARs is being undermined due to lack of adequate information on how HC drive corporate value creation (Boedker; Guthrie & Cuganesan, 2004:15).

In chapter 1, one of the research questions stated was “Why has the current reporting practice not made provision for full disclosure of human capital? This chapter therefore seeks to answer this question through a critical review of literature on human capital as one of the three main categories of intellectual capital. The chapter will also review some of the approaches to measurement and reporting of HC in the literature. This will cover approaches from the business management and the financial accounting frameworks.

3.2 THE CONCEPT OF HUMAN CAPITAL

In his book, *Wealth of nations*, Adams Smith (1776) first developed the idea of investing in human capital. He was of the opinion that different levels of education account for differences in the ways people work which invariably account for the differences in the returns necessary to defray or write off the costs of acquiring the skills. Comparison of the returns on investment in skills and those of investing in physical capital indicates a major limitation as employees are not owned by firms (except in a slave society) unlike physical capital which are owned by firms.

Early researchers in the field of Human Resources Accounting were of the opinion that human resources should be treated as a statement of financial position item. This means that investment in human resources should be treated as assets to be amortised over a reasonable number of years, thereby communicating the value of human resources to the users of CARs (Hermanson, 1964; Hekimian & Jones, 1967:2; Brummet *et al.*, 1968:218). However, the problem of attaching monetary value to human resources

created a setback to this approach. Although, the financial accounting model does not recognise human resource accounting, the movement created awareness which serves as a platform for an intellectual capital research agenda from the 1980s till at present (Bontis, 2003:16).

HC as distinct from economic capital is also referred to as the combination of factors owned by individual employees and the collective workforce of an organisation (Abeysekera, 2008:16). Hence, HC is made up of the intellectual skills and capabilities, knowledge obtained through education and training which consequently allow an individual to execute given tasks more effectively and productively. It is generally recognised as an intangible resource capable of creating value for organisations (Meritum, 2002:63). Human capital also includes personal traits such as intelligence; energy; attitude; reliability; commitment; ability to learn, aptitude; imagination; creativity; desire to share information, participate in a team, and focus on the goals of the firm (Fitz-enz, 2000).

The term “human capital” was coined by the economist Schultz (1961). He discovered that the yield on human capital investment through education and training in the United States was larger than that based on investment in physical capital. Bontis, Dragonelti, Jacobsen and Ross (1999:391-402), defined HC as representing the human factor in the organisation, the combined intelligence, skills and expertise that give the organisation its distinctive character. These human characteristics of the organisation are those that enable people to be capable of learning, changing, innovating and providing the creative thrust, which if properly motivated, can ensure the long-term survival of the organisation. Social accounting theorists believe that the valuation and incorporation of human capital should be viewed as part of the total assets base reflected in a firm’s statement of financial position (Stitle, 2004:313).

Some early researchers defined and explained human capital in the context of a human capital theory which states that an economic value is generated

through an individual's skills, experience and knowledge. This idea supports Sveiby's explanation of employee competence as the stock of knowledge resident in employees. Pena (2002:182) examines three indicators namely the entrepreneur's level of education, experience and motivation to connote human capital from the definition of HC as the accumulation of personal traits in the form of knowledge, abilities, personality and so on that enable employees to perform. Mincer (1989) refers to HC as the stock of knowledge capable of generating growth through innovation as well as the stock of skills provided through education and training.

Other researchers explain HC in terms of employee's skills only (Flamholtz & Lacey, 1981) and in terms of the combination of knowledge, skills and abilities of people. Mackelvery (1983) and Hudsson (1993) define human capital on an individual level as the combination of an individual's generic inheritance; education; experience and attitude towards life and business. The common factor in these definitions is that employee's attributes are capable of creating values.

Several researchers conclude that human capital is important because it creates capital accumulation when carefully extracted and developed (O'Donnell, Tracey, Henricken, Bontis, Cleary, Kennedy & O'Reagan, 2006:112; Graham & Pizzo, 1998; Edvinsson & Sullivan, 1996:361). This shows that organisations may use HC disclosure programmes to enhance capital accumulation (Tinker in Abeysekera, 2008:18). The importance of human capital is portrayed by the competition in the human capital market for the acquisition and retention of highly skilled labour with commensurable monetary and non-monetary rewards, although it is not certain whether these rewards reflect the perspectives of both the users and providers of human capital intangibles.

However, the manner in which human capital intangibles could be reflected in the corporate annual reports is yet to be determined. The disclosure of human capital intangibles is unique in that organisations are allowed to choose what

information and where such information is to be disclosed in CARs. In other words, there are no requirements backed up by laws or accounting standards to which firms are expected to comply (Abeysekera, 2008:17–18). The major reason for this is that it is difficult to measure the input of human capital visibly as its outcome is influenced by many other factors beyond the control of investors in human capital intangibles. Hence, it is not easy to associate the level of performance of firms with the quality of human capital intangibles possessed by an organisation comparative to those of others firms in the same industry (Pantzalis & Park, 2009:1610). Therefore the investors may be misinformed about the relevance of human capital intangibles in value creation as a result of a lack of harmonised corporate financial reporting.

HC has been described as the source of innovation and strategic renewal regardless of where it originates, whether it originates from arranging files and other clerical works to brainstorming, re-engineering and problem-solving. The used and the useful knowledge of an employee is the source of human capital resources. Apparently, the common assertion that people are the most important resource is both right and true.

Hall (2008) gave the following reasons why it is important to measure people and performance:

- people appreciate being successful because success brings happiness and satisfaction.
- it is a disservice not to measure people's performance in that activity without feedback is not challenging.
- when performance is not objectively measured, evaluation and reward will be marked subjectivity and politicking.

It is apparent that everybody makes a contribution to the success of an organisation. Therefore all employees from the CEO to the messenger need

to be treated with understanding and should be encouraged to develop himself or herself to ensure competency.

3.3 HUMAN CAPITAL AND VALUE CREATION

Between the late 1960s and early 1970s, many academics conducted research on the contribution of human capital to the growth of firms, but between the late 1970s and early 1990s, there seems to be a sharp decline in this research area. However, the dawn of the 21st century witnessed a fresh awakening to this area of research. Major evidence that attest to this is the interest shown by the Institute of Chartered Accountants for England and Wales (ICAEW) through their declaration that HC "... is the coming competitive advantage in the modern knowledge economy, and measuring and reporting human capital is essential to building sustainable economic success" (ICAEW, 2000).

Human capital has been recognised as one of the three major categories of intangible resources capable of creating value for business firms (Meritum, 2002:63). In today's economies characterised by knowledge, human capital remains an important intangible asset necessary for achieving competitive advantage and sustainable organisational success and growth (ICAEW, 2000).

Some studies were conducted in order to explore the relationship between human capital and value creation. For instance, Edvinsson and Sullivan argue that it is the ability of an organisation to pull knowledge and not necessarily the stock of knowledge that will drive value creation (1996:358). Organisations that give serious consideration to the capability, knowledge, skills of human resources will attain value creation capacity (Wright & Snell, 2005:178). Low (2000) argues that HC is a top non-financial performance driver. This is supported by Skoog who suggests that there exists a positive correlation between disclosed HC and the long run profitability of a firm (Skoog, 2003:487). The position of Low and Skoog is further strengthened by the

arguments of Mouritsen *et al.*, (2004:53) that firms could gain the advantage of attracting valuable resources in addition to communicating the organisation's value drivers through full disclosure of HC information. A clear cut policy on the management, measurement and disclosure of HC will ensure transparency and consequently increase the degree of confidence that the investors and other stakeholders have in the organisation (Olsson, 2001). This means that a progressive firm will convert HC capabilities to meet the increasing expectations of stakeholders (Bassi, Lev, Low, McMurrer & Siesfeld, 2000; Van der Meer-Kooistra & Zijlstra, 2001:456).

The conclusions of other researchers also suggest that many organisations have realised that HC practices and their disclosures play a significant role in the performance of firms (Boudreau 1991; Wright & McMahan 1992:303). This has resulted in a great shift by management towards the contribution of human resources in the last decade (Bassi *et al.*, 2000). Firms who engage in pragmatic HC practices such as acquisition, development and retention of employees, incentive compensation, employee empowerment, selective staffing, job rotation, comprehensive training and team work can intensify the value creation processes (Youndt, Snell, Dean & Lepak, 1996:839).

The human capital theory is at the centre of many economic theories which seek to provide explanations for the connection between individuals' skills, productivity and earnings (Pantzalis & Park, 2009:1610). This theory has been associated with the resource-based view of the firm by Barney(1991:102) who makes a proposition that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals. The theory postulates that an individual's skills, experience and knowledge generate economic value to an organisation and that these can be stirred-up through education and training acquired by individual employees.

Sveiby (1997:10) pioneers the tripartite framework of IA and conceptualises HC as employee competence which include explicit knowledge, skill, experience, value judgement and social network. There seems to be a

consensus in the IA literature in conceptualising HC as a combination of attributes such as knowledge, skill, abilities and personality characteristics which are portrayed by individuals and corporately (Abeysekera & Guthrie, 2004:253). HC has also been defined as the accumulation of personal attributes of skills, knowledge and personality traits which allow individuals to function (Pena, 2002). In portraying the importance of HC, Becker (1964) explains that HC is the foundation for the wealth-creating capacity of an organisation. The application of HC theory to skills of the employees is continued in the works of Flamholtz and Lacey (1981). The interpretation of the theory is done by Mackelvery (1983) through the attributes of knowledge, skills and abilities of employees. Also, basing his argument on the theory, Mincer (1989) portrays HC as a stock of skills produced by education and training and also a stock of knowledge which generates growth through innovation.

3.3.1 Human Capital Advantage

In support of the value creation attribute, the concept of human capital advantage was developed to show the significance of human capital believed to be the source of sustainable competitive advantage for firms with a pool of employees that cannot be copied or substituted by its competitors (Boxall, 1996:8). This is also in line with the resource-based view of the firm which also emphasises retention, motivation and development of high-quality employees and provides a competitive advantage in the form of human capital. The resource-based view of the firm points to sources of human resources as an advantage in exceptional human capital and outstanding human process (Boxall, 1996:12).

The use of HC reporting was motivated by the need for management control as concluded by Grojer and Johanson (1998:496). Also, Stewart (1994) was of the opinion that IC reports were published (most especially by Scandinavian companies) as a means of reflecting IC value and as a way of managing these value drivers.

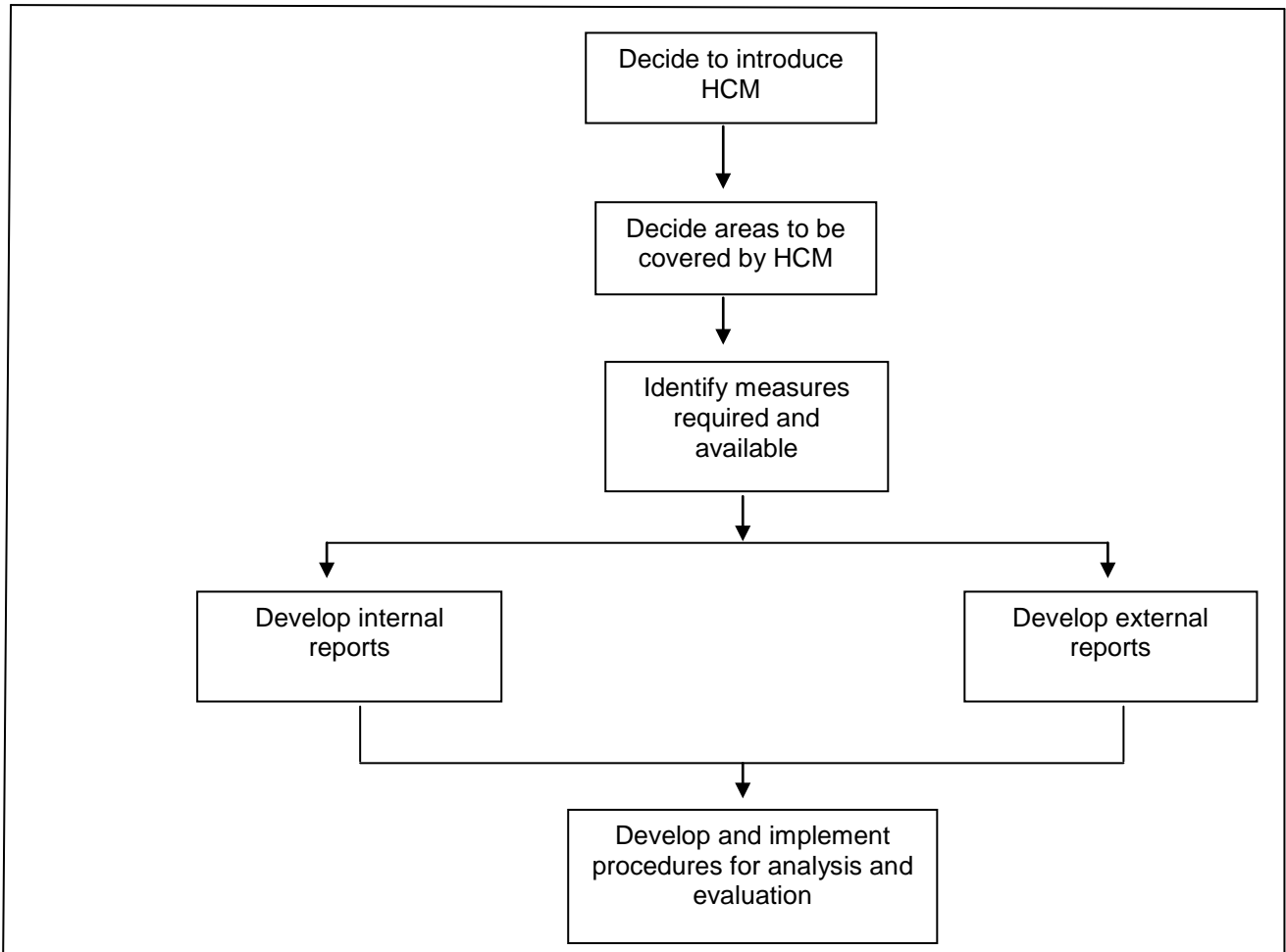
HC is an important element of IA driven value creation in the new economy, particularly in knowledge intensive companies. This is despite the importance of impact of HC on the performance or market value of a firm. There are limited empirical studies on the impact of HC on the performance or market value of a firm. Among the few studies which are focussed on the impact of HC on the value of a firm are Pena (2002:190) who found out there was a positive relation between the entrepreneur's level of education, experience and motivation and the performance of a new venture. The departure of a company's CEO was found to be associated with negative market reactions (Diedman & Lin, 2002:81). Successful business strategies were also discovered to be associated with personal traits of the top executive officers (Ashton, 2005:53). Investment analysts make use of corporate annual reports as a justification for making investment recommendations and forecasting earnings.

In order to further emphasise the significance of HC, the concept of human capital management (HCM) was developed. HCM is concerned with obtaining, analysing and reporting data that informs the direction of value adding, strategic, investment and operational people management decisions at corporate level and at the level of frontline management. HCM has also been defined as an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance (Chatzkel, 2004). This view is supported by Kearns (2005) because he suggests that HCM is about creating value through people.

The Chartered Institute of Personnel Management, (2003) refers to HCM as a process involving the systematic analysis, measurement and evaluation of how people policies and practices create value. HCM suggests that an organisation's success is the product of its employees' competence and therefore the causal link between people and performance should be made visible and available to all stakeholders.

HCM seeks to treat employees as assets which need to be measured, managed and reported on while human resources management (HRM) seeks to treat employees as significant costs that should be managed in that regard (Mayo, 2001; Kearns, 2005).

FIGURE 3.2: STEPS FOR DEVELOPING HCM



Source: Baron & Armstrong (2007:40)

In the new economy, human capital is at the centre of value creation because knowledge-based organisations are emerging as a direct consequence of increasing forces of globalisation and technological advancement. These types of organisations recognise human capital as the dominant wealth creator and driver. This is contrary to what operated in the old economy when firms spent huge sums of money on machines and so remained bundles of tangible assets whose ownership remain with the investors who employ people for their operations.

Organisations in the new economy now spend an increasing portion of their capital on human capital intangibles and equipment needed for gathering, processing, analysing and distributing information. The new economy

organisations (knowledge organisations) have intangible assets as their assets, the ownership of which cannot be easily determined. In these organisations, human capital is arguably the most important driving factor while financial risk capital is the major factor distinguishing them from the new economy organisations (Rudolf, 2004:48).

Most organisations are now aware that their competitive advantage lies in their employees and not in their machines or products and that hiring the right people with adequate support systems will cause them to be conquerors in the battle in the competition arena. This can be ascribed to the fact that competitors may copy the product, strategy and technology, but it is difficult to copy another firm's human capital. IC has been referred to as a tree and the people as the sap that makes organisations grow. Money talks, but does not think, machines perform but cannot invent, knowledge workers through their bodies, minds and souls both think and invent (Stewart, 1998).

3.4 HUMAN CAPITAL: MEASUREMENT AND DATA

Early researchers on human resources argued that the main purpose of measuring HC value is for effective internal management (Hekimian & Jones, 1967:107; Flamholtz, 1974:45). HC measurement is based on the data which are often in the form of numbers or quantities describing the human capital in an organisation. Examples of HC data are demographic figures on the size and composition of workforce, number of employees who resigned, absence figures, the amount of training and development programmes embarked on and the number of vacancies filled during a particular period (Baron & Armstrong, 2007:32). However, this form of data is often required for compliance with some legal and regulatory frameworks in which an organisation operates, such as employment equity in the South African environment.

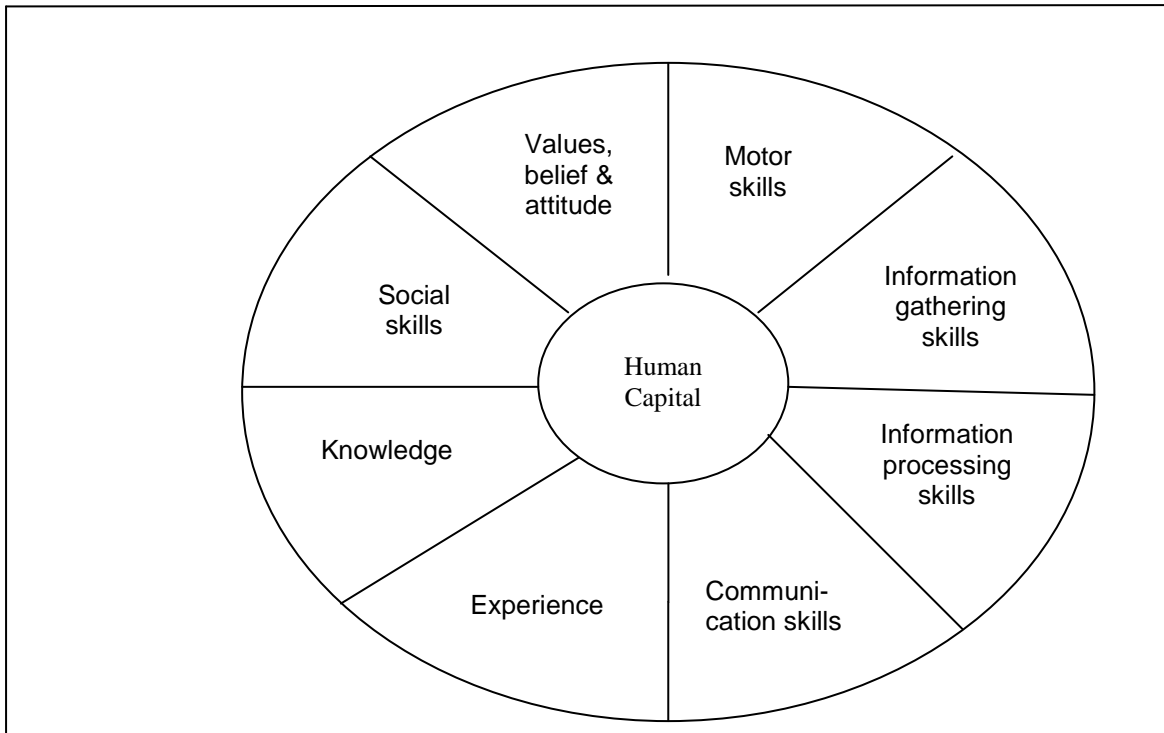
Human capital data needed for decision-useful information will go beyond the raw data to their measurement, assembly and analysis so that conclusions

can be reached on their value and significance. For example, the data on the number of employees who resigned during a given period can be expressed as a measure of employee turnover which is the ratio of number of employees who resigned to the number of those employed in a given period. Therefore data on human capital needs to be analysed and interpreted through measures to provide information on which evaluation, planning and decision-making could be based.

However, other researchers argue that it is impossible to arrive at an acceptable method for measuring HC. This is in view of the fact that existing financial accounting frameworks are implemented through reporting standards which only allow for recognition of items whose future economic benefits can be expressed in monetary terms in the statement of financial position (Scarpello & Theeke, 1989; IAS 38 {IASB, 2004}; IFRS 10 {IFRS Foundation, 2011}). This led to the submission by other researchers that attention should be focused on the value creating potentials of HC rather than quantifying such values in monetary terms. Hence a proposition was made for the use of “soft” accounting information instead of “hard” statements of financial position monetary values (Roslender & Dyson, 1992:312; Roslender, 1997:12). HC will require a range of measures to fully describe its character and contribution.

The Chartered Institute of Personnel Development (2003) also note that reporting human capital simply in terms of costs rather than value creation may lead to cost reduction strategies rather than more desirable value creation activities.

FIGURE 3.3: EIGHT KEY ELEMENTS OF HUMAN CAPITAL DEFINED



Source: Adapted from Dess & Picken in Rudolf (2004:50)

Figure 3.3 above shows the eight key elements of human capital. Five of these relate to skills such as social skills, motor skills, information gathering skills, information processing skills and communication skills which are acquired by the combined effects of an employee's knowledge, experience, values, belief and attitude.

3.5 REASONS FOR INTEREST IN HC MEASUREMENT AND REPORTING

In the previous chapter on intangible assets, it was stated that HC is a vital intangible asset and a critical factor affecting organisational performance. Also it was reiterated in this chapter that human capital advantage can be achieved through the evolvement of methods of valuing human capital. This has resulted in an increasing interest in the advancement of methods of measuring the value of human capital. Baron and Armstrong (2007:33) adduced the following reasons for the increasing interest in the measurement of human capital:

- human capital constitutes a key element of the market worth of a company.
- people in organisations add value and there is a case for assessing this value to provide a basis for HR planning and for monitoring the effectiveness and impact of HR policies and practices.
- the process of identifying measures and collecting and analysing information relating to them will focus the attention of the organisation on what needs to be done to find, keep, develop and make the best use of its human capital.
- measurement can be used to monitor progress in achieving strategic HR goals and generally to evaluate the effectiveness of HR practices.
- you cannot manage unless you measure.

Previous research studies suggest some reasons why voluntary HC reporting has been incorporated in the CARs of some organisations. Petty and Guthrie (2000:172–173) argue that it can depict an organisation as an innovator rather than a follower. Other researchers argue that HC reporting will promote self-awareness among organisational participants (Roslender & Fincham, 2001:397); it could serve as a guide to investors in common stock (Elias, 1972) and can enable organisations to develop a form of unseen value (De Pablos, 2003:77).

Research studies in the 1970s provide the argument that HC reporting ensures a better forecast of comprehensive income because human capital values may affect the decisions of the users and preparers of CARs (Flamholtz, 1976; Schwan, 1976). External stakeholders increasingly demand a different kind of information and in order to meet this demand, organisations may need to measure and report on their human capital intangibles (Abeysekera & Guthrie, 2004:251). Other researchers such as Grover and Davenport (2001:15) are of the opinion that codified knowledge has value,

based on the visible products and services that it can create. In her study, Abeysekera (2008:17) discovered that in the pursuit of greater capital accumulation, organisations use disclosure to reduce tension between them. It was observed that in view of the significance of human capital, firms could disclose information relating to HC in the form of notes, even if they are not accounted for in the mandatory section of CARs (Alam, 1997).

In view of these reasons, it could be said that preparers of CARs may embark on a comprehensive HC reporting practice as a tactical resource to increase the relevance of CARs to heterogeneous users.

Although the reasons adduced above sounds reasonable, other researchers note some restrictions in the area of HC measurement. For example, Donkin (2005) comments that it is not the measuring that is crucial to HCM, but the motives for measuring as well as the value-adding practices that it produces. It is also observed that some managers may use the opportunity to measure intangible assets such as HC to the disadvantage of the investing public through the manipulation of perceptions of the values of intangible assets, this argument was supported by another researcher (Leadbeater, 2000).

From the work of Scarborough and Elias (2002), the procedure for measuring HC and the usefulness of information gathered is more important than the increasing number of measures or metrics being reported by organisations. It can then be said that the measures and metrics will be useless unless they provide information on human capital that is useful for decision-making both by the managers and the investors (Baron & Armstrong, 2007:34).

Abeysekera and Guthrie (2004:253–255) provide a comprehensive literature review on human capital reporting by classifying it into three streams. According to these researchers, the first stream of researchers is those who developed financial measures for HC reporting. Turner (1996:63) affirms that human capital can be recognised both as assets (expected future payments in form of salaries and other emoluments) and liabilities (staff turnover cost).

Morrow (1996:75) also presents some methods specifically for valuing football players: these are historical costs; earnings multiplier; directors' valuations and valuations by independent valuers. Hekimian and Jones (1967:105–113) present opportunity cost, replacement cost and separation cost as alternative forms of HC financial measurement methods while Lev and Schwartz (1971:107) looking at HC measurement from a financial management point of view, state that HC value is the average earnings data of similar groups discounted at the organisation's cost of capital. However, some reasons have been identified in the literature explaining why these quantitative measurement methods are not accepted for reporting HC in CARs. One important reason is the practicality of such methods as there is no convincing empirical evidence to confirm its usefulness (Grojer & Johanson, 1996). Although these studies created an awareness of the significance of human capital, putting people in the statement of financial position has not been accepted as a valuable alternative.

The second stream of researchers studied the usefulness of HC measurement information to decision-making by investors (Elias, 1972; Hendricks, 1976; Hendricks, Bassi, Keow & Richardson, 2000:353–354) and managers (Lev & Schwartz, 1971:107; Flamholtz & Holmes, 1972; Jaggi & Lau, 1974:322; Johanson & Nilson, 1996:117; Olsson, 1999:54).

The third stream of researchers used theoretical models to explain the process of measuring and reporting HC. Some of the studies in this regard are those conducted in countries like Sweden (Olsson, 2001:39–42); Ireland (Brennan, 2001:423–436); Canada (Bontis, 2003:9–20) and Australia (Guthrie & Petty, 2000:62–65).

3.6 REVIEW OF ANALYTICAL MODELS FOR HC REPORTING

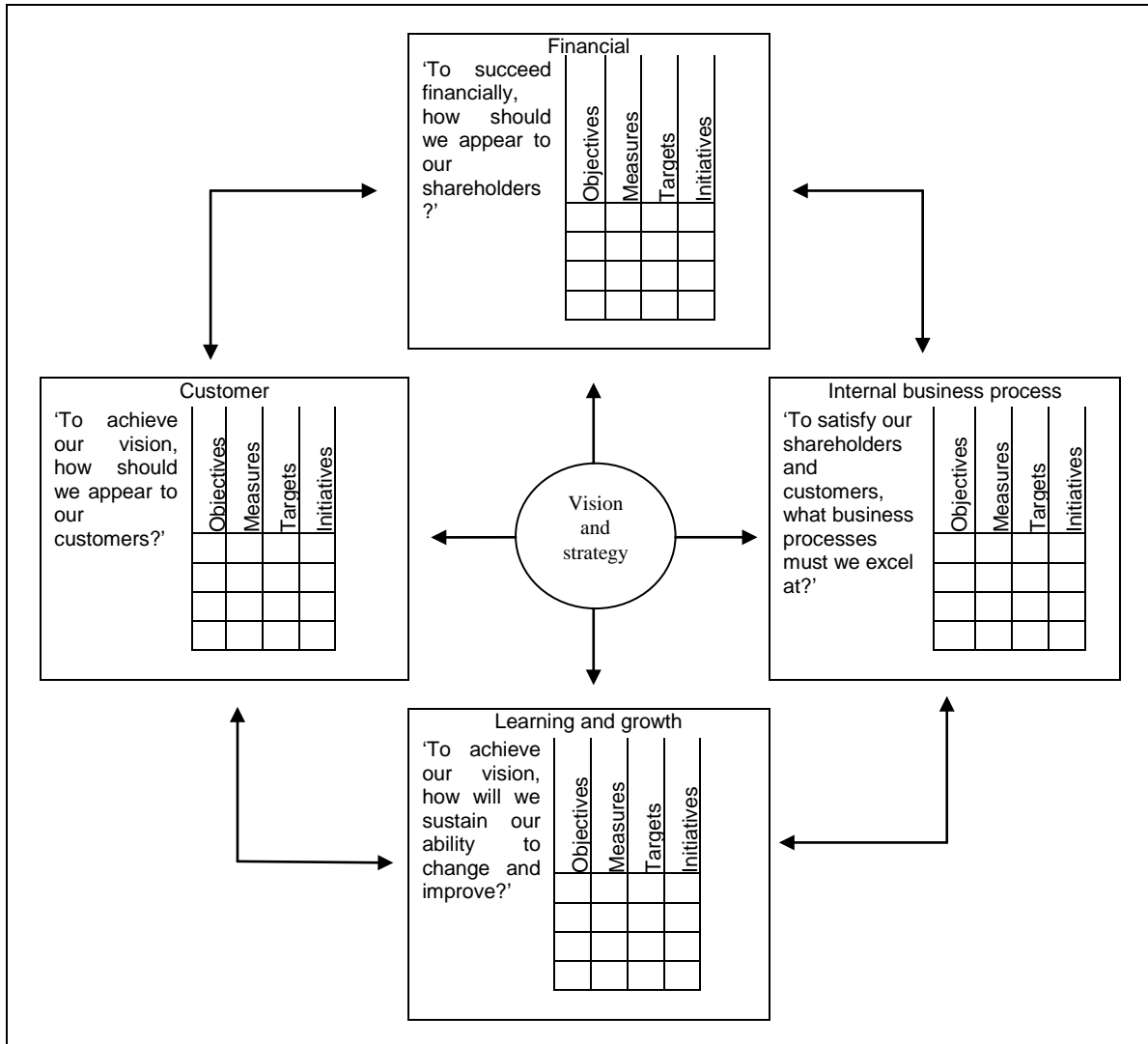
In view of the HC measurement problem within the financial accounting framework, a number of researchers and interested parties have developed models which can be used to analyse human capital information to produce

meaningful internal and external information for an organisation. A number of the most commonly used models are reviewed below with an assessment of their benefits and limitations.

3.6.1 Balanced scorecard (BS)

The original balanced scorecard was developed by Kaplan and Norton (1996); they divided the scorecard into four elements – financial, customer, the internal business process, and learning and growth. The balanced scorecard provides opportunity for human capital and other business considerations to be matched. It also allows effective communication channels to be established in the organisation. Human capital is also assessed alongside the organisation's vision and strategy.

FIGURE 3.4: THE BALANCED SCORECARD FRAMEWORK



Source: Kaplan & Norton (1992 & 1996)

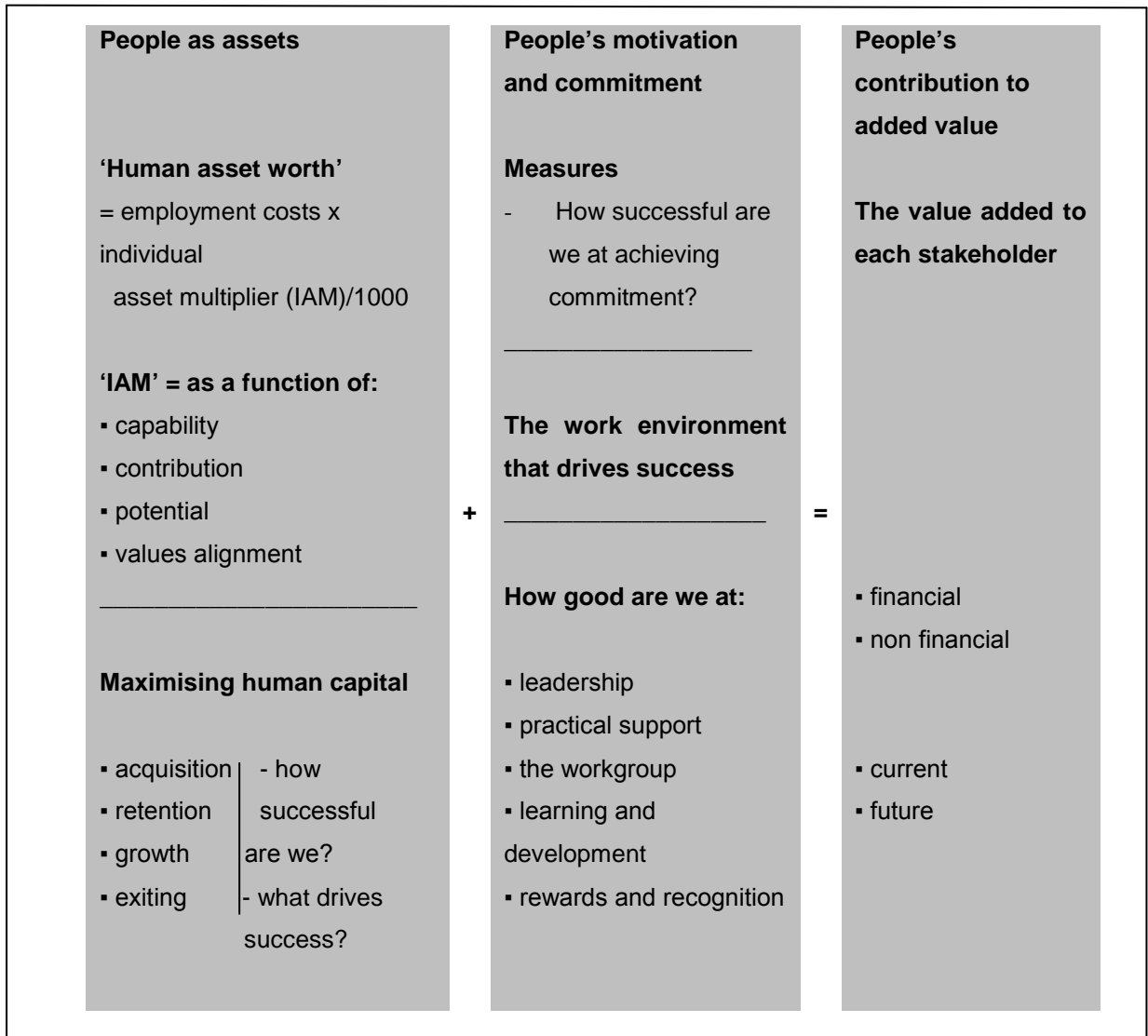
However, the BS suffered some major limitations in that it can lead to the development of many measures or metrics that can be confusing. BS is also more relevant to internal reporting rather than external reporting because it is based on context (Baron & Armstrong, 2007:68).

3.6.2 The Human capital monitor

Mayo (2001) in his model describes the human capital value of an organisation as the human asset worth. The model consists of the following areas:

- the way an organisation should view the human capital and value it.
- the way in which to develop human capital measures in order to assess the organisations' performance.
- the way to present to the shareholders the quantified value in financial and non-financial terms.

FIGURE 3.5: THE HUMAN CAPITAL MONITOR



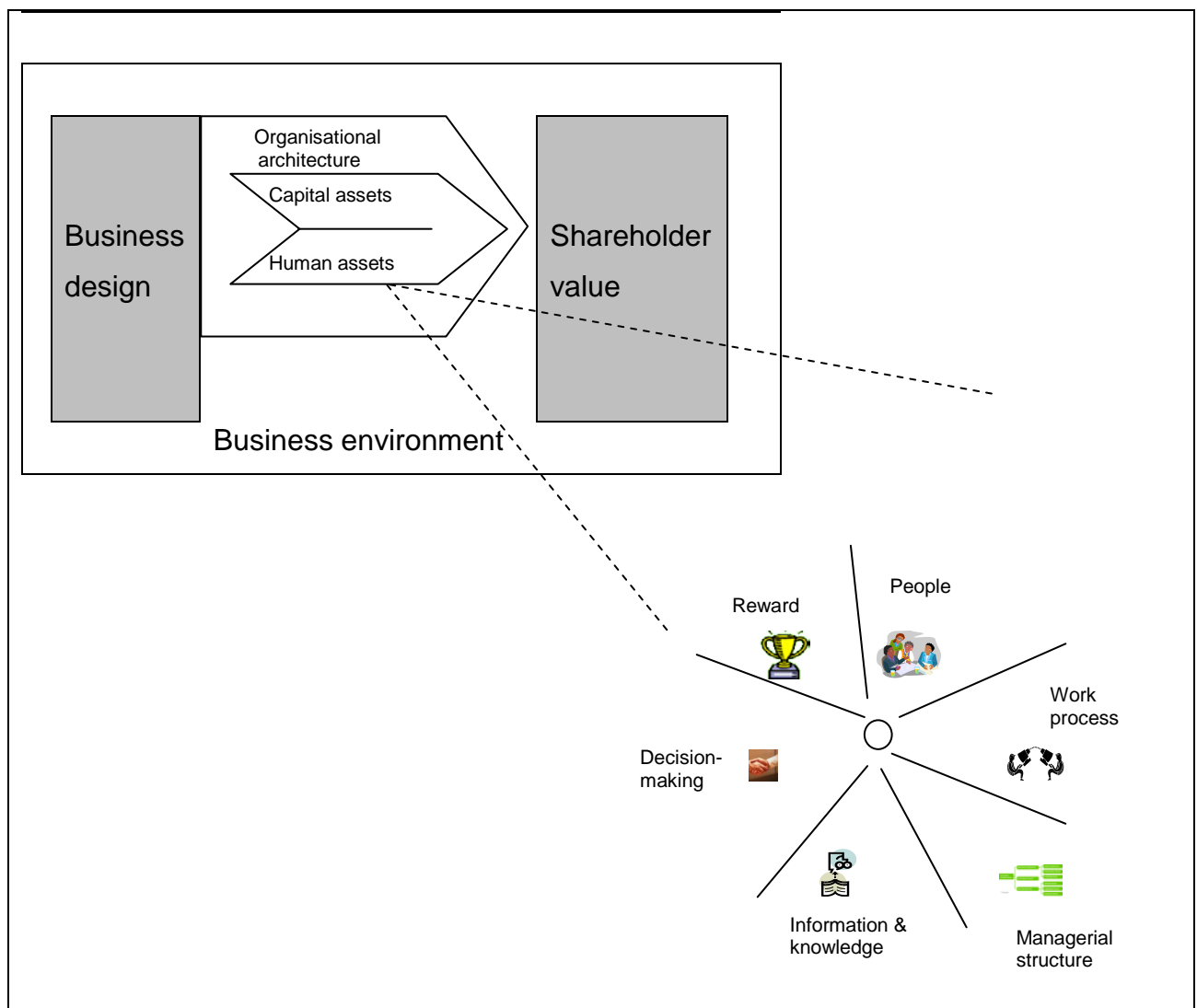
Source: Mayo 2001

The human asset worth is defined “as employment cost multiplied by individual asset multiplier (IAM) divided by 1000 (IAM/1000) (Mayo 2001). The method succeeds in quantifying the value and contribution of employees to an organisation, although the measures identified as capability, contribution, potential and values of employees alignment are largely subjective, thus constituting a limitation on the validity of the values that can be obtained (Baron & Armstrong 2007:70).

3.6.3 The organisational performance model – Mercer HR consulting

This model was developed by a group of researchers in the field of labour economics and work psychology. It shows that a firm's human capital strategy consists of people, work processes, managerial structure, information and knowledge, decision-making and rewards. This model focuses on major factors that may affect the contribution of people to organisational performance. However, the model suffers a major limitation in that the results will absolutely depend on the context in which organisational performance is applied (Baron & Armstrong, 2007:72).

FIGURE 3.6: THE MERCER ORGANISATIONAL PERFORMANCE MODEL



Source: Adapted from Baron & Armstrong (2007:72)

3.6.4. The human capital index

The human capital index is based on a survey that shows a relationship between key HRM practices and value creation. The index portrays a 30% increase in shareholders' value due to four major practices. The table below expatiates on the human capital index:

TABLE 3.1: THE HUMAN CAPITAL INDEX

Practice	Impact on market value
Total rewards and accountability	16.5%
Collegial flexible workplace	9.0%
Recruiting and retention excellence	7.9%
Communication integrity	7.1%

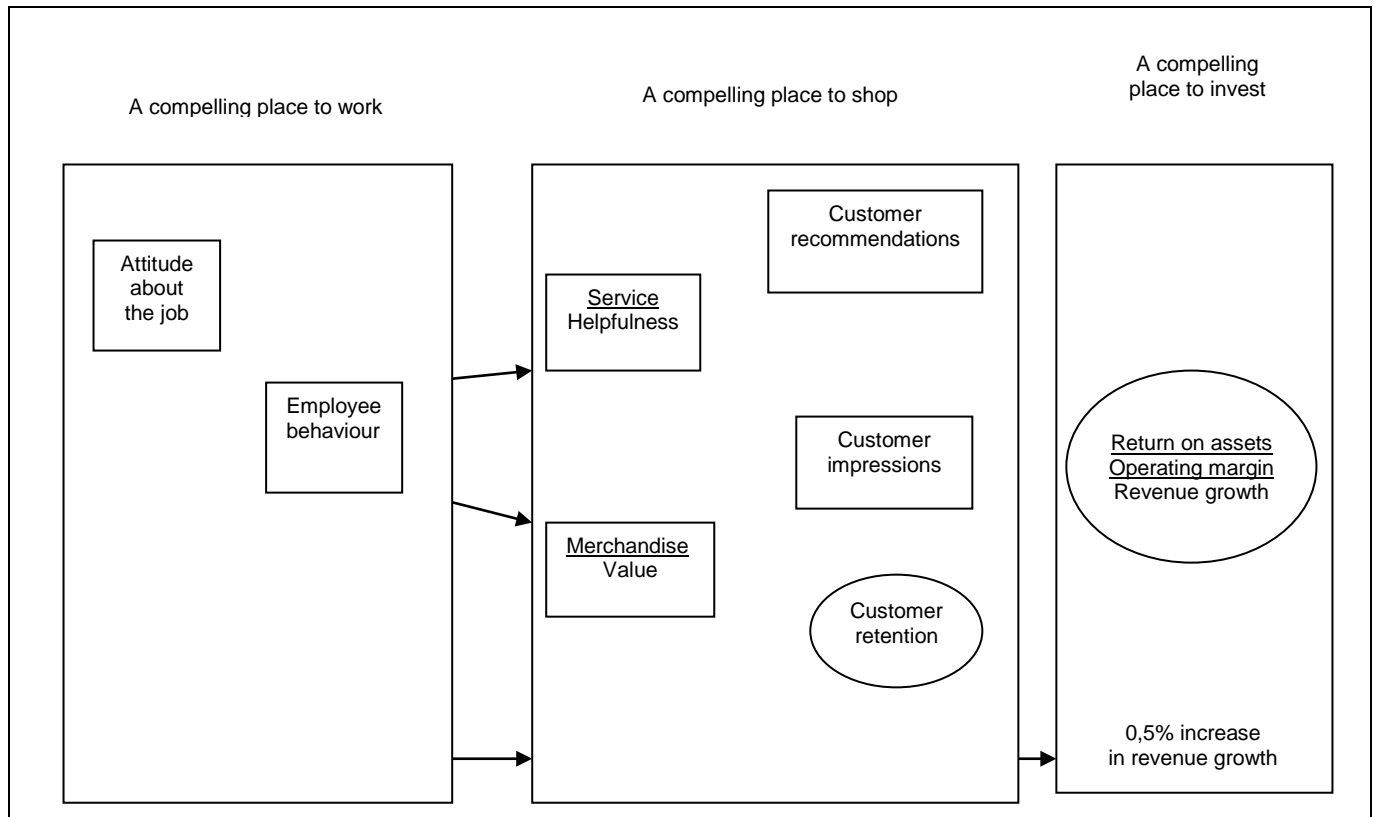
Source: Watson Wyatt Worldwide, 2002

The human capital index shows that the adoption of better human capital management practices will lead to better organisational performance. However, the concept of “best practice” should be adopted with caution, as the circumstances surrounding each organisation may determine what the “best practice” is.

3.6.5. People management and business performance – the engagement model

The engagement model is based on the theory of the employee-customer-profit chain which states that the satisfaction of employees will lead to the satisfaction of customers which will in turn lead to improvement in organisational performance (Baron & Armstrong, 2007:73). The pursuit of employee satisfaction has therefore become a core aspect of human resources strategy in most organisations.

FIGURE 3.7: THE EMPLOYEE-CUSTOMER-PROFIT CHAIN

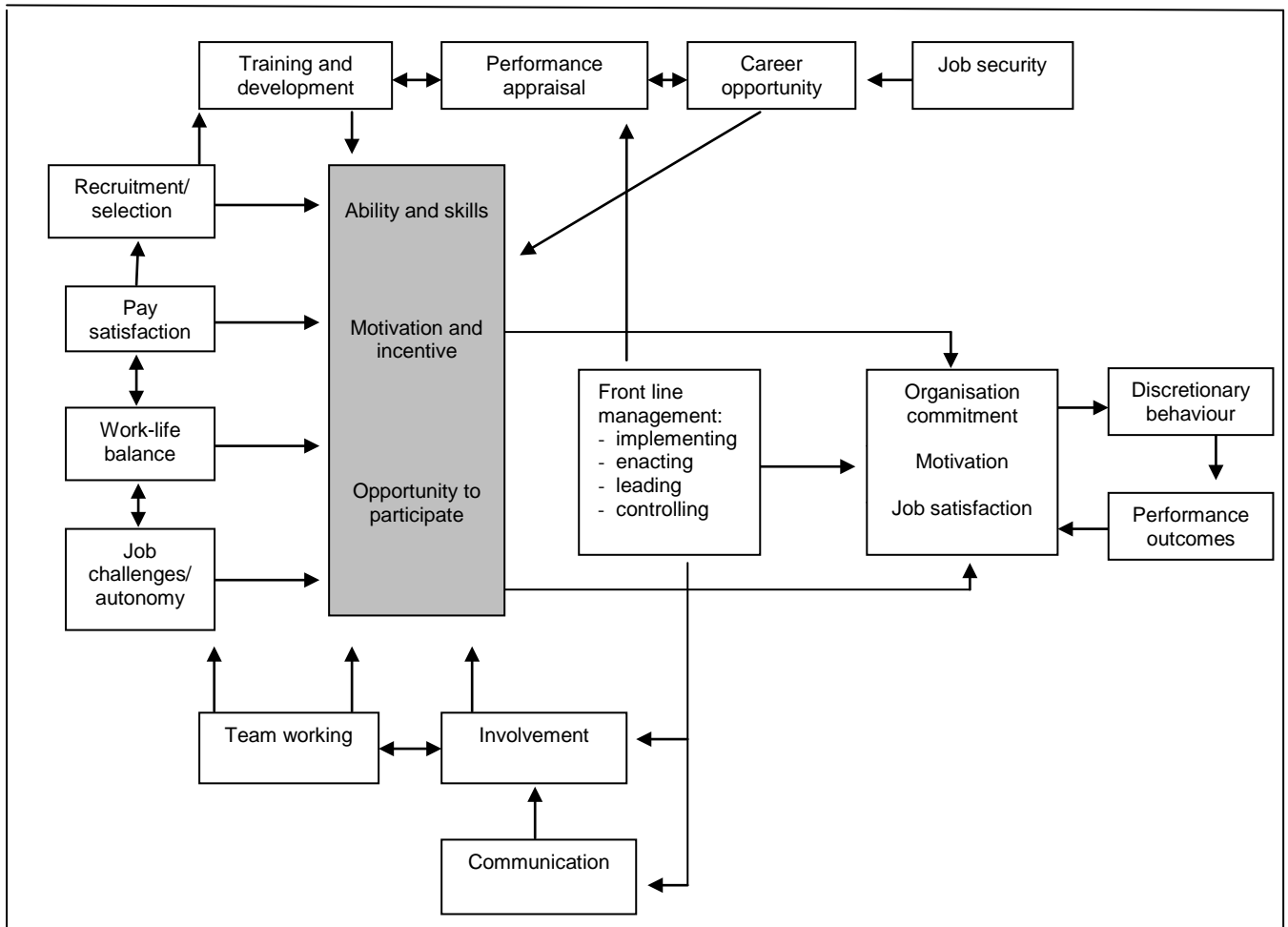


Source: Rucci, Kirn & Quinn, 1998

3.6.6 The Bath's people and performance model

The Chartered Institute of Personnel Development (CIPD) from Bath University commissioned a research team to further investigate the relationship between human capital management and organisational performance. According to these researchers, the model portrays a number of other factors which may affect organisational performance (Baron & Armstrong, 2007:76).

FIGURE 3.8: PEOPLE AND PERFORMANCE MODEL



Source: Purcell, Kinnie, Hutchinson & Swart, 2003

The engagement model is simple and provides the opportunity for organisations to conduct assessment of their policies and practices. However, the length of time required for some actions to take place may hinder the measurement of the contribution of human capital to organisation performance.

3.6.7 Newbury index rating (NIR)

NIR produces ratings from rating questions developed from a number of perspectives. The answers to these questions will then give an indication of how well the organisation is optimising the value of its human capital.

These questions are:

- Who is your dedicated HR strategist and does that person have a full seat at board level?
- Can you demonstrate a value-added performance improvement from all of your employees over the past 12 months?
- Does all your training expenditure produce an acceptable return on investment?
- What methodology do you use to answer third question above?
- Does your organisation have a clearly defined and effective learning system in operation?
- What is your projected added value (in monetary terms) from HCM practices over the next three years?
- What methods do your employees use to improve the value you receive from your supply chain?
- If you use a balanced scorecard, or similar management model for “people” measures do you have a discrete measurement? If so, provide examples.
- Do you clearly distinguish between activity, performance and added value measures?
- What system do you have in place to capture added value ideas from employees? (Baron & Armstrong, 2007: 76-77).

It could be observed that only few organisations can provide answers to these questions. This is because some of the questions relate to quantitative measures which are difficult to achieve by many organisations presently.

3.6.8 The human capital report

The human capital report (originally referred to as the human capital index) developed by Lees (2004) is a number out of 100 that is an individual and group measure of human capital based on the mean performance scores from a 360-degree feedback for individuals with the same competence profile. If

this 360-degree data is available, the HC report will be relatively easy but it does not go into a deeper measurement of value (Baron & Armstrong, 2007:77).

3.7 HUMAN CAPITAL DISCLOSURES

Human capital disclosures has been described as a process by which information on identification and measurement of workforce related excellence are identified and revealed to various stakeholders within and outside an organisation (Khan & Khan, 2010:332). It is stated that the overall goal of the intellectual capital report which incorporates HC disclosures, is concerned with activities related to the development of employees' competence and reporting these to shareholders, investors, employees, managers and other stakeholders (Pedrini, 2007:355–356). The disclosure of human capital is unique in some ways. Presently there is no regulation directed at guiding organisations on where, when and what HC information to disclose and consequently, most organisations that seem to be proactive, disclose HC information voluntarily.

The communication of information generated about human capital and its contribution to the business is an important step to take if the efforts on the HC information generation will be worthwhile. Different kinds of information are required by various stakeholders like potential employees, customers, potential suppliers and investors. The investors will be concerned about whether the organisation has the resources to enhance increased profitability, the potential suppliers will be interested in the kind of relationships that could be developed and how such relationships could be sustained over a period of time. The customers will be concerned about the firm's involvement in ethical practices with regard to the employees and the environment in which it operates. Both the customer and potential employees will be concerned about how much the company will want to invest in their career development and creation of opportunities for progress.

Many academics and practitioners around the world have given considerable attention to human capital disclosure over the last twelve years (Bassi, Lev, Low, McMurrer & Siesfeld, 2000; Abeysekera & Guthrie, 2004:251). This is because of the awareness that human resources are significant factors for business success and also an area in which competitive advantages can be built in the new economy (Bontis, 2003:9; Bozzollan *et al.*, 2003:543; Stewart 1994; Bontis, Crossan & Hulland, 2002:446). Today, new economy organisations invest a larger part of their income in developing human capital.

However, despite the perceived importance of human capital, information on it is rarely found in the CARs of most organisations, contrary to the common assertion that “employees are their most important asset”. One of the major reasons is that there is no accounting standard by which information relating to HC could be reported in CARs, even though a number of measurement instruments have been developed in a bid to ensure that firms manage, measure and report on intangible assets (Abeysekera & Guthrie, 2004:252). This has led to the incorporation of measurement of intellectual capital including human capital by firms such as the Buckman Laboratories, Canadian Imperial Bank of Commerce, Dow Chemicals, Skandia Group, Telia and so on in their internal and external reports and strategic management issues (Khan & Khan, 2010:330).

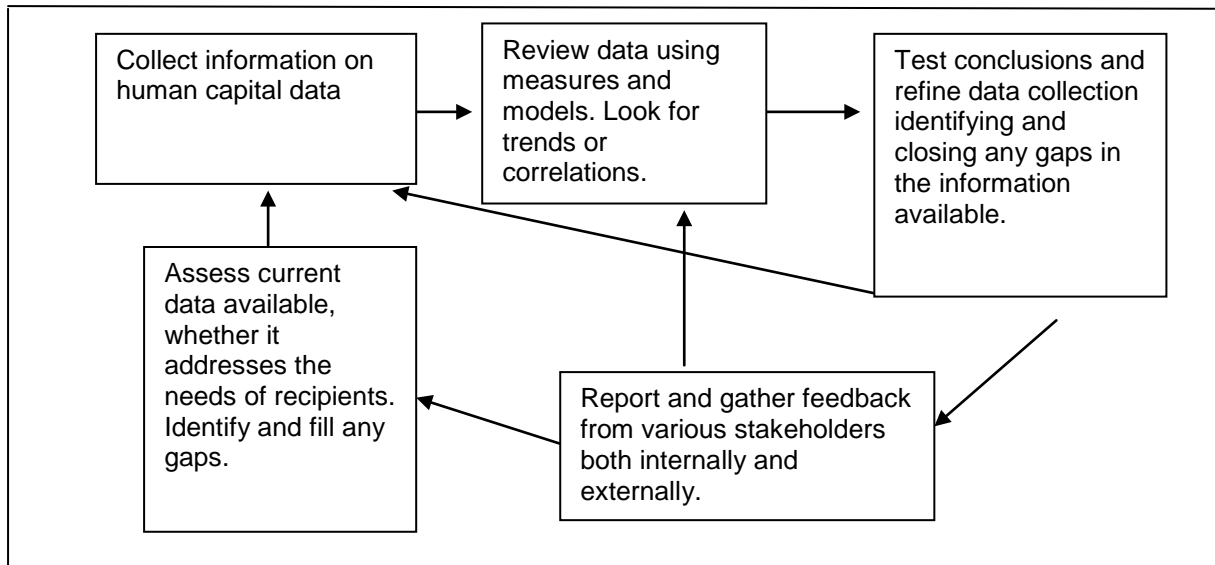
Many studies have been conducted on human capital disclosure practices of firms in both developing and developed countries (Subbarao & Zeghal, 1997:53; Olsson, 2001:39; Abeysekera & Guthrie, 2004:251; Ax & Marton, 2008:433; Huang, Abidin & Jusoff, 2008:2). However, research evidence on HC reporting in South Africa is scarce. This study aims to fill this gap. South African firms have come to terms with the importance of HC in value creation and in pursuing competitive advantage as evidenced by various instances in the King Committee Reports which are issued primarily to enhance holistic reporting practices by firms and to make decision-makers more responsible and transparent to all stakeholders. Users of corporate information are now better informed and therefore the providers of such information must respond

by disclosing more information on employees, working conditions, environmental protection and so on (Khan & Khan, 2010:330). Moreover, the future corporate financial reporting practices is currently being controlled by the JSE guidelines in line with the Corporate Governance Code enshrined in King III Code of Corporate Governance which makes it mandatory for listed companies in South Africa to fully report all relevant information to all stakeholders.

3.7.1 Internal Disclosures

One of the benefits of internal reporting on HC is that it will facilitate informed and better decision-making by managers about what kind of actions or practices will improve their business performance. In order to enjoy this benefit, information on HC must be supported by thorough explanation and effective analysis in the process of maximising the performance of the organisation. HC information that are valued, trusted and prepared to allow informed actions will bring about the desirable change in the organisation through the actions or inactions of the various stakeholders interested in the HC information. The current and potential employees will decide whether or not to work for the organisation, the potential investor on whether to invest in the company, the customers on whether to buy from the company and suppliers on whether to supply to the company.

FIGURE 3.9: EVALUATIONS AND REPORTING ON HUMAN CAPITAL



Source: Baron & Armstrong (2007:85).

Figure 3.9 above shows the main procedures for evaluating and reporting on human capital. The first procedure is the collection of information on human capital data which are reviewed and refined before the reports are generated for the use of various stakeholders.

3.7.2 External Disclosures

Since the 1980s, external disclosure of HC was a serious concern to the academics and practitioners in view of the opinions formed with respect to the limitations of the mandatory information provided in the corporate annual reports. Consequently, greater emphasis was placed on increasing the level of voluntary disclosure of non-financial information by academics and the accounting bodies (Wallman, 1995; IASB, 2000; FASB, 2001; Meritum, 2002). The response of many companies was the production of the IC statement as a supplement to their CARs or an entirely separate report. Apart from this general IC report, the disclosure of HC has also witnessed greater research interest since the late 1990s.

A descriptive study was conducted by Subbarao and Zeghal (1997:53–73) by analysing a sample of 120 corporate annual reports comprising 20 CARs from

six developed nations of the United Kingdom; Japan; South Korea; Germany; Canada and the United States of America in order to make an international comparison on the level of HCD in these countries. After analysing CARs from both the financial services and the manufacturing sectors, they reported that the main factor influencing the level of disclosure is the size of the firm. Their findings also showed that of the five categories of HC information, the most frequently disclosed is information on pensions and benefits while the least frequently disclosed information is that of value added by employees. The results prompted further research into the need to disclose the extent of the contribution of human capital to the value of the firm.

In response to the need for further research into HC disclosures, many researchers employed the content analysis method to document the level of HC disclosure in CARs with the majority evaluating the disclosure as “low” (Guthrie & Petty, 2000:62); Brennan, 2001:423; Bozzollan *et al.*, 2003). The study of Petty and Guthrie (2000:62–65) based on the CARs of 20 Australian companies, investigated six HC components in the form of entrepreneurial spirit, work-related competencies, work-related knowledge, vocational qualification, education and knowhow. The results of the study showed that information relating to HC was only 30% of the total IC disclosure items considered in the study.

Brennan (2001) also investigated HC disclosure in 11 Irish companies. She concluded that the level of HC disclosure is low. Later in 2003, Bozzollan and others studied HCD level in 30 Italian companies and found that the level of HC disclosure is low when compared with the total IC items disclosed; they concluded that the level of HC disclosure is 21%, which was 9% lower than the figure arrived at in an earlier study by Guthrie and Petty. According to these researchers, the reason for this low level of HCD is attributed to the absence of a uniform reporting framework and the general lack of self-motivation towards the measuring and reporting information to external stakeholders.

In her study, Olsson (2001:51–52) categorised HC elements into five namely selection of employees; recruitment; equality; education and development while examining the corporate annual reports of the 18 largest Swedish companies based on market capitalisation. It was found out that HC information accounted for about 7% of the total information reported in the CARs of these companies for the year 1998.

In their study, Abeysekera and Guthrie (2004:251–268) conducted an investigation on HCD in the context of Sri Lanka using CARs of the top 30 firms. They categorised 25 identified HC components into seven sub-categories, namely employee-related measurements, employee welfare, employee relations, employee safety, equity issues, entrepreneurial skills and training and development. They find that employee relations and training programmes appear to feature most while HC is found to be the second most frequently reported amongst the three IC categories.

Unerman, Guthrie & Striukova (2007) investigated HC disclosure within the general IC framework in four industry sectors consisting of 15 companies, the study of Striukova, Unerman & Guthrie (2008) followed the same pattern as that of Unerman and others. These studies found that HC disclosures represent 22% of total IC disclosures. It was found that training; employee teams and employee innovativeness were the least disclosed categories of HC information, although 13 companies disclosed information on employees while all 15 companies investigated disclosed information on work-related knowledge.

The study of Li *et al.*, (2008) expands an investigative study of HCD by content analysing the CARs of a sample of 100 UK listed companies, using a checklist of 61 components. They also found that HCD accounted for 28% of the total IC disclosed. From the results of various studies on HCD, the general conclusion is that the proportion of HC disclosures was consistently found to be in the region of 20 to 30 percent.

Abeysekera (2008) used content analysis to examine human capital disclosure in CARs of some firms in Sri Lanka. The content of CARs for the year ending 2001 and 2002 were analysed with pre-defined human capital items and the frequency of occurrence was recorded in the coding sheet in respect of each year. In addition, case study interviews were conducted to investigate HCD in the CARs of selected firms. In her concluding remarks, she noted that human capital categories such as employee relations and employee measurement are the most frequently disclosed while equity issues and workplace safety are the least disclosed. She noted that this pattern of disclosure was as a result of replacement of both the unskilled and semi-skilled workforce with technology by firms in Sri Lanka (Abeysekera, 2008:25).

Dumay and Lu (2010) argued that it was better to admit the reality of conflicts which are fundamental to human capital management and disclosures rather than avoiding it. Using a case study of a bank in Australia and utilising corporate social responsibility (CSR) reports, newsletters, annual and media reports, they reported that the bank which was previously criticised as being socially irresponsible prior to 2001 became a global leader in CSR practice and reporting because of the transformation in its approach to HC management and disclosures (Dumay & Lu, 2010:70).

The major benefits of HCD reported in literature are the ability to reduce information asymmetry and to ensure trustworthiness (Greening & Turban, 2000:254; Ax & Marton 2008:434). Research has shown that current and potential employees, being significant users of accounting information, value HC disclosures while current employees also derive satisfaction in their place of work with associated employee commitment (Peterson, 2004:296) while potential employees see the organisation as a place to work and develop their careers (Greening & Turban, 2000: 255). An organisation's reported activities on employee's welfare could lead to excellent results (Dumay & Lu, 2010:73). Thus it could be said that strategic information on human capital could ensure organisational commitment. Closely associated with the advantage of trustworthiness is the ability of an organisation to enhance its image among

various stakeholders and competitors (Van der Meer-Kooistra & Zijlstra, 2001:468). Also, organisations are encouraged to decrease the level of information asymmetry between insiders and outsiders as this may help to lower the cost of capital and in the assessment of future earnings potential (Andriessen, 2004:234). Generally, organisations with lower cost of capital will invariably have higher returns and increased market value.

3.8 SUMMARY AND CONCLUSION

This chapter reiterated the concept of human capital and its relevance in value creation through the human capital theory, human capital advantage and the human capital management concepts. It provides evidence that proves that an organisation that recognises its employees as assets makes a direct contribution to its performance.

The chapter also discussed the HC measurement and data highlighting the major reasons for the development of interest in HC measurement and reporting. This was followed by a review of major analytical models such as the balanced scorecard, the human capital monitor, the organisational performance model, the human capital index, the people and performance model, the Bath's people and performance model and the newbury index rating.

Furthermore, a description of human capital disclosures was made along with a brief review of previous studies on external disclosures across various countries and industries. It is clear from this chapter that through the development of better, accurate, improved information on human capital, organisations will make better decisions and various stakeholders involved in the use of CARs will be able to make more accurate assessments about the future performance of an organisation.

In the new economy characterised by knowledge-intensive organisations, investors need better information as an explanation for the intangible value of

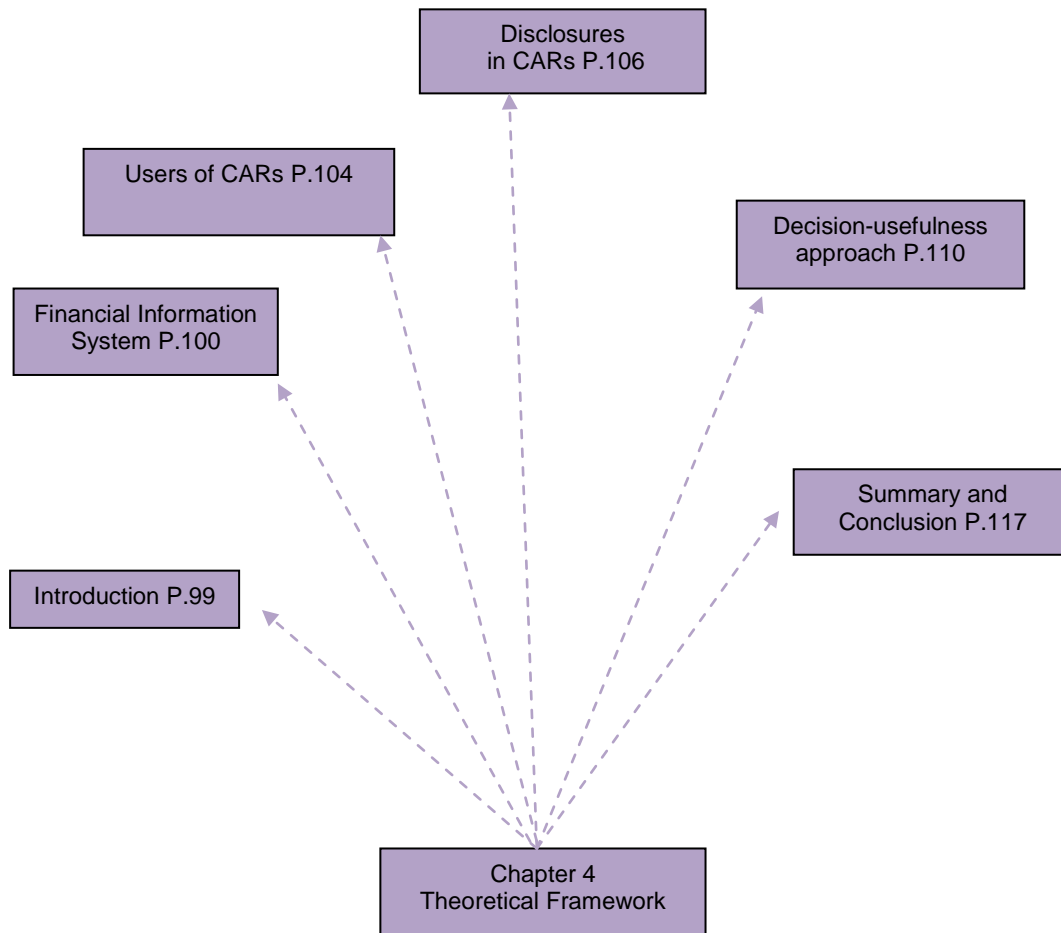
human capital. This can be achieved through strategic human resource management (HRM) practices and systematically collected and analysed data on human capital and, more importantly, through both internal and external communication of this data.

The next two chapters present discussions on the theoretical as well as the regulatory frameworks.

CHAPTER 4

THEORETICAL FRAMEWORK

Figure 4.1: Network view of Chapter 4



4.1 INTRODUCTION

There are many theories upon which research on voluntary disclosures have been based in the accounting literature. Such theories include legitimacy theory, stakeholder theory and political economy of accounting theory or neo-institutional theory (Guthrie *et al.*, 2001; Gray *et al.*, 1995). However, this study is based on the decision-usefulness theory on the assumption that firms disclose information on human capital intangibles because users find such information relevant for decision-making (Ax & Marton, 2008:449).

There are two major kinds of disclosures that have been identified in previous research; these are statutory or mandatory and discretionary or non-mandatory disclosures (Cronjé, 2008:60). The statutory information is generated through the mandatory financial information system (MFIS) and is generally influenced by rule making organisations at the national and global levels (Cronjé 2008:14). On the other hand, the discretionary information is generated through the discretionary information system (DIS) based on non-mandatory accounting practices and initiatives. However, these two information systems must complement each other in order to present full disclosure of a big picture in CARs (Cronjé 2008: 60).

Organisations have developed discretionary practices in key areas such as human capital practices, research and development, climate change, public and consumer health, environmental reports, corporate social responsibility, risk management, intellectual capital management and human rights. Others are innovation, customer satisfaction, executive remuneration, employees' health and safety, operating and financial reviews, corporate governance, threats and opportunities (OECD, 2006:21).The table below presents the objectives of financial statements as it relates to the mandatory and discretionary information systems.

Accounting principles and guidelines are responsible for the development of qualitative objectives of mandatory information in CARs; these objectives are comparability, completeness, neutrality, relevance, timeliness and understanding (Riahi-Belkaoui, 2004:166).

4.2 FINANCIAL INFORMATION SYSTEMS

Financial information is the evidence that has the potential of affecting the decisions of its users. Sources of information that could be identified are websites, statistical reports, speeches and announcements, media and CARs. However, it has been observed that CARs are a cost effective information source due to the large numbers of its users and by providing relevant and reliable information, they will continue to serve as an essential source of information to them (Scott, 2009: 68).

Cronjé (2008: 112) asserts that disclosures in CARs are governed by two systems; the first is the mandatory financial information system (MFIS) which is responsible for the generation of statutory information while the second is the discretionary information system (DIS) responsible for the generation of non-statutory or discretionary information. The DIS complements the MFIS in that it enables users of CARs to gain better insights into the information produced by the MFIS.

TABLE 4.1: OBJECTIVES OF FINANCIAL STATEMENTS

	Objective	MFIS	DIS	Remarks
1.	Decision-making	Yes	Yes	Availability of information for decision-making is the most important objective for decision-making
2	Financial Statements	Yes	Yes	Financial statements consisting of both the mandatory and discretionary information are required for full disclosure in CARs
3	Cash Flows	Yes	No	Information for predicting, comparing and evaluating cash flows may be provided by the MFIS
4	Earnings	Yes	No	Information for predicting, comparing and evaluating an organisation's earnings capacity is provided through the MFIS
5	Management ability	No	Yes	Information on the ability of management to put organisations resources into effective use may be provided through the DIS
6	Disclosure	Yes	Yes	Information that can be used to predict and evaluate an organisation's earning capacity are provided by both systems

TABLE 4.1: OBJECTIVES OF FINANCIAL STATEMENTS (CONT...)

	Objective	MFIS	DIS	Remarks
7	Statement of financial position	Yes	No	Only the MFIS is responsible for generating the statement of financial position
8	Uncompleted transactions	No	Yes	The DIS provides the medium for reporting the stage of completion of on-going projects
9	Expected information	No	Yes	Transactions expected to have a significant effect on an entity's cash flow may be reported through the DIS.
10	Forecasts	No	Yes	Information that could enhance the predictive ability of users could be reported through the DIS
11	Governmental and not-for-profit organisations	No	Yes	Information relating to management of resources of this category of organisations are usually reported through the DIS
12	Social issues	No	Yes	Information on social responsibility issues are usually reported as discretionary information

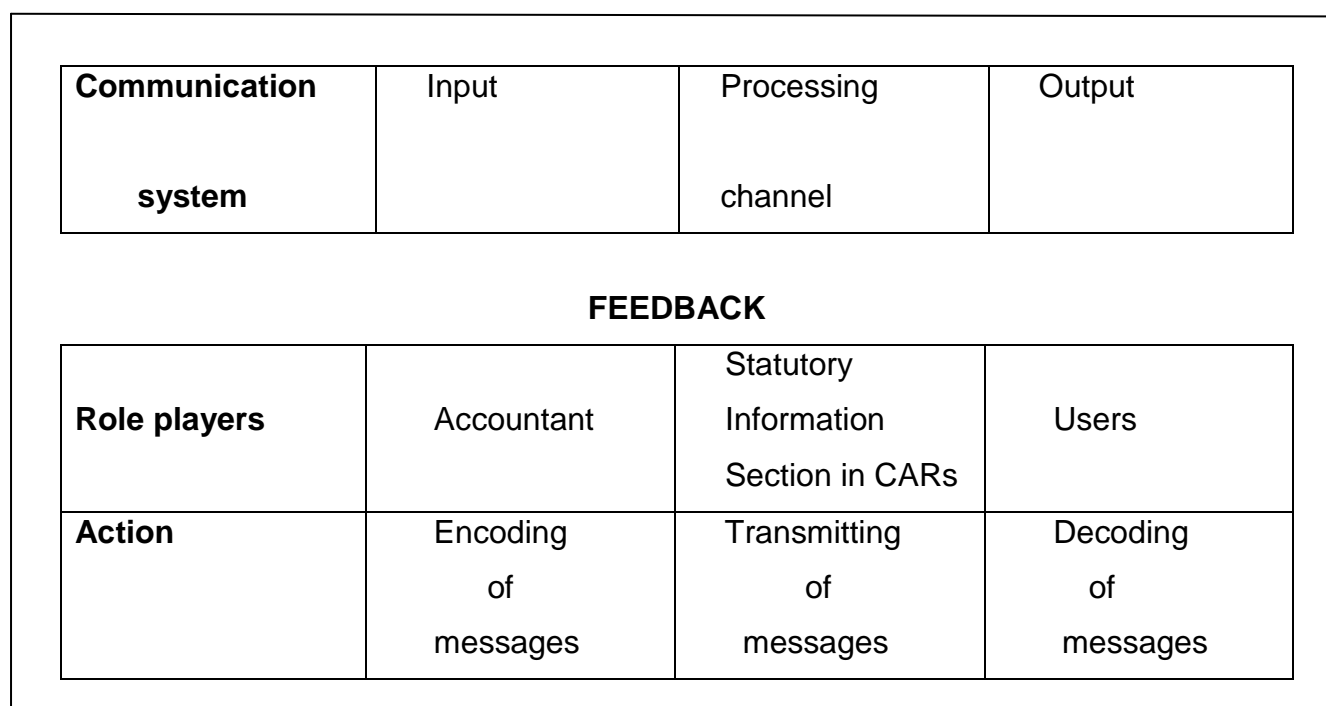
Source: Adapted from Wolk *et al* in Cronjé (2008:67)

It could be noted from the table above that the DIS has the capacity to produce more information particularly those of a non-financial nature. This extended information could assist the users of CARs to understand better the content of CARs by shedding more light on the numbers and figures generated through the MFIS.

4.2.1 The Mandatory Financial Information System (MFIS)

The main objective of the MFIS is to provide information on stewardship to the owners of business entities in a bid to fulfill the most important objective of accounting (Schoonraad, 2004: 42)

FIGURE 4.1: MANDATORY FINANCIAL INFORMATION SYSTEM (MFIS)



Source: Cronjé 2008: 113

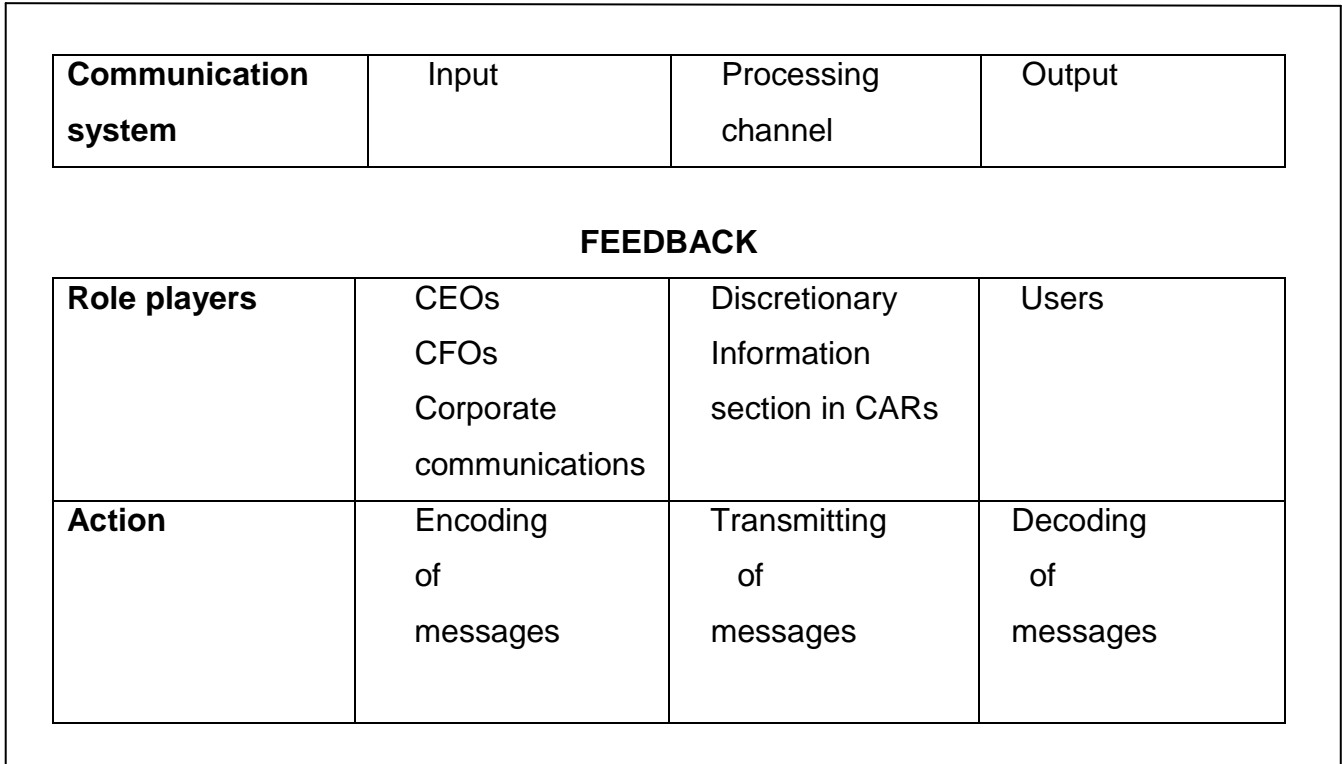
The communication system in the figure above consists of input collated and encoded by the finance function; the statutory section is the line of transmission of information and the current and potential investors representing the users responsible for interpreting the information transmitted in the light of their needs which include the evaluation of financial performance of the entity over a particular period. The information disclosed in the statutory information section (as far as the South African environment is concerned) is a product of the Companies Act, the Johannesburg Stock Exchange (JSE) regulations and the International Financial Reporting Standards (IFRSs) including the International Accounting Standards (IASs).

4.2.2 The discretionary information system (DIS)

The discretionary information system makes use of discretionary accounting practices to disclose discretionary or contextual information in Corporate Annual Reports (CARs). The DIS enables the development and disclosures of information relevant to identifiable users and other users who might need

other forms of information in the future. Therefore the DIS makes provision for flexibility in information generation and dissemination. The figure below illustrates the discretionary information system:

FIGURE 4.2: THE DISCRETIONARY INFORMATION SYSTEM



Source: Cronjé 2008: 115

The system recognises the preparers of CARs as the source of messages, using the DIS system as the medium of communication to the users for decision-making in specific areas of need.

A key role player in the communication process of CARs is the preparers. This study identifies the finance and human resource functions as preparers of CARs. Generally the management and the finance function assumes the overall responsibility of preparing CARs, other departments such as human resources (HR), production, sales and marketing, internal audit and legal also provide valuable inputs to the information in CARs. However, the HR function assumes an important role in the generation of human capital related

information hence in addition to the finance function; the HR function has been chosen as another role player in providing information in CARs.

Some researchers were concerned about the difficulty of reading accounting information and consequently the ability of the readers to understand the messages passed through these information perfectly (Schroeder & Gibson, 1992:28; Riahi- Belkaoui, 1995:41; Curtis, 1998: 460). A suggested solution is the inclusion of more discretionary disclosures in CARs, the effect of this action may be to further explain the figurative analysis usually contained in the mandatory section of CARs. In effect, the mandatory information becomes more revealing and comprehensible (Cronjé, 2008: 109). Efforts should be made by the preparers of CARs to endeavor to understand the needs of the users as accounting is a language of business with the risk of misrepresentation and misunderstanding (Riahi-Belkaoui, 1995: 61). This may help to overcome the great challenge of effective communication faced by CARs preparation processes.

4.3 USERS OF CARs

The IASB issued the Conceptual Framework for Financial Reporting in 2010. Paragraph OB2 of the Conceptual Framework states that:

“The objective of the general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit” (IASB, 2010. Conceptual Framework, Paragraph OB2).

Paragraph OB9 also states that *“The management of a reporting entity is also interested in financial information about the entity-----”* (IASB, 2010. Conceptual Framework, Paragraph OB9). Thus management is being recognised as another category of users of financial information. Furthermore, Paragraph OB10 states that: *“Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find*

general purpose financial reports useful (IASB, 2010. Conceptual Framework, Paragraph OB10). This paragraph also states that financial reports are not primarily directed at these other groups.

In essence, the Conceptual Framework grouped the users of financial information into the primary users and the secondary users. The primary users are identified as existing and potential investors, lenders and other creditors while the secondary users are identified as the management, regulators and members of the public other than the primary users.

However, the earlier document titled *“Framework for the Preparation and Presentation of Financial Statements”* (IASB, 2009 Para. 9-11) enumerated the various categories of users and their peculiar needs. These are:

- 1) *Investors. Par. 9a states that the providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information that enables them to assess the ability of the entity to pay dividends*
- 2) *Employees. Par. 9(b) declares that employees and their representative groups are interested in information about the stability (maybe not the most desirable state of affairs) and profitability of their employers and that they are also interested in information that enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities*
- 3) *Lenders. Par. 9(c) states that lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due*
- 4) *Suppliers and other trade creditors. Par. 9(d) declares that suppliers and other trade creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due and that trade creditors are more likely to be interested in an entity over a shorter*

period than lenders unless they are dependent on the continuation of the entity as a major customer

- 5) *Customers. Par. 9(e) reveals that customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on it.*
- 6) *Government and other agencies. Par. 9 (f) states that government and their agencies are interested in the allocation of resources and, therefore, the activities of entities and determine taxation policies, and as a basis for national income and similar statistics.*
- 7) *Public. Par. (g) asserts that entities affect members of the public in a variety of ways, for example entities may make a substantial contribution to the local economy, including the number of people they employ and their patronage of local suppliers, and that financial statements may assist the public by providing information on trends and recent developments in the prosperity of the entity and the range of its activities.*

It could be inferred from the above that as the users of CARs are heterogeneous so are their needs. Some of the characteristics of these users are knowledge, skills, intelligence, education and culture (Gouws, 1997:62-63). It is necessary for the preparers to have a good knowledge of these characteristics so as to enable them meet the diverse needs of the various users.

4.4 DISCLOSURES IN CARs

The product of information provided through the MFIS and the DIS is referred to as disclosures in CARs. Examples of these forms of disclosures may be found in some of the CARs of the selected companies used in this study. A summary of both the mandatory and discretionary disclosures in the 2011 Integrated Reports of the following companies is provided in the table below:

TABLE 4.2: MANDATORY AND DISCRETIONARY DISCLOSURES

Company/Reference	Mandatory Information	Discretionary Information
Anglo-American PLC. Annual Report (2011).	Responsibility Statement; Independent Auditor's report; Principal Statements; Notes to the financial statements.	Our strategic growth projects; Chairman's statement; Marketplace; Our strategy; Chief executive's statement; Key performance indicators; Strategy in action; Resources and technology; Group financial performance; Risk governance; Ore reserves and mineral resources; Other information.
British-American Tobacco. Annual Report (2011).	Independent auditor's report; Group income statement; Group statement of comprehensive income; Group statement of changes in equity; Group balance sheet; Group cash flow statement; Notes on the accounts; Five-year summary; Half-yearly analysis of profit; Principal subsidiary and associate undertakings.	From the chairman; Results at a glance; Chief executive's review; Global market overview; Our strategy; Our business model; Strategic review; Measuring our performance; Chief operating officer's review; Regional review; Financial review; Key group risk factor; Corporate governance.
Naspers. Integrated Report (2011).	Summarised annual financial statements.	The Naspers group; Scope of the report and assurance; Statement of the board of directors on integrated annual report; Highlights of year in review Our business; Group at a glance; Our global footprint; Chairman's report; Chief executive's report; Risk management; Balancing people, profit and our planet;

TABLE 4.2: MANDATORY AND DISCRETIONARY DISCLOSURES (CONT...)

Company/Reference	Mandatory Information	Discretionary Information
		Value added statement; Strategy; Performance review; Corporate governance; GRI G3 Indicators.
Sasol. Integrated report (2011).	Summarised chief financial officer's review; Summarised financial information.	In the pursuit of responsible growth; Salient features; Our business clusters; Our global presence; Our integrated business model; Our products; Chairman's statement; Focus story: <i>Zero harm really is possible</i> ; Chief Executive's officer's overview; Our Strategy; Our global growth opportunities; Focus story: Shale gas-the new frontier; Our top priorities for 2012; Our project pipeline; Our key relationships; Focus story: <i>A compelling investment proposition</i> ; Our key performance indicators; Summarised corporate governance report; Our board; Our group executive committee; Risk management report; Our operating performance; Winning with people; Remuneration overview; Corporate social investment; Sponsorships; Our environmental performance.
Standard Bank Group. Annual Financial Statement (2011).	Summarised annual financial statements.	Corporate profile; Performance; Highlights; Challenges; Awards and recognition; Strategy; Strategic priorities; Chairman's report to stakeholders; Chief executive's report to stakeholders; Information technology and operations report; Corporate governance statement; Board of directors;

TABLE 4.2: MANDATORY AND DISCRETIONARY DISCLOSURES (CONT...)

Company/Reference	Mandatory Information	Discretionary Information
		Remuneration report; Managing sustainable development; Employee report; Social economic impact report; Environmental impact report; Risk and capital management summary.
Telkom. Integrated report (2011).	Group financial statements; Report from the human resources review and remuneration committee; Remuneration report; Audit and risk committee report; Director's responsibility statement; Certificate from group company secretary; Independent auditors' report; Directors' report; Consolidated statement of comprehensive income; Consolidated statement of financial position; Consolidated statement of changes in equity; Consolidated statement of cash flows; Notes to the consolidated annual financial statements.	About integrated report; Group overview; Introduction and overview of our approach to sustainability; Telkom group structure and revenue contribution; Telkom shareholding; Chairman's review; Chief executive officer's review; Board of directors; Executive committee; Executive management team; Key strategic drivers supported and fuelled by nine strategic pillars; Integrated performance indicators; Equity markets; Highlights of the year; Shareholder value delivery overview; Group value added statement; Our shareholders; Material sustainability issues; GRI G3 Content Index; Enterprise risk management; Risk factors; Regulatory and competitive landscape; Our customers; Social responsibility; Environmental engagement; Transformation; Human capital; Financial review.

4.5 DECISION-USEFULNESS APPROACH TO CORPORATE ANNUAL REPORTING

4.5.1 Introduction

The assertion that if theoretically correct corporate annual reports cannot be prepared, a more decision-useful CAR can at least be prepared (Trueblood Commission, 1973) influenced the decision-usefulness approach to accounting theory in general and the corporate financial reporting in particular. According to Scott (2009:59), the two major questions that must be focused in considering the decision-usefulness approach are; who are the users of CARs and what are the decision problems facing these users? It is important to identify the users and understand the decision problem facing these “constituency” of accounting. CARs will be more decision-useful when information in CARs is designed to meet the specific needs of the users.

The decision-usefulness approach also known as the predictive approach centres on the ascertainment and analysis of decision patterns which can be used to explain and/or predict series of economic events which are significant to users of CARs. This approach, by providing information for the explanation and prediction of economic events, assist in fulfilling the general purpose of accounting.

One of the pioneers of the decision-usefulness approach was R.J. Chambers (1955) in Riahi-Belkaoui (1996:94) who states that:

“It is therefore a corollary of the assumption of rational management that there shall be an information-providing system; such a system is required both as a basis for decisions and as a basis for reviewing the consequences of decisions.....A formal information-providing system would conform to two general propositions. The first is a condition of all logical discourse. The system should be logically consistent; no rule or process can be permitted that is contrary to any other rule or process.....The second proposition arises from the use of accounting statements as a basis for making decisions of

practical consequence. The information yielded by any such system should be relevant to the kinds of decision-making of which it is expected to facilitate”

According to May (1943) in Riahi-Belkaoui (1996:94) corporate financial reports are used for the following:

- a report of stewardship,
- a basis of fiscal policy,
- a criterion of the legality of dividends,
- a guide to wise dividend activity,
- a basis for the granting of credit,
- information for prospective investors,
- a guide to the value of investments already made,
- an aid to governmental supervision,
- a basis for price or rate regulation, and
- a basis for taxation.

According to the decision-usefulness approach, accounting information is assessed in relation to their capability to predict economic events and the rational decision is taken with the information with the highest predictive power with respect to a given economic event (Riahi-Belkaoui, 1996:94).

Beaver, Kennelly and Vos in Riahi-Belkaoui (1996:95) emphasised the importance of prediction in decision-making by stating the following:

“Because prediction is an inherent part of the decision process, knowledge of the predictive ability of alternative measures is a prerequisite to the use of the decision criterion. At the same time, it permits tentative conclusions regarding alternative measurement, subject to subsequent confirmation when the decision models eventually become specified. The use of predictive ability as a purposive criterion is more than merely consistent with accounting’s decision-making orientation. It can provide a body of research that will bring

accounting closer to its goal of evaluation in terms of decision-making criterion”.

However, another early researcher (Sterling in Riahi-Belkaoui, 1996:95) stated that it may be practically impossible to provide all the information needed by diverse users of CARs, a means of solving this problem is by concentrating on information needed for rational decision-making. He stated that:

“In summary, an accounting system should be designed to provide relevant information to rational decision models. The accounting system cannot supply all the information desired by all decision makers and, therefore, we must decide to exclude some kind of information and include other kinds. Restricting the decision models to rational ones permits the exclusion of a raft of data based on the whims of decision makers. It permits us to concentrate on those kinds that have been demonstrated to be effective in achieving the decision maker’s goals”.

The decision-usefulness approach because of its predictive ability, relates to the issue of relevance in corporate reporting. Relevance connotes forward-looking information useful as data which has the ability to predict future occurrences. However, it has been noted that prediction and decision are significantly different because “it is possible to predict without making a decision but it is not possible to make a decision without a prediction.” (Riahi-Belkaoui, 1996: 97).

4.5.2 Applications of Decision-Usefulness Approach

According to Riahi-Belkaoui (1996:97-133) the decision-usefulness or the predictive approach could be applied in the following ways:

- Earnings. Predictions on the future occurrences could be made through use of past information on an accounting event, time series

analysis of reported earnings could be used to predict future earnings.

- Distress prediction. The approach is useful in detecting various factors that differentiate financially stable and financially unstable firms.
- Prediction of bond premiums and bond ratings.
- Corporate restructuring behavior. This includes leverage buy-outs (LBOs), divestitures, spinoffs, mergers, consolidations and so on.
- Credit and Bank lending decisions
- Forecasting Corporate Annual Reports Information

The decision-usefulness approach, because it entails the ability to make predictions, is very useful in analysing, explaining and forecasting future economic events. This assertion was supported by Copeland in Riahi Belkaoui (1996: 137) who stated that:

“The most important information is forward-looking. Old news is no news. Shareholders are interested in information that can be presented in the President’s letter or in an unaudited section of the annual report-information such as how much new investment is planned? What is the expected rate of return? How long will the expected rate be favourable? How much new equity will be issued? What is the firm’s target capital structure? What are its plans and policies with respect to repurchasing its own common stock? What is its dividend policy?”

4.5.3 CARs as a tool for decision-making

Earlier in this chapter, it was disclosed that the two systems responsible for generating information in CARs are the Mandatory Information System (MFIS) and the Discretionary Information System (DIS). While the MFIS generates information which is largely governed by the International Financial Reporting Standards (IFRSs), the DIS generates non-statutory and contextual disclosures capable of complementing the mandatory disclosures.

The DIS is capable of providing information which may not be disclosed through the MFIS particularly on certain items though valuable for decision-making cannot be reported because they cannot be easily measured. Such items as intellectual property, research and development, new product development, market share and human capital measures, the DIS provides a platform for reporting them in CARs.

The generation of additional information through the DIS will enable users to have more information for their decision-making. Users particularly, the investors and analysts need sufficient information and are expected to make optimal investment decisions which are possible if enough information is disclosed through these systems (Cronjé 2008:132). Users of accounting information require full disclosures generated from the MFIS and the DIS in order to make rational decisions.

4.5.4 Characteristics of decision-usefulness approach

The following table presents the characteristics of the decision-useful approach and their applications to the Mandatory Information Systems (MFIS) and the Discretionary Information Systems (DIS).

TABLE 4.3: DECISION-USEFULNESS AND ITS CHARACTERISTICS

Characteristics	Explanation	MFIS	DIS
Reliability	The quality which permits users of data to depend on it with confidence as representative of what it proposes to present (Riahi-Belkaoui, 2004:186).	More reliable as they focus on the past and are audited (Cronjé, 2008: 126).	Less reliable because they are subject to a limited assurance (Cronjé, 2008:126).
Relevance	".....for information to meet the standard of relevance, it must bear on or be usefully associated with the action it is designated to facilitate or the result it is desired to produce.....(Riahi-Belkaoui, 2004:186).	Less relevant because they focus on the past.	More relevant because they focus on the past, present and future (Cronjé, 2008:126).
Representative faithfulness	To depict what is expected to be portrayed.	Shows representative faithfulness to a lesser extent because it may include technicalities and figures which may convey lesser meaning to the majority of the users.	Shows representative faithfulness to a greater extent because it may not include technicalities and figures.
Timeliness	Availability of information as soon as it is needed.	May not be as timely because of adherence to statutory and legal requirements.	May be timely because there may not be adherence to statutory and legal requirements.
Neutrality	Lack of biases in achieving an objective.	Chances of biases are less on account of audit and assurance.	Chances of biases are more because there may not be audit and assurance.
Feedback value	Enables users to confirm or correct prior expectations (Cronjé, 2008:125).	Possesses feedback value because it focuses on the past.	Possesses feedback as it also focuses on the past, present and future.
Predictive value	Enables users to evaluate past, present and future occurrences (Cronjé, 2008:125).	Less predictive value because it focusses on the past.	More predictive value because it may contain forward-looking information.
Comparability	Ability to compare information on yearly, sectorial or industry basis.	Ensures greater comparability because the information are measured, quantified and audited (Cronjé, 2008:124).	Lesser comparability because the information may not be measured, quantified and audited.
Materiality	For a transaction or events to be recognised, it must be material, this means it must be worthy of recognition and recording, only then could it be relevant to the users.	Information provided must be material in order to be decision-useful.	Information provided must be material in order to be decision-useful.

Source: Adapted from Cronjé (2008:123-126).

Preparers of CARs should ensure that the information provided should possess the characteristics stated above so that reports emanating from both the MFIS and the DIS can serve as an aid to the decision-usefulness approach.

4.5.5 Decision-usefulness approach and the professional accounting bodies

Some major accounting bodies made pronouncements in support of the decision-usefulness approach. For instance, the IASB *Conceptual Framework* (Par. 0B2, 2010) stated that the goal of financial statements is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

Also, the Financial Accounting Standards Boards (FASB)'s Statement of Financial Accounting Concepts (1978) (SFAC 1) has the following as its first objective of financial reporting (p.5):

“to provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions”

Furthermore, the second objective (p.17, para.37) states:

“to provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans”

Also, the FASB's Statement of Financial Accounting Concepts (SFAC 2) considered the twin characteristics of relevance and reliability as essential features of a decision-useful CARs. Its explanation in par. 5 states as follows:

“Relevant accounting information is capable of making a difference in a decision by helping users to form predictions about the outcomes of the past, present, and future events or to confirm or correct prior expectations. Information can make a difference to decisions by improving decisions makers’ capacities to predict or by providing feedback on earlier expectations. Usually, information does both at once, because knowledge about the outcomes of actions already taken will generally improve decision makers’ abilities to predict the results of similar future actions. Without knowledge of the past, the basis for a prediction will usually be lacking. Without an interest in the future, knowledge of the past is sterile”.

It could be observed that the Statement of Financial Accounting Concepts (SFAC 1) focused on the twin issues of investment and returns. CARs should communicate information needed for making investment decisions by both the present and the potential investors. The investors also need to assess the amount, timing and the degree of certainty and/or uncertainty of prospective returns. On the other hand, SFAC 2 developed features for decision-useful accounting information thereby operationalising the decision-usefulness approach.

The conceptual framework of the IASB clearly recognised the role of financial reports in providing relevant and reliable information for decision makers by heterogeneous users of CARs. Apparently, this suggests that these major accounting standard-setting bodies gave their nod to the decision-usefulness approach.

4.6 SUMMARY AND CONCLUSION

This chapter stated the objectives of financial statements based on the MFIS and the DIS. It further shows that financial information system is derived from the MFIS and the DIS subsystems and that the disclosures in CARs are derived from the mandatory and the discretionary information systems. The

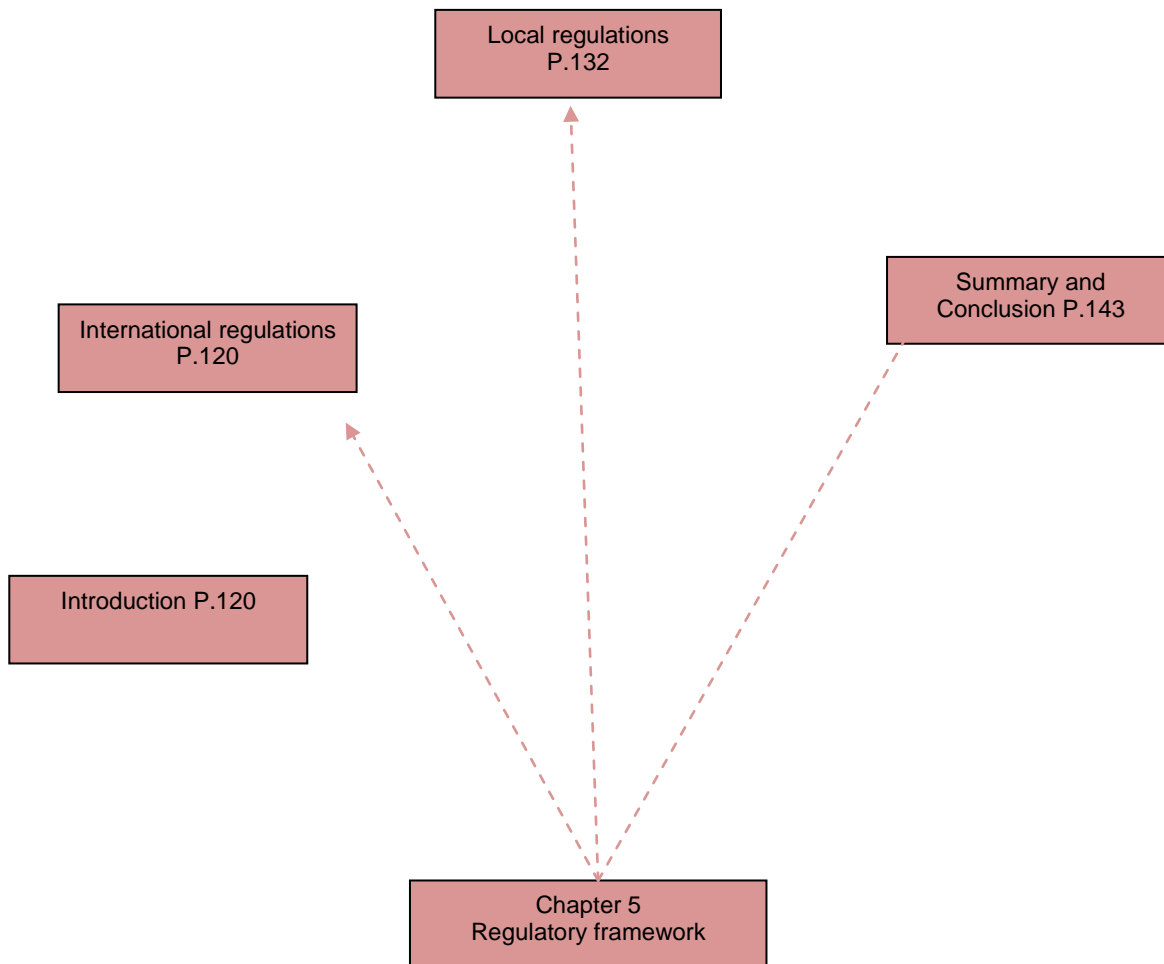
chapter shows the examples of the mandatory disclosures and the discretionary disclosures from the CARs of some selected companies.

A brief review of the users of CARs based on the IASB's conceptual framework was made. CARs were portrayed as tools for decision-making. The chapter was concluded with discussions on the decision-usefulness approach to corporate annual reporting as the theoretical basis of the study. Lastly, the chapter highlighted the applications and the characteristics of the decision-usefulness approach. The next chapter focuses on the regulatory framework.

CHAPTER 5

REGULATORY FRAMEWORK

Figure 5.1: Network view of chapter 5



5.1 INTRODUCTION

This chapter presents a review of the major international regulations as well as the local regulations affecting disclosures in CARs with special reference to those disclosures relating to human capital.

5.2 INTERNATIONAL REGULATIONS

The major regulators of the International Reporting Practice are:

5.2.1 International Financial Reporting Standards (IFRSs)

IAS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance. IAS 38 paragraph 8 presents the three critical attributes of intangible assets as (IASB, 2012):

- **identifiability:** this is achieved when an intangible assets is separable, that is capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (IAS 38 paragraph 12);
- that is power to obtain benefits from the assets;
- future economic benefits that is such as revenues or reduced future costs.

IAS 38 paragraphs 2-3 defined the scope of intangible assets as all intangible assets other than:

- financial assets
- mineral rights and exploration and development costs incurred by mining and oil and gas companies
- intangible assets arising from insurance contracts issued by insurance companies

- intangible assets covered by another IAS, such as intangibles held for sale, deferred tax assets covered by another IAS, such as intangibles held for sale, deferred tax assets, lease assets, assets arising from employee benefits, and goodwill which is covered by IFRS 3.

In recognising an intangible asset, it should be probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. Examples of possible intangible assets include franchises; licenses; customer lists; copyrights, marketing rights; computer software, motion picture films; mortgage servicing rights; import quotas; customer and supplier relationships and customer lists. Others are patents; brand names; mastheads and publishing titles; recipes, formulars, models, designs and prototypes and intangible assets under development (IAS 38, par. 73).

In disclosing each class of intangible asset, IAS 38 paragraph 118 and IAS 38 paragraph 122 requires the following (IASB, 2012):

- useful life or amortisation;
- amortisation method;
- gross carrying amount;
- accumulated amortisation and impairment losses;
- line items in the income statement in which amortisation is included;
- reconciliation of the carrying amount at the beginning and the end of the period showing additions, assets held for sale, retirement and other disposals, revaluations, impairments, reversal of impairments, amortisation and foreign exchange differences;
- basis for determining that an intangible has an indefinite life;

- description and carrying amount of individually material intangible assets;
- certain special disclosures about intangible assets acquired by way of government grants;
- information about intangible assets whose title is restricted;
- commitments to acquire intangible assets.

A review of IAS 38 within the framework of Intangible assets does not permit the recording of human capital as an asset in the statement of affairs, hence investments in human capital continued to be viewed and accounted for as an expense in the statement of comprehensive income (Khan& Khan, 2010:333). However, the purchase of a UK football player means the club is expected to disclose the purchased player in the club's statement of affairs as an intangible asset where other companies will have the value of employees embedded in the goodwill that may result upon acquisition (Stittle, 2004:319).

The IASB issued a Practice Statement Management Commentary in December 2010 which provides a broad framework for the presentation of narrative reporting to accompany CARs. The objective is to ensure the inclusion of 'forward looking information on corporate and intellectual capital resources that will better communicates non-financial factors relevant to company performance' (OECD, 2012:16).

5.2.2 Global Reporting Initiative (GRI) Guidelines (2002)

The section on 'labour practices and decent work' in the Global Reporting Initiative (GRI) guidelines identified five areas in relation to human capital. The table below shows the identified areas and the relevant indicators.

TABLE 5.1 HUMAN CAPITAL INDICATORS

Item	Code	Core/ Additional	Indicator
Employment	LA1	Core	Breakdown of workforce, where possible, by: region/country; status (employee/non-employee); employment type (full time/part time) Employment contract (indefinite or permanent/fixed term or temporary); conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country. Net employment creation and average turnover segmented by region/country. Employee benefits beyond those legally mandated.
	LA2	Core	
	LA12	Additional	
Labour management relations	LA3	Core	Percentage of employees represented by independent trade union organisations or other bonafide employees representatives broken down geographically or percentage of employees covered by collective bargaining agreements broken down by region or country. Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g. restructuring). Provision for formal worker representation in decision-making or management, including corporate governance.
	LA4	Core	
	LA13	Additional	
Health and safety	LA5	Core	Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees. Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers) Description of policies or programmes (for the workplace and beyond) on HIV/AIDS.
	LA6	Core	
	LA 7	Core	
	LA8	Core	Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems. Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements.
	LA14	Additional	
	LA15	Additional	

TABLE 5.1 HUMAN CAPITAL INDICATORS (CONT...)

Item	Code	Core/ Additional	Indicator
Training and education	LA9	Core	Average hours of training per year per employee by category of employee.
	LA16	Additional	Description of programmes to support the continued employability of employees and to manage career endings.
	LA17	Additional	Specific policies and programmes for skills management or for lifelong learning.
Diversity and opportunity	LA10	Core	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.
	LA11	Core	Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate.

Source: Adapted from Pedrini (2007:359-360)

Internationally recognised standards set by organisations such as the Organisation for Economic Cooperation and Development (OECD), the Universal Declaration of Human rights of the United Nations, conventions of the International Labour Organisation and the Tripartite Declaration of OIL Regarding Multinational and Political Social Companies form the basis of these items and the related indicators (Pedrini, 2007: 358).

Prior reports by the OECD Corporate Governance Committee examined this issue of corporate reporting of intangible assets. For example, the report on *Intellectual Assets and Value Creation* produced in 2006 list some items that could be disclosed in the discretionary section of CARs. These are:

- information on key performance indicators
- risks and uncertainties
- forward looking information
- expanded information on both financial and non-financial performance measures
- contextual information which allows a complete understanding of current and prospective results (OECD, 2006:13).

However, the most recent report on *Corporate Reporting of Intangible Assets: A Progress Report* published by the OECD in April 2012 discussed fully on corporate reporting on intangible assets in general. The first part of the report examined the 'various incentives and challenges faced by executives, management and boards in collecting information and managing intangible assets'. The second part of the report 'seeks to present a picture of current reporting practices and establish how and why companies choose to communicate IA information'. The third part 'examines the use of IA reporting by analysts and investors, seeking to establish whether it is valuable in satisfying specific information gaps and improving narrative reporting more generally'. The last part 'reviews the political economy of intangibles reporting in the context of other initiatives to improve narrative reporting' (OECD, 2012:4-5).

The OECD in its current report presented some international frameworks and guidelines. They are:

- The World Intellectual Capital Initiative (WICI). The OECD assisted in the establishment of WICI in 2007. WICI's objective is to ensure that 'companies make clear their value creation mechanism, the specific assets that are linked to value creation as well as the company's perspective with regards to future risks' (OECD, 2012: 10).
- The European Commission. The MERITUM Guidelines issued in 2002 offer a conceptual framework for management and reporting of intangibles. The guidelines 'describe how to prepare an Intellectual Capital Report and outline its content including vision of the firm, summary of intangible resources and activities and a system of indicators' (OECD, 2012: 10).

- In Cas is a reporting model designed ‘to provide a pan European model for Intangible Assets Reporting for SMEs’ (OECD, 2012:10).
- The European Federation of Financial Analysts Societies (EFFAS) through its Commission on Intellectual Capital issued the ‘Principles for Effective Communication of Intellectual Capital’ in 2008. The Principles encourage ‘companies to prepare a separate intellectual capital report as well as include information on intellectual capital in Management Discussion and Analysis’ (OECD, 2012: 10).
- The International Corporate Governance Network issued a Statement and Guidance on Non-Financial Reporting in 2008. The objective is to ‘encourage companies to develop sustainability reports, as well as make use of key performance indicators (KPIs) in order to facilitate comparisons’ (OECD, 2012:16).
- The European Commission after a consultation with stakeholders on non-financial reporting in 2011, established an expert group and commissioned a study ‘to provide further analysis of reporting practices in the EU member states, including the need for integrated reporting and the demand for non-financial information’ (OECD, 2012:16).

In another dimension, some organisations have provided guidelines for IA management and reporting. These guidelines have been adopted at the national level in some countries such as France with the guidelines provided through the ‘Observatoire de L’Immateriel’; Japan through the Ministry of Economy, Trade and Industry (METI); Denmark through the Ministry of Science, Technology and Industry; Germany through a consortium of companies and institutions. The Swedish Council for service industries issued

a recommendation for its member companies ‘to use a number of indicators describing their human capital in annual reports (OECD, 2012:8). Thus while other European countries attempt to provide guidelines on intangible assets generally, Sweden attempts to portray human capital intangibles as significant to value creation processes in the new economy organisations.

5.2.3 United Nations Global Compact (UNGC)

Four of the UN Global Compact’s ten principles which relate to labour are as follows (UNGC, 2004):

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. Freedom of association ‘implies a respect for the right of all employees and all workers to freely and voluntarily establish and join organisations of their own choice’ while collective bargaining refers ‘to a voluntary process or activity through which employees and workers discuss and negotiate their relations, in particular terms and conditions of work and the regulations of relations between employers, workers and their organisations’.

According to the UNGC (2004) Global Compact, steps to be taken in this regard by companies include:

- ensure that all workers are able to form and join a trade union of their choice without fear of intimidation or reprisal, in accordance with national law;
- put in place non-discriminatory policies and procedures with respect to trade union organisation, union membership and activity in such areas as applications for employment and decisions on advancement, dismissal and transfer;
- do not interfere with the activities of worker representatives while they carry out their functions in ways that are not disruptive to

regular company operations. Practices such as allowing the collection of union dues on company premises, posting of trade union notices, distribution of union documents, and provision of office space, have proven to help build good relations between management and workers, provided that they are not used as a way for the company to exercise indirect control;

- provide workers' representatives with appropriate facilities to assist in the development of effective collective agreement.

Principle 4: the elimination of all forms of forced and compulsory labour.

According to the UNGC (2004), forced or compulsory labour is “any work or service that is exacted from any person under the menace of any penalty, and for which that person has not offered himself or herself voluntarily”. The UNGC (2004) also presents some guidelines in dealing with forced labour, these are:

- have a clear policy not to use, be complicit in, or benefit from forced labour;
- where adherence to forced labour provisions of national laws and regulations is insufficient, take account of international standards;
- ensure that all company officials have a full understanding of what forced labour is;
- make available employment contracts to all employees stating the terms and conditions of service, the voluntary nature of employment, the freedom to leave (including the appropriate procedures) and any penalties that may be associated with a departure or cessation or cessation of work;

- write employment contracts in languages easily understood by workers, indicating the scope of and procedures for leaving the job;
- be aware of countries, regions, industries, sectors, or economic activities where forced labour is more likely to be a practice;
- in planning and conducting business operations, ensure that workers in debt bondage or in other forms of forced labour are not engaged and, where found, provide for the removal of such workers from the workplace with adequate services and provision of viable alternatives;
- institute policies and procedures to prohibit the requirement that workers lodge financial deposits with the company;
- if hiring prisoners for work in or outside prisons, ensure that their terms and conditions of work are similar to those of a free employment relationship in the sector involved, and that they have given their consent to work for a private employer;
- ensure that large scale development operations do not rely on forced labour in any phase;
- carefully monitor supply chains and subcontracting arrangements.

Principle 5: the effective abolition of child labour.

Child labour is a form of exploitation through hazardous work by children under 18 years. Child labour violates human right and according to UNGC (2004), the steps to be taken by organisations with respect to child labour are:

- be aware of countries, regions, sectors, economic activities where there is a greater likelihood of child labour and respond accordingly with policies and procedures;
- adhere to minimum age provisions of national labour laws and regulations and where national laws is insufficient, take account of international standards;
- use adequate and verifiable mechanisms for age verification in recruitment procedures;
- when children below the legal working age are found in the workplace, take measures to remove them from work;
- help to seek viable alternatives and access to adequate services for the children and their families;
- exercise influence on subcontractors, suppliers and other business affiliates to combat child labour;
- develop and implement mechanisms to detect child labour;
- where wages are not determined collectively or by minimum wage regulation, take measures to ensure that wages paid to adults take into account the needs of both them and their families;

Principle 6: the elimination of discrimination in respect of employment and occupation.

Discrimination in employment and occupation implies treating people differently or less favourably because of characteristics such as race, colour,

sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership and sexual orientation. According to UNGC (2004), some of the steps that could be taken to address the question of discrimination are:

- institute company policies and procedures which make qualifications, skill and experience the basis for the recruitment, placement, training and advancement of staff at all levels;
- assign responsibility for equal employment issues at a high level, issue clear company-wide policies and procedures to guide equal employment practices, and link advancement to desired performance in this area. Work on a case by case basis to evaluate whether a distinction is an inherent requirement of a job, and avoid application of job requirements that would systematically disadvantage certain groups;
- keep up-to-date records on recruitment, training and promotion that provide a transparent view of opportunities for employees and their progression within the organization;
- where discrimination is identified, develop grievance procedures to address complaints, handle appeals and provide recourse for employees;
- be aware of formal structures and informal cultural issues that can prevent employees from raising concerns and grievances
- provide staff training on non-discrimination policies and practices, including disability awareness, reasonably adjust the physical environment to ensure health and safety for employees, customers and other visitors with disabilities;
- establish programmes to promote access to skills development training and to particular occupations.

5.3 LOCAL REGULATIONS

There are five key regulators of South African corporate reporting systems imposing controls on business organisations in South Africa. These are:

5.3.1 The State in the form of legislation (Companies Act, 2008 as amended by the Companies Regulations Act No 3 of 2011)

Compliance with law and good governance are inseparable because good governance 'is not something that exists separately from the law and it is entirely inappropriate to unhinge governance from the law' (IOD, 2009:6). According to Section 7 of the Act (RSA, 2008), some of the main purposes are:

- to promote the development of the South African economy by encouraging entrepreneurship and enterprise efficiency; creating flexibility and simplicity in the formation and maintenance of companies; and encouraging transparency and high standards of corporate governance as appropriate, given the significant role of enterprises within the social and economic life of the nation;
- to promote innovation and investment in South African markets;
- reaffirm the concept of the company as a means of achieving economic and social benefits;
- continue to provide for the creation and use of companies, in a manner that enhances the economic welfare of South Africa as a partner within the global economy;
- promote the development of companies within all sectors of the economy, and encourage active participation in economic organisations, management and productivity;
- create optimum conditions for the aggregation of capital for productive purposes, and for the investment of that capital in enterprises and the spreading of economic risk;

- balance the rights and obligations of shareholders and directors within companies;
- encourage the efficient and responsible management of companies.

Section 29 of the Act (RSA, 2008) provides that in respect of financial statements, they must:

- satisfy the financial reporting standards as to form and content, if any such standards are prescribed;
- present fairly the state of affairs and business of the company, and explain the transactions and financial position of the business of the company;
- show the company's assets, liabilities and equity, as well as its income and expenses, and any other prescribed information;
- set out the date on which the statements were published, and the accounting period to which the statements apply.

Other provisions of the Act relate to the formation, administration and dissolution of companies; enhanced accountability and transparency; public offerings of company securities; fundamental transactions, takeovers and offers. Others are business rescue and compromise with creditors; remedies and enforcement; regulatory agencies and administration of the act and offences, miscellaneous matters and general provisions.

5.3.2 The King Code of Corporate Governance I, II & III.

The publication of King I (IOD, 1994) led to the institutionalisation of corporate governance in South Africa. The main objective of the report is to facilitate the improvement of corporate governance. In addition to making provisions for the financial and regulatory aspects of corporate governance, the report supported an integrated approach to good governance in the interests of a

wide range of stakeholders and showing regard for the fundamental principles of good financial, social, ethical and environmental practice (IOD, 1994).

As a follow-up to King I report on corporate governance, the King II report known as the King code was issued in 2002. In addition to fulfilling the objectives of King I report, it aimed at encouraging accountability and openness by managers and directors entrusted with investors' funds (IOD, 2002). The King II report addressed seven corporate governance issues as listed below:

- Board and its directors
- Risk management and internal controls
- Internal audit
- Integrated sustainability reporting
- Accounting and auditing
- Relation and communication with company shareholders
- Company's code of ethics.

A review of the above listed issues reveals that matters relating to human capital were examined under integrated sustainability reporting. The table below summarised the provisions of King II report under this theme.

TABLE 5.2: INTEGRATED SUSTAINABILITY REPORTING

Sub-themes	Key words	Kings II requirement
Health and safety issues	SHE (safety, health and environment and quality), health, safety, wellbeing, security, sustainability reporting, Global Reporting Initiative (GRI), employee health, employee safety, diseases, HIV/AIDS.	<p>Companies should report at least annually on the nature and the extent of their social, transformation, ethical, safety, health and environmental management policies and practices.</p> <p>Criteria and guidelines for materiality should be developed by each company to help it report consistently. Regard should be given to international models and guidelines.</p> <p>Companies should involve stakeholders in determining standards of ethical behavior and should disclose the extent of adherence to the code.</p> <p>Matters which should be specifically addressed are health and safety issues, the impact of HIV/AIDS and strategies to minimise its impact on the company, environmental reporting, social investment spending, employment equity, human capital development issues and black economic empowerment.</p>
Environmental issues	Sustainability reporting, SHE, SHEQ, environment, environmental safety, safety and environment.	
Social investment spending	Community, corporate citizen, social spending, social investment, social responsibility.	
Employment equity	Affirmative Action (AA), Employment Equity (EE), equality, fairness, equal opportunities, impartiality.	
Human capital development	Training, human capital, human development, human assets ,employee training, people.	
Black economic empowerment	Black ownership, Black Empowerment, Black Economic Empowerment (BEE) transactions, Broad Based Black Economic Empowerment, Broad Based Socio Economic Empowerment.	

Source: Institute of Directors (2002)

THE KING CODE OF CORPORATE GOVERNANCE III

The new companies act no. 71 of 2008 and the changes in the international governance trends were major reasons for the third report on corporate governance in South Africa i.e. the King Code of Corporate Governance (King III). The document was aimed at ensuring that business reporting is done with a view to show:

- how a company has both positively and negatively, impacted on the economic life of the community in which it operated during the year under review; and
- how the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead (IOD, 2009:4).

The following table summarised the governance elements that were highlighted in the King III report.

TABLE 5.3: ELEMENTS OF KING III CODE

Ethical leadership and corporate citizenship	An organisation's leadership and governance, among others, determine its ability to create and sustain value. Transparency, accountability and ethical leadership are the pillars of good governance. The extent to which the ethics performance of the entity was disclosed and supported by independent assurance was examined.
Boards and Directors	The extent to which best practice principles are implemented regarding the composition, structure, duties and performance of the board of directors as well as appropriate standards of conduct for directors.
Audit committees	The extent and quality of disclosures of the role and function of the audit committee.
The governance of risk	The extent to which risk was identified and managed, including risk to sustainability and a company's appetite for risk.
The governance of information, communication and technology	The governance of IT risk in particular.

TABLE 5.3: ELEMENTS OF KING III CODE (CONT...)

Compliance with laws, rules and standards	The extent to which the laws and regulations under which the company operates as well as the compliance with them was disclosed.
Internal Audit	The existence of an internal audit function and its effectiveness.
Governing stakeholders relationships	The identification of stakeholders and the level and extent of engagement with them.
Integrated reporting and disclosure	The Integrated Report is the pillar on which an assessment of corporate governance can be made. The existence of an integrated report, the extent to which it incorporates information, such as the annual financial statements, a sustainability report and governance disclosures was examined.

Source: Deloitte (2012:55)

The specific disclosures to be made in the Integrated Report and the extent of this disclosure identified by King III are provided in the table 5.4 below:

TABLE 5.4: ELEMENTS OF INTEGRATED REPORT

Transparency and accountability	The board should ensure the integrity of the company's integrated report.	<p>A company should have controls to enable it to verify and safeguard the integrity of its integrated report;</p> <p>The board should delegate to the audit committee to evaluate sustainability disclosures;</p> <p>The integrated report should: -be prepared every year; -convey adequate information regarding the company's financial and sustainability performance; and -focus on substance over form.</p>
	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	<p>The board should include commentary on the company's financial results;</p> <p>The board must disclose if the company is a going concern;</p> <p>The integrated report should describe how the company has made its money;</p> <p>The board should ensure that the positive and negative impacts of the company's operations and plans to improve the positives and eradicate or</p>

TABLE 5.4: ELEMENTS OF INTEGRATED REPORT (CONT...)

		ameliorate the negatives in the financial year ahead are conveyed in the integrated report.
	Sustainability reporting and disclosure should be independently assured	<p>General oversight and reporting of sustainability should be delegated by the board to audit committee;</p> <p>The audit committee should assist the board by reviewing the integrated report to ensure that the information contained in it is reliable and that it does not contradict the financial aspects of the report;</p> <p>The audit committee should oversee the provision of assurance over sustainability issues.</p>

Source: IOD (2009:48-49)

The Integrated Reporting Committee of South Africa released a Framework for Integrated Reporting in January, 2011. All listed companies as at July 2010 are required to produce Integrated Reports. Thus South Africa becomes the only country at the moment which has explicitly adopted an integrated reporting framework based on the International Integrated Reporting Committee's guidelines (OECD, 2012: 18). The report by the Institute of Directors indicated that 'South African listed companies are among the best governed in the world's emerging economies as evidenced by the significant capital inflows into South Africa prior to the global financial crisis of 2008 (IOD, 2009:6). Majority of the corporate annual reports analysed in this study are the first set of integrated reports prepared by companies listed on the JSE.

5.3.3 The Exchange (The Johannesburg Stock Exchange [JSE])

Consequent upon King II report on corporate governance, the JSE required listed companies to include in their annual report a narrative statement as to how they had complied with the principles set out in the report (IOD, 2009:5).

The JSE's general approach to corporate governance with respect to the King Code is that certain principles are mandatory while others are to be adopted on an "apply or explain basis".

5.3.4 The Professional accounting body [SAICA]

The South African Institute of Chartered Accountants (SAICA) is the foremost accountancy body in South Africa and plays an influential role in South African's business sector. A member of the International Federation of Accountants (IFAC) and accredited partner of the Global Reporting Initiative (GRI), SAICA was instrumental in founding the Integrated Reporting Committee (IRC) in South Africa.

One of SAICA's key strategic focus areas is Sustainability. The body's website (www.sustainabilitysa.org) provides relevant and up to date information on integrated and sustainability reporting in line with the King Code of Governance Principles for South Africa 2009 (King III) which supports the preparation of a holistic and integrated representation of the company's performance in terms of both its finances and sustainability.

5.3.5 South African labour laws and regulations:

5.3.5.1 Labour Relations Act (1995)

The South African Labour Relations Act, 1995 was enacted for the following purposes:

- to give effect to section 27 of the constitution;
- to regulate the organisational rights trade unions;
- to promote and facilitate collective bargaining at the workplace and at sectoral level;
- to regulate the right to strike and the recourse to lock-out in conformity with the constitution;

- to promote employee participation in decision-making through the establishment of workplace forums;
- to provide simple procedures for the resolution of labour disputes through statutory conciliation, mediation and arbitration (for which purpose the Commission for Conciliation, Mediation and Arbitration is established), and through independent alternative dispute resolution services accredited for that purpose;
- to establish the Labour Court and Labour Appeal Court as superior courts, with exclusive jurisdiction to decide matters arising from the Act;
- to provide for a simplified procedure for the registration of trade and employers' organisations, and to provide for their regulation to ensure democratic practices and proper financial control;
- to give effect to the public international law obligations of the Republic relating to labour relations; and
- to provide for incidental matters (RSA, 1995).

5.3.5.2 Basic Conditions of Employment Act (1997)

The purpose of this Act is to advance economic development and social justice by fulfilling the following primary objectives:

- to give effect to and regulate the right to fair labour practices conferred by section 23(1) of the constitution by establishing and enforcing basic conditions of employment and by regulating the variation of basic conditions of employment;
- to give effect to obligations incurred by the Republic as a member state of the International Labour Organisation (RSA, 1997).

5.3.5.3 Skills Development Act (1998)

The Skills Development Act (RSA, 1998) aims:

- to develop the skills of the South African workforce;
- to improve the quality of life of workers and their prospects of work; and
- to improve productivity in the workplace and the competitiveness of employers and to promote self-employment.

5.3.5.4 Occupational Health and Safety Act (1993)

This Act (RSA, 1993) also aims:

- to provide for health and safety of persons at work and for the health and safety of persons in connection with the use of plant and machinery;
- to protect persons other than persons at work against hazards to health and safety arising out of or in connection with the activities of persons at work;
- to establish an advisory council for occupational health and safety; and
- to provide for matters connected herewith.

5.3.5.5 Mine Health and Safety Act (1996)

The general purpose of the Act is to provide for protection of health and safety of employees and other persons at mines while the specific purposes are:

- to promote a culture of health and safety;
- to provide for the enforcement of health and safety measures;
- to provide for appropriate systems of employees, employers and state participation in health and safety matters;

- to establish representative tripartite institutions to review legislation, promote health and enhance properly targeted research;
- to provide for effective monitoring systems and inspections, investigations and inquiries to improve health and safety;
- to promote training and human resources development;
- to regulate employers' and employees' duties to identify hazards and eliminate, control and minimise the risk to health and safety;
- to entrench the right to refuse to work in dangerous conditions; and
- to give effect to the public international law obligations of the republic relating to mining health and safety (RSA, 1996).

5.3.5.6 Employment Equity Act, 1998

The Act recognises that as a result of apartheid and other discriminatory laws and practices, there are disparities in employment, occupation and income within the national labour market; and that those disparities create such pronounced disadvantages for certain categories of people that they cannot be redressed simply by repealing discriminatory laws, The Act therefore aims:

- to promote the constitutional right of equality and the exercise of true democracy;
- to eliminate unfair discrimination in employment;
- to ensure the implementation of employment equity to redress the effects of discrimination;
- to achieve a diverse workforce broadly representative of our people;
- to promote economic development and efficiency in the workplace; and
- to give effect to the obligations of the Republic as a member of International Labour Organisation (RSA, 1998).

5.3.5.7 Broad-Based Black Economic Empowerment Act, 2003

The objectives of this Act are to facilitate broad-based black economic empowerment by:

- promoting economic transformation in order to enable meaningful participation of black people in the economy;
- achieving a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises;
- increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training;
- increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- promoting investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity;
- empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; and
- promoting access to finance for black economic empowerment (RSA, 2003).

5.4 SUMMARY AND CONCLUSION

In this chapter, we have reviewed major international regulations (such as the International Financial Reporting Standards (IFRS); the Global Reporting Initiative (GRI) guidelines; the United Nations Global Compact (UNGC) as well as local regulations such as the South African Companies Act, 2008 as

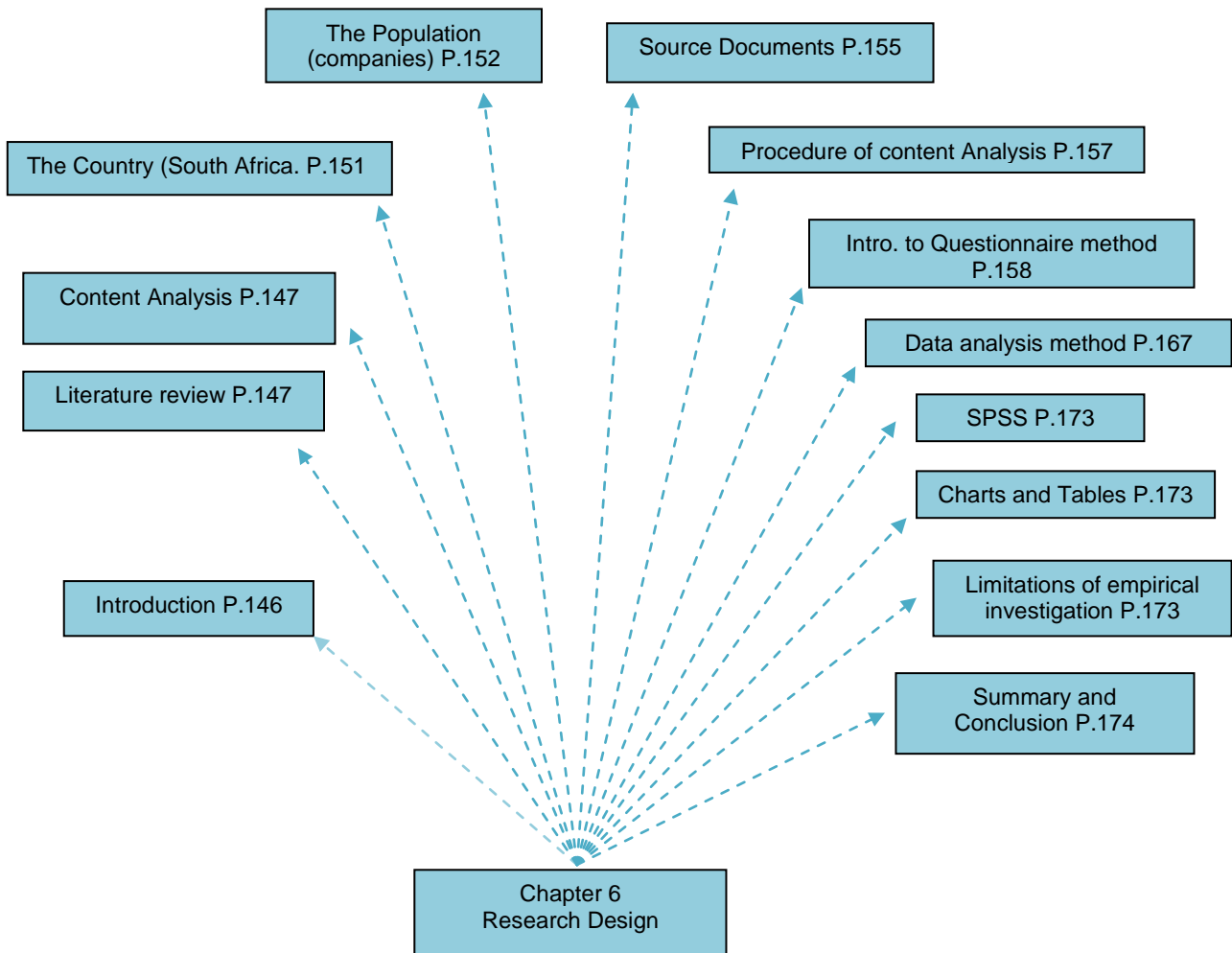
amended by the Companies Regulations Act of 2011; the King Code of Corporate Governance, the Johannesburg Stock Exchange; the Professional Accounting body (the South African Institute of Chartered Accountants) and the South African labour laws and regulations such as the Labour Relations Act, 1999; the Basic Conditions of Employment Act, 1997; the Skills Development Act, 1998; the Occupational Health and Safety Act, 1993; the Mine Health and Safety Act, 1996; the Employment Equity Act, 1998 and the Broad-Based Black Economic Empowerment Act, 2003

It was observed that the provisions of some major international and local regulations largely influenced the disclosure practices of South African companies. This chapter concludes the literature reviews aspect while the research design aspect follows in the next chapter.

CHAPTER 6

RESEARCH DESIGN

Figure 6.1: Network view of chapter 6



6.1 INTRODUCTION

In chapter 1, the main research question or problem was stated as follows:

“Why should appropriate reporting guidelines for human capital be developed through the discretionary information system of CARs?”

The questions “what?” and “why?” are two fundamental questions asked by social researchers. Descriptive research attempts to answer the question “what” while explanatory research attempts to answer the question “why”. For example, it’s one thing to describe the corporate reporting pattern of firms, to examine trends over time or compare the reports among different industries or countries; it is another thing to explain why the firms adopt each corporate reporting pattern. It is also possible to find out why such firms have not adopted a particular reporting pattern.

The purpose of this chapter is to develop a design or structure that will ensure that the evidence obtained as a result of data collection and analysis will make it possible to answer the main and other research questions as unambiguously and as convincingly as possible. Social research needs a design or a structure before data collection and analysis can commence (De Vans, 2001:9).

This chapter therefore will focus on the process of obtaining relevant evidence through the specification of the type of evidence that is needed to answer the research questions. In achieving the purpose of this chapter, an overview of the research design methods, strategy and techniques used for the purpose of this research project will be stated so as to enable the reader to form a sound opinion of the findings of the research project (Cronjé, 2008:139). The three methods to be used in this study are a literature review, a content analysis of CARs and questionnaires for the preparers and users of CARs.

6.2 LITERATURE REVIEW

A critical literature review has been undertaken to develop human capital (HC) disclosure content categories, thus providing a tool that will be used to assess the type, amount and quality of HC disclosure in CARs. According to Mouton (2005:87) a review of the existing scholarship or available body of knowledge will indicate how other researchers have investigated the research problem being investigated and that it involves a review of the most recent, credible and relevant scholarship in the current researcher's area of interest.

In order to conduct a literature review, relevant articles, theses, dissertations and books were obtained through the electronic library (i.e. Oasis) of the University of South Africa (Unisa).

6.3 CONTENT ANALYSIS

6.3.1 Introduction

Over the last decade, some researchers have investigated the disclosure of HC in corporate annual reports. Basing their studies on a single country, the level of disclosure of various components of intellectual capital (IC) was highlighted (Li, Pike & Haniffa, 2008:141; Abdolmohammadi, 2005:397; Abeysekera & Guthrie, 2005:155; April, Bosma & Deglon, 2003:166; Bozzolan, Favotto & Ricceri, 2003:548; Brennan, 2001:428; Guthrie & Petty, 2000:244). Other researchers studied HC disclosure patterns among different cross-country countries (Guthrie, Petty & Ricceri, 2007; Vandemaele, Vergauwen & Smits, 2005:420; Vergauwen & Van Alem, 2005:94; Bozzolan, O'Regan & Ricceri, 2006:97). These studies also reveal the relative importance of human capital items.

Although researchers seeking to understand intangible assets disclosure have used various methods ranging from case studies, interviews, questionnaires, surveys of corporate annual reports and focus groups (Miller, Du Pont, Fera, Jeffrey, Mahon, Payer & Starr, 1999; Guthrie, Petty, Ferrier & Wells, 1999),

the most popular method is content analysis. For example, Guthrie, Petty, Yongvanich and Ricceri (2004:287) used the content analysis method to examine voluntary and mandatory annual report disclosures in different countries.

This empirical method referred to as content analysis has been described as studies that analyse the content of texts or documents (such as letters, speeches, annual reports) and states that “content” refers to words, meanings, pictures, symbols, themes or any message that can be communicated (Mouton 2005:165). Content analysis is a research technique for making replicable and valid inferences from data according to their context (Krippendorff, 1980:21). The method has also been described as a qualitative technique for gathering data, in which qualitative information is codified into pre-defined items to derive quantitative scales (Abbott & Monsen, 1979:504).

Other researchers describe the method as a technique of data collection which involves codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Milne & Adler, 1999:237), as well as a research method for capturing and categorising empirical data (Gray, Kouchy & Lavers, 1995:56).

Content analysis has become a widely used method of analysis in financial accounting research. In particular, the method has been used to explore the area of Intellectual Capital Disclosures (ICD) by some researchers (Abeysekera, 2006:66; Guthrie, Petty, Yongvanich & Ricceri, 2004:285). Another area where the method has been used is corporate social reporting (Unerman, 2000:667). This research method is therefore the ideal method to use to discover certain trends in the disclosure of information in CARs (Cronjé, 2008: 141).

Moreover, the technique has been effectively used in previous studies conducted on voluntary disclosure in human capital disclosure studies, accounting studies as well as social and environmental studies (Abeysekera &

Guthrie, 2005:155; Newson & Deegan, 2002:191; Olsson, 2001; Abbott & Monsen, 1979:504; Guthrie and Petty, 2000:244; Olsson, 2001; Subbarao & Zeghal, 1997).

Generally, content analysis technique involves codifying of systematically, objectively and reliably qualitative and quantitative information into pre-defined categories in order to derive patterns in the presentation and reporting of information (Guthrie, Petty, Yongvanich & Ricceri, 2004:287). To analyse the extent of voluntary disclosure of human capital, this research study will use content analysis to ascertain the patterns and context of human capital disclosure in CARS of 60 out of the top 100 Johannesburg Stock Exchange (JSE) listed companies for the latest accounting year up to 31st March, 2012. This analytical content analysis was also undertaken in order to discover the extent to which disclosures in CARS relate to identified HC content categories.

6.3.2 Unit of analysis

The unit of analysis that should be used in corporate annual reports content analysis has been the subject of continuous debate in the literature. The debate is centred on the use of words, references or pages, although there was no convincing evidence to justify preference for any of these three units of analysis (Williams, 1999:218). Therefore, this study used both words and sentences as units of analysis.

In addition to the number of words and sentences, some quality aspects of disclosures will be covered in the study (Guthrie *et al.*, 2004:289). The existence of quantitative and monetary data (hard data) could be an indication of higher importance of an item, on the assumption that companies are likely to use more resources in gathering hard data rather than only providing text. Pictures were excluded from the study because of measurement problems (Wilmshurst & Frost, 2000:19; Guthrie *et al.*, 2004:288).

An assumption made in this study was that quantity (amount) of disclosure for a specific item is related to the importance of that item. This seems to be a regular assumption in the literature (Gray *et al.*, 1995:65; Deegan & Rankin, 1996:56; Unerman, 2000:669; Guthrie *et al.*, 2004:289). Given that producing annual reports is costly, and that there are competing demands for space in the reports, the quantity of disclosures should reflect the relative importance of specific items (Wilmshurst & Frost, 2000:16). Content analysis provides benefits such as relative simplicity, automatic computer coding of text, and a much reduced need for researcher intervention and facilitating significant judgements.

6.3.3 Validity and reliability of content analysis

The researcher will re-examine the contents of the corporate annual reports after a time interval to confirm the consistency in the identification of HC items in corporate annual reports through Atlasti version 7. Data accuracy was obtained, since the study uses the pre-defined content analysis framework already used in the literature (Abeysekera & Guthrie, 2004:258; Guthrie & Petty, 2000:246). The data will satisfy “construct validity” (Singleton & Straits, 2005) as it made use of empirical data that support the operational definitions of the concepts from previous studies.

6.3.4 Disclosure checklist items

In deciding the checklist items which are to be used in this study, relevant literature with respect to disclosure studies were reviewed. In a previous study, a total of 25 checklist items grouped into six categories as employee relations, employee measurement, training and development, welfare, entrepreneurial spirit, equity and safety (Abeysekera, 2008:260) was used. In another study, a total of 33 checklist items were used (Vergauwen, Bollen & Oirbans, 2007: 1171). Beattie and Thomson used a total of 128 checklist items identified as three IC categories out of which 54 checklist items were identified under the HC category (Beattie & Thomson, 2007:134).

In her paper, Susanne (2003) presented 28 disclosure checklist items relating to human capital. These include name, age, academic career, professional career and abilities of board members; the name, age, academic career, professional career and abilities of the Chief Executive Officer; the age, level of education, functionality and sex, and comment on abilities of employees. Others are recruitment policy, changes in employment, dependence on key employee and employee turnover; policy on competence development, competence development programme; incentive programme for management team and other employees, employee satisfaction measures and employee safety and health.

In his study, Bontis (2003) identified 11 Human Capital checklist items such as employee expertise, employee know-how, employee knowledge, employee productivity, employee skill, employee value, expert networks and expert teams. The studies by Guthrie and Petty (2000); Brennan (2001) and April *et al.*, (2003) referred to human capital as employee competence and used five checklist items indicated as know-how, education, employees, work-related knowledge and work-related competencies. However, this study added the theme “Human capital health and wellness” based on the input obtained from UNISA’s employee wellness department. The checklist items included under this theme are social wellness, occupational wellness, intellectual wellness, emotional wellness, physical wellness, financial wellness and spiritual wellness.

6.4 THE COUNTRY (SOUTH AFRICA)

In order to facilitate a study that focuses on HCD, the sample is constructed around a set of companies that is expected to have a relative high level of HC. First the study focuses on South Africa. South Africa is emerging as a country where efforts are being made to encourage enhanced corporate reporting as reflected in various versions of the King Report on Corporate Governance initiated in South Africa.

Another important reason for the focus on South Africa is that the globalisation of the South African economy has seen not only a transition to political democracy but also the transition to economic liberation, with the resultant effect that South African companies now face complex new challenges of ensuring that they have the leadership, business and technical capacity to succeed in a changing business environment (Boninelli & Meyer [ed.] 2004:102).

Other reasons are the shortage of skilled labour in South Africa, the shift in market power from employer to employee in the South African economy and the rampaging effects of HIV/AIDS epidemics on HC in South Africa (Boninelli & Meyer [ed.] 2004:102).

6.5 THE POPULATION (COMPANIES)

The entire collection of entities under consideration is referred to as a population which may either be finite or infinite (Frees, 1996:23). However, Mugenda (2008:181–182) distinguishes between target and accessible population. He states that individuals, objects or things to which the research may reasonably generalise its findings, form the target population while the part of the target population which for practical purposes can be researched, is the accessible population. Therefore, the target population for this study is South African companies, but the accessible population is the companies listed on the Johannesburg Stock Exchange on 1 July 2011. This is because listed companies are required by law to produce CARs which are accessible to the various users and to a large extent could be used to judge the performance of these companies based on the users' peculiar needs.

Also the study focuses on large firms because size is an important influencing factor in IA disclosure practices (Bozzollan, Favotto & Ricceri, 2003:548). A potential reason for this is that larger firms have incentives to provide more information because they are more dependent on their shareholders (Vergauwen, Bollen & Oirbans, 2007:1168). Therefore firms at the top end of

the market capitalisation scale and stock market indices from the Johannesburg Stock Exchange (JSE) are used for the selection of firms.

6.5.1 Sample design

As noted in the subsection on population above, it is impracticable to conduct a complete census of the population (Frees, 1996:23) and therefore there is a need for selecting a sample which is representative of the population. However, the level of accuracy of the generalisation of research findings will depend to a large extent on the degree to which the sample, the accessible population and the target population are similar with regard to major key characteristics (Mugenda, 2008:182).

6.5.2 Sampling method

This study used the random sampling method to select a sample of 60 companies out of the top 100 companies listed on the JSE for the purpose of content analysis method. This is because the research problem is of a technical nature and so requires the use of larger firms as samples. Larger firms can be seen as pace setters in disclosure practices. The random sampling method is chosen because it gives an opportunity for every company in the accessible population to be represented in the sample. This was also cleared with the statistician consulted for the study.

6.5.3 Sample size

The accuracy with which population values may be estimated is largely determined by the sample size. A sample size of 60 companies has been chosen because the population is largely homogenous as all JSE listed companies are required to meet certain requirements as a condition for being listed and to remain listed on the stock exchange.

To analyse the extent of voluntary disclosure of human capital, this research study uses content analysis to ascertain the pattern and context of human capital disclosure in CARs of 60 out of the top 100 JSE listed companies for the latest accounting year up to 31st March, 2012. The research study is based on these 100 firms by market capitalisation because bigger organisations are more likely to voluntarily disclose human capital because they are more visible and have more resources to adopt new initiatives (Abeysekera & Guthrie, 2004:258).

Moreover, larger companies on average have more international exposure and are likely to possess more HC. Also they are generally more transparent on account of the greater number of analysts watching their performance. They are subject to more media exposure, and have better developed internal management systems than smaller companies (Ax & Marton, 2008:436). Also sample size was taken out of the top 100 companies because larger companies have enormous resources at their disposal to initiate new innovations in disclosure practices with a view to improving their market performance ratings.

Other reasons for including the largest companies was that they are more likely to disclose more information than smaller companies and are assumed to have spent substantial deliberation on human resource related disclosures to be included in the corporate annual report (Abeysekera & Guthrie, 2005:156).

The top 100 firms by market capitalisation listed on the JSE were chosen because previous research on voluntary disclosure in the area of financial reporting revealed that larger firms are more enthusiastic in providing non-mandatory disclosures. The trend found in voluntary disclosure are applicable to this study, since it examined voluntarily disclosed human capital in CARs not mandated by accounting standards or company law at present (Abeysekera, 2008:18). Since one of the causes of differences in human capital disclosure is variations in the size of the firm, selecting firms by market

capitalisation tends to minimise the effect of such variations in size (Abeysekera, 2008:19). Nevertheless, there are other factors which can be used as a measure of size of firms; such measures include total assets and total number of employees (Abeysekera, 2006:19).

6.6 SOURCE DOCUMENTS

One of the aims of accounting is to communicate information between and among preparers and users of such information and this is accomplished by using specific words and techniques that simulate the characteristics of a specific language (Cronjé, 2008:102; Belkaoui, 1995:1). Corporate Annual Reports of selected companies will be used as source documents. These were downloaded through the McGregor Database Research domain and from the websites of selected companies.

Corporate Annual Reports were chosen as source documents because they are regularly produced and provide a historical account of an organisation's interest (Abeysekera, 2006:19). CARs provide a special communication channel (Barac, 2003:2) for presenting financial information but also information that will enable users to create their own reality in terms of their own goals or objectives (Cronjé, 2008:108) through the reflection of leadership, vision and values of the firm (Niemark, 1995:100–101). Today the preparers of CARs are continuously challenged to communicate more information in the face of a constantly changing economic, social, and physical corporate environment. Hence, determining the precise set of relevant information for the heterogeneous users remains a great ongoing task (Courtis, 2004:292).

CARs have been said to be the principal means for corporate communication of activities and intention to stakeholders (Holland & Boon Foo, 2003:7). Other researchers argue that CARs portray important areas to the reporting company through the reporting mechanism (Guthrie & Petty, 2000:244; April, Bosman & Deglon, 2003:167). Investors and analysts make extensive use of

information in CARs to justify recommendations to investors and provide forecast earnings among other uses.

Furthermore, CARs could be used as source data since they express corporate interest in a discursive and concise manner (Abeysekera & Guthrie, 2005:155). They are also viewed as a means by which a firm identifies itself with shareholders (Guthrie & Petty 2000:245). Studies confirm that CARs provide a special communication opportunity for firms to go beyond reporting financials (Cameron & Guthrie, 1993) and to prove that their leadership and vision reflect the values of the firm (Niemark, 1995).

The selection of CARs was in line with previous studies (Ax & Marton, 2008:434; Abeysekera & Guthrie, 2004:255). In addition, prior studies suggest that there is continuous demand for increased reliable information in relation to value drivers in a company (Abeysekera & Guthrie, 2004:251; Healy & Palepu, 2001:406). Apart from being a major medium for communicating information to stakeholders, CARs are produced regularly, the company has a substantial editorial input into it and they are widely distributed and read (Campbell, 2004:109). However, CARs may not reflect the objective reality of the firm, since some may use CARs as image laundering documents rather than complying with relevant accounting standards and corporate law (Abeysekera, 2008:19).

Several studies point out that users of CARs are requesting more and more reliable information related to key drivers, such as HC, of future company value creation capabilities (Maines, Bartov, Fairfield, Hirst, Iannaconi, Mallett, Schrand, Skinner & Vincent, 2002; Healy & Palepu, 2001:406; Abeysekera & Guthrie, 2004:260). In response to this request, studies have shown that more organisations are increasing the amount of non-financial information and accounting narratives related to value drivers (Williams, 2001:193; Vandemaele *et al.*, 2005:91). This consequently has led to a reduction in cost of capital, reduction in information asymmetry, enhancement of stock market

liquidity and increased demand for companies' securities (Garcia-Meca, Parra, Larran & Martinez 2005; Healy & Palepu, 2001:421).

6.7 PROCEDURE OF CONTENT ANALYSIS

This study analyses HC disclosure in annual reports that were voluntarily disclosed and were not mandated by accounting standards or company law (Abeysekera & Guthrie, 2004:259; Guthrie & Petty, 2000:244) by using 91 human capital attributes or items developed from disclosure literature. The study added the theme "Human capital health and wellness" based on the input obtained from Unisa's employee wellness department.

The content analysis was based on the 60 out of the top 100 companies listed on the JSE in South Africa rated according to market capitalisation. The choice of the top 100 companies is motivated by the fact that CARs produced by these companies are most likely to contain more discretionary disclosures in the form of HC. The content analysis will be undertaken through a Computer-Assisted Qualitative Data Analysis Software known as Atlasti.

The first step was to select any 60 companies on a random basis from the top 100 JSE listed companies for content analysis. More companies would have been selected but due to practical considerations such as time, cost and human resources, the researcher decided to work with only 60 randomly selected companies out of the top 100 companies listed on the JSE. This was also cleared with the statistician consulted for the study. The corporate annual reports of selected companies for the latest accounting year ends up to 31st March, 2012, were downloaded in pdf format into CDs. These reports were subsequently loaded in the qualitative analysis software known as Atlasti used for this study. The frequency of occurrence of each of the HC attributes was recorded through the coding framework in the software. This was determined by the number of times an HC attribute was described either qualitatively (non-numerically and non-fiscally) or quantitatively (numerically or fiscally).

The second step was to do a content analysis of the CARs of the most current accounting year up to 31st March, 2012 produced by the 60 listed companies in order to evaluate how and to what extent these entities disclose information on human capital. Invariably, the data collected for the purpose of this study involves the examination of CARs for the 60 South African firms. Of importance will be whether these companies show evidence of disclosures on human capital in their CARs. A list of firms surveyed could be found in Table 7.1 in the next chapter.

6.8 INTRODUCTION TO QUESTIONNAIRE METHOD

This study also involves administering questionnaires to four groups of respondents. These are:

Preparers Group 1: Financial directors/managers

Preparers Group 2: Human resources directors/managers

Users Group 1: Investment analysts

Users Group 2: Regulators and government departments.

As indicated in Chapter 1, the checklist items for human capital disclosures used for content analysis also formed the basis of checklist questions used in the survey questionnaire method. The administration of the questionnaires was done by electronic mails. Group interview technique could not be used because of the difficulty of securing appointments with the Financial Directors and the Human Resource Directors of selected companies. Also, other constraints inhibiting the use of group interviews are the high cost of conducting the interviews and the duration of time required for the conduct of interviews may be unnecessarily too long. This may consequently affect the study in a negative way if the results have been overtaken by other research findings in the field of corporate reporting.

However, as previously indicated in Chapter 1, a mail questionnaire often has the drawback of a low response rate particularly with this category of target group. Nevertheless, it is believed that the response rate will be adequate to answer the research questions and then provide a solution to the research problem based on the procedures aimed at improving the response rate for this study set out in the concluding part of this section and in section 6.8.1.

However, some researchers concluded that the problems associated with the indirect content analytic method and the small sample direct method could be overcome by the questionnaire method (Beattie & Smith 2010:266). However, in support of interview and case study, these researchers argued that the findings from these approaches provide direct insight although it is difficult to generalise as a result of absence of a large representative sample. They further stated that direct investigation into the significance of HC, its management and reporting are few and dominated by small samples using interviews or case study based techniques (Beattie & Smith 2010:266).

In another study conducted on the private sector companies and local authorities in the United Kingdom, a total of 288 responses were obtained from questionnaire survey of both the finance and human resources executives on the process of valuation and measurement of human capital (Verma & Dewe 2004). These researchers were of the opinion that more research studies need to be conducted in order to harmonise the views of accounting and finance executives with those of the human resources professionals (Verma & Dewe 2008:18). As also indicated in Chapter 1, very few studies have used the questionnaire survey method to explore the significance of HC, its value creation potential and disclosure. Despite its limitations, the questionnaire survey method can contribute immensely to the understanding of HC and its disclosure through thorough investigation of a large sample of firms (Beattie & Smith 2010:267). This study therefore finds it appropriate to use the survey questionnaire method to collect data from a large number of preparers and users of CARs.

In determining the extent to which the preparers and users of CARs understand the significance of human capital attributes reflected in the disclosure checklist items, the survey questionnaire method was employed. The main objective of this method was to gain an understanding of the significance of human capital intangibles through the frequency of disclosures and the preparers' and users' perceptions of the level of contributions and usefulness to value creation respectively.

In deciding which HC items to focus on in the data collection, Abeysekera, (2008:26) was used as a starting point. Other relevant literature (Beattie & Smith, 2010:274; Cormier, Aerts, Ledoux & Magnan, 2009:88; Ax & Marton, 2008:437; Vergauwen, Bollen & Oirbans, 2007:172; Beattie & Thomson, 2007:134; Meyer & Fourie, 2006; Beattie & Thomson, 2004; Arvidsson, 2003:37) were reviewed in order to arrive at the comprehensive checklist. In this study, HCD items were grouped into nine themes as follows:

- A) Human capital terminology**
- B) Human capital features**
- C) Human capital relations**
- D) Human capital measurement**
- E) Human capital training and development**
- F) Human capital remuneration and welfare**
- G) Human capital equity issues**
- H) Human capital environmental and safety issues**
- I) Human capital health and wellness**

A comprehensive list of the HCD items used in this study can be seen in Appendix B. Responses made by the preparers (finance and human resource executives) were analysed to understand the pattern and the level of significance placed on human capital disclosures. Responses from the users (Asset Management Companies, Investment Analysts' Society, Association of Savings and Investment South Africa (ASISA) and Regulators) were analysed to determine the extent to which the HCD items are used in decision-making

by users of CARs. To enhance the rate of response, the following steps were taken:

- (i) Preliminary letters of consent were sent to the respondents.
- (ii) Clarity in the layout of questionnaire was ensured.
- (iii) Reminder letters were sent two weeks after the initial mailing of the questionnaire.
- (iv) Questionnaires were resent four weeks after the initial mailing to all non-respondents.
- (v) A total of eight weeks was initially given to receive responses.

6.8.1 Questionnaire design

This study used structured or close-ended questions which specify alternatives for the respondents. According to Cooper and Schindler (2003:273), a structured questionnaire provides responses that could be categorised as dichotomous, multiple-choice, checklist, rating or ranking. Due to the fact that closed-ended questions are easy to code and analyse, they are more suitable for ideas that are factual and objective (McBurney & White, 2004:240).

Furthermore, the level of accuracy and unambiguity required in this study do not necessitate the use of open-ended questions which allow the respondents to express ideas on a particular issue in their own words and unaided (Cooper & Schindler, 2003:375). It could be appropriate to use open-ended questions if the main objective of a study is to test the respondents' customs, beliefs, attitudes or understanding of a past experience (Majumdar, 2005:255). Despite the advantages of closed-ended questions, they are self-limiting because the respondent may provide an answer for the sake of "fulfilling righteousness" and not as a necessity (Cooper & Schindler, 2003:367).

The principles followed in the design of the questionnaires for this study are as stated by McBurney and White (2004:240–242). These principles are:

- Each issue should be dealt with separately in order to eliminate ambiguity.
- The questions should not be biased, in other words, the questions posed to the respondents should not be suggestive or misleading.
- Alternatives should be clear, the options should be distinctly different from one another and should cover all possibilities; the questions must be mutually exclusive and exhaustive.
- Each question should be worded in such a way so as to appear equally socially desirable in order to avoid the situation in which, as a result of social desirability, a respondent may choose an alternative even if that alternative does not represent the respondent's true opinion.
- The sequence of questions should be in a logical order.
- The format of each question should be determined depending on the magnitude of opinions, for example the use of Likert rating scales.

6.8.2 The questionnaires

The questionnaire developed for the purpose of this study is included in Appendices B to E in this research document. The questionnaire consists of nine sections, each section with different objectives. The first section aims at understanding the concept of human capital, the second section aims at revealing the human capital features as well as the companies' understanding of the significance of each item with regards to their disclosure. The third section aims at assessing the level of human capital relations with reference to the disclosure items in this section. The fourth section seeks to identify some major qualitative and quantitative measures and to assess their significance in disclosure practices.

The fifth section seeks to confirm the significance attached to human capital training and development. The sixth section seeks to reveal the various remuneration and welfare packages put in place by companies and their significance to employees' productivity and retention. The seventh section seeks to reveal the companies' approach to equity issues. The eighth section

seeks to examine the significance placed on environmental and safety issues while the last section deals with the importance attached to employees' health and wellness issues.

6.8.3 Procedures regarding the questionnaire method

In September 2011, the research design chapter was prepared along with other relevant issues for presentation to the University of South Africa (Unisa), College of Economic & Management Sciences Ethics Review Committee. The document was consequently approved by the committee in October of the same year. The instrument for the quantitative aspect of the study, that is lime surveys were developed and completed in November, 2011. However, the administration of the surveys was delayed because most companies on which they were to be administered were about to close for the year 2011.

6.8.4 Administration of Lime Surveys

By the middle of January 2012, the administration of lime surveys commenced in earnest. Between October and November 2011, emails were sent to these companies to explain the purpose of the study and to request for the contact email addresses of relevant officers in the finance and human resources departments.

At the end of November, a total number of 53 and 51 responses were received for the preparers group 1: financial directors/managers and preparers group 2: human resource directors/managers. In view of the seemingly low response to this initial request, a scheduled meeting was held at the end of January 2012 with the Business Development Executive and Customer Relationship Manager of McGregor BFA at the company's Auckland Park's office in Johannesburg.

The idea behind this meeting was to collect more accurate and comprehensive information on all the JSE listed companies. The officers

noted our requests and promised to provide the needed information from the McGregor database. The information provided included the names of the company, market capitalisation, names of directors, companies' email and telephone contacts. However, McGregor could not provide the direct email and telephone contacts of the relevant officers in these companies.

From the information provided by McGregor, the email contacts of the companies were used to send the survey questionnaires to about 300 companies. The initial result showed that about two thirds of our mails were returned undelivered on account of wrong email contacts. McGregor was contacted several times but could not offer further assistance to get the correct email contacts.

The next step taken was to order a book titled *Profile's stock exchange handbook* (October 2011–January 2012), which according to the authors, claimed to provide comprehensive information on all the JSE listed companies as at 31st January, 2012. A comparison of the information in this book with the information provided by McGregor showed no significant difference. Our observation is that the firms operating databases also collect their information from the websites of the companies. The information on the company's websites is not updated regularly with the exception of their telephone numbers. This may have serious implication for researchers seeking to make use of different forms of information on JSE listed companies.

However, through the contact email addresses, between 80 and 100 survey questionnaires were received by the listed companies for Preparers Group 1: Financial directors/managers; Preparers Group 2: Human resource directors/managers and for the Users Group 1: Investment analysts. For Users Group 2, that is Government departments and regulators, only four survey questionnaires were sent to specific organisations such as the Department of Labour, the Department of Trade and Industry (DTI); the Companies and Intellectual Property Commission (CIPC) and Statistics South Africa.

6.8.5 Responses

Five reminders were sent within a space of ten weeks after the first set of surveys in January 2012. Total responses as at March 2012 were as follows:

Preparers Group 1: 15

Preparers Group 2: 08

Users Group 1: 04

Users Group 2: 01

In view of this very low response, the statistician consulted for this thesis suggested the option of Computer Assisted Telephone Interview (CATI) to be conducted at the Unisa's Bureau of Marketing Research (BMR) for a fee including the telephone bills. In adopting this option, a series of meetings were held with the Director and with the Executive Director of BMR. An official request was made for the use of at least one CATI station and a casual worker was contracted for the CATI operation. However, the request was not granted on account of the profitability of the project as BMR is supposed to operate as a business unit within the university system.

6.8.6 Intervention by College of Economic and Management Sciences (CEMS) office of graduate studies and research.

At the beginning of May 2012, a meeting was held with the head of the CEMS office of Graduate Studies and Research on the possibility of using his departmental facility-telephone line and computer for the CATI operation. Approval was granted and consequently the telephone contacts started on 14 May with a completion date of 31 July 2012.

Since 60 companies have been randomly selected out of the first 100 JSE listed companies for the qualitative aspect of the study that is content analysis, it is advisable to concentrate on these companies as well for the

quantitative aspect. According to the statistician this will ensure meaningful interpretation of the results obtained since the companies whose CARs are to be content analysed are also the ones to respond to the survey questionnaires particularly in the case of Preparers Groups 1& 2.

Before the telephone contacts commenced on 14 May 2012, responses received from each respondent group were as follows:

Preparers Group 1: 21

Preparers Group 2: 12

Users Group 1: 09

Users Group 2: 00

In view of this low response rate, the above responses were cleared off from the lime survey system in order to obtain fresh responses from the 60 companies to be surveyed through the telephone.

A total number of 53 out of the 60 selected companies were contacted through telephone calls and by 12 June 2012, the summary of responses was as follows:

Preparers Group 1: 25

Preparers Group 2: 10

Users Group 1: 01

Users Group 2: 00

The exercise continued in July and the summary of responses as at 15 July 2012 is as follows:

Preparers Group 1: 45

Preparers Group 2: 22

Users Group 1: 13

Users Group 2: 02

However, the responses as at 31 July 2012 were used for our analysis. These are as follows:

Preparers Group 1: 50 representing 83% response rate.

Preparers Group 2: 35 representing 58% response rate.

Users Group 1: 37 representing 65% response rate.

Users Group 2: 03 representing a 75% response rate.

6.9 DATA ANALYSIS METHOD

6.9.1 ATLASTi

This study used Atlasti for the content analysis of CARs. This is computer-aided qualitative data analysis software. The procedure here involves coding relevant words and sentences in a document and linking them together as families which are in turn developed into themes that are interpreted in the context of the research purpose and the underlying theory.

This study used Atlasti to do a content analysis of a total of sixty corporate annual reports. The CARs are downloaded in pdf format and imported as primary documents into Atlasti. These were referred to as primary documents. Selected texts related to HCD items are selected and coded into a cluster of codes known as families or themes. Apart from its usefulness in quantifying qualitative data, Atlasti is also useful in analysing graphics, audio files and video materials.

Manual coding is the common approach used in the majority of previous studies on disclosure practices. This approach involves a lot of time and paper work in view of its attendant difficulty in coding and recoding. However, Atlasti allows easy coding and recoding, allows the creation of networks showing how codes and themes interact in a complex manner thereby facilitating the interpretation process (Archer, 2011). Furthermore, Atlasti ensures validity as it provides a trail of evidence in the form of an audit trail.

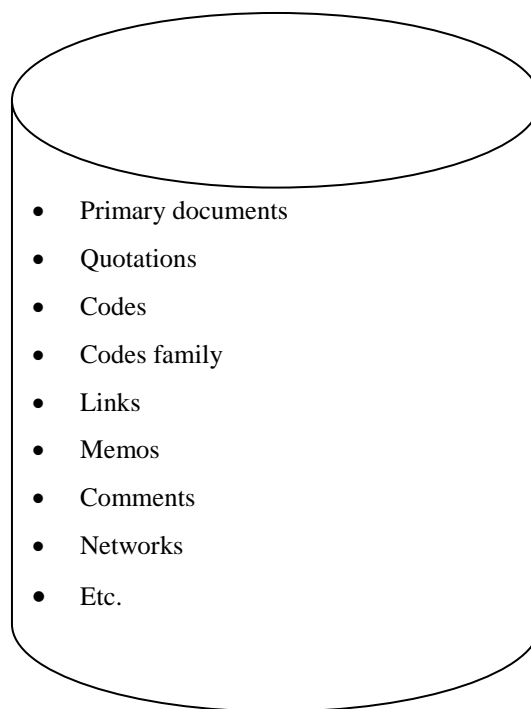
6.9.2 Procedures for content analysis

The following procedures were followed in using Atlasti for content analysis:

6.9.2.1 Creation of a project file

This is referred to as “Hermeneutic Unit (HU)” in Atlasti. The HU or the project file could be likened to a container housing the primary document, the codes and analysis of data. This is depicted in the figure below.

FIGURE 6.2: EXAMPLE OF A HERMENEUTIC UNIT



The first step taken was to create a new hermeneutic unit for this project. The HU was named “AdePhD”.

6.9.2.2 Assigning documents to the HU

Textual data that could be imported into Atlasti can be in the form of word documents, rich text format or text only. The latter two options will allow editing inside Atlasti but this will not be possible if word files are assigned.

The CARs of sampled companies in pdf format were assigned to Atlasti referred to as primary documents. The primary documents were imported into my library and then assigned to the HU. These documents are identified as P1 (Primary document 1), P2, P3 to P60.

6.9.2.3 Approach to coding

The two major approaches to coding are the inductive and the deductive. The former refers to the process of generating codes from relevant information identified in the data while the later refers to coding done according to a predefined area of interest. Deductive coding is more categorical about the items or themes to be considered before the coding process commences.

We have chosen the deductive approach because we are aware of the type of information that may be disclosed in CARs with respect to human capital guided by the theoretical framework. This supports the suggestion of Miles and Huberman (1994) that certain factors such as the conceptual framework, research questions, hypotheses, problem areas and so on, may necessitate the generation of a predetermined list of codes before coding which should be seen as an integral part of the analytic process but not the actual analysis. Therefore, coding may be considered as a means to an end and not an end in itself. The table below shows the predetermined disclosure themes and items used for content analysis.

TABLE 6.1: DISCLOSURE THEMES AND ITEMS

Theme (code family)	Disclosure items (codes)
Human capital terminology	Human assets; human resources; human value and human capital.
Human capital features	Capability/ability; commitment; work related competence; creativity; expertise; innovation; learning; loyalty; skill; teamwork; personal experience; professional experience and entrepreneurial spirit.
Human capital relations	Chairman's statement; operating review; financial statement; employee appreciated; workforce profile; company culture; communication channel; leadership; succession plan; meeting style; recruitment policies; employee interview; union activity and community service.
Human capital measurements	Employee number; employee breakdown by age; employee breakdown by seniority; employee breakdown by gender; employee breakdown by nationality; employee breakdown by department; growth/renewal ratios: average professional experience; growth/renewal ratios: average education level; efficiency ratios: value added per expert; efficiency ratios: value added per employee; name and age of board members; board members' educational background (academic career); board members' work experience (professional career); comments on abilities of the board; name and age of top management team; top management's educational background (academic career); top management's work experience (professional career); comment on the abilities of top management team; stability ratios: expert seniority; stability ratios: median age of employee; human capital return on investment; cost of absence; cost of resignations; annual pay audits; workforce turnover; retention rates; performance and productivity and dependence on key employees.
Human capital training and development	Knowledge; education; vocational qualifications; career development; training programmes; talent management; competence development programmes and job rotation opportunities.
Human capital remuneration and welfare	Executive compensation plan; employee compensation plan; employee benefits; employee share scheme; employee job satisfaction; recognition and reward; employee asset acquisition scheme.
Human capital equity issues	Race, gender and religion; disabled employees and disabled applicants.

TABLE 6.1: DISCLOSURE THEMES AND ITEMS (CONT...)

Theme (code family)	Disclosure items (codes)
Human capital environmental safety	Statement of working environment policy; statement of employee safety policy; description of community involvement; statement of policy regarding corporate social responsibility and statement of ethical business policy.
Human capital health and wellness	Social wellness; occupational wellness; intellectual wellness; emotional wellness; physical wellness; financial wellness and spiritual wellness.

6.9.2.4 Coding

A code is a word or a short phrase assigned to a selected segment of text or data. The disclosure checklist items (See chapter 6, section 3.4) were assigned to a segment of text selected from CARs of sampled companies. The coding exercise was performed in two stages.

a) Auto-coding

Auto-coding allows the search for a specific word or a string of text in the form of a phrase, sentence or paragraph in the primary documents. Selecting an auto coding command automatically enables 'Atlasti' to link the codes to the CARs of the companies. Results are generated to show the number of times each disclosure item appears in all the CARs.

b) Auto-coding with “confirm always” command

On assessing the results generated by auto-coding, it was observed that some codes were linked to segments of text which have no link with the codes while some codes were not linked to relevant segments of text. In order to resolve this issue, the researcher decided to intervene by selecting another command known as “confirm always”. This command enables the researcher to read a particular segment of text and code if it is relevant and skip it if it is irrelevant. The researcher was able to intervene in the coding process in order to ensure that the accuracy of the results of analysis was not greatly impaired.

The steps taken were as follows:

- 1) On the coding menu in **Atlasti**, the **Code-Coding-Auto Coding** was selected.
- 2) The auto-coding dialogue box is seen.
- 3) The code to be associated with a selection of text was selected from the drop-down box.
- 4) The text string or the search expression was entered.
- 5) The **“confirm always”** box is selected.
- 6) Auto-coding starts when **“start”** is clicked.
- 7) The researcher reads through each piece of text found before indicating whether it should be coded or skipped.
- 8) The exercise in no 7 was conducted for each of the **91 HC disclosure items** and the **60 CARs** considered in the study.
- 9) Auto-coding ends when the **“Close”** button is clicked.

At the end of this analysis, relevant reports for this study were generated by Atlasti software, the reports generated are:

- 1) Primary documents (PD) list
- 2) Code list
- 3) Code families
- 4) Codlings-all quotations
- 5) Theme-primary documents
- 6) Detailed code-primary documents
- 7) Network views
- 8) Memos

These reports formed the basis of chapter 7 of this thesis and the details recorded in AdePhD-CD.

6.10 STATISTICAL PACKAGE FOR THE SOCIAL SCIENCES (SPSS)

The statistical package for the social sciences (SPSS) is a statistical package used for quantitative research in social sciences. Other packages include MINITAB and Microsoft Excel. The choice of SPSS was based on the fact that data sets in social sciences are easily translated into SPSS which invariably reduces the basic activities needed in exploring the data. Furthermore, SPSS is easier to use than other statistical techniques (Neter, Kutner, Nachtsheim & Wasserman, 1996). However, SPSS suffers from lack of user's control over the statistical output. The analysis of the questionnaires with the aid of SPSS formed the basis of the results in chapters 8 to 11. However, the details of the analysis are also recorded in AdePhD-CD.

6.11 CHARTS AND TABLES

Charts and tables will be used in summarising the data sets. Each chart and table will represent a particular theme. Charts are largely considered as a better illustrative way of analysing thematic data.

6.12 LIMITATIONS OF THE EMPIRICAL INVESTIGATION

6.12.1 Technical nature of the research subject

The subject of the research is technical as the accounting profession is yet to agree on any particular model or develop a standard for human capital disclosure.

6.12.2 Inaccessibility of respondents

Most respondents consider giving out information about their companies as unethical and may refuse to participate in surveys although their refusal is

usually backed up with sweet and apologetic statements (See Appendices F & G), but the fact remains that they refused to participate.

6.12.3 Small sample size

Even though the accessible population is assumed to be homogenous, the sample size of 60 out of about 400 listed companies seems to be small.

6.13 SUMMARY AND CONCLUSION

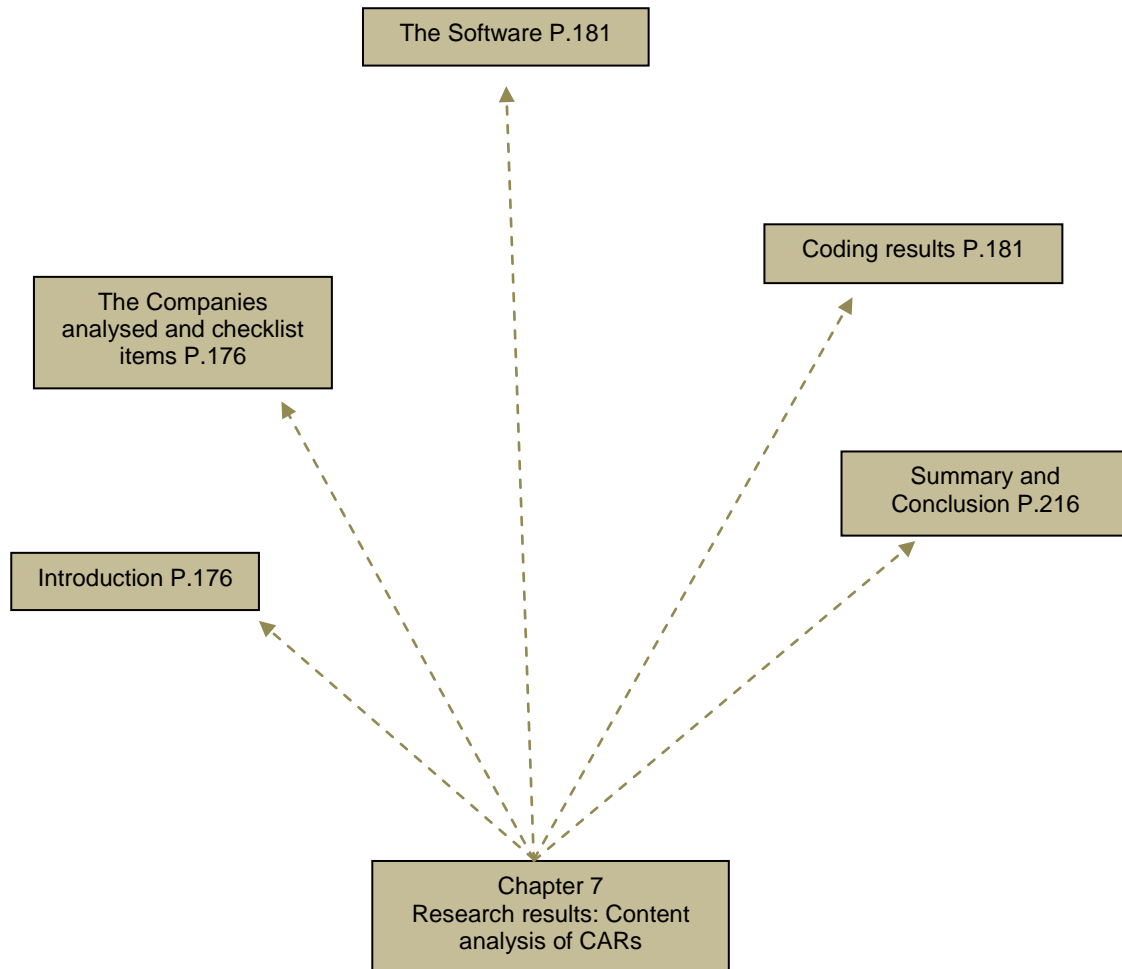
This chapter discusses the research design by focussing on the research methods employed in the study. The methods are literature review, content analysis and survey questionnaire. The research environment that is South Africa was identified along with the companies selected and the source documents used in this study. The procedures for the content analysis and the survey questionnaire methods were highlighted. Furthermore, the data analysis techniques were described. Lastly, the limitations of the empirical investigation were stated.

This part of the study is seen as of utmost importance as it helps to envision the feasibility and the reality of the research and the possibility of gathering sufficient data to solve the research problem. The next chapter presents the results of the qualitative aspect of the study that is the content analysis of CARs.

CHAPTER 7

RESEARCH RESULTS: CONTENT ANALYSIS OF CARs

Figure 7.1: Network view of chapter 7



7.1 INTRODUCTION

One of the research questions set out in Chapter 1 was: “To what extent has business organisations in South Africa disclosed the large expenditures on human capital in their CARs?” In answering this question, the main purpose of content analysis of CARs of selected companies was to evaluate how and to what extent the selected companies have disclosed information relating to human capital in their CARs.

In Chapter 6, content analysis method was identified and adopted in view of its relevance and use in previous Human Capital Disclosure; Intellectual Capital Disclosure; Corporate Social Reporting and Environmental Studies. It was also stated that the method has been widely used in Financial Accounting Research because it is an ideal method that can be used to analyse trends in the disclosure of information in CARs (Chapter 6, Section 6.3). Although the chapter highlighted the procedure to be followed in order to carry out content analysis of the CARs used in this study, the purpose of this chapter is to report the actual steps taken in performing the content analysis and to present the research results arising from the analysis.

7.2 THE COMPANIES ANALYSED AND THE CHECKLIST ITEMS

In making selection of the companies analysed, the process of random sampling was employed to selected 60 companies out of the first 100 companies listed on the JSE for various accounting year ends falling within year 2011 and 2012. The choice of accounting year ends falling within 2011 enabled us to analyse CARs which were referred to as “Integrated Reports” produced for the first time by many of the companies in the sample. Also, a total number of 91 disclosure checklist items (See chapter 6, section 3.4) were employed in analysing the CARs of the selected companies.

In Chapter 5, it was stated that the new Companies Act no. 71 of 2008 and the changes in the international governance trends were major reasons for the

third report on corporate governance (King III Code of Corporate Governance) in South Africa. Integrated reporting was aimed at ensuring that business reporting is done with a view to show how a company has both positively and negatively, impacted on the economic life of the community in which it operated during the year under review; and how the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead (Chapter 5).

From this perspective, it was reasoned that the CARs examined will include more mandatory and discretionary disclosures than the reports of the previous years. In fact, some of these companies reported that they have made a great achievement by producing the first integrated report in line with the requirements of King III and the Companies Act of 2008. The following statements reflected in some of these CARs support our reasoning:

“This is our first integrated annual report prepared in accordance with the guidelines of the King Code of governance for South Africa 2009 (King III). It is based on the solid foundation of our 2010 annual report. We acknowledge that accomplished integrated reporting is a journey and that this integrated annual report is a step towards that end” (ArcelorMittal South Africa Limited, 2011).

“This year, MTN Group Limited has moved further in its journey towards providing a more integrated report to its stakeholders. This incorporates the recommendations of the revised King Code of Governance Principles for South Africa (King III) and the latest of the International Integrated Reporting Committee. A structured approach was implemented to define material report content and provide a more holistic picture incorporating the Group’s financial, economic, social and environmental performance-----”

The key improvement made to the 2011 reports is the inclusion of the Group opportunities as part of its risk assessment. This forms the thread through the report, providing insight into the most material aspects of the business across

MTN's markets. MTN has also better incorporated its social, economic and environmental contributions to the countries and societies in which it operates" (MTN Group Limited, 2011).

"The reporting principles that have been applied in this report were guided by IFRS, the King Report on Corporate Governance for South Africa 2009 (King III) requirements, the Global Reporting Initiatives' sustainability reporting guidelines and the Framework for Integrated Reporting and the Integrated Report" (African Bank Investments Limited, 2011).

"This report has been compiled in accordance with the guidelines of the King Code on Governance Principles for South Africa 2009 (King III) and continually focuses its reporting on material issues affecting the group" (Allied Technologies Limited, 2012).

*"Amplats 2011 integrated annual report offers a complete overview of the Company's financial, social, and environmental performance in a single, consolidated report. In preparing this integrated report, the company has been guided by the principles of integrated reporting as set out in the International Integrated Reporting Committee's discussion paper and the guidance offered in the framework discussion paper released in January, 2011 by the Integrated Reporting Committee of South Africa. This integrated report also fulfills the Group's statutory reporting obligations and therefore includes a full set of financial statements. The aim of our integrated approach to reporting is to enable investors, potential investors and other stakeholders including Government, host communities and our **employees** to make better informed assessment of the value Amplats creates in society and its long-term sustainability" (Anglo American Platinum, 2011:3).*

"From a visual perspective, AECI's Integrated Report for 2011 has been inspired by images of chemical reactions which change the state of original substances. A play on the words 'change of state' resulted into 'state of change' being chosen as the Reports title. It communicates the ongoing

commitment by AECI to meeting the needs of its stakeholders through transformation, innovation, growth and adaptability in ever-changing economic, social and governance landscape” (AECI, 2011: Cover page).

Majority of the companies in our sample pursued the goal of Integrated Business Reporting in order to provide a more detailed and holistic picture of the companies’ financial, economic, social and environmental performance. Few companies in our sample who did not produce integrated report stated this fact as in the extract below:

“Although we have chosen not to produce an ‘integrated report’, we have included a comprehensive overview of our non-financial performance in this report’ (Anglo-American, 2011).

The companies listed on the JSE which were used for the content analysis are shown in the table below:

TABLE 7.1: COMPANIES SAMPLED FOR CONTENT ANALYSIS

Company	Year ended	Sector	Type of report
AECI	31 December, 2011	Basic Materials-Chemical	Integrated Report
African Bank Investment Limited	30 September, 2011	Financial Services	Integrated Report
Allied Technology (Altech)	29 February, 2012	Telecommunications	Integrated Report
Anglo-American Platinum	31 December, 2011	Basic Materials-Mining	Integrated Report
Anglo-American PLC	31 December, 2011	Basic Materials-Mining	Annual Report
Anglo-Gold Ashanti Limited	31 December, 2011	Basic Materials-Mining	Integrated Report
Aquarius Platinum Limited	30 June, 2011	Basic Materials- Mining	Annual Report
ArcelorMittal	31 December, 2011	Basic Materials-Industrial Metals	Annual Report
Aspen Pharmacare Holding Limited	30 June, 2011	Health	Annual Report
Assore Limited	30 June, 2011	Basic Materials-Mining	Annual Report
Aveng Limited	30 June, 2011	Industrial-Construction and Materials	Integrated Report
British American Tobacco	31 December, 2011	Consumer-Tobacco	Annual Report
Capitec Bank Holdings Limited	29 February, 2012	Financial Services-Banks	Integrated Report

TABLE 7.1: COMPANIES SAMPLED FOR CONTENT ANALYSIS (CONT...)

Company	Year ended	Sector	Type of report
Datatec	28 February, 2011	Technology-Software and Computer Services	Annual Report
Eastern Platinum Limited	31 December, 2011	Basic Materials-Mining	Consolidated Financial Statement
Exxaro Resources Limited	31 December, 2011	Basic Materials-Mining	Integrated Report
FirstRand Limited	30 June, 2011	Financial-Banks	Annual Reports
Grinrod Limited	31 December, 2011	Industrial-Industrial Goods and Services	Final Results
Growthpoint Properties	30 June, 2011	Financial-Real Estate	Annual Report
Hosken Consolidated Investments Limited	31 March, 2010	Financial-Investment Instruments	Integrated Report
Hyprop Investments Limited	31 December, 2011	Financial-Real Estate	Annual Report
Impala Platinum	30 June, 2011	Basic Materials-Mining	Integrated Report
JD Group	31 August, 2011	Consumer Services-Retail	Integrated Report
JSE Limited	31 December, 2011	Financial Services	Integrated Report
Kumba Iron Ore	31 December, 2011	Basic Materials-Industrial Metals	Integrated Report
Life Healthcare Group	30 September, 2011	Health	Integrated Report
Massmart	26 June, 2011	Consumer Services-Retail	Integrated Report
Mediclinic International	31 March, 2012	Health	Integrated Report
Mondi Limited	31 December, 2011	Basic Materials-Paper	Integrated Report
MTN Group Limited	31 December, 2011	Telecommunication	Integrated Report
Murray & Roberts Limited	30 June, 2011	Industrial-Construction and materials	Integrated Report
Nampak Limited	30 September, 2011	Industrial-Containers and Packaging	Integrated Report
Naspers	31 March, 2011	Consumer Services-Media	Integrated Report
Nedbank Group Limited	31 December, 2011	Financial Services	Integrated Report
Northam Platinum Limited	30 June, 2011	Basic Materials-Mining	Integrated Report
Old Mutual Plc	31 December, 2011	Financial-Insurance	Integrated Report
Optimum Coal Holdings Limited	30 June, 2011	Basic Materials-Mining	Integrated Report
Pick n Pay	28 February, 2011	Consumer Services-Retail	Integrated Report
Pioneer Foods	30 September, 2011	Consumer-Food and Beverages	Integrated Report
Pretoria Portland Cement	30 September, 2011	Industrial-Construction and Materials	Integrated Report
Redefine Properties	31 August, 2011	Financial-Real Estate	Annual Results
Remgro Limited	30 June, 2011	Industrial-Industrial Goods and Services	Integrated Report
Resilent Property Income Fund	31 December, 2011	Financial-Real Estate	Integrated Report
Reunert Limited	30 September, 2011	Industrial-Industrial Goods and Services	Integrated Report
RMB Holdings	30 June, 2011	Financial-Banks	Integrated Report
Santam	31 December, 2011	Financial-Insurance	Integrated Report
Sappi Limited	30 September, 2011	Basic Materials-Paper	Integrated Report
Sasol	30 June, 2011	Oil and Gas	Integrated Report
Shoprite Holdings Limited	30 June, 2011	Consumer Services-Retail	Integrated Report
Spar	30 September, 2011	Consumer Services-Retail	Annual Report

TABLE 7.1: COMPANIES SAMPLED FOR CONTENT ANALYSIS (CONT...)

Company	Year ended	Sector	Type of report
Standard Bank Group	31 December, 2011	Financial-Banks	Annual Financial Statement
Steinhoff International Holdings Limited	30 June, 2011	Consumer-Personal and Household	Integrated Report
Sun International Limited	30 June, 2011	Consumer Services-Travel and Leisure	Integrated Report
Telkom Group	31 March, 2011	Telecommunication	Integrated Report
The Foschini Group	31 March, 2011	Consumer Services-Retail	Integrated Report
Tiger Brands	30 September, 2011	Consumer-Food and Beverages	Integrated Report
Tongaat Hulett	31 March, 2012	Consumer-Food and Beverages	Integrated Report
Truworths	26 June, 2011	Consumer Services-Retail	Integrated Report
Uranium One	31 December, 2011	Basic Materials-Mining	Annual Report
Woolworths	26 June, 2011	Consumer Services-Retail	Integrated Report

The CARs were downloaded in pdf format from the websites of the respective companies. Detailed annual reports are available in AdePhD-CD.

7.3 THE SOFTWARE USED FOR CONTENT ANALYSIS OF CARs

The study used computer-aided qualitative data analysis software referred to as Atlasti for the content analysis of CARs listed in table 7.1. The newest version called Atlasti v.7 released in March 2012 was used for the analysis. The software was selected because it allows easy coding and recoding and also has the ability to generate results in form of networks to show the interaction between the disclosure item (referred to as codes in Atlasti) and themes (referred to as families in Atlasti). The software will therefore facilitate interpretation process and also provide a trail of evidence in the form of an audit trail.

7.4 CODING RESULTS BY FAMILIES

The coding results according to themes otherwise referred to as code families are as follows:

7.4.1 Human Capital Terminology

The figure below depicts the HCD items in the human capital terminology family:

FIGURE 7.2: NETWORK VIEW: HUMAN CAPITAL TERMINOLOGY

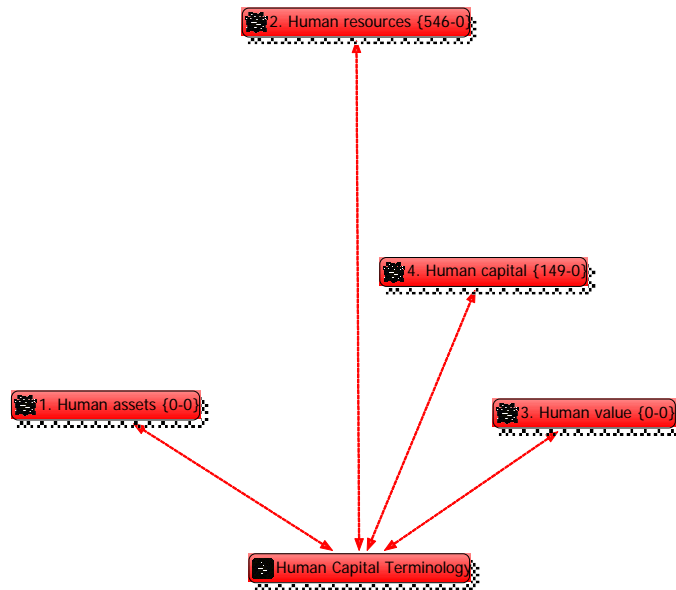


TABLE 7.2: CODE-PRIMARY-DOCUMENT TABLE SUMMARY: HUMAN CAPITAL TERMINOLOGY

Code	Frequency
Human assets	0
Human resources	546
Human value	0
Human capital	149
TOTAL	695

Table 7.2 above depicts the most frequent terminology used in the CARs of sampled companies is ‘human resources’ with a total number of 546 disclosures. This is followed by the term ‘human capital’ with a total number 149 disclosures. The remaining two terminologies that is ‘human assets’ and ‘human value’ were not mentioned at all by these companies hence both items had 0 disclosure each. Although, the terms can be used interchangeably, organisations preferred to use human resources possibly because the term linked resources to human assets. Most organisations

establish as part of their organogram human resources directorates or departments charged with the responsibility of initiating and performing human capital management practices for value added advantage. Some of the companies which depicted human resources as a value creating resource reported as follows:

“The group has an integrated and holistic human resources development strategy, which enables it to identify individual potential and to develop each employee. All employees are provided with the opportunity to obtain skills and competencies in order to advance along a predetermined career path based on opportunity and suitability” (Anglo-American Platinum, 2011:59).

“A key objective for the year under review has been to ensure that the Group’s operating divisions have access to suitably qualified and adequate human resources to successfully execute business strategy” (FirstRand Limited, 2011:95).

“Mondi seeks to develop and empower our people to perform at their best and to grow within a dynamic culture. While management of people is a line function, specialist human resources personnel at a group, divisional and operational level knowledge, guidance and support to the line management as required” (Mondi Limited, 2011:40).

“With more than 6,300 employees across Africa, SSA, Asia-Pacific, Latin America and Europe, Aspen’s human capital represents a diverse group of cultures, languages and competencies” (Aspen, 2011:110).

“Human capital is managed by the human capital committee and during the year, a new human capital strategy was implemented to ensure that Altech addresses its evolving human capital challenges and has the necessary talent to achieve its challenging targets” (Altech, 2012:18).

“This Human Capital Report covers issues which impact on the Group’s sustainability from a human resources and employee perspective, such as skills development, succession planning, employment equity and industrial relations” (Truworths, 2011:88).

It appears that most companies refer to human capital as it relates to corporate strategy and human resources when reference is to be made to the department that deals with human capital management. Some companies appoint human capital committees to ensure the achievement of human capital strategic objectives. However, none of the companies used the terms “human assets” and “human value”. Possible reasons for this are that the term human assets may be seen as equating humans as physical assets such as plant and machinery and the measurement problem of human capital might be responsible for the avoidance of the term “human value”.

7.4.2 Human Capital Features

The figure below displays the HCD items in the human capital features family:

FIGURE 7.3: NETWORK VIEW: HUMAN CAPITAL FEATURES

TABLE 7.3: CODE-PRIMARY-DOCUMENTS TABLE SUMMARY: HUMAN CAPITAL FEATURES

Code	Frequency
Employee capability/ability	188
Employee commitment	176
Work-related competence	30
Employee creativity	11
Employee expertise	319
Employee Innovation	61
Employee learning	163
Employee loyalty	23
Employee skill	370
Teamwork	211
Personal experience	0
Professional experience	316
Entrepreneurial spirit	5
Total	1873

Table 7.3 suggests that employees' skill, expertise, professional experience, capabilities, learning are the most disclosed attributes while the least disclosed attributes are innovation, work-related competence, loyalty, creativity and entrepreneurial spirit. A possible reason for this is that skill, expertise, experience and capabilities are direct consequences of learning and experience acquired on a particular job while the least disclosed items with the exception of competence are more of innate characteristics of an employee than what could be acquired through education and learning.

Employee skill

Out of a total of 1873 disclosures under this theme, the total number of disclosures with respect to employee skill is 370. This is because skill is considered an important human capital attribute as reflected in some reports examined. For example, some companies report as follows:

"FirstRand's Board of directors has the necessary depth of knowledge, skill, experience and financial services expertise to oversee the positive performance of the group" (FirstRand Limited, 2011:60).

“Ensuring positive benefits by developing the correct policies and processes, and by employing people with the right skills and abilities in social management” (Anglo-American Platinum, 2011:22)

“AECI is contributing R15 million over five years to the University and views this investment as a step towards addressing the skills shortages that prevail in the chemical sector in South Africa” (AECI, 2011:121).

“The Committee complies with the King III Code of Corporate Practice and Conduct and the Board considers its composition to be appropriate in terms of the necessary blend of knowledge, skill and experience of its members” (AECI, 2011: 128).

“Altech is committed to the transformation of our workforce and the areas over which we have influence. Our biggest challenges are attracting and retaining appropriately skilled black-especially black female-talent” (Allied Technologies, 2011:18).

“The Group’s accreditation as a training provider has been extended to include registration with the Department of Higher Education and Training as well as Wholesale and Retail Sector Education and Training Authority. This enables the development of learning programmes that are registered with the South African Qualifications Authority and which are focused on addressing scarce and critical skills within the retail industry” (Truworths, 2011: 91).

In summary, almost all the companies reported on the significance of skill acquisition, development and retainership; the challenge of scarcity of skilled manpower were reported across all the companies with the efforts being made to enhance transformation through the improved broad-based black economic empowerment (BBBEE) and most importantly efforts being made to recruit and retain a relevant mix of skills at both the board and the committee levels in line with the requirements of King III Code of Corporate Governance

which greatly influenced the disclosures in integrated reports produced by these companies.

Employee expertise

This is the second most reported item in this category having been disclosed 319 times. Expertise is closely linked with skill and most companies disclose information on their skill and expertise as an impetus for value creation. Examples of such disclosures are as follows:

“What it takes: it takes all of us, using our knowledge, skills and expertise to deliver value” (Anglo-American, 2011: Cover page).

“Tongaat Hulett Employment Equity Committee is chaired by the CEO and the broad composition of this committee ensures that it benefits from company wide experience and expertise in achieving its objectives” (Tongaat Hulett, 2012:39).

“Mr. Duka acquired and shared his experience and HR expertise in various industries such as energy, government, banking, mining and oil and gas” (Aquarius Platinum Limited, 2011:124).

“Non-executive directors are expected to provide the organisation with leadership, expertise and knowledge on strategy, enterprise, innovative ideas and to contribute to the business planning of the company” (Tiger brands, 2011:96).

“As an industry that relies heavily on technology and the technical expertise of our workforce, we have dovetailed the twin needs of providing career development opportunities for our employees and the corporate requirement for a robust skills pipeline to ensure that a constant supply of these engineering, technical and artisan skills is available” (Arcelormittal South Africa, 2011:52).

“As has been indicated above, the division expects that trading in the next year will be challenging, but it is confident that the strength of its brands, the positive cash flow of the group and the expertise of staff members will enable the division to grow its turnover and market share, with benefits to overall profits and profitability” (The Foschini Group, 2011:85).

The companies reported extensively on the both corporate expertise, board, committees as well as expertise of finance functions as required by the King III Code of Corporate Governance. However, the Foschini Group reported on the expertise of staff members as a whole in addition to expertise of functions, committees and boards reported by others. By so doing, the Foschini Group portrayed that every employee in an organisation is important and therefore has the potential of contributing to the value-creating activities.

Professional experience

Another HCD which featured prominently under this theme is professional experience with disclosure frequency of 316. The professional experience of employee is also a significant factor for value creation. Many companies reported on relevant experiences of different categories of their employees. Examples of such reports are:

“In terms of King III, the Audit Committee must comprise a minimum of three independent, non-executive directors and further in terms of regulations to the Act, at least one third of the members of the Committee must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs and human resource management” (Aspen Pharmacare Holding Ltd; 2011:285).

“She has extensive experience in commercial and corporate law, including telecommunications law” (Telkom, 2011:20).

“The size of the group, as well as the experience of the executive directors and senior management, affords it the opportunity to resolve all disputes,

whether of a legal or non-legal nature, based on their respective characteristics” (Assore Ltd; 2011:56).

“Appointed to the Board in 2011, Kele Mazwai joined Sun International in 2008 and has 20 years’ experience in human resources management” (Sun International Limited, 2011:16).

“The purpose of Knowledge Transfer Framework is to provide a structured programme for enhancing knowledge transfer from experienced to less experienced employees and, in the process, establish a continual learning culture” (Aveng Limited, 2011:58).

“Retaining experienced employees and recruiting specialised skill sets will support our strategic objectives” (Steinhoff Limited, 2011:14).

It appears that majority of the companies report on the need for experienced employees more than actual statements of relevant experience of their employees. However, companies like Aspen Pharmacare reports on the experience of the board and senior management members in order to fulfill the requirements of King III Code of Corporate Governance and the Companies Act of 2008. A comprehensive report on the experience of employees in general is lacking in these reports.

Teamwork

The first HCD item that is fairly disclosed under this category is teamwork having frequency of 211. Few companies report teamwork as one of the values of their organisation. Examples of these disclosures are:

“Teamwork and a strong work ethic” (SPAR, 2011:5).

“Teamwork—we succeed together through a climate of respect and equality” (Exxaro Resources Limited, 2011:2).

“It is a process that encourages teamwork and drives culture change” (Sasol, 2011:89).

“Promoting and rewarding teamwork, innovation, continuous improvement and the application of best practice by being a responsible employer, developing people to the best of their abilities and fostering a culture of mutual respect among employees” (Impala Platinum, 2011:2).

It appears that most companies did not disclose how teamwork is built and the positive effects it provides for growth and sustainability.

Capability/ability

The second fairly disclosed item is capability or abilities. Few extracts from CARs examined are:

“....., are key elements of our strategy, as is the capacity and capability of our people.....” (Standard Bank Group, 2011:19).

“This provides our people with access to a suite of e-learning applications and gives our companies a clearer view of the training and capability gaps in their operations” (British American Tobacco, 2011:18).

“Chet’s new product development capability has enabled it to roll out quality substitutes at the right price to targeted market leaders” (Shoprite Holdings limited, 2011:30).

“The bank has also continued with its drive to enhance its distance learning capability” (Capitec Bank Holdings Limited, 2012:26).

While majority of the companies reported on the capabilities with regards to structural and relational capital, only a few disclosed information about the capability of their employees.

Commitment

Commitment is a significant human capital attribute that drives performance and productivity. A few extracts from CARs disclosing this attribute are:

“We remain firm in our commitment to growth opportunities and ensuring sustained performance over the long term” (Sasol, 2011:63).

“The division’s strongest asset is the expertise, experience, commitment and problem-solving skills of approximately 400 employees” (Datatec Limited, 2011:102).

“Some of these initiatives were achieved while others are being achieved with the dedication, commitment and hard work of all employees and the effective leadership of management, which was committed to exciting growth plans and the transformation of the business” (Sappi Limited, 2011:85).

“In the normal course of business, the company enters into contracts that give rise to commitments for future minimum payments” (Eastern Platinum Limited, 2011:51).

It appears that most companies report on commitment to their corporate goals and objectives, financial and contractual obligations more than commitment of employees. Most times, employee’s commitment is only mentioned by the Chairman or the CEO when appreciating the efforts of past, outgoing or present employees and board members.

Learning

Another HC attribute which is fairly reported on is learning with a disclosure frequency of 163. A few companies disclose information on employee related learning, some examples are:

“.....this enhances the learning experience through application to specific business issues” (Santam, 2011:33).

“engaging with government, trade unions, learning institutions and other corporations on responding to South Africa’s skills development challenge” (FirstRand Limited, 2011:98).

“PS² is a learning programme within the strategy, aimed at building and enhancing the requisite competence of staff in the areas of product knowledge, sales skills and service standards as a strategic differentiator at store level” (JD Group, 2011:108).

“In 2010, Bongani was awarded his BTech degree from Unisa. His advice to others: Don’t give up, keep putting in hard work and if you fail, try again, PERSEVERE. Take responsibility for your career. Don’t wait for someone to come along and do it for you-take action. Embrace change, it’s the only constant in life. For PPC, Bongani Zwane is living proof of the Kambuku principle of learning for growth” (Pretoria Portland Cement, 2011:41).

As in the case of PPC, companies should provide a comprehensive report of employees learning support programmes.

Other HCD items

Other human capital disclosure items such as innovation, work-related competence, loyalty, creativity, entrepreneurial spirit and personal experience have the least frequency of disclosure, although these attributes are very significant to human capital value creation, most companies have not seen the need to disclose greater details on them. The attribute with the lowest disclosure frequency is employees’ personal experience with a frequency of 0 while employee’s professional experience has a frequency of 316. This shows that companies’ believe that employees’ professional experience is more important than their personal experience both at work and in life generally.

The inclusion of information on work-related competences, demonstration of employee loyalty, creativity and entrepreneurial spirit will make CARs more decision-useful.

7.4.3 Human Capital Relations

The figure below illustrates the various HCD attributes in the human capital relations family.

FIGURE 7.4: NETWORK VIEW: HUMAN CAPITAL RELATIONS

TABLE 7.4: CODE-PRIMARY-DOCUMENTS TABLE SUMMARY: HUMAN CAPITAL RELATIONS

Code	Frequency
Chairman's statement	234
Operating review	42
Financial statement	56
Employee appreciated	215
Workforce profile	10
Company culture	20
Communication channel	194
Leadership	2191
Succession plan	298
Meeting style	4177
Recruitment policies	137
Employee interview	63
Union activity	388
Community service	19
TOTAL	8044

From the table above, the total disclosures with regard to human capital relations amounted to 8044 from the 60 CARs analysed.

Most frequently disclosed HCD attributes

The most frequently disclosed under the human capital relations family discussed below:

Meeting style

It could be observed that the word 'meeting' appears 4,177 times, this is the highest frequency among the checklist items in the human capital relations family. This is expected as companies are run through meetings of staff at various operational, administrative, management and board levels. However, reports on meetings by management, board committees, board and shareholders are given prominence in many annual reports. Reports on regular meetings with employees in order to improve performance needs to be given more serious attention to in annual reports.

Leadership

The second item that is mostly reported on is leadership with a frequency of 2191. Apparently the quality of leadership determines the success or failure of an organisation. Some disclosures in this respect are as follows:

"We spent R20 million rolling out leadership and management learning programmes, including the Graduate Development Programmes" (Sun International Limited, 2011:12).

"A new Chief Executive Officer has been appointed who has displayed strong leadership in making necessary changes" (Aspen Pharmacare, 2011:30).

"We have a unified leadership team with depth of experience, committed to executing our strategy" (Standard Bank Group, 2011:11).

"The board and executive leadership team remain committed to building a sustainable business that takes into account the economic, social and

environmental impacts on the communities in which we operate” (Aveng Limited, 2011:36).

“Dr CH Wiese is the non-executive chairman who provides guidance and leadership to the board and also ensures that the board is efficient, focused and operates effectively as a unit” (Shoprite Holdings Limited, 2011:34).

The King III Code of Corporate Governance and the South African Companies Act, 2008 provide guidelines for appointing management team and board members and it appears that organisations report on leadership in order to comply with regulations and to showcase their organisations.

Union activity

This is the second most reported item with a frequency of 388. Unions are perceived to be an important agent of bargaining for employees' welfare and therefore their activities and roles are reported in some of the CARs considered. Examples of such disclosures are:

“AECI’s wellness programme has been well received by the unions and there has been significant interaction with the national structures of the South African Chemical, Energy, Paper, Printing, Wood and Allied Workers’ Union (SACWU) and the Chemical, Energy, Paper, Printing, Wood and Allied Workers’ Union (CEPPWAWU) in this regard” (AECI, 2011: 107).

“A one-year wage agreement was reached in May 2011 with SACCWU(South African Commercial Catering and Allied Workers Union) following intervention from the Commission for Conciliation, Mediation and Arbitration (CCMA)” (Truworths, 2011:93).

“Employees in key countries where the Group operates are unionised. Negotiations over wage levels or working conditions can sometimes fail to result in agreement” (Anglo-American PLC, 2011:64).

“Employees enjoy freedom of association and the group recognises 14 unions at 44 of our sites with approximately 60% of employees being union members” (Tiger Brands Limited, 2011: 53).

“Nedbank Group consults with its trade unions, when necessary, on occupational health and safety matters” (Nedbank, 2011:155).

“We hold intervention sessions with the unions to clarify mutual understanding of the consultation process” (Telkom, 2011:81).

It appears that most companies report on union activities in compliance with labour laws of the Republic of South Africa.

Succession plan

One of the significant assumptions underlying the preparation of CARs is ‘going concern’. This means that organisations are expected to continue operation into the nearest foreseeable future, in other words, they are not expected to close down in the foreseeable future. In line with this assumption, organisations are expected to report on their leadership succession plan. Evidence of reports on succession planning are seen in the following extracts:

“The board is responsible for ensuring that succession plans are in place for the chief executive officer and other members of the group executive committee” (Sasol, 2011: 43).

“Ensuring clear succession plans are in place for every senior role remains our long-term objective (British-American Tobacco, 2011:18).

“Key risks.....inability to attract and retain the desired skills and develop dynamic leadership (including succession planning) (Santam, 2011:94).

“The committee ensures that director appointments are formal and transparent and oversees succession planning for the board and senior management” (Datatec Limited, 2011:27).

“The committee is tasked with advising the board on succession planning for the roles of chairman, chief executive and executive directors” (Reunert Limited, 2011:61).

“The committee has undertaken reviews of the effectiveness of the Board of directors and its subcommittees and has ensured sound and effective succession planning at both Board and executive level” (FirstRand Limited, 2011:73).

Succession planning and governance effectiveness appears to be a common focus area in most organisations.

Fairly disclosed HCD attributes

The results of the content analysis show that Information on HC attributes are fairly disclosed in the Chairman’s statement with a disclosure frequency of 234, a common disclosure in the Chairman’s statement is appreciation to the board, management and employees, consequently this places the HC attribute of “employee appreciated” in the category of fairly disclosed HC attributes having been disclosed in 215 times. The attributes of communication channel and recruitment policies are also fairly disclosed with disclosure frequencies of 194 and 137 respectively.

Least frequently disclosed HCD attributes

The attributes that are least frequently disclosed in this family include employee related information in the operating reviews and the financial statement, workforce profile, company culture, employee interview and community service.

7.4.4 Human Capital Measurements/Measures

The figure below shows the HC attributes in the human capital measurements family.

FIGURE 7.5: NETWORK VIEW: HUMAN CAPITAL MEASUREMENTS

TABLE 7.5: CODE- PRIMARY-DOCUMENTS TABLE SUMMARY : HUMAN CAPITAL MEASUREMENTS

Code	Frequency
Employee number	32
Employee breakdown by age	0
Employee breakdown by seniority	0
Employee breakdown by gender	0
Employee breakdown by nationality	0
Employee breakdown by department	0
Growth/renewal ratios: average professional experience	0
Growth/renewal ratios: average education level	0
Efficiency ratios: value added per expert	5
Efficiency ratios: value added per employee	0
Name and age of board members	0
Board members educational background (academic career)	0
Board members work experience (professional career)	0
Comments on the abilities of the board	0
Name and age of top management team	0
Top management educational background (academic career)	0
Top management work experience (professional career)	0
Comments on abilities of top management team	0
Stability ratios: expert seniority	0
Stability ratios: median age of employees	0
Human capital return on investment	0
Training return on investment	0
Cost of absence	0
Cost of resignations	0
Annual pay audits	0
Workforce turnover	41
Retention rates	391
Performance and productivity	9
Dependence on key employee	40
TOTAL	518

Table 7.5 above shows the respective disclosure frequencies of HC attributes in the human capital measurement family.

The table shows that only five out of the 29 attributes in this family were disclosed by the companies. However, the most frequently disclosed is retention rates with a disclosure frequency of 391. Most organisations report on their objective of retaining staff with key skills to ensure continuity and sustainability. Some examples of such disclosures are found in the following extracts:

“The Remuneration Strategy’s objective is to ensure that Growthpoint can attract good to high calibre staff in the market place (attraction); drive and

reward performance (reward) and retain staff that either have key skills or have future value and/or potential for the organisation (retention)” (Growthpoint Properties Limited, 2011:13).

“Resilient currently has five non-executive directors who served on the board since listing in 2002. King III calls for an evaluation of the independence of board members that have served for more than nine years, which was rigorously undertaken by the board. In addition, the board has agreed that one such director will retire at each annual general meeting [“AGM”] for the next five years and all these directors will stand for re-election at each AGM. This is an attempt to balance compliance with King III and retention of skills on the board” (Resilent, 2011:4).

“Hyprop aims to be regarded as an employer of choice. In order to ensure the attraction and long term retention of high-calibre individuals, basic salaries are market-related and benchmarked against industry norms with adjustments made for the employee’s particular experience, qualifications, responsibilities and nature of work (Hyprop Investments Limited, 2011:44).

“Key control: employment and retention of skilled and experienced senior management” (Remgro, 2011:92).

“Our focus will remain on critical skills development over the next few years as well as improving our retention and reward practices” (Impala Platinum, 2011:17).

“Talent management: a sustainable business is only possible through the attraction, development and retention of appropriate people and skills” (Pretoria Portland Cement, 2011:14).

From these disclosures in CARs, it appears that most companies report on retention policy in response to the requirement of King III Code of Corporate Governance as well as a strategic objective for their remuneration policies.

The remaining four attributes disclosed are workforce turnover, dependence on key employee, employee number and performance and productivity with disclosure frequencies of 41, 40, 32 and 9 respectively. Although these attributes are very significant, they were not fairly disclosed in these reports.

The attributes relating to employee breakdown by age, seniority, gender, nationality and department, all having disclosure frequencies of 0 were later captured under the human capital equity issues. Likewise, the attributes relating to name, age and experience of the board members and the top management team were also captured within the framework of professional experience in the human capital features family.

The remaining measurement attributes of growth/renewal ratios, efficiency ratios, stability ratios, human capital return on investment, training return on investment, cost of absence and cost of resignations and annual pay audits all have disclosure frequencies of 0. The measurement problem which is associated with the human capital is a likely reason for the non-disclosure of these attributes.

7.4.5 Human Capital Training and Development

The figure below portrays the HC attributes in the human capital training and development family.

FIGURE 7.6: NETWORK VIEW: HUMAN CAPITAL TRAINING AND DEVELOPMENT

TABLE 7.6: CODE-PRIMARY-DOCUMENTS TABLE SUMMARY: HUMAN CAPITAL TRAINING AND DEVELOPMENT

Code	Frequency
Knowledge	0
Education	0
Vocational qualifications	0
Career development	24
Training programmes	60
Talent management	48
Competence development programmes	0
Job rotation opportunities	2
TOTAL	134

It could be observed from the table above that four out of eight attributes in this family were mentioned in the annual reports even though the disclosure frequencies are low. Disclosures on training programmes appears 60 times, talent management appears 48 times, career development 24 times and job rotation opportunities two times. The remaining four attributes all have zero disclosure frequencies. It is suggested that companies should provide more comprehensive reports and disclosures on these important attributes in their CARs as this will make these reports to be more decision-useful.

7.4.6 Human Capital Remuneration and Welfare

The figure below exhibits the HCD attributes in the human capital remuneration and welfare family.

FIGURE 7.7: NETWORK DRIVE: HUMAN CAPITAL REMUNERATION AND WELFARE

TABLE 7.7: CODE-PRIMARY-DOCUMENT TABLE SUMMARY:HUMAN CAPITAL REMUNERATION AND WELFARE

Code	Frequency
Executive compensation plan	7
Employee compensation plan	5
Employee benefits	309
Employee share scheme	371
Employee share option scheme	23
Employee job satisfaction	1
Recognition and reward	8
Employee asset acquisition scheme	0
TOTAL	724

Table 7.7 shows that employees' remuneration and welfare is an important aspect in the annual reports of companies. Remuneration, incentives and

compensation are of varied nature and dimension. The King III Code of Corporate Governance, the Companies' Act as well as the JSE listing requirement require disclosure of information on compensation paid to board members and top executive management.

In addition, most companies deemed it necessary to report various kinds of incentives available to employees in general. Generally, the motive behind this is to showcase the companies' remuneration and compensation policies in the pursuit of the goal of acquisition and retention of relevant skills necessary for value creation. Evidences of such disclosures in CARs are as follows:

“Recruitment and remuneration procedures and policies are designed and reviewed to ensure the identification and retention of a suitable skills set. The Group's remuneration philosophy is anchored in the World at Work total rewards approach and comprises a combination of career growth opportunities and recognition, culture and values, compensation, benefits and work environment” (Pioneer Foods, 2011:54,60).

“Remuneration objective and policy: the main responsibility of RemCom (Remuneration committee) is to assist the board in setting and administering the Group's remuneration philosophy and to review and approve the remuneration and employment terms of directors and senior group executives” (JD Group, 2011:140).

“In addition to cash remuneration (base pay, retirement and medical, performance bonus, other fringe benefits), employees are afforded the opportunity to participate in Group share schemes, which align the interests of management to that of shareholders” (Pick n Pay, 2011:42).

“Like most financial services organisation, the JSE remuneration mix for permanent staff comprises: base (guaranteed) pay and benefits (including retirement and medical aid benefits); annual variable remuneration linked to

performance, and long-term incentives to both retain and incentivise key staff” (JSE Limited, 2011:58).

“The key principles of the remuneration policy are to provide competitive rewards to attract, motivate and retain appropriately skilled and experienced employees; ensure that remuneration arrangements are equitable among employees and operations; link company and individual performance with reward.....” (Optimum Coal Holdings, 2011:92).

“Kumba’s remuneration practices are based on the following tenets: motivating and reinforcing the positive performance of individual; attracting and retaining talent; aiming to be a preferred employer in the market place; and applying its remuneration policies equitably, fairly and consistently” (Kumba Iron Ore, 2011:94).

It appears that nearly all companies report on their remuneration policy, sections were devoted to remuneration reports detailing the activities of such committees as human resources remuneration and nomination committees, nomination and remuneration committees, recruitment and remuneration committees and remuneration committees established to make recommendations to the board on remuneration and associated matters.

Also, incentives such as performance bonuses, annual awards in the form of cash and/or shares; scholarship programme awards; incentive awards; hero awards, leadership awards; development awards and so on are reported in the annual reports.

The inclusiveness of report on remuneration points to the fact that human capital are seen as a very important asset that should be adequately rewarded and retained for sustainable growth in corporate organisations.

7.4.7 Human Capital Equity Issues

The figure below presents the HCD attributes in the human capital equity family.

FIGURE 7.8: NETWORK VIEW-HUMAN CAPITAL EQUITY ISSUES

TABLE 7.8: CODE-PRIMARY-DOCUMENT TABLE SUMMARY-HUMAN CAPITAL EQUITY ISSUES

Code	Frequency
Race, gender and religion	141
Disabled employees	52
Disabled applicants	52
TOTAL	245

The table above illustrates the disclosure frequencies associated with human capital equity issues.

In South Africa, all businesses are required to submit their annual employment equity reports to the Department of Labour. Abstracts from the following reports made allusion to this:

“.....employees are recruited, retained, developed and rewarded solely on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status or sexual orientation, subject to employment equity considerations in South Africa” (Old Mutual Plc., 2011:108).

“Life Healthcare complies in all material respects with the Basic Conditions of Employment Act, the Labour Relations Act, the Employment Equity Act and the Skills Development Act, and is committed to achieving various employee related transformation targets” (Life Healthcare, 2011:65).

“Employment Equity indicators: the total number of Black males, Black females, White males and White females per category of Top Management, Senior Management, Middle Management and Professionals, Skilled and Semi-skilled and Unskilled [pages 119 and 120]” (AECI, 2011:129).

“Performance in 2011: achieved level 6 BBBEE status (self-assessment); employment equity: Black employees 91% (2010: 91%); Female employees 72% (2010: 71%); skills development spend increased 34% and Corporate Social Investment (CSI) and enterprise development spend R15 million” (Truworths, 2011:21).

“A lowlight of the current year was that there had not been enough appointments of employment equity candidates to significantly step up our employee transformation process. A variety of measures has been put in place to improve this performance, including changes to our recruitment practices, talent management and development initiatives and succession planning interventions, amongst others” (African Bank Investment Limited, 2011:26 & 28).

“In South Africa there continues to be a need to address the imbalances of the past and a strong employment equity culture has been fostered over many years. Actions are continuing to improve the representation of designated

groups, with particular emphasis on Africans, black women and persons with disabilities, with the intention to align the workforce profile with the underlying demographics of the country” (Tongaat Hulett, 2012:39).

An important aspect of employment equity is consideration for disabled applicant and employees, therefore companies are expected to report on their policies with respect to disabled applicants and employees. Some extracts from reports relating to persons with disabilities are provided below:

“Our goal is to build a prejudice-free group, where race and gender groups feel equally welcome, thereby accessing a diverse talent base and forging strong relationships with our stakeholders. This includes a broader focus to include categories such as disabled employees” (Allied Technologies Limited, 2012:18).

“It is our policy that people with disabilities should have full and fair consideration for all vacancies. Employment of disabled people is considered on merit and with regard only to the ability of any applicant to carry out their role. We endeavor to retain the employment of, and arrange suitable retraining for any employee in the workforce who becomes disabled during their employment. Where possible we will adjust a person’s working environment to enable them to stay in our employment” (Anglo-American PLC, 2011:118).

“Welfare: focusing on the basic needs of people, specifically women, children and disabled people, the Telkom Foundation funds: Childline; Lifeline; the United Cerebral Palsy Association of South Africa; SOS Children’s villages; Children in the Wilderness; Alzheimer’s SA; St Anne’s Catholic church and the Soweto Association of People with Disabilities” (Telkom, 2011:93).

Disclosures on equity issues were prevalent in the CARs produced by South African corporate entities solely on account of employment equity act and other associated legislations such as the Basic Conditions of Employment Act,

the Labour Relations Act and the Skills Development Act which requires them to make certain disclosures on equity and other human capital related issues.

7.4.8 Human Capital Environmental Safety

Figure 7.9 below demonstrates the HCD attributes in the human capital environmental safety.

FIGURE 7.9: NETWORK VIEW-HUMAN CAPITAL ENVIRONMENTAL SAFETY

TABLE 7.9: CODE-PRIMARY-DOCUMENT TABLE SUMMARY-HUMAN CAPITAL ENVIRONMENTAL SAFETY

Code	Frequency
Statement of working environment policy	33
Statement of employee safety policy	1307
Description of community involvement	5
Statement of policy regarding corporate social responsibility	28
Statement of ethical business policy	33
TOTAL	1406

Table 7.9 above displays the frequencies of HC attributes in the human capital environmental safety family. Employee safety policy had a disclosure frequency of 1307 out of total disclosures of 1406. Other attributes such as

working environment policy; community involvement, corporate social responsibility and ethical business policy were slightly reported. Workplace safety is considered as an important HC attribute when judged by its high level of disclosure as discovered in the following extracts:

“Safety is our first value: we place people first and correspondingly put the highest priority on safe and healthy practices and systems of work. We are responsible for seeking out new and innovative ways to ensure that our workplaces are free of occupational injury and illness.....” (Anglo-Ashanti Limited, 2011:2).

“Our safety performance still leaves much room for improvement. I extend my personal and the company’s condolences to the families, friends and colleagues of our 15 employees who lost their lives in accidents during 2011” (Anglo-Ashanti Limited, 2011:8).

“Occupational health and safety....we embrace good governance in our responsible management of health and safety concerns. Specifically, the Group strives to achieve “zero injury” to people through the effective management of health and safety in all our operations.....” (Sun International Limited, 2011:87).

“Objectives: 9% decrease; employee safety is a constant focus with the overall aim being that of ‘zero harm’. Aquarius is dedicated to maintaining industry-leading safety standards” (Aquarius Platinum Limited, 2011:10).

“The safety of employees is of utmost importance to us and receives attention through continuous training. Most of our facilities are certified by international and/or local health and safety standards” (Steinhoff Limited, 2011: 31).

In compliance with both the international and local occupational health and safety standards, organisations report on various health and safety policies

and measures put in place by them. This is paramount in South Africa where majority of large companies listed on the JSE are in the mining sector.

7.4.9 Human Capital Health and Wellness

Figure 7.10 below parades the HCD attributes in the human capital health and wellness family.

FIGURE 7.10: NETWORK VIEW-HUMAN CAPITAL HEALTH AND WELLNESS

TABLE 7.10: CODE-PRIMARY-DOCUMENT TABLE SUMMARY-HUMAN CAPITAL HEALTH AND WELLNESS

Code	Frequency
Social wellness	0
Occupational wellness	2240
Intellectual wellness	0
Emotional wellness	193
Physical wellness	218
Financial wellness	1
Spiritual wellness	0
TOTAL	2652

The table above depicts the disclosure frequencies of various HC attributes in the human capital health and wellness family. Occupational wellness had the

highest disclosure frequency of 2240, followed by physical wellness with 218, emotional wellness with disclosure frequency of 193, one for financial wellness while social wellness, intellectual wellness and spiritual wellness all have zero disclosure frequencies which means no disclosure was made on these three attributes.

OCCUPATIONAL WELLNESS

Occupational wellness like employee safety attracted much attention in the annual reports in view of national and international labour laws and regulations that requires the disclosure of activities aimed at promoting occupational health and wellness. Furthermore, the prevalence of HIV/AIDS endemic in South Africa necessitated the promulgation of laws and regulation with regards to management of HIV/AIDS in the workplace. Some of the legislations which are relevant to managing HIV in the workplace are:

- The Constitution, 1996 (Act No. 108 of 1996): The Bill of Rights provides every person with the right to equality and non-discrimination, privacy (including HIV status) and fair labour practice.
- Employment Equity Act, 1998 (Act No. 55 of 1998): The Act forbids unfair discrimination on account of HIV status.
- Labour Relations Act, 1995 (Act No. 66 of 1995): One of the basic implications of this Act is that an employee cannot be dismissed on account of being HIV positive.
- Occupational Health and Safety Act, 1993 (Act No. 85 of 1993): With regards to HIV, the Act implies that an employer must ensure that the risk of HIV infection in the workplace is minimised.
- Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997): The Act implies that the employer must consider adjusting leave policies in favour of HIV positive employees.

HIV-positive individuals may be able to perform as much tasks as an average worker at the initial stage, but as the virus in their blood grows, they constantly feel tired and sickly and may not be able to function well in some key operational areas within the organisation. By the time the virus advances to AIDS, the individual may not be able to perform regular operations and if there is no prompt and proper intervention, such employee may pass away.

Evidence relating to the incidence, prevalence and management of HIV/AIDS in the workplace are highlighted below:

“Employee health: The prevalence of HIV with associated tuberculosis (TB) within the Southern African environment is a serious issue for the Group. It is estimated that approximately 25%-30% of the mining workforce in South Africa has contracted HIV/AIDS. The challenging nature of mining necessitates a workforce that is physically fit and mentally alert. In employees who are suffering from debilitating illnesses such as HIV/AIDS, this is often compromised, impacting negatively on safety and productivity. In this regard, there has been a steady increase in absenteeism and medical incapacitations with Aids-related deaths in service remaining relatively high at our operations, specifically at Impala Rustenburg. Our approach to managing this pandemic has focused on preventative education and treatment post-infection, including antiretroviral therapy (ART) and implementing holistic wellness programmes to promote a healthier lifestyle” (Impala Platinum, 2011:15).

“HIV/AIDS: During the year, the South African operations decided to adopt SANS 16001 (HIV management system) as the guideline.....Training of wellness committees is taking place and the line managers and supervisors are being trained to identify and deal with incapacity, especially related to HIV/AIDS. Ongoing peer education programmes are in place and employees are offered the opportunity to test for HIV status in the occupational health clinics and at special wellness days. In the rest of the group HIV/AIDS is managed on a case by case basis” (Nampak Limited, 2011:53).

“Reducing and managing the incidence of HIV/AIDS in the workplace: Our integrated Sasol HIV/AIDS response programme (SHARP), now in its seventh year, focuses on identifying and providing support services to HIV-infected employees and their families, as well as on preventing new infections through awareness, education, access to testing, counseling and treatment. The programme is driven at business unit level and evolves continually to ensure it is aligned to international best practice in prevention, care, treatment, support and eradicating discrimination” (Sasol, 2011: 114).

“The HIV/AIDS policy for the group governs our action in this area. The group has a comprehensive HIV/AIDS framework in place which includes support for HIV-positive employees through a third-party administered programme, which caters for both those with and without medical aid. 959 employees were voluntarily counselled and tested in 2011, with 2.6% testing positive [down from 7.5% in 2010]. All employees who tested positive have enrolled on the programme” (Tiger brands, 2011:57).

It is apparent that there is a need to have a healthy and productive workforce in order to create a sustainable profit margin. Although, many South African companies conduct HIV/AIDS prevalence testing among their employees, these figures are rarely disclosed in their reports in order to protect the rights of HIV positive employees. However, sound corporate governance practices and the global reporting initiatives require the disclosure of risk factors such as HIV/AIDS prevalence hence there is a greater support for voluntary disclosure of prevalence of HIV/AIDS and costs associated with its management.

PHYSICAL, EMOTIONAL AND SOCIAL WELLNESS

According to Meyer and Fourie (2006), physical wellness involves a number of healthy lifestyle choices which consists of regular medical checkups, adequate exercise, abstaining from drug use and alcohol abuse and protecting oneself from injury and harm. On the other hand, emotional wellness involves understanding and accepting one’s feelings and the ability

to express and manage such feelings and emotions in the form of love, hatred, anger, sadness and happiness. Others are self motivation, self esteem and self acceptance. Social wellness refers to the ability to associate with family members, colleagues and the larger society. It manifests in an individual's ability to interact successfully with others, good communication skills, showing respect for others as well as developing intimate relationship with others.

FINANCIAL AND INTELLECTUAL WELLNESS

According to Meyer and Fourie, (2006), financial wellness refers to sound knowledge about financial planning and management. It involves proper budgeting and spending, avoidance of debt, debt management and retirement planning. The need for financial management training to ease the debt burden on the South African workforce as a high debt burden may lead to financial and emotional disability and incapacity with consequential adverse effect on workforce performance.

On the other hand, intellectual wellness refers to the ability to make rational decisions as a result of critical thinking and analysis of alternatives. It involves the use of an individual's sense of knowledge, skill and creativity.

SPIRITUAL WELLNESS

Man is made up of body and soul. Providing for wellness of the body without that of the soul is incomplete and may hinder fulfillment in life here and hereafter. It is noticeable that there was no report on organisational support for spiritual wellness, such supports could be in the form of devotional fellowship, lunch hour bible study and prayers and special programmes aimed at spiritual awakening and revival with consequential repentance from sins and turning to God. Many personal crisis situations which adversely affect workforce performance could be avoided if organisations provide platforms for their employees to regularly hear the word of God coupled with the commitment of the employees to allow the word of God to rule and control their lives (own observation).

7.5 SUMMARY AND CONCLUSION

The provisions of South African constitution, labour laws, the JSE listing requirements and the King III Code of Corporate Governance have greatly influenced the disclosures of human capital attributes in the discretionary or contextual sections of the annual reports. Some companies have dedicated a section of their CARs to human capital report; some include human capital reports in their sustainability reports sections.

In addition, international organisations such as the Global Reporting Framework (GRI); United Nations Global Compact (UNGC); Organisation for Economic Co-operation and Development (OECD); the International Integrated Reporting Committee and the International Accounting Standards Board have also influenced the reporting practice of South African companies in view of the fact that some of the companies listed on the JSE are multinational companies operating in Africa, America, Europe, Asia and Australia.

The content analysis of CARs of top companies listed on the JSE has proven that these companies recognise the significance of human capital to the generation of profit and the creation of value. The results also show that most of the disclosures related to descriptions of the human capital characteristics in response to local and international labour laws. The relevant data that would have assisted the users in taking more informed decisions are still lacking, this is very clear from the very low levels of disclosure frequencies in the human capital measurement family.

For instance, the attributes such as growth/renewal ratios; the efficiency ratios; stability ratios; human capital return on investment; training return on investment; cost of absence; cost of resignations all have nil disclosure frequencies. Others with very low disclosure frequencies are efficiency ratios (value added per expert) with only five disclosures; workforce turnover with only 41 disclosures; dependence on key employees with only 40 disclosures;

employee number with only 32 disclosures and performance and productivity with only 32 disclosures in the 60 CARs content analysed. Therefore, it appears that organisations are yet to report fully on human capital measurement metrics that are critical to making CARs more decision-useful.

The results also show that the majority of the disclosures are in response to the requirements of local and international labour laws and regulations rather than response to providing information that will enable users to reasonably estimate the value creating capacity of human capital in their decision-making. It appears that disclosures relating to human capital measurements attributes are not yet reflected in the existing laws and regulations guiding disclosures on human capital intangibles.

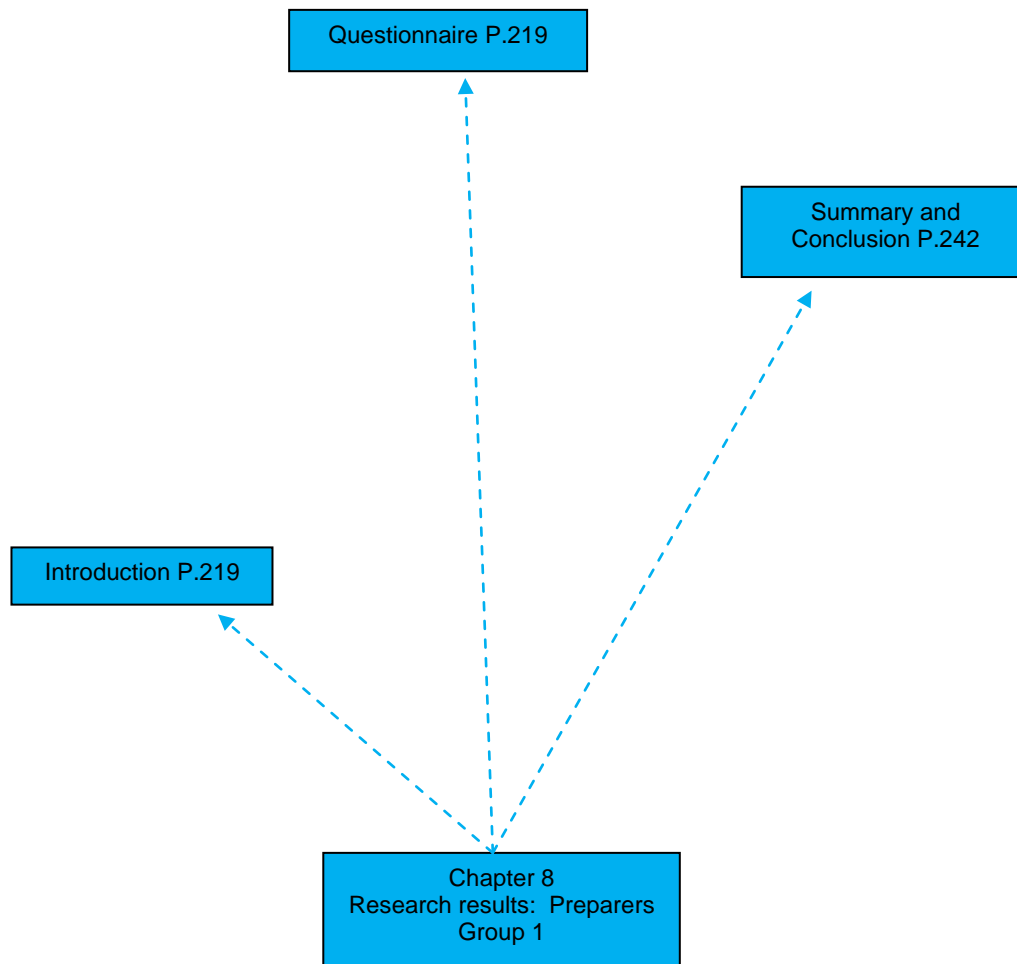
Furthermore, the cost and benefits of the majority of the human capital practices with reference to various attributes in the human capital training and development, human capital remuneration and welfare; human capital environmental safety and human capital health and wellness were not fully disclosed. It appears that these companies are satisfied with policy disclosures on these issues without relevant disclosures relating to the cost and benefit implications of their human capital practices in these areas.

It should be noted that further details in respect of the results of content analysis of CARs with the aid of Atlasti are recorded in AdePhD-CD: the CD which accompanied this thesis report. Readers are kindly requested to read through the CD for these details.

CHAPTER 8

RESEARCH RESULTS – QUESTIONNAIRES FOR PREPARERS GROUP 1: FINANCIAL DIRECTORS/MANAGERS

Figure 8.1: Network view of chapter 8



8.1 INTRODUCTION

One of the major role players in the information content of CARs are the finance managers or directors. Four questionnaires (see appendices B to E) were prepared and sent as web surveys to the preparers group 1 (the financial managers/ directors); group 2 (human resource managers/directors; the users group 1 (the investment analysts) and the users group 2 (regulators and government departments). These questionnaires contained the same human capital checklist items used for content analysis in Chapter 7. However, the questionnaires contained questions with respect to the value creation capacity and the usefulness of the HC attributes.

The questionnaire contained two questions in line with its objectives which are to determine whether the human capital items are actually disclosed by these preparers and also to determine the extent to which these items contribute to creating value for the company. The first question requires a yes or no answer and if the answer to the first question is yes, the respondent will be required to state the extent to which the HC item contribute to creating value on the rating scale indicated as 'no contribution'; 'weak contribution'; 'moderate contribution'; 'strong contribution' and 'very strong contribution'.

This chapter covers the responses from the first group of preparers that is the financial managers/directors and consists of the introduction, research results of preparers group 1 and a summary and conclusion.

8.2 QUESTIONNAIRE FOR THE PREPARERS GROUP 1

For the purpose of this study, the financial directors/managers are identified as Preparers group 1. Please refer to appendix B for the questionnaire used for this group.

8.2.1 Introduction

The contact details of the 60 randomly selected companies were collected from the McGregor database and also from the individual company's websites. The response rate was 83% (See Chapter 6). Some companies in our sample declined participation in the study by giving reasons such as busy schedule of executives, time constraints and company's policy (See Appendix F for details).

However, the responses of companies who participated in the study are presented in the following section.

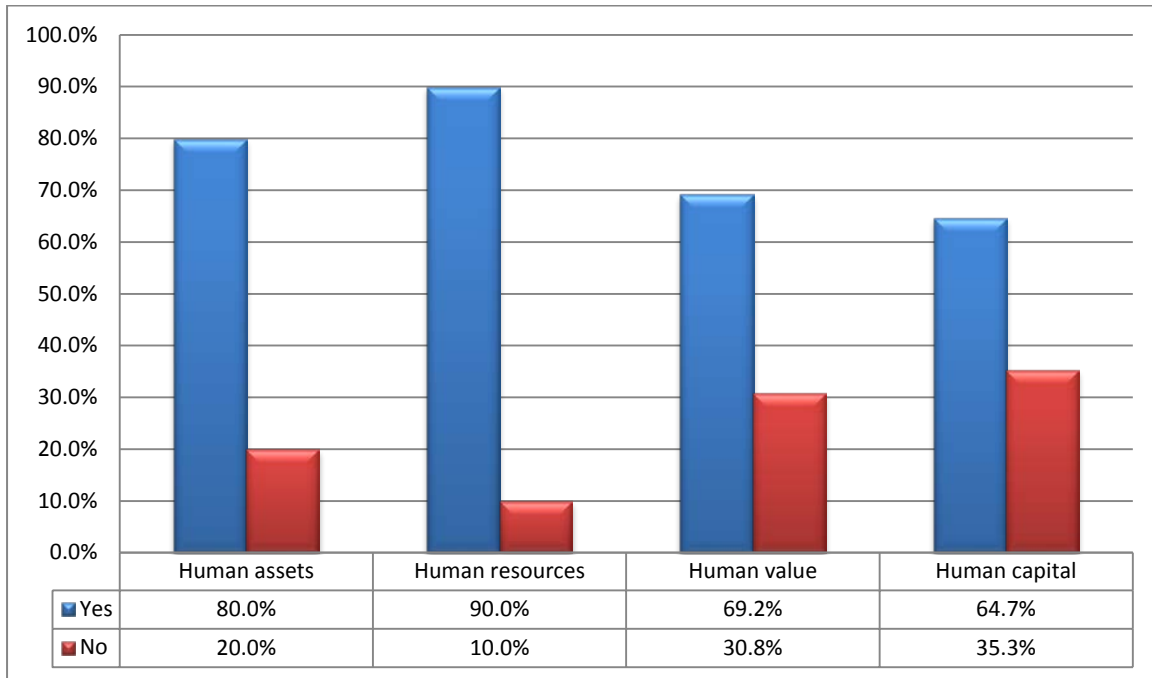
8.2.2 Research results

The results of the questionnaires set below include a short motivation for the disclosure theme, the results in the form of tables and charts and a conclusion. In the discussion of results, the options 'strong contribution' and 'very strong contribution' are taken as 'strong contribution' while the options 'no contribution' and 'weak contribution' are taken as 'weak contribution'.

8.2.2.1 Human capital terminology

The purpose of this section is to determine the most frequently used terminology in CARs and also to assess the importance attached to human capital.

FIGURE 8.2: HUMAN CAPITAL TERMINOLOGY



From figure 8.2 above, 90% of the respondents used the term, human resources; 80% used human assets; 69.20% used human value and 64.70% used human capital in their CARs.

TABLE 8.1: HUMAN CAPITAL TERMINOLOGY

HUMAN CAPITAL TERMINOLOGY	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Human assets	9.10	0.00	9.10	54.50	27.30	100.00
Human resources	0.00	0.00	6.60	46.70	46.70	100.00
Human value	0.00	0.00	22.23	33.33	44.44	100.00
Human capital	0.00	0.00	11.10	55.60	33.30	100.00

However, from table 8.1, it is clear that 55.60% and 54.50% of the respondents stated that human capital and human assets respectively make strong contributions to value creation while human resources and human value were said to make very strong contributions by 46.7% and 44.44% of the respondents respectively.

The results indicate that majority of the financial directors are aware of the significance of human capital in contributing to value creation in their organisations.

8.2.2.2 Human capital features

The purpose of this theme is to discover the extent of disclosure of items under this theme and also to determine the level of contributions of these items in value creation.

FIGURE 8.3: HUMAN CAPITAL FEATURES

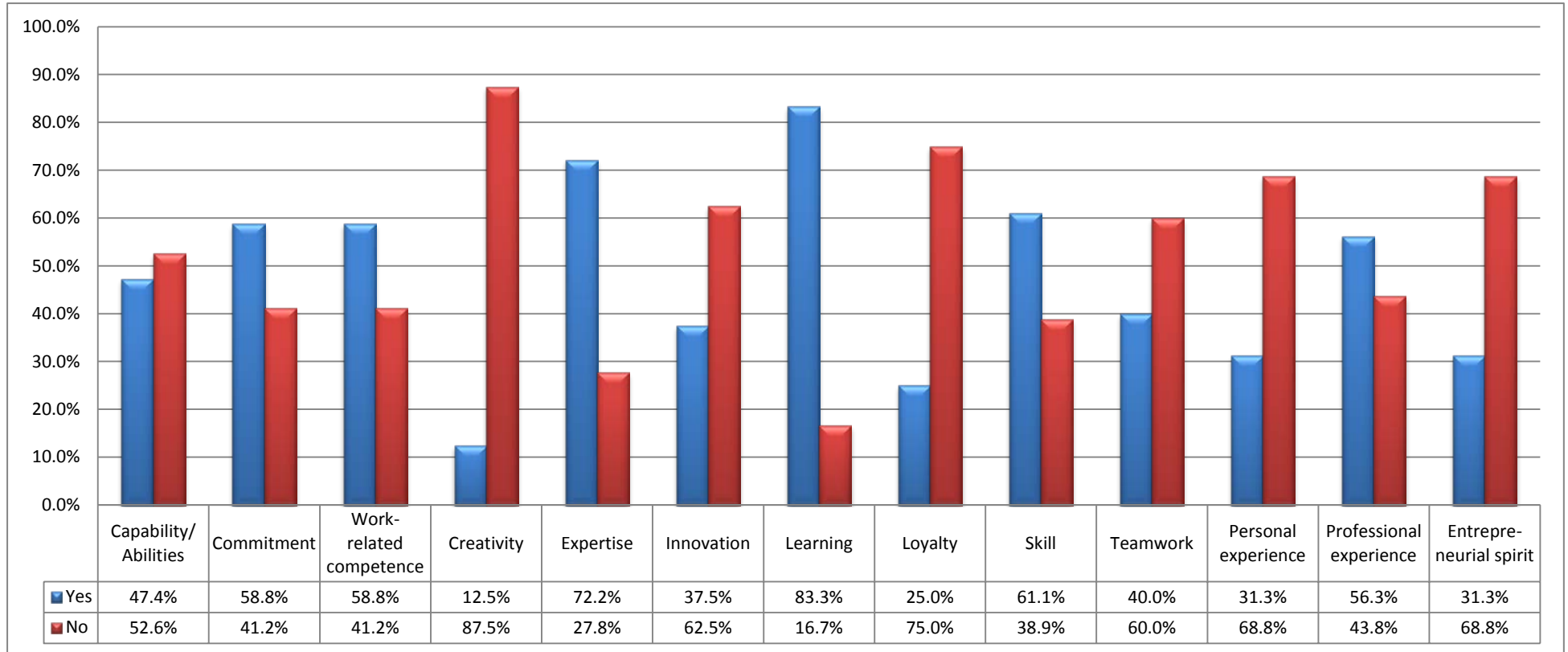


Figure 8.3 shows that learning, expertise and skill ranked as most frequently disclosed features as 83.3% respondents; 72.2% respondents and 61.1% respondents respectively agreed that they provide such information in CARs. Commitment, work-related competence, professional experience, capability and teamwork were moderately disclosed as 58.8%; 58.8%; 56.3%; 47.4% and 40.0% respondents respectively affirm the provision of such information. Other items with low disclosure frequencies are creativity, innovation, loyalty, personal experience and entrepreneur spirit with less than 40% of the respondents agreeing that they do provide such information.

TABLE 8.2: HUMAN CAPITAL FEATURES

HUMAN CAPITAL FEATURES	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Capability/Abilities	0.00	11.10	22.20	55.60	11.10	100.00
Commitment	0.00	0.00	40.00	40.00	20.00	100.00
Work-related competence	0.00	0.00	40.00	20.00	40.00	100.00
Creativity	0.00	50.00	0.00	0.00	50.00	100.00
Expertise	0.00	0.00	23.10	53.80	23.10	100.00
Innovation	0.00	16.67	16.67	16.66	50.00	100.00
Learning	0.00	6.70	26.70	46.60	20.00	100.00
Loyalty	0.00	20.00	40.00	40.00	0.00	100.00
Skill	0.00	18.20	9.10	45.40	27.30	100.00
Teamwork	0.00	0.00	40.00	60.00	0.00	100.00
Personal experience	0.00	0.00	40.00	60.00	0.00	100.00
Professional experience	0.00	0.00	44.40	55.60	0.00	100.00
Entrepreneurial spirit	0.00	20.00	20.00	40.00	20.00	100.00

However, table 8.2 shows that creativity; innovation and work-related competence were said to make very strong contributions of 50%; 50% and 40% respectively while capability, commitment, expertise learning, loyalty, skill, teamwork, personal experience, professional experience and entrepreneurial spirit were said to have strong contributions ranging from 40% to 60%.

It appears that the level of disclosure does not correlate with the level of contributions, for instance learning with the highest level of disclosure (83.3%) only had a strong contribution of 46.6% whereas creativity with the lowest level of disclosure (12.5%) was said to have a very strong contribution of 50.0%.

8.2.2.3 Human capital relations

This section shows the level of disclosure in the HC relations attributes and the respective contributions of each of these attributes to value creation.

FIGURE 8.4: HUMAN CAPITAL RELATIONS

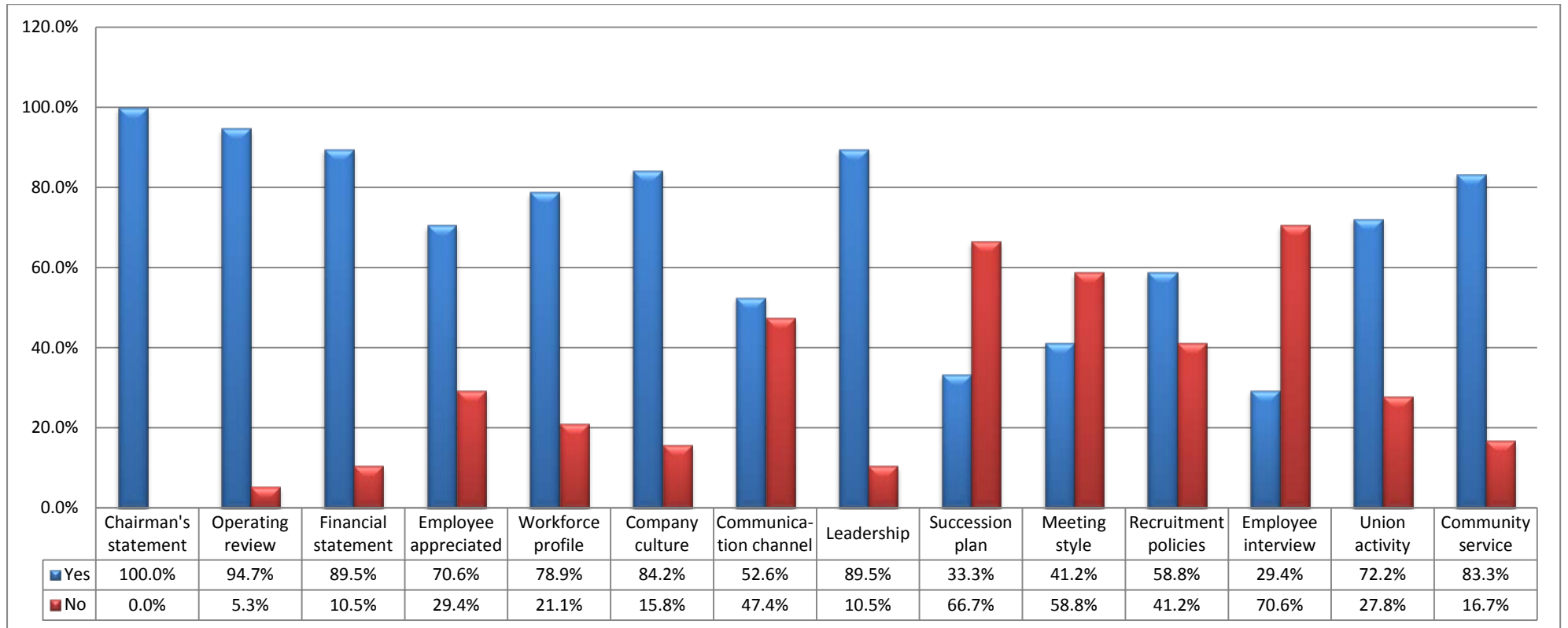


Figure 8.4 shows that human capital related disclosures were frequently disclosed in the Chairman's statement, operating review and the financial statements because 100%; 94.7% and 89.5% respondents respectively agreed that they provide information on these attributes. Other specific attributes which were also frequently reported are leadership, company culture, community service, workforce profile, union activity and employee appreciated having 89.5%; 84.2%; 83.3%; 72.2% and 70.6% respondents respectively stating that they provide information on them. Other attributes that were moderately disclosed are recruitment policies, communication channel and meeting style with 58.8%; 52.6% and 41.2% of the respondents respectively agreeing that they provide such information. Attributes which were rarely disclosed are succession plan and employee interview as only 33.3% and 29.4% respondents respectively indicated that they do provide such information.

TABLE 8.3: HUMAN CAPITAL FEATURES

HUMAN CAPITAL RELATIONS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Chairman's statement	5.30	0.00	36.80	36.80	21.10	100.00
Operating review	0.00	0.00	27.80	27.80	44.40	100.00
Financial statement	0.00	12.50	6.30	31.20	50.00	100.00
Employee appreciated	0.00	0.00	23.10	30.80	46.10	100.00
Workforce profile	6.30	0.00	31.30	43.60	18.80	100.00
Company culture	0.00	0.00	50.00	37.50	12.50	100.00
Communication channel	0.00	0.00	36.40	45.40	18.20	100.00
Leadership	0.00	0.00	31.20	50.00	18.80	100.00
Succession plan	0.00	0.00	12.50	50.00	37.50	100.00
Meeting style	12.50	25.00	12.50	37.50	12.50	100.00
Recruitment policies	10.00	0.00	20.00	40.00	30.00	100.00
Employee interview	0.00	20.00	20.00	40.00	20.00	100.00
Union activity	0.00	0.00	35.70	42.90	21.40	100.00
Community service	6.30	6.30	12.40	50.00	25.00	100.00

From table 8.3, the perceptions of the preparers group 1 with respect to the relative contributions of the attributes to value creation is highlighted. In line with a high of disclosure frequencies reported on the disclosure of human

capital attributes in the chairman's statement, operating review and the financial statements, the contributions of these disclosures to value creation were 57.9%; 72.2% and 81.2% respectively after combining both very strong and strong contributions.

It seems that the chairman's statement and the operating review contained more of qualitative disclosures on human capital in the form of appreciation to the board, management and employees, appointment and/or resignation of board members and executive management team, report on loss of employees as a result of death and so on. On the other hand, the financial statements often disclose quantitative information about board and executive remuneration and other employees' welfare packages.

Specific attributes which were reported to have strong contributions are employee appreciated, workforce profile, communication channel, leadership, succession plan, recruitment policies, employee interview, union activity and community service with 76.9%; 62.4%; 63.6%; 68.8%; 87.5%; 70.0%; 60.0%; 64.3% and 75.0% respectively. The remaining attributes that is company culture and meeting style showed 50.0% and 50.0% level of contributions respectively after combining both strong and very strong contributions.

It appears that all the items in the human capital relations category are perceived to be important as their disclosures seem to contribute immensely to the value creation capability of human capital intangibles.

8.2.2.4 Human capital measurements

This HCD category reflects a mixture of quantitative and qualitative HC measurement attributes expected to be disclosed in CARs prepared by the financial directors/managers.

FIGURE 8.5: HUMAN CAPITAL MEASUREMENTS

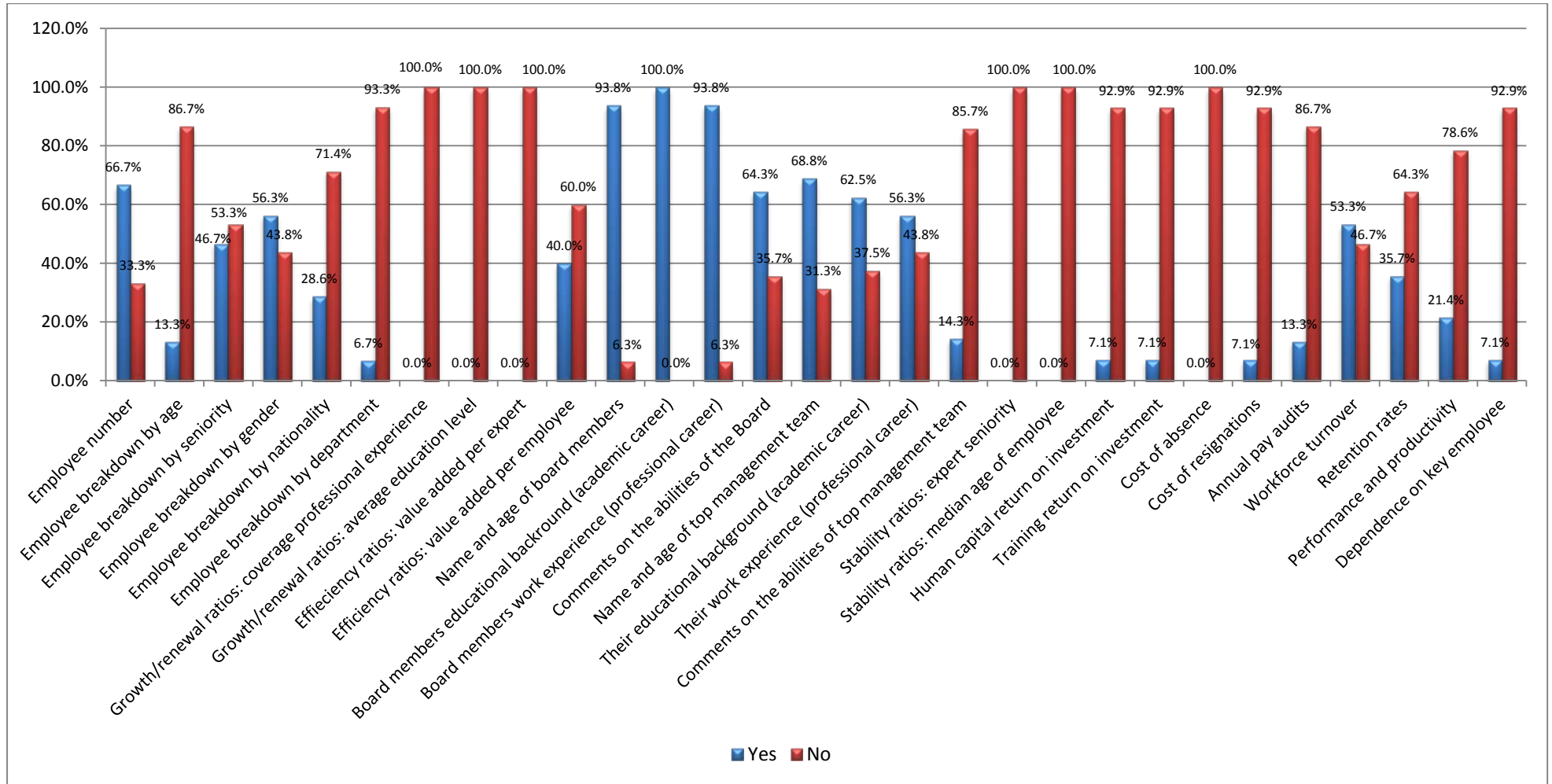


Figure 8.5 above shows the perspective of financial managers and directors on the disclosure of the quantitative and qualitative attributes in the table. This result shows that the names, ages, educational background and work experience of the board members and management team are perceived to be the items that are frequently disclosed as the percentage of respondents who agreed to this are in the range of 56.3% to 100%. This means the majority of the financial directors provide information on these issues in their CARs. This is partly due to increased desire by companies to ensure compliance with the King code of corporate governance which encourages disclosures on the experience of board members and executive functions particularly the finance function.

However, comments on abilities of the management team had 14.3% of respondents saying yes to its disclosure which invariably means that 85.7% do not provide such information in their CARs; this may be as a result of the inability to measure precisely human ability or capability. With respect to other qualitative items such as information on annual pay audits; performance and productivity and dependence on key employee, only few respondents (13.3%; 21.4% and 7.1% respectively) agreed that they provide information on them. Some organisations may feel that these should be kept within the management circle and therefore should not be disclosed in a public document such as CARs.

With respect to the quantitative items, 66.7% of the respondents agreed they provide information on employee number in their CARs; this is closely followed by employee breakdown by gender with 56.3% of the respondents agreeing that they provide information on this issue. One of the reasons for this is that information on gender is expected to be provided as required by the employment equity act. Also, 46.7% of respondents agreed that they provide information on the employees' seniority. Only 28.6% and 6.7% of the respondents agreed that they provide information on employees' nationality and departments respectively. A total of 53.3%; 40% and 35.7% of the respondents agreed that they provide information on workforce turnover;

value added by employees and retention rates respectively. Other quantitative items with 0% disclosure levels are information on average professional experience, average education level, value added by expert, expert seniority, median age of employees and cost of absence as 100% of all the respondents indicated that they do not provide information on these attributes.

TABLE 8.4: HUMAN CAPITAL MEASUREMENTS

HUMAN CAPITAL MEASUREMENTS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Employee number	30.00	0.00	20.00	40.00	10.00	100.00
Employee breakdown by age	0.00	33.33	33.33	33.34	0.00	100.00
Employee breakdown by seniority	42.90	0.00	57.10	0.00	0.00	100.00
Employee breakdown by gender	22.20	11.10	66.70	0.00	0.00	100.00
Employee breakdown by nationality	0.00	25.00	25.00	25.00	25.00	100.00
Employee breakdown by department	0.00	50.00	50.00	0.00	0.00	100.00
Growth/renewal ratios: average professional experience	0.00	0.00	100.00	0.00	0.00	100.00
Growth/renewal ratios: average education level	0.00	0.00	0.00	0.00	100.00	100.00
Efficiency ratios: value added per expert	0.00	0.00	100.00	0.00	0.00	100.00
Efficiency ratios: value added per employee	0.00	20.00	40.00	40.00	0.00	100.00
Name and age of board members	7.70	15.40	38.40	30.80	7.70	100.00
Board members educational background (academic career)	0.00	21.40	14.30	50.00	14.30	100.00
Board members work experience (professional career)	0.00	15.40	23.10	53.80	7.70	100.00
Comments on the abilities of the Board	0.00	0.00	44.43	44.43	11.14	100.00
Name and age of top management team	0.00	22.23	44.44	33.33	0.00	100.00
Their educational background (academic career)	0.00	25.00	37.50	37.50	0.00	100.00
Their work experience (professional career)	0.00	42.80	28.60	28.60	0.00	100.00

TABLE 8.4: HUMAN CAPITAL MEASUREMENTS (CONT...)

HUMAN CAPITAL MEASUREMENTS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Comments on the abilities of top management team	0.00	0.00	50.00	25.00	25.00	100.00
Stability ratios: expert seniority	0.00	0.00	100.00	0.00	0.00	100.00
Stability ratios: median age of employee	0.00	0.00	100.00	0.00	0.00	100.00
Human capital return on investment	0.00	0.00	50.00	0.00	50.00	100.00
Training return on investment	0.00	0.00	50.00	50.00	0.00	100.00
Cost of absence	0.00	0.00	100.00	0.00	0.00	100.00
Cost of resignations	0.00	50.00	50.00	0.00	0.00	100.00
Annual pay audits	0.00	0.00	33.30	0.00	66.70	100.00
Workforce turnover	0.00	0.00	28.60	57.10	14.30	100.00
Retention rates	0.00	0.00	33.30	16.70	50.00	100.00
Performance and productivity	0.00	0.00	25.00	25.00	50.00	100.00
Dependence on key employee	0.00	0.00	50.00	0.00	50.00	100.00

Table 8.4 shows the respondents' perception of the relative contributions of the disclosure items in the HCD category. Over 60% of respondents claimed that attributes such as the educational background and the professional experience of board members have strong contribution to value creation. Other attributes in this category are annual pay audits, workforce turnover, retention rates and performance and productivity with 66.7%; 71.4%; 66.7% and 75% respectively make strong contributions. However, 100% of the respondents claimed that average educational level of employees contributes a very strong contribution to value creation. This is true in the sense that an educated and trained workforce will contribute greater value than an uneducated and untrained workforce; this explains why companies devote a significant proportion of funds to training and retraining of their workforce.

Also, more than 50% of the respondents claimed that attributes such as employee number; employee nationality; comments on board's ability; comments on top management ability; human capital return on investment

and dependence on key employee have a strong contribution to value creation.

In another dimension, 100% of the respondents agreed that attributes such as average professional experience; value added per expert; expert seniority; median age of employees; cost of absence make a moderate contribution to value creation while over 50% claimed that employee breakdown by seniority; employee breakdown by department; comment on the abilities of top management team; human capital return on investment; training return on investment; cost of resignation and dependence on key employee have a moderate contribution to value creation.

However, over 40% of the respondents stated that attributes such as employee breakdown by seniority, professional career of top management team and cost of resignation have weak or no contribution to value creation.

Generally, it appears that the majority of the attributes in this category are seen to make moderate to very strong contribution to value creation although the level of disclosures of these attributes seem to be low as discussed under Figure 8.5 above.

8.2.2.5 Human capital training and development

This section indicates the various HCD attributes related to the human capital training and development category.

FIGURE 8.6: HUMAN CAPITAL TRAINING AND DEVELOPMENT

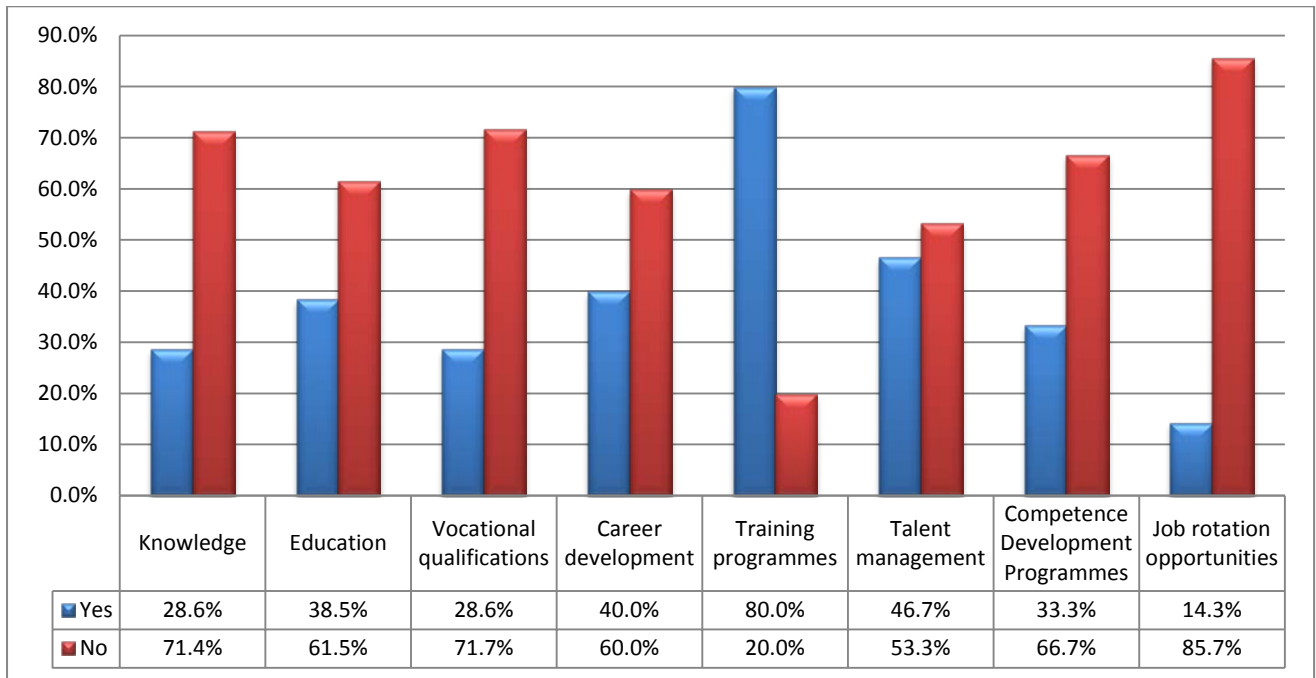


Figure 8.6 shows that 80% of the respondents provide information on training programmes while 20% do not. This is because training is seen as essential to developing the capability of workforce. Most companies report more of qualitative information on training than quantitative information regarding value added by employees.

However, over 50% of the respondents agreed that they do not provide information on other attributes such as knowledge, education, vocational qualifications, career development, talent management, competence development programmes and job rotation opportunities. These issues are very important when assessing the value creation potential of organisations and therefore should be given priority in disclosures in CARs.

From table 8.5, it could be seen that 50% and above of the respondents agreed that all the attributes in this category make strong contribution to value creation although more than 50% agreed that they do not provide information on these.

TABLE 8.5: HUMAN CAPITAL TRAINING AND DEVELOPMENT

HUMAN CAPITAL TRAINING AND DEVELOPMENT	No contribu-tion	Weak contribu-tion	Moderate contribu-tion	Strong contribu-tion	Very strong contribu-tion	Total
	%	%	%	%	%	%
Knowledge	0.00	0.00	40.00	60.00	0.00	100.00
Education	0.00	16.70	33.30	33.30	16.70	100.00
Vocational qualifications	0.00	20.00	20.00	40.00	20.00	100.00
Career development	0.00	0.00	16.70	66.60	16.70	100.00
Training programmes	0.00	0.00	9.10	54.50	36.40	100.00
Talent management	0.00	0.00	14.20	42.90	42.90	100.00
Competence Development Programmes	0.00	0.00	0.00	60.00	40.00	100.00
Job rotation opportunities	0.00	0.00	50.00	50.00	0.00	100.00

It is suggested that the preparers of CARs ought to provide more information on these attributes which are capable of creating values so as to enable CARs to be more decision-useful.

8.2.2.6 Human capital remuneration and welfare

This section shows the disclosure attributes in the human capital remuneration and welfare category.

FIGURE 8.7: HUMAN CAPITAL REMUNERATION AND WELFARE

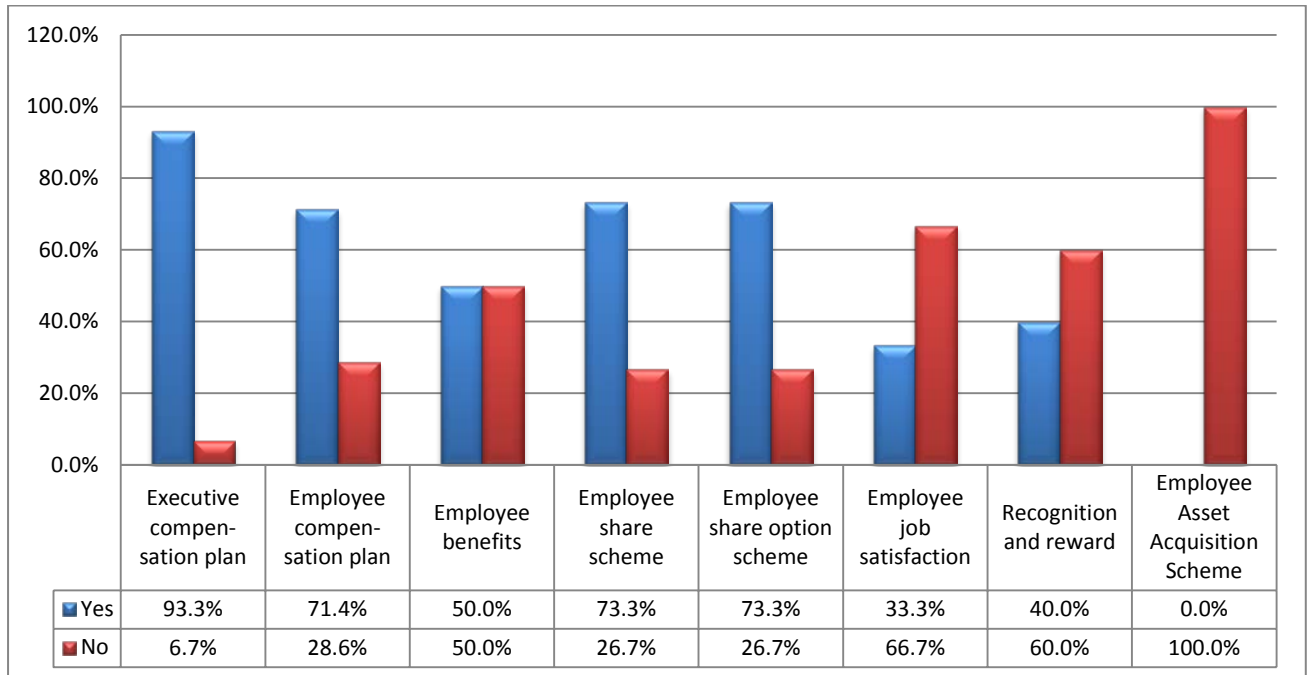


Figure 8.7 shows that over 50% of the respondents provide information on attributes such as executive compensation plan, employee compensation plan, employee benefits, employee share scheme and employee share option scheme while over 60% of the respondents agreed that they do not provide information on such attributes as employee asset acquisition scheme, employee job satisfaction and recognition and reward.

Table 8.6 indicates that over 50% of the respondents agreed that all the attributes in the category have strong to very strong contribution to value creation.

TABLE 8.6: HUMAN CAPITAL REMUNERATION AND WELFARE

HUMAN CAPITAL REMUNERATION AND WELFARE	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Executive compensation plan	0.00	7.60	30.80	30.80	30.80	100.00
Employee compensation plan	0.00	10.00	30.00	20.00	40.00	100.00
Employee benefits	0.00	0.00	16.70	16.70	66.60	100.00
Employee share scheme	0.00	20.00	20.00	40.00	20.00	100.00
Employee share option scheme	0.00	20.00	10.00	50.00	20.00	100.00
Employee job satisfaction	0.00	33.30	16.70	33.30	16.70	100.00
Recognition and reward	0.00	14.30	14.30	14.30	57.10	100.00
Employee Asset Acquisition Scheme	0.00	0.00	0.00	100.00	0.00	100.00

This result portrayed the significance of remuneration and welfare to employees' performance and productivity. In addition, these disclosures are in compliance with the Companies Act and the King III code of corporate governance.

8.2.2.7 Human capital equity issues

This section reflects human capital equity issues of race, gender, disability and religion.

FIGURE 8.8: HUMAN CAPITAL EQUITY ISSUES

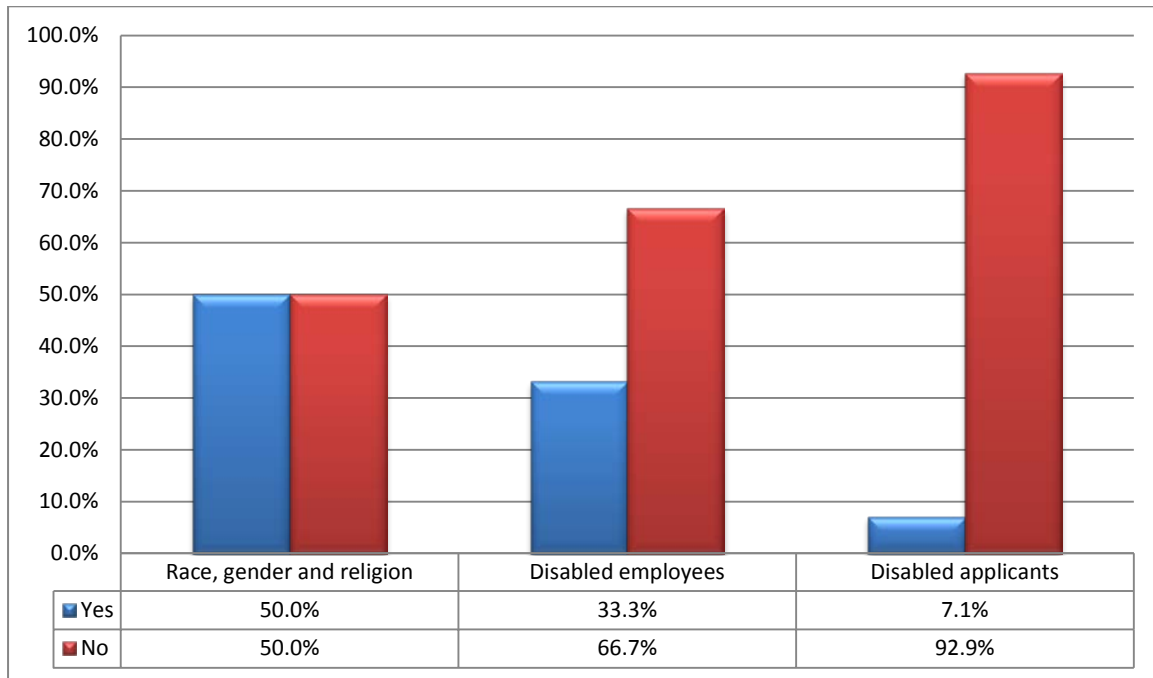


Figure 8.8 shows that 50% of the respondents provide information on race, gender and religion while 50% do not. Information on disabled applicants and employees is not provided by 92.9% and 66.7% respondents respectively. On the other hand, table 8.7 below shows that 57.1% and 42.9% of the respondents claimed that information on race; gender and religion make moderate and strong contributions respectively. 80% and 20% of the respondents agreed that information on disabled employees make moderate and strong contributions respectively. However, 100% respondents agreed that information on disabled employees made a strong contribution to value creation.

TABLE 8.7: HUMAN CAPITAL EQUITY ISSUES

HUMAN CAPITAL EQUITY ISSUES	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Race, gender and religion	0.00	0.00	57.10	42.90	0.00	100.00
Disabled employees	0.00	0.00	80.00	0.00	20.00	100.00
Disabled applicants	0.00	0.00	0.00	100.00	0.00	100.00

The employment equity act requires all companies to provide information on these equity issues, it appears that the majority of the preparers are yet to provide full information on these issues particularly on disabled applicant and employees.

8.2.2.8 Human capital environmental safety

This section deals with issues relating to environmental safety, ethical business policy and corporate social responsibility.

FIGURE 8.9: HUMAN CAPITAL ENVIRONMENTAL SAFETY

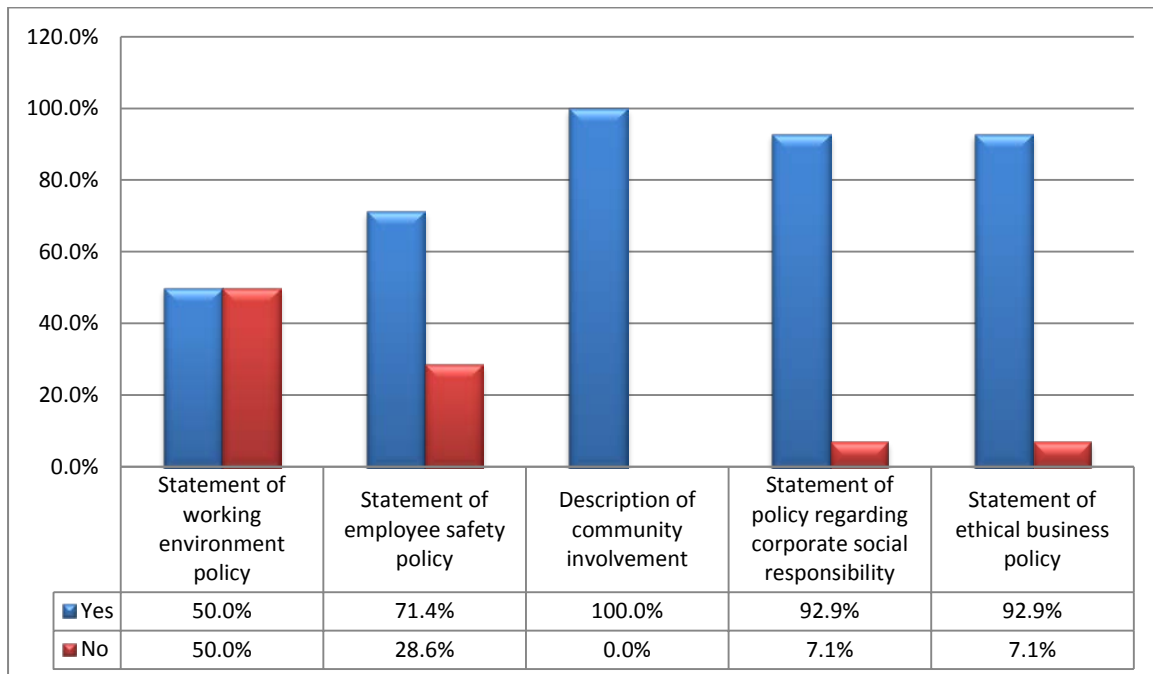


Figure 8.9 shows that a greater percentage that is between 71% and 100% of the respondents provide information on employees' safety policy, corporate social responsibility and community engagement while 50% of the respondents provide information on working environment policy.

Likewise, table 8.8 indicates that a greater percentage of respondents that is between 71% and 78% agreed that these attributes make strong contributions to value creation.

TABLE 8.8: HUMAN CAPITAL ENVIRONMENTAL SAFETY

HUMAN CAPITAL ENVIRONMENTAL SAFETY	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Statement of working environment policy	0.00	0.00	28.60	28.60	42.80	100.00
Statement of employee safety policy	0.00	11.12	11.12	44.43	33.33	100.00
Description of community involvement	7.70	0.00	15.40	46.10	30.80	100.00
Statement of policy regarding corporate social responsibility	8.30	0.00	16.70	33.30	41.70	100.00
Statement of ethical business policy	8.30	0.00	16.70	33.30	41.70	100.00

The results here portrayed the importance attached to environmental safety by companies. It appears to be a good corporate practice to provide adequate information on environmental safety in line with local and international regulations.

8.2.2.9 Human capital health and wellness

This section deals with issues bordering on employees' health and wellness.

FIGURE 8.10: HUMAN CAPITAL HEALTH AND WELLNESS

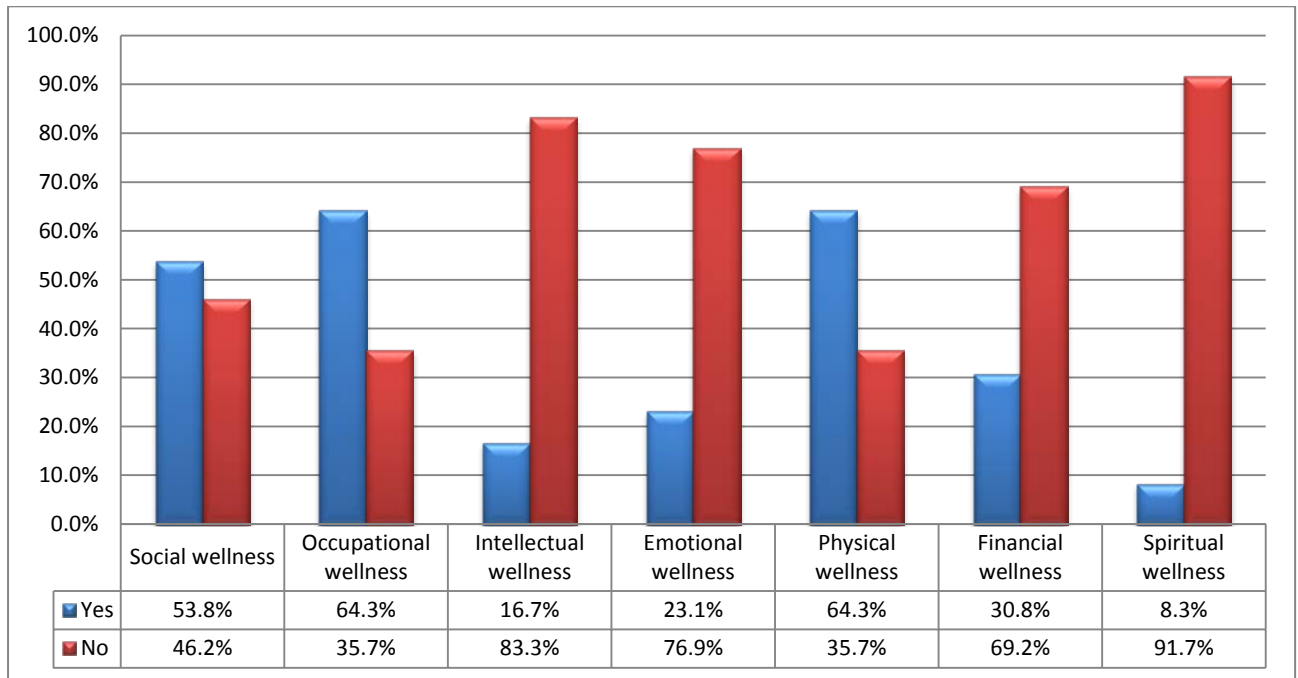


Figure 8.10 reveals that 64.3% of the respondents report on occupational as well as physical wellness while 53.8% of the respondents report on social wellness. Issues bordering on intellectual wellness, emotional wellness, financial wellness and spiritual wellness received little or no attention by this preparer group as 83.3%; 76.9%; 69.2% and 91.7% respondents respectively said that they do not provide information on these attributes.

However, table 8.9 shows that all these attributes are perceived to have moderate contributions to value creation by 55% to 100% of the respondents.

TABLE 8.9: HUMAN CAPITAL HEALTH AND WELLNESS

HUMAN CAPITAL HEALTH AND WELLNESS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Social wellness	0.00	14.30	71.40	14.30	0.00	100.00
Occupational wellness	0.00	22.20	55.60	0.00	22.20	100.00
Intellectual wellness	0.00	50.00	50.00	0.00	0.00	100.00
Emotional wellness	0.00	0.00	100.00	0.00	0.00	100.00
Physical wellness	0.00	0.00	55.60	11.10	33.30	100.00
Financial wellness	0.00	0.00	75.00	0.00	25.00	100.00
Spiritual wellness	0.00	0.00	100.00	0.00	0.00	100.00

It is advisable that the issue of health and wellness should be reported holistically so as to incorporate other aspects of health and wellness that are not reported at the moment. By so doing, the wellness of employees' body, soul and spirit could be monitored and ascertained.

8.3 SUMMARY AND CONCLUSION

A questionnaire consisting of 91 human capital disclosure items was formulated through the information gathered from the literature review chapters 2 to 5. The questionnaire consists of two major questions to confirm whether or not information on these items is provided by the financial directors which constitute the preparers group 1 in this study. The second question was to determine the level of contribution of these attributes to value creation as perceived by this same group of preparers.

The significant issues arising from the questionnaire distributed are that although in a few cases, disclosures are a function of the perceived level of significance of these items, in many cases preparers do not provide adequate information on some items even though these items are perceived to have strong contributions to value creation. Secondly, it appears that companies provide some information in response to some local and international laws and regulations guiding corporate governance and reporting. Some of these laws and regulations were reviewed in Chapter 5.

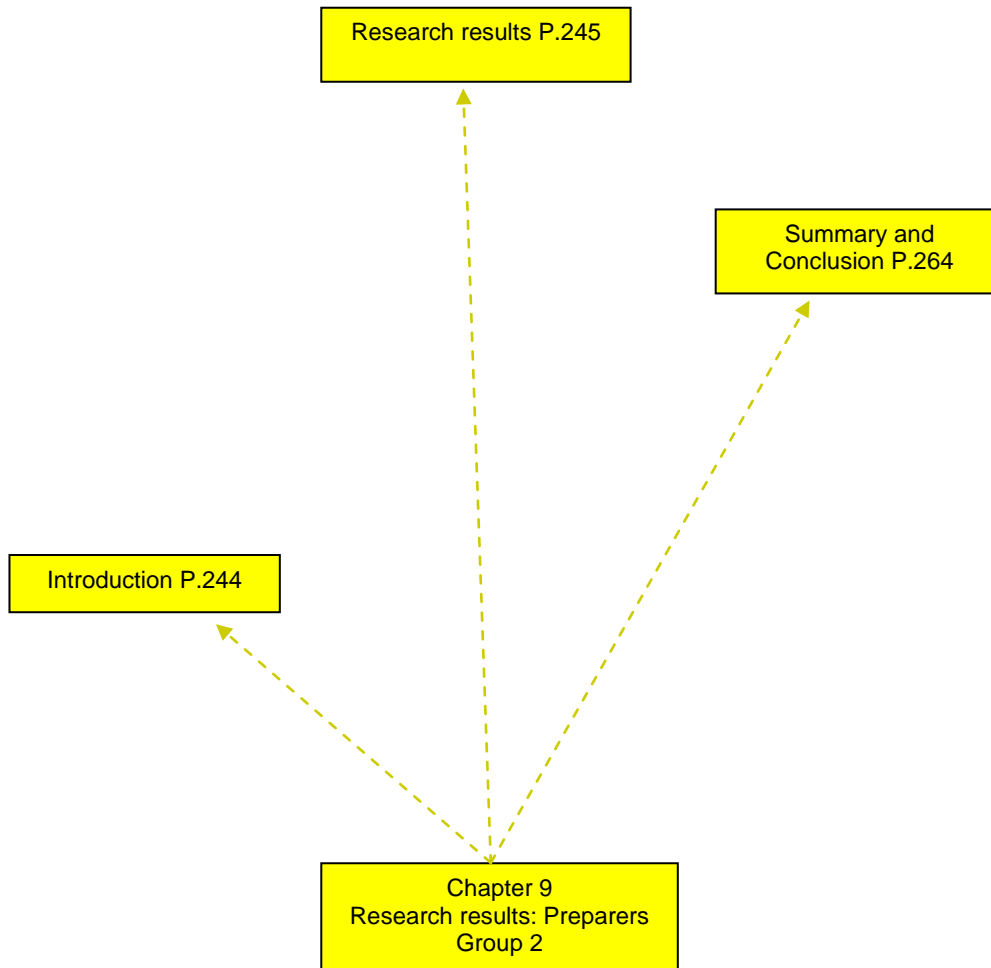
It should be noted that the details underlying the results of questionnaire to this preparer group could be found in AdePhD-CD: the CD which accompanied this thesis report. Readers are kindly requested to read through the CD for these details.

In the chapter that follows, the research results of the second group of preparers are presented.

CHAPTER 9

RESEARCH RESULTS – QUESTIONNAIRES FOR PREPARERS GROUP 2: HUMAN RESOURCE DIRECTORS/ MANAGERS

Figure 9.1: Network view of chapter 9



9.1 INTRODUCTION

In Chapter 8, the research results of the questionnaires distributed to preparers group 1, which is the financial directors/managers were analysed. The need for this second group of preparers arose as a result of the importance of human resources in organisation. All companies in our sample have human resource directorates and are directly involved in issues relating to recruitment, training, welfare and remuneration of employees among other important functions.

In view of the fact that information regarding employees could easily be obtained from the HR department, we decided to treat human resources as preparers group 2. The contact details of the 60 randomly selected companies were collected from the McGregor database and also from the individual company's database. The response rate was 58% (See Chapter 6). Some companies in our sample declined participation in the study by giving reasons such as busy schedule of executives, time constraints and company's policy (See Appendix F for details).

The questionnaire (See Appendix C) contained two questions in line with its objectives which are to determine whether the human capital items are actually disclosed by these preparers and also to determine the extent to which these items contribute to creating value for the company. The first question requires a yes or no answer and if the answer to the first question is yes, the respondent will be required to state the extent to which the HC item contribute to creating value on the rating scale indicated as 'no contribution'; 'weak contribution'; 'moderate contribution'; 'strong contribution' and 'very strong contribution'.

However, the responses of companies who participated in the study are presented in the following section.

9.2 RESEARCH RESULTS

The results of the questionnaires set below include a short description of the disclosure theme, the results in the form of charts, tables and a conclusion. In the discussion of results, the options 'strong contribution' and 'very strong contribution' are taken as 'strong contribution' while the options 'no contribution' and 'weak contribution' are taken as 'weak contribution'.

9.2.1 Human capital terminology

This section seeks to determine the frequently used terminology for human capital and the perception of their value creation capability by the human resource directors.

FIGURE 9.2: HUMAN CAPITAL TERMINOLOGY

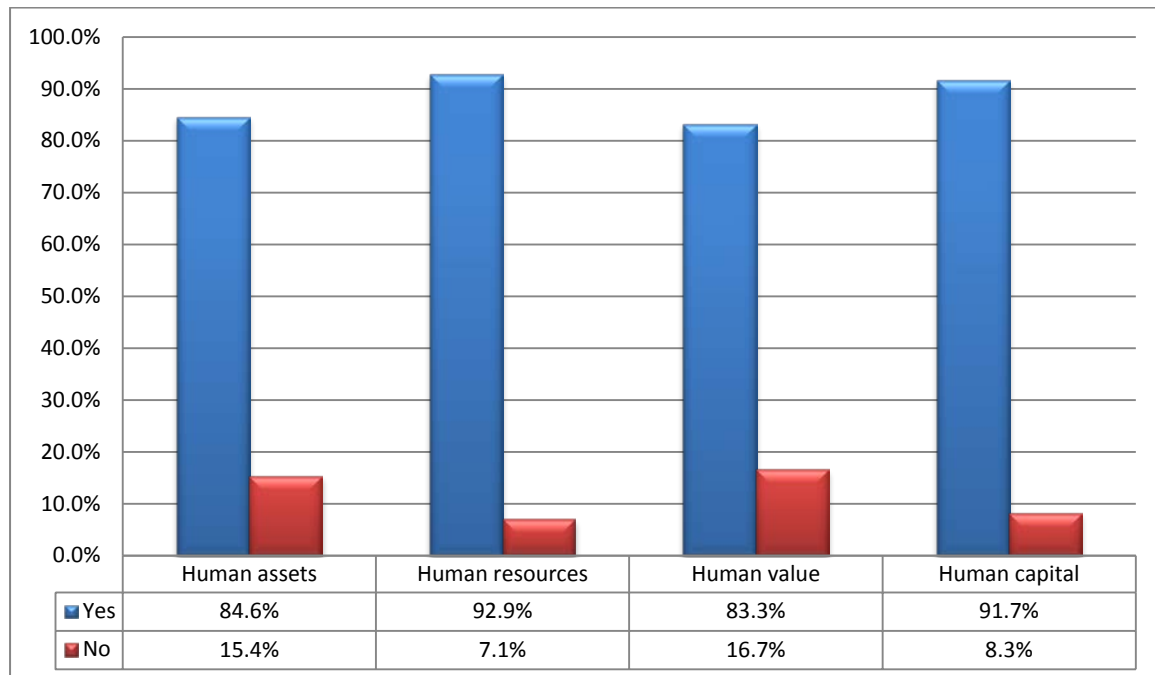


Figure 9.2 shows that almost all the respondents agreed that all the four terminologies are used in CARs and as expected the highest percentage (that is 92.9%) of respondents agreed that human resources is frequently used.

In like manner, table 9.1 shows that the majority of the respondents also agreed that they all make strong contribution to value creation, the highest percentage that 90% agreed that human resources and human capital make strong contribution to value creation.

TABLE 9.1: HUMAN CAPITAL TERMINOLOGY

HUMAN CAPITAL TERMINOLOGY	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Human assets	0.00	0.00	22.23	44.44	33.33	100.00
Human resources	0.00	0.00	10.00	70.00	20.00	100.00
Human value	0.00	0.00	22.20	55.60	22.20	100.00
Human capital	0.00	0.00	10.00	70.00	20.00	100.00

The results show that the four terminologies essentially have the same meaning and potential capacity to contribute value in organisations.

9.2.2 Human capital features

This section aims at discovering the extent to which human resource executives provide information on the HC attributes in this category and to determine the perspective of these executives with respect to value creation by the attributes.

FIGURE 9.3: HUMAN CAPITAL FEATURES

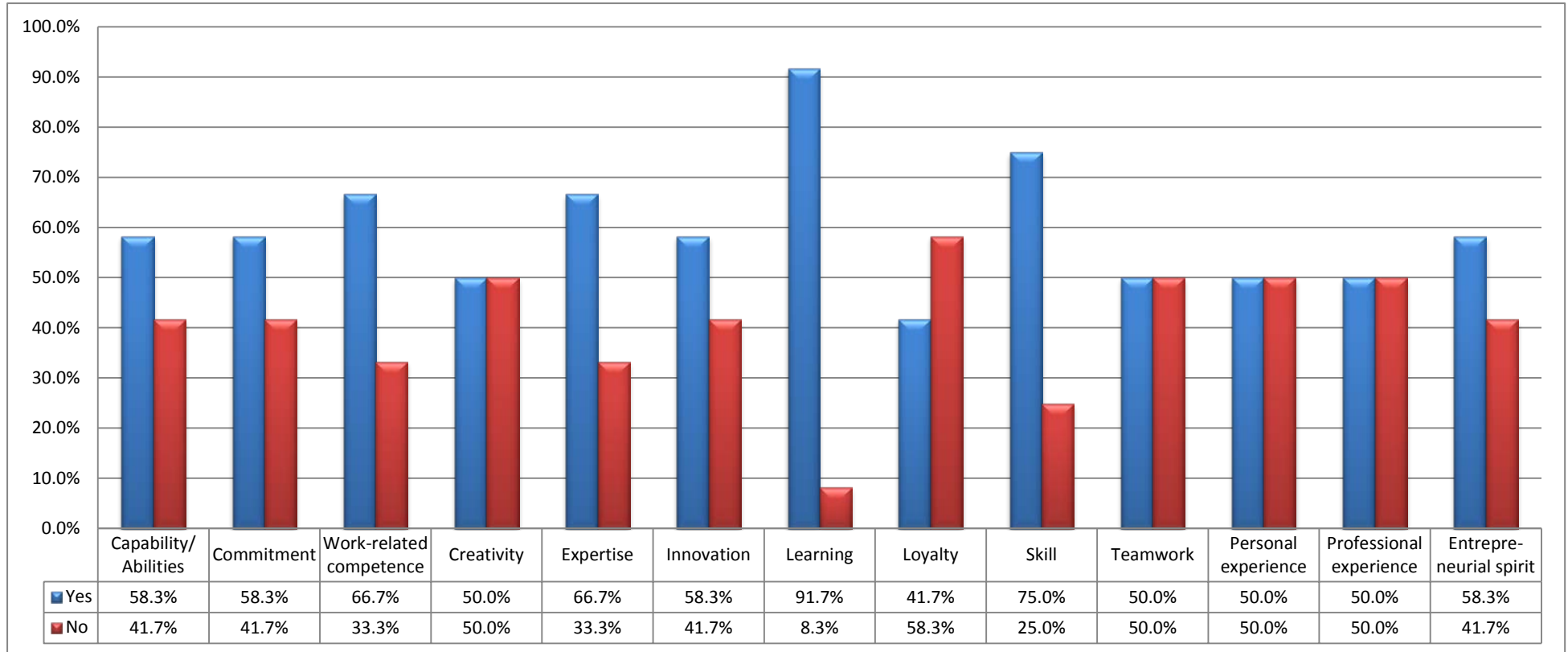


Figure 9.3 above shows that more than 50% of the respondents agreed that they provide information on all the attributes in the human capital features category with the exception of loyalty with only 41.7% of the respondents agreeing that they provide information on this attribute.

However, table 9.2, majority of the respondents (66.6% to 100%) agreed that all the attributes in this category make strong contribution to value creation.

TABLE 9.2: HUMAN CAPITAL FEATURES

HUMAN CAPITAL FEATURES	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Capability/Abilities	0.00	0.00	28.60	57.10	14.30	100.00
Commitment	0.00	0.00	0.00	83.30	16.70	100.00
Work-related competence	0.00	0.00	11.10	77.80	11.10	100.00
Creativity	0.00	0.00	28.60	71.40	0.00	100.00
Expertise	0.00	12.50	12.50	37.50	37.50	100.00
Innovation	0.00	0.00	14.30	85.70	0.00	100.00
Learning	0.00	0.00	20.00	80.00	0.00	100.00
Loyalty	0.00	0.00	50.00	50.00	0.00	100.00
Skill	0.00	0.00	12.50	62.50	25.00	100.00
Teamwork	0.00	0.00	16.70	66.60	16.70	100.00
Personal experience	0.00	0.00	33.34	33.33	33.33	100.00
Professional experience	0.00	0.00	16.70	50.00	33.30	100.00
Entrepreneurial spirit	0.00	0.00	14.30	71.40	14.30	100.00

It appears the human resource directors appreciate the significance of these features as evidenced by the results highlighted above, one reason for this result may be that the attributes in this category represents some key focus areas of human resource departments in most organisations.

9.2.3 Human capital relations

This section deals with the attributes in the human capital relations family.

FIGURE 9.4: HUMAN CAPITAL RELATIONS

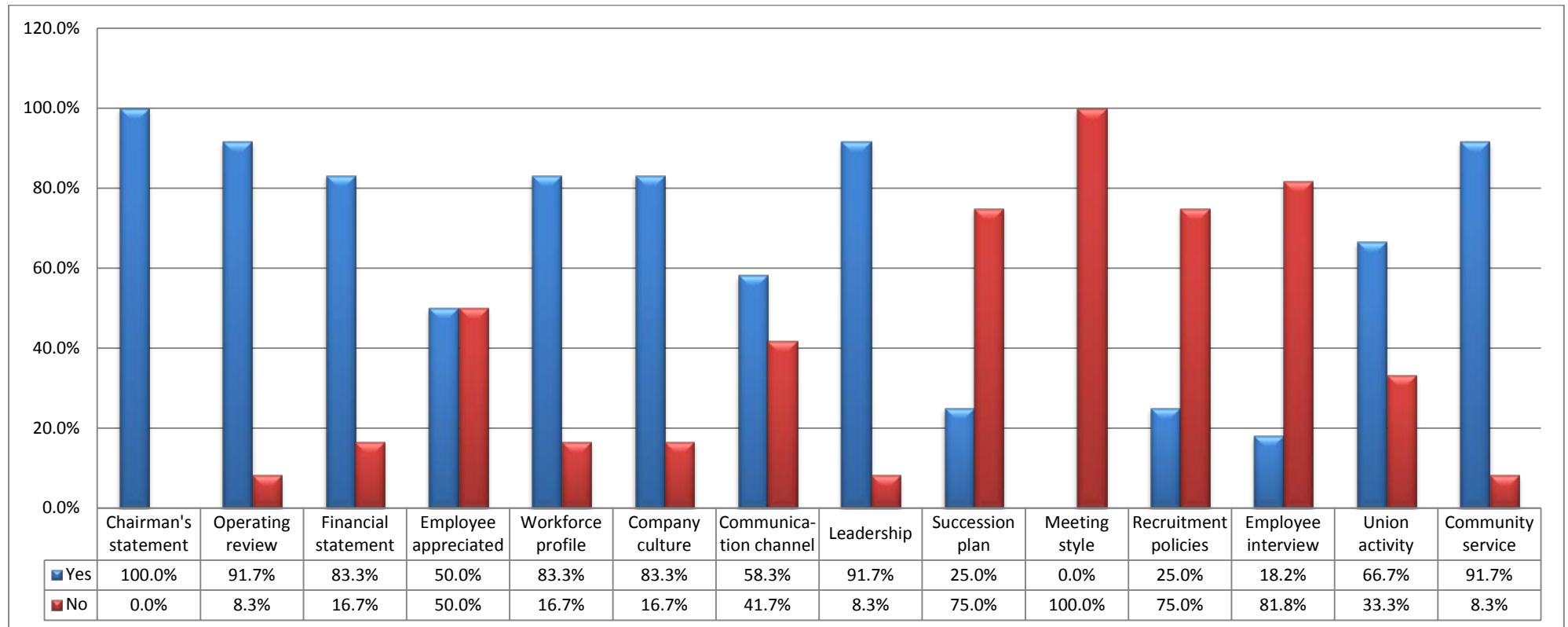


Figure 9.4 shows that human capital related information is most frequently disclosed in the Chairman's statement; operating review and the financial statements as 100%, 91.7% and 83.3% of the respondents respectively agreed to this. Other specific attributes such as employee appreciated; workforce profile; company culture; communication channel; leadership; union activity and community service also have more than 50% of the respondents agreeing that they do provide information on these attributes. However, meeting style; recruitment policies and employee interview have very low disclosure rates within 0% and 25%, the lowest being meeting style with 0%. Table 9.3 shows that the majority of the respondents (50% and above) agreed that all the attributes in this category have strong contribution to value creation. An exception is union activity which only 44.4% of the respondents agreed that this attribute has a strong contribution to value creation.

TABLE 9.3: HUMAN CAPITAL RELATIONS

HUMAN CAPITAL RELATIONS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Chairman's statement	0.00	9.10	27.30	63.60	0.00	100.00
Operating review	0.00	0.00	20.00	80.00	0.00	100.00
Financial statement	0.00	10.00	10.00	80.00	0.00	100.00
Employee appreciated	0.00	0.00	50.00	37.50	12.50	100.00
Workforce profile	0.00	10.00	30.00	40.00	20.00	100.00
Company culture	0.00	11.10	0.00	77.80	11.10	100.00
Communication channel	0.00	0.00	28.60	57.10	14.30	100.00
Leadership	0.00	20.00	0.00	60.00	20.00	100.00
Succession plan	0.00	25.00	25.00	25.00	25.00	100.00
Meeting style	0.00	0.00	50.00	50.00	0.00	100.00
Recruitment policies	0.00	0.00	25.00	75.00	0.00	100.00
Employee interview	0.00	0.00	33.30	66.70	0.00	100.00
Union activity	11.11	33.33	11.13	44.43	0.00	100.00
Community service	0.00	20.00	10.00	60.00	10.00	100.00

Again, the respondents agreed that information on these attributes in CARs is provided by the majority of them and that these attributes also have strong contributions to value creation.

9.2.4 Human capital measurements

The purpose of this section is to discover whether respondents do supply information on the attributes in this category and also to determine their perception on the relative value creation capability of the attributes.

FIGURE 9.5: HUMAN CAPITAL MEASUREMENTS

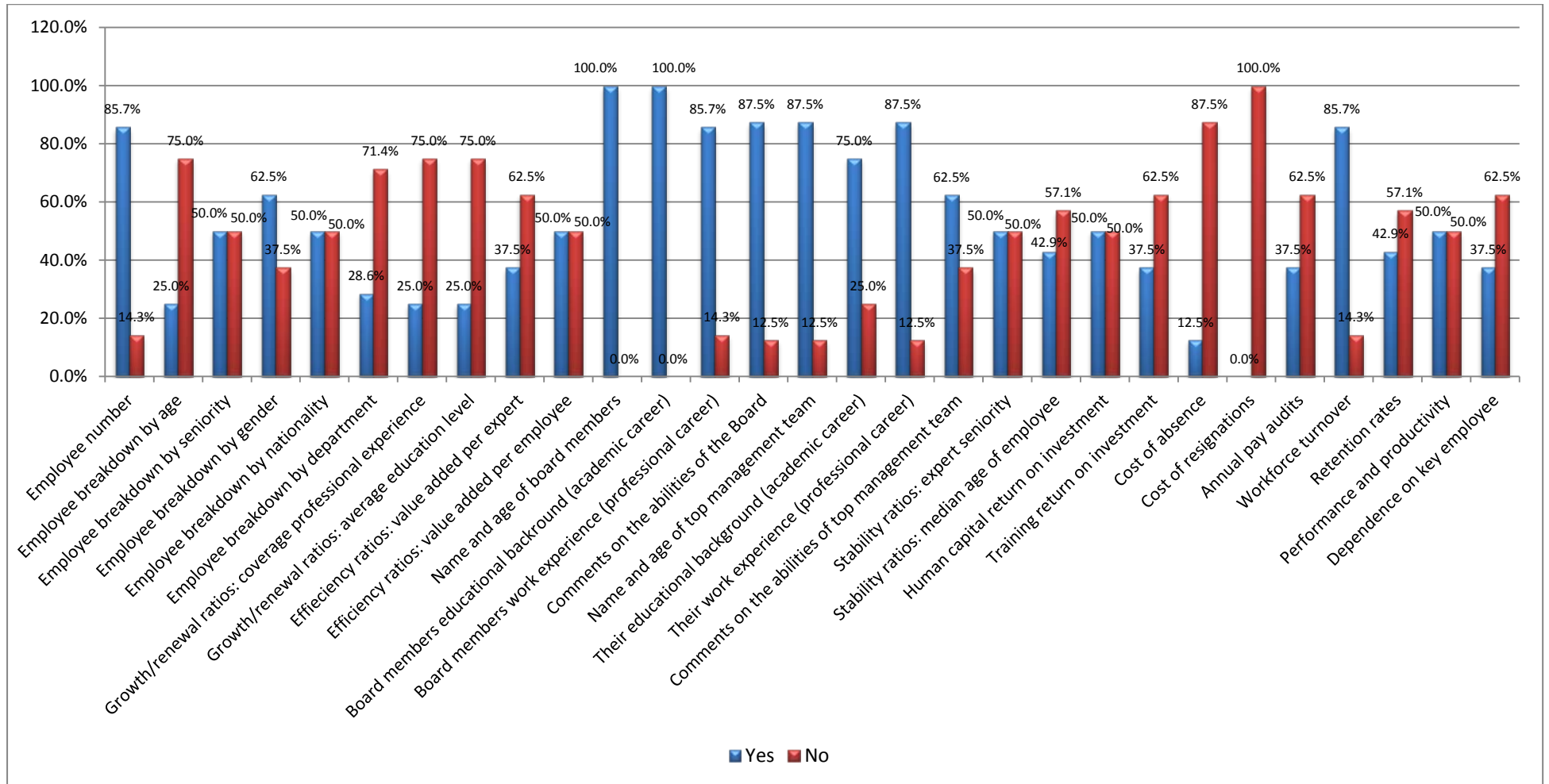


Figure 9.5 shows that all the respondents (100%) agree that they provide information on the name, age and educational background of the board members. Other attributes for which information are provided by at least 50% of the respondents are employee breakdown by seniority; employee breakdown by nationality; value added per employee; expert seniority; employee breakdown by gender; comment on abilities of top management team; educational background of top management team; employee number; work experience of board members; comments on abilities of the board; name and age of top management team; work experience of top management team and workforce turnover. The only attribute which none of the respondents (0%) provided information on is cost of resignations while other attributes that were not reported by more than 50% of the respondents are employee breakdown by age; employee breakdown by department; average professional experience; average education level; value added per expert; training return on investment; cost of absence; annual pay audits and dependence on key employee.

Table 9.4 shows that all the respondents (100%) agreed that human capital return on investment; training return on investment and annual pay audits make strong contribution to value creation. Other attributes which 50% to 80% of the respondents claimed to have strong contribution to value creation are employee number, seniority and gender, average professional experience, name and age of board members, board members' educational background and work experience, comments on the abilities of top management team, workforce turnover, retention rates and dependence on key employees. On the other hand, all the respondents (100%) agreed that information on the cost of resignation make no contribution (0%) to value creation while other attributes which 50% of the respondents claimed to make weak and no contributions are employee breakdown by age, employee breakdown by department, average educational level, expert seniority and cost of absence.

TABLE 9.4: HUMAN CAPITAL MEASUREMENTS

HUMAN CAPITAL MEASUREMENTS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Employee number	0.00	20.00	20.00	40.00	20.00	100.00
Employee breakdown by age	50.00	0.00	0.00	0.00	50.00	100.00
Employee breakdown by seniority	0.00	20.00	20.00	20.00	40.00	100.00
Employee breakdown by gender	20.00	20.00	0.00	20.00	40.00	100.00
Employee breakdown by nationality	25.00	0.00	50.00	0.00	25.00	100.00
Employee breakdown by department	50.00	0.00	50.00	0.00	0.00	100.00
Growth/renewal ratios: coverage professional experience	0.00	0.00	50.00	50.00	0.00	100.00
Growth/renewal ratios: average education level	0.00	50.00	0.00	50.00	0.00	100.00
Efficiency ratios: value added per expert	0.00	33.34	33.33	0.00	33.33	100.00
Efficiency ratios: value added per employee	0.00	0.00	75.00	0.00	25.00	100.00
Name and age of board members	28.54	0.00	14.30	28.57	28.57	100.00
Board members educational background (academic career)	14.30	14.30	14.30	28.55	28.55	100.00
Board members work experience (professional career)	0.00	16.70	16.70	33.30	33.30	100.00
Comments on the abilities of the Board	0.00	0.00	28.60	57.10	14.30	100.00
Name and age of top management team	12.50	25.00	12.50	37.50	12.50	100.00
Their educational background (academic career)	0.00	14.30	28.60	42.80	14.30	100.00

TABLE 9.4: HUMAN CAPITAL MEASUREMENTS (CONT...)

HUMAN CAPITAL MEASUREMENTS	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Their work experience (professional career)	14.30	0.00	28.60	42.80	14.30	100.00
Comments on the abilities of top management team	0.00	20.00	0.00	60.00	20.00	100.00
Stability ratios: expert seniority	0.00	50.00	0.00	25.00	25.00	100.00
Stability ratios: median age of employee	0.00	33.34	33.33	0.00	33.33	100.00
Human capital return on investment	0.00	0.00	0.00	100.00	0.00	100.00
Training return on investment	0.00	0.00	0.00	100.00	0.00	100.00
Cost of absence	50.00	0.00	50.00	0.00	0.00	100.00
Cost of resignations	100.00	0.00	0.00	0.00	0.00	100.00
Annual pay audits	0.00	0.00	0.00	100.00	0.00	100.00
Workforce turnover	0.00	33.30	0.00	66.70	0.00	100.00
Retention rates	0.00	33.30	0.00	66.70	0.00	100.00
Performance and productivity	0.00	0.00	0.00	75.00	25.00	100.00
Dependence on key employee	0.00	0.00	33.34	33.33	33.33	100.00

It seems that the majority of the respondents agree that almost all the items in this category are significant but many of them have not been disclosed in the corporate annual reports.

9.2.5 Human capital training and development

This section details the respondents' perspective on various HC disclosure items in the human capital training and development category.

FIGURE 9.6: HUMAN CAPITAL TRAINING AND DEVELOPMENT

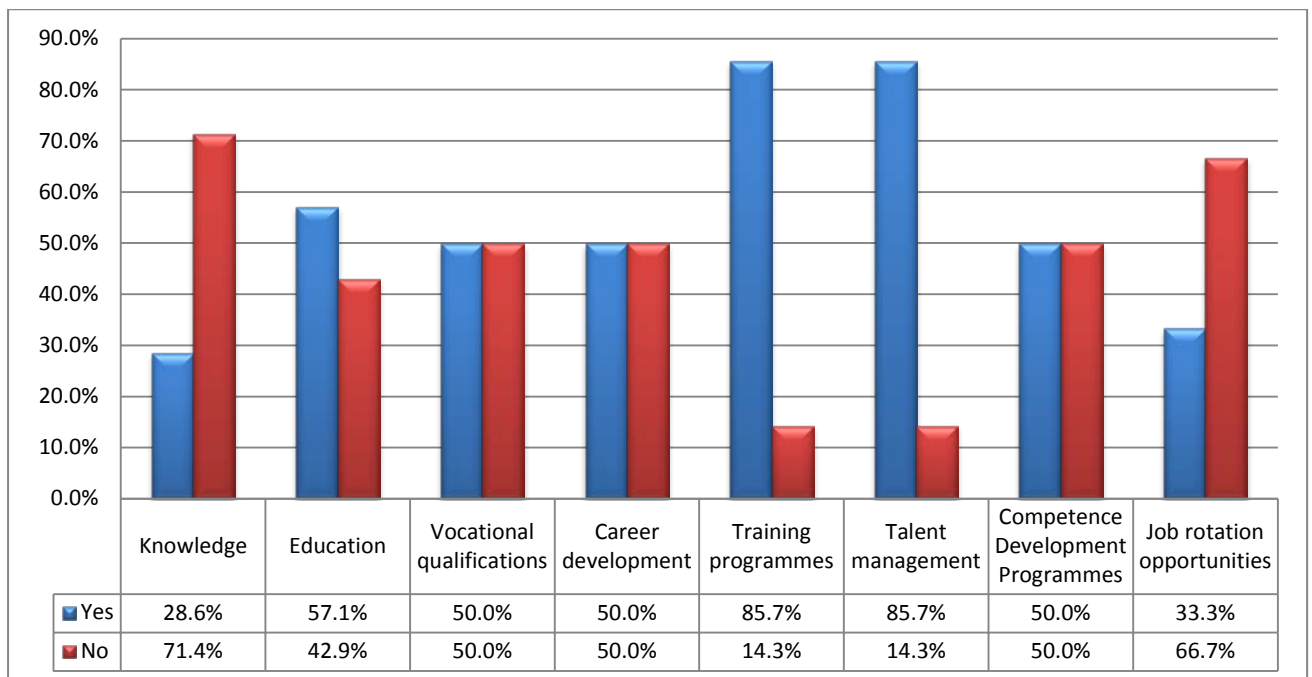


Figure 9.6 shows that more than 50% of the respondents agreed that they provide information on education; training programmes; talent management and competence development programmes while more than 50% of the respondents agreed that they do not provide information on knowledge and job opportunities. For vocational qualifications and career development attributes, 50% of the respondents stated that they do not provide such information while 50% said that they do.

However, table 9.5 shows that more than 50% of respondents agreed that all the attributes make strong contribution to value creation. An exception is job rotation opportunities for which 50% agreed that it has a weak contribution and 50% agreed that it has a very strong contribution.

TABLE 9.5: HUMAN CAPITAL TRAINING AND DEVELOPMENT

HUMAN CAPITAL TRAINING AND DEVELOPMENT	No contribu-tion	Weak contribu-tion	Moderate contribu-tion	Strong contribu-tion	Very strong contribution	Total
	%	%	%	%	%	%
Knowledge	0.00	0.00	0.00	100.00	0.00	100.00
Education	0.00	0.00	25.00	75.00	0.00	100.00
Vocational qualifications	0.00	0.00	33.30	66.70	0.00	100.00
Career development	0.00	0.00	33.30	66.70	0.00	100.00
Training programmes	0.00	0.00	16.70	83.30	0.00	100.00
Talent management	0.00	0.00	16.70	50.00	33.30	100.00
Competence Development Programmes	0.00	25.00	0.00	75.00	0.00	100.00
Job rotation opportunities	0.00	50.00	0.00	0.00	50.00	100.00

The attributes in this category seems to be core areas of human resource function and expectedly, many respondents agreed that they provide information on them.

9.2.6 Human capital remuneration and welfare

This category represents another key area of human resources function in many organisations.

FIGURE 9.7: HUMAN CAPITAL REMUNERATION AND WELFARE

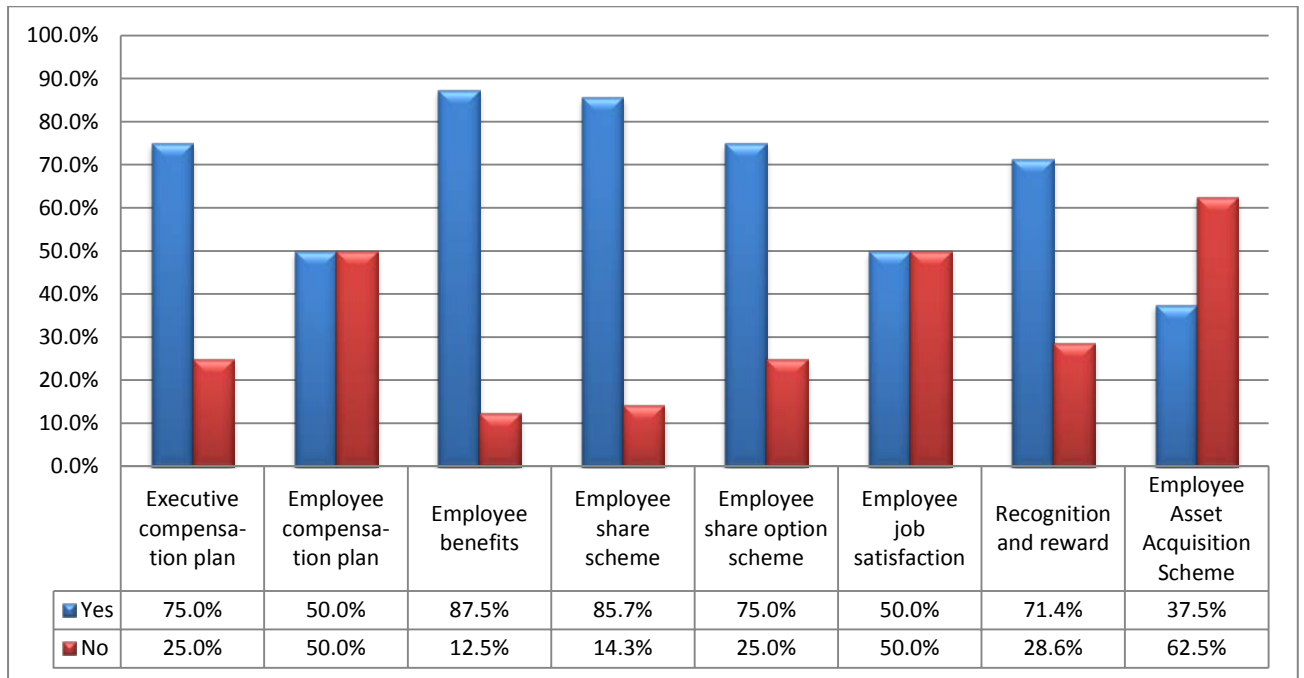


Figure 9.7 depicts that more than 50% of respondents agreed that they provide information on attributes such as executive compensation; employee benefits; employee share scheme; employee share option scheme and recognition and reward. However, 62.5% of the respondents stated that they do not provide information on employee asset acquisition scheme. For employee compensation plan and employee job satisfaction, 50% of the respondents stated that they do provide information on them while 50% said that they do not. Table 9.6 shows that 50% to 83.3% of the respondents agreed that all the attributes in this category make strong contributions to value creation.

TABLE 9.6: HUMAN CAPITAL REMUNERATION AND WELFARE

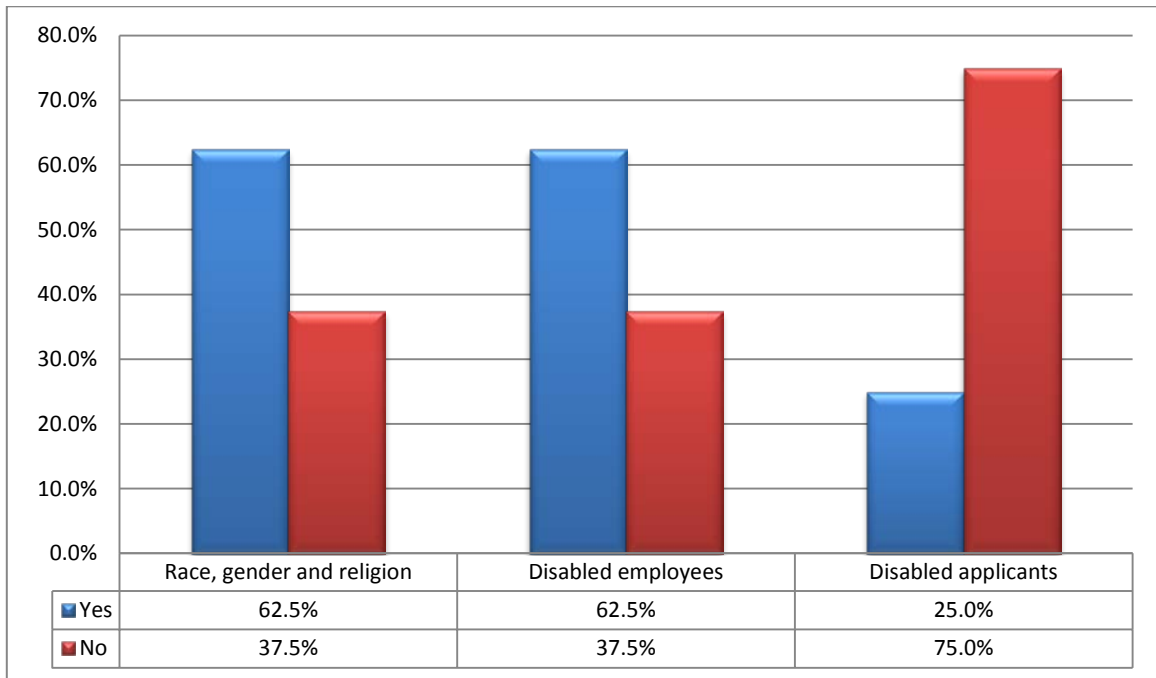
HUMAN CAPITAL REMUNERATION AND WELFARE	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Executive compensation plan	16.64	16.67	16.67	50.00	0.00	100.00
Employee compensation plan	20.00	20.00	20.00	40.00	0.00	100.00
Employee benefits	0.00	0.00	28.60	71.40	0.00	100.00
Employee share scheme	16.70	0.00	16.70	66.60	0.00	100.00
Employee share option scheme	0.00	0.00	16.70	83.30	0.00	100.00
Employee job satisfaction	0.00	25.00	0.00	50.00	25.00	100.00
Recognition and reward	0.00	0.00	33.30	50.00	16.70	100.00
Employee Asset Acquisition Scheme	0.00	33.34	0.00	33.33	33.33	100.00

Generally, the majority of the respondents agreed that they do provide information on these attributes because they represent key areas in human resource function.

9.2.7 Human capital equity issues

This section deals with human capital equity issues such as race; gender; religion and disability.

FIGURE 9.8: HUMAN CAPITAL EQUITY ISSUES



A total of 62.5% of the respondents agreed to provide information on race; gender and religion and disabled employees while 75% said that they do not provide information on disabled applicants. The table below also shows that 50%; 60% and 100% of the respondents stated that the information on race, gender and religion; disabled employees and disabled applicants respectively make moderate contributions to value creation.

TABLE 9.7: HUMAN CAPITAL EQUITY ISSUES

HUMAN CAPITAL EQUITY ISSUES	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Race, gender and religion	0.00	25.00	50.00	25.00	0.00	100.00
Disabled employees	0.00	20.00	60.00	20.00	0.00	100.00
Disabled applicants	0.00	0.00	100.00	0.00	0.00	100.00

Overall, information on equity issues is usually provided in the CARs of many companies.

9.2.8 Human capital environmental safety

This section shows the responses of human resource directors to human capital environmental safety issues.

FIGURE 9.9: HUMAN CAPITAL ENVIRONMENTAL SAFETY

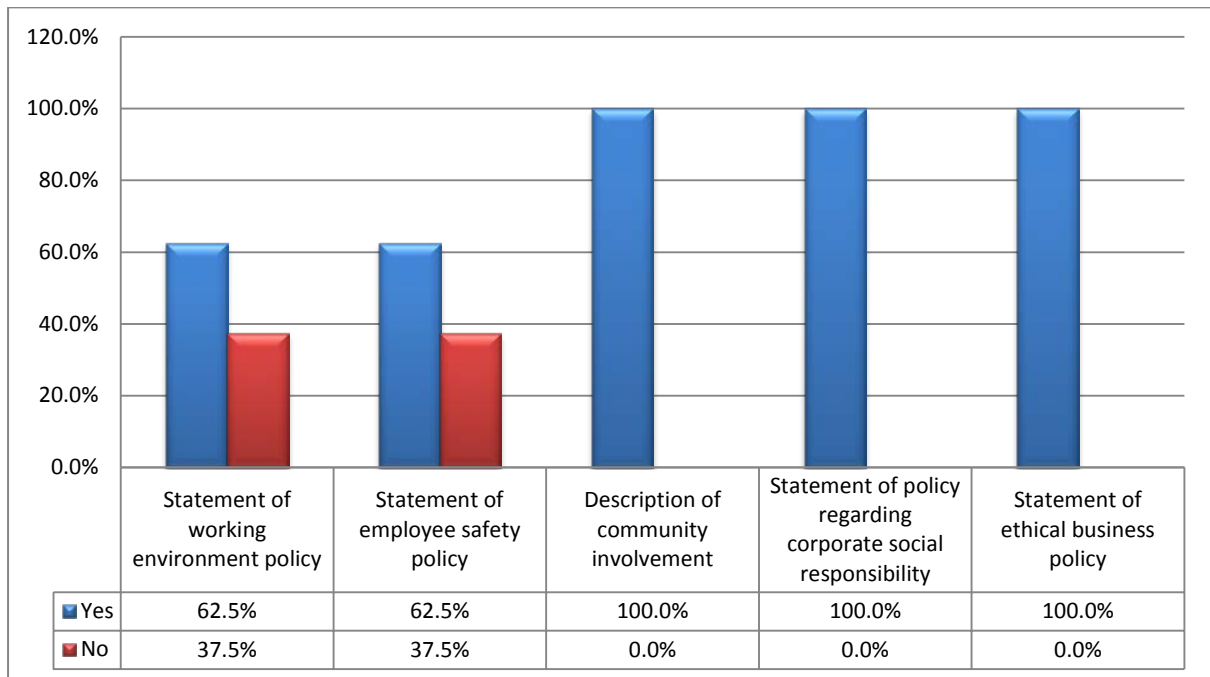


Figure 9.9 shows that all the respondents agree that they provide information on community engagement; corporate social responsibility and ethical business policy while 62.5% of the respondents agree that they provide information on working environment policy and employee safety policy. The supporting table 9.8 shows that more than 75% of the respondents agree that these attributes make strong and very strong contributions.

TABLE 9.8: HUMAN CAPITAL ENVIRONMENTAL SAFETY

HUMAN CAPITAL ENVIRONMENTAL SAFETY	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Statement of working environment policy	0.00	0.00	20.00	80.00	0.00	100.00
Statement of employee safety policy	0.00	0.00	20.00	80.00	0.00	100.00
Description of community involvement	12.50	12.50	0.00	50.00	25.00	100.00
Statement of policy regarding corporate social responsibility	12.50	12.50	0.00	37.50	37.50	100.00
Statement of ethical business policy	0.00	0.00	12.50	37.50	50.00	100.00

Generally, information on environmental safety is also commonly reported in the corporate annual reports.

9.2.9 Human capital health and wellness

This HCD category deals with issues relating to employees' health and wellness.

FIGURE 9.10: HUMAN CAPITAL HEALTH AND WELLNESS

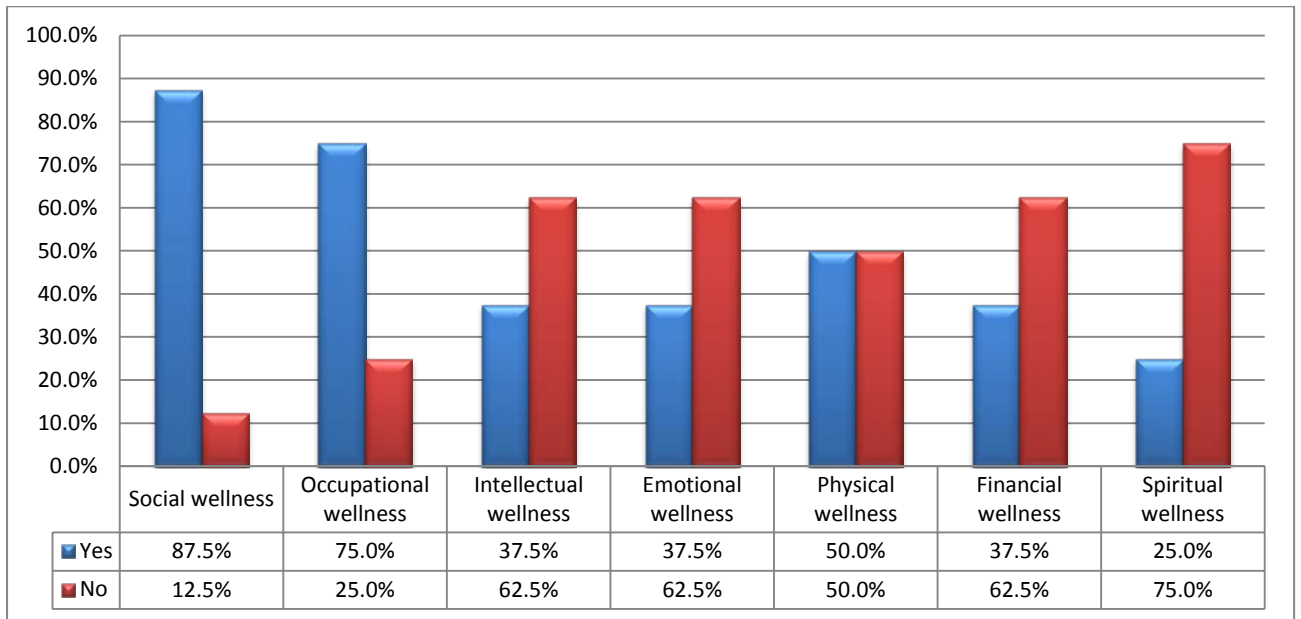


Figure 9.10 shows that 87.5% and 75% of the respondents agree that they provide information on social and occupational wellness respectively while 62.5% to 75% of the respondents stated that they do not provide information on intellectual, emotional, financial and spiritual wellness. With regards to physical wellness, 50% of the respondents agreed that they provide such information while 50% said that they do not. From table 9.9, apart from intellectual wellness which 66.7% of the respondents agreed that it has a moderate contribution, all other attributes were said to have very strong and strong contributions by 66.6% to 100% of respondents.

TABLE 9.9: HUMAN CAPITAL HEALTH AND WELLNESS

HUMAN CAPITAL HEALTH AND WELLNESS	No contribu-tion	Weak contribu-tion	Moderate contribu-tion	Strong contribution	Very strong contribution	Total
	%	%	%	%	%	%
Social wellness	0.00	0.00	33.30	66.70	0.00	100.00
Occupational wellness	0.00	0.00	16.70	66.60	16.70	100.00
Intellectual wellness	0.00	0.00	66.70	0.00	33.30	100.00
Emotional wellness	0.00	0.00	25.00	75.00	0.00	100.00
Physical wellness	0.00	0.00	0.00	66.70	33.30	100.00
Financial wellness	0.00	0.00	0.00	66.70	33.30	100.00
Spiritual wellness	0.00	0.00	33.34	33.33	33.33	100.00

It appears that physical and occupational wellness received more attention in the corporate annual reports than other aspects of human capital health and wellness.

9.3 SUMMARY AND CONCLUSION

Similar to the steps taken in the case of preparers group 1 reported in Chapter 8, a questionnaire consisting of 91 human capital disclosure items which was formulated through the information gathered from the literature review chapters 2 to 5. The questionnaire consists of two major questions to confirm whether or not information on these items is provided by the human resource directors which constitute the preparers group 2 in this study. The second question was to determine the level of contribution of these attributes to value creation as perceived by this same group of preparers.

The significant issues arising from the questionnaire distributed to the human resource directors is that their responses with regards to disclosures of many items are largely at variance with those of the financial directors. While the human resource directors agreed that information are provided on certain items, the financial directors who actually prepare CARs agree that these same items are not being reported on. It then appears that some information on these items remained within the domains of the HR directorates and is not forwarded as an input to the CARs prepared by the financial directors.

On the other hand, assuming such information is forwarded from the HR directorates, the finance directors may not see the need to incorporate them since there are no laws and regulations which make it binding on them to report on such human capital disclosure items.

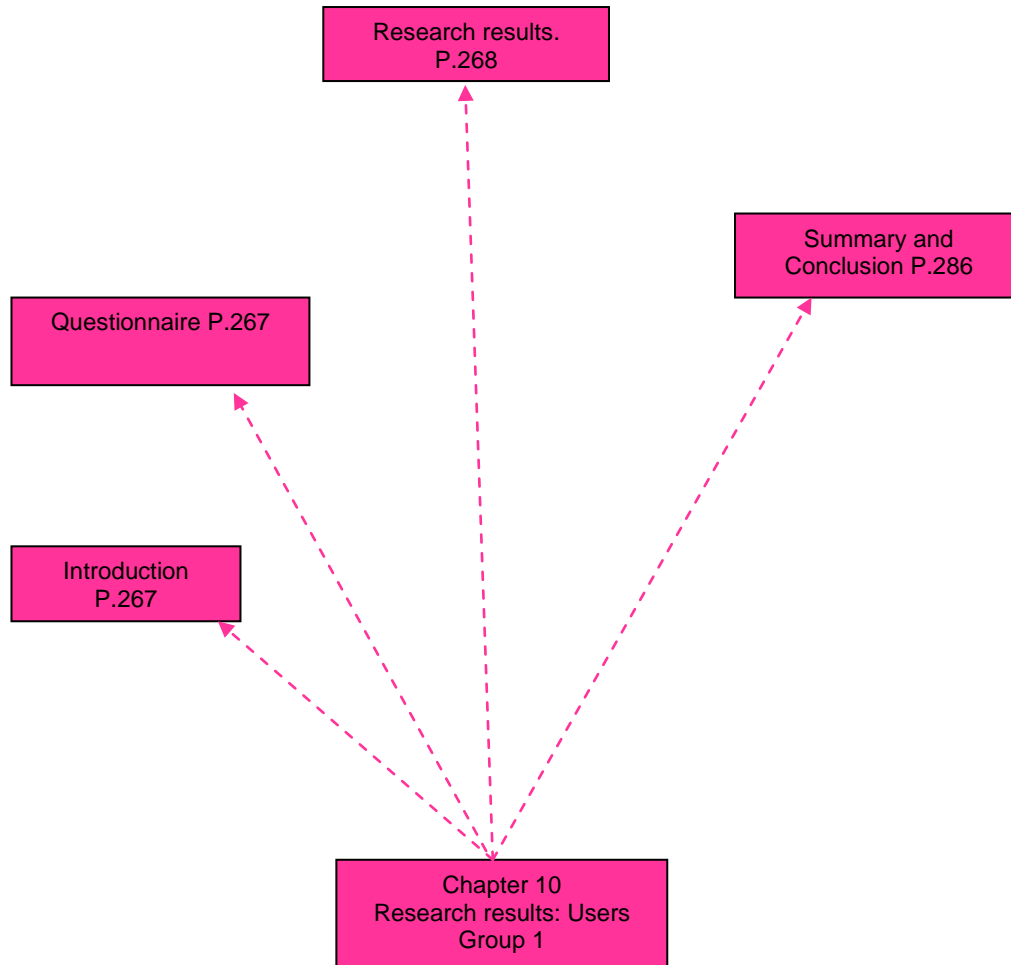
It should be noted that the details underlying the results of this preparer group could also be found in AdePhD-CD: the CD which accompanied this thesis report. Readers are kindly requested to read through the CD for these details.

The next two chapters present the results of users of CARs also grouped into two categories referred to as the investment analysts as well as regulators and government departments.

CHAPTER 10

RESEARCH RESULTS – QUESTIONNAIRES FOR USERS GROUP 1: INVESTMENT ANALYSTS

Figure 10.1: Network view of chapter 10



10.1 INTRODUCTION

In chapter 8, it was stated that questionnaires were sent to two groups of preparers referred to as financial directors and human resource directors and two groups of users referred to as investment analysts and regulators and government departments. The questionnaire to investment analysts contained two questions in line with its objectives which are to determine whether the human capital items are actually identified by these users and also to determine the degree of these items' usefulness to their decision-making with regards to the measurement and determination of an organisation's value. The first question requires a yes or no answer and if the answer to the first question is yes, the respondent will be required to state the degree of usefulness of those items with regards to their decision-making on the rating scale indicated as 'not useful at all'; 'of little usefulness'; 'neutral'; 'useful' and 'very useful'.

This chapter covers the responses from users group 1 having a layout consisting of an introduction, research results as well as a summary and conclusion. The next chapter deals with responses of users group 2.

10.2 QUESTIONNAIRE FOR USERS GROUP 1

For the purpose of this study, the investment analysts are identified as Users group 1. Please refer to appendix D for the questionnaire used for this group.

10.2.1 Introduction

A list of investment analysts were obtained from the official website of the Johannesburg Stock Exchange website after several attempts to receive contact details of investment analysts from organisations such as the Investment Analysts Society of South Africa (IASSA) failed because they all declined providing details of their members (See Appendix G). Questionnaires (See Appendix D) were distributed by email to 63 analysts and 37 responses

were received giving a response rate of 59%.The responses were submitted through the online survey system.

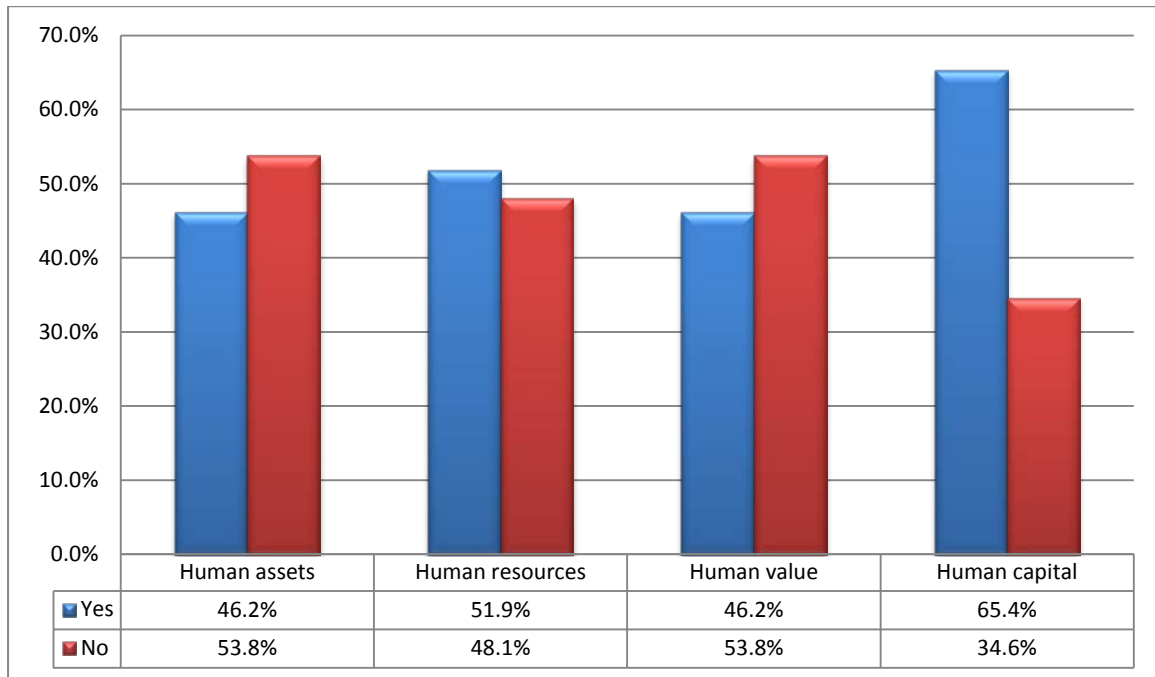
10.3 RESEARCH RESULTS

The results of the questionnaires set below include a short description of the disclosure theme, the results in the form of charts, tables and a conclusion. In the discussion of results, the options ‘useful’ and ‘very useful’ are taken as ‘useful’ while the options ‘not useful at all ‘and ‘of little usefulness’ are taken as ‘of little usefulness’.

10.3.1 Human capital terminology

This HCD category aims at identifying the most familiar terminology to the users.

FIGURE 10.2: HUMAN CAPITAL TERMINOLOGY



The figure above shows that more than 50% (between 52% and 65%) of the respondents identify the terms human capital and human resources respectively in CARs while 46% of the respondents identify the terms human assets and human value. The supporting table shows that more than 50% (between 54.5% and 75%) of the respondents agreed that these items are useful in their decision-making.

TABLE 10.1: HUMAN CAPITAL TERMINOLOGY

HUMAN CAPITAL TERMINOLOGY	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Human assets	0.0	36.4	9.1	18.1	36.4	100.00
Human resources	0.0	12.5	12.5	37.5	37.5	100.00
Human value	0.0	22.23	11.11	22.23	44.43	100.00
Human capital	0.0	20.0	20.0	20.0	40.0	100.00

It appears that the majority of the users agreed that these terms are the same and are all useful for decision-making purposes.

10.3.2 Human capital features

This section shows the items in the human capital features category.

FIGURE 10.3: HUMAN CAPITAL FEATURES

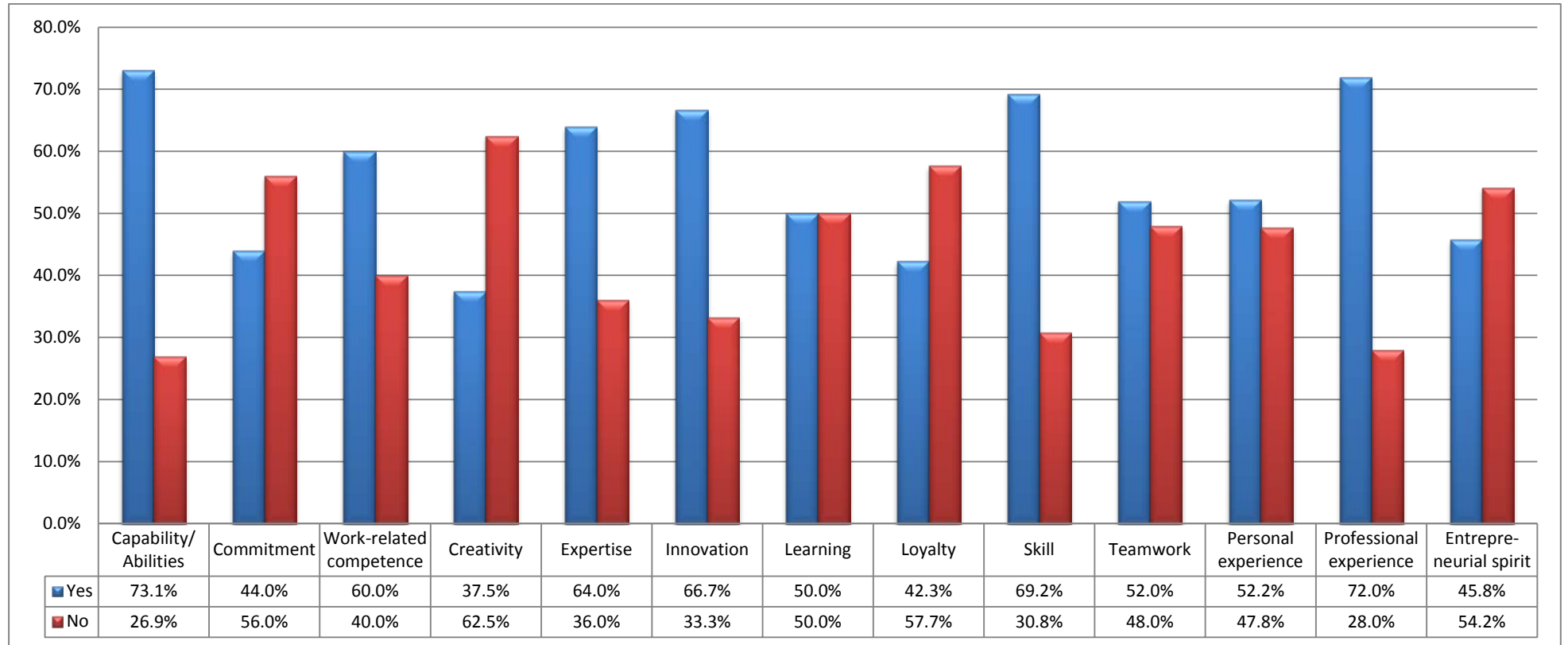


Figure 10.3 above shows that more than 50% (between 52% and 73.1%) of the respondents agreed that they identify attributes such as capability; work-related competence; expertise; innovation; skill; teamwork; personal experience and professional experience in the annual reports. On the other hand, more than 50% (between 54.2% and 62.5%) of the respondents said that they do not identify attributes such as commitment; creativity; loyalty and entrepreneurial spirit. However, 50% of the respondents said that they do identify learning in CARs while 50% of the respondents said that they do not.

From table 10.2, it is evident that more than 50% (between 53.3% and 85%) of the respondents agreed that all the attributes are useful for their decision-making.

TABLE 10.2: HUMAN CAPITAL FEATURES

HUMAN CAPITAL FEATURES	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Capability/Abilities	0.00	13.64	4.53	50.00	31.83	100.00
Commitment	0.00	14.30	7.10	28.60	50.00	100.00
Work-related competence	0.00	11.10	5.60	33.30	50.00	100.00
Creativity	0.00	15.40	15.40	38.40	30.80	100.00
Expertise	0.00	16.70	11.10	33.30	38.90	100.00
Innovation	0.00	11.80	5.90	52.90	29.40	100.00
Learning	0.00	14.30	14.30	50.00	21.40	100.00
Loyalty	0.00	14.30	14.30	35.70	35.70	100.00
Skill	0.00	5.00	10.00	35.00	50.00	100.00
Teamwork	0.00	12.50	12.50	43.70	31.30	100.00
Personal experience	0.00	26.70	20.00	33.30	20.00	100.00
Professional experience	0.00	19.00	4.80	23.80	52.40	100.00
Entrepreneurial spirit	0.00	21.40	21.40	28.60	28.60	100.00

Generally, the results reveal that the users consider that these attributes disclosed in the majority of the CARs are useful for decision-making purposes.

10.3.3 Human capital relations

This section deals with the HC disclosure items under the human capital relations category.

FIGURE 10.4: HUMAN CAPITAL RELATIONS

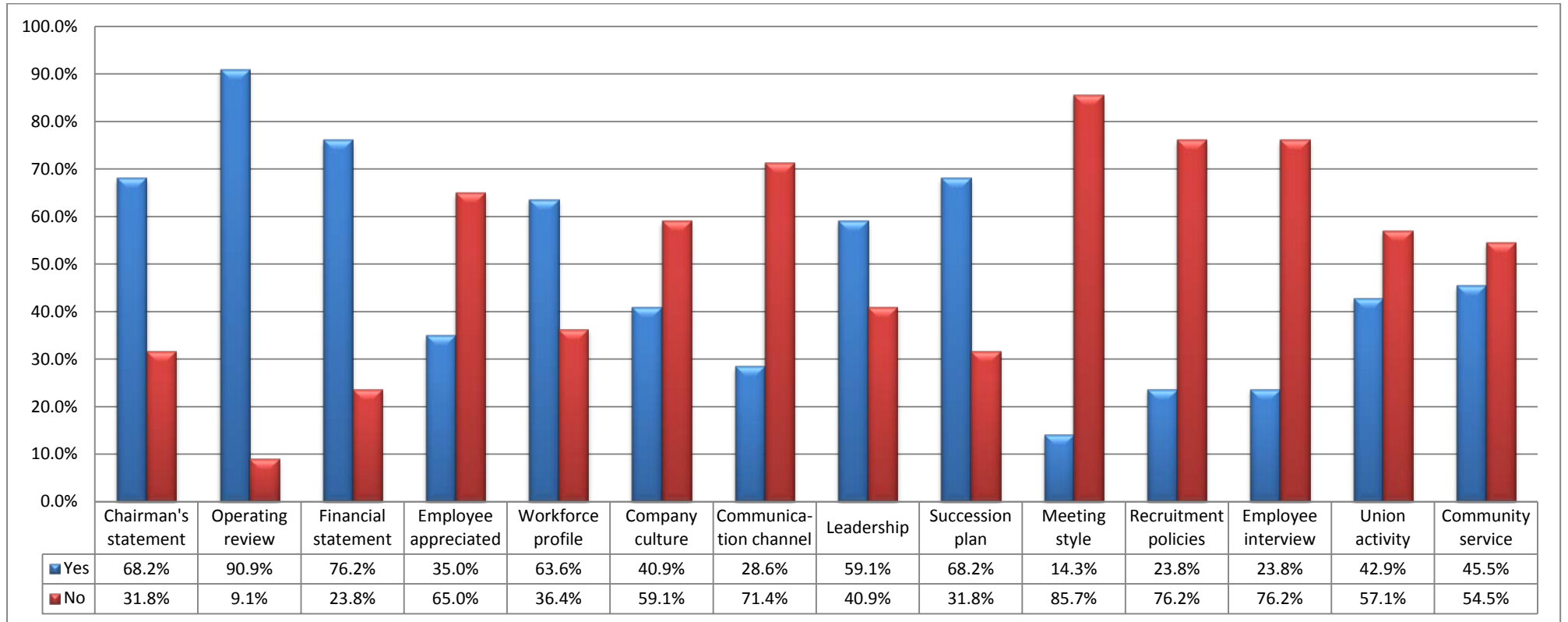


Figure 10.4 shows that more than 50% (59.1% - 90.9%) of the respondents are of the opinion that they do identify attributes such as HC related disclosures in the chairman's statement, the operating review and the financial statements as well as other HC attributes such as workforce profile, leadership and succession plan. On the other hand, more than 50% (54.5% - 85.7%) of the respondents agreed that they do not identify information on attributes such as employee appreciated, company culture, communication channel, meeting style, recruitment policies, employee interview, union activity and community service.

From the table 10.3, more than 50% (53.8% - 85.7%) of the respondents were of the opinion that attributes such as human capital related disclosures in the chairman's statement, the operating review and the financial statements as well as workforce profile, company culture, leadership, succession plan, recruitment policies, union activity and community service are useful for decision-making purposes. For employee appreciated, communication channel and employee interview, 37.5%; 44.44% and 50% of the respondents respectively were neutral on their usefulness for decision-making purposes.

TABLE 10.3: HUMAN CAPITAL RELATIONS

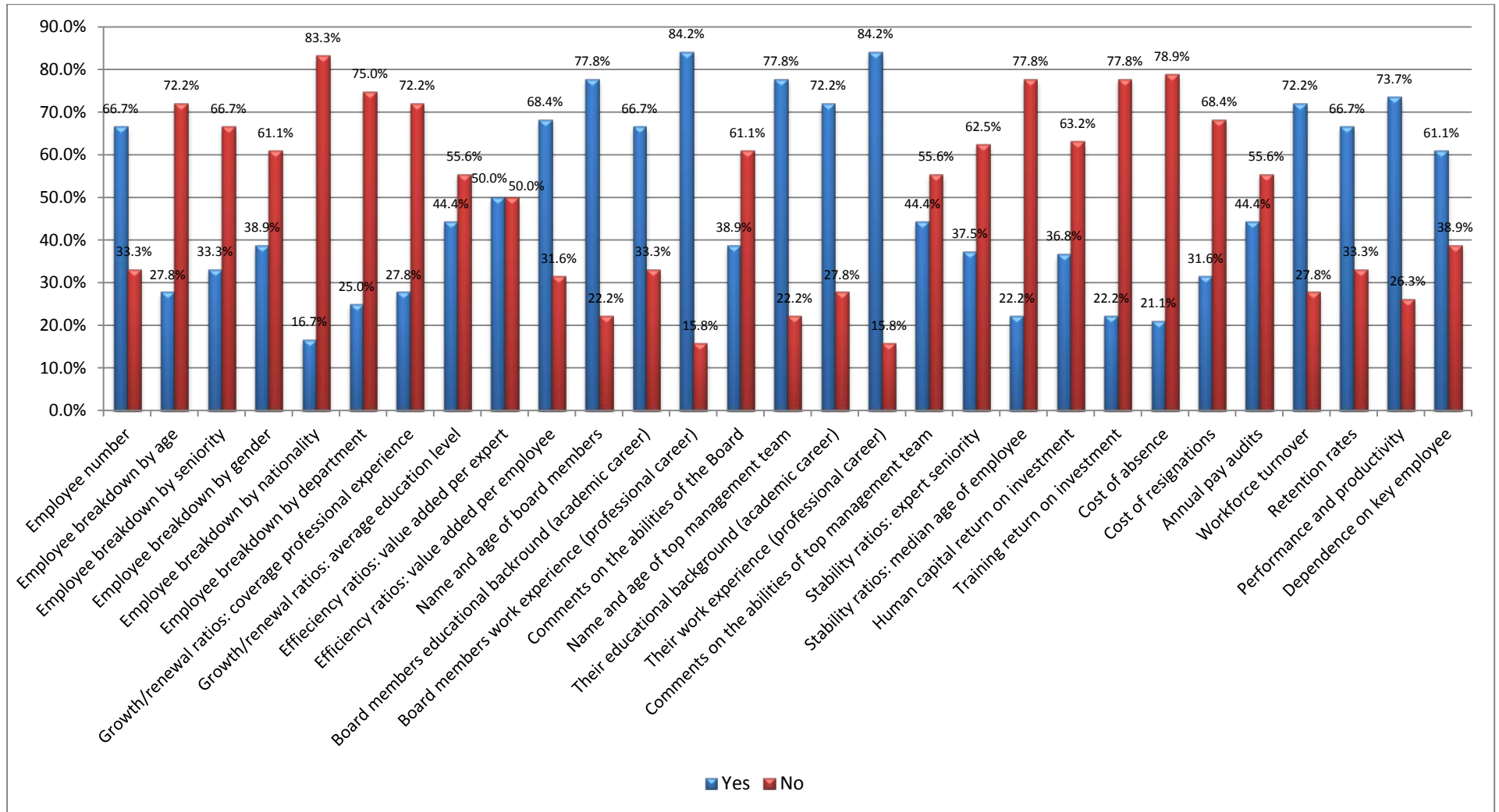
HUMAN CAPITAL RELATIONS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Chairman's statement	0.00	0.00	14.30	35.70	50.00	100.00
Operating review	0.00	10.00	5.00	40.00	45.00	100.00
Financial statement	0.00	0.00	6.30	25.00	68.70	100.00
Employee appreciated	0.00	25.00	37.50	25.00	12.50	100.00
Workforce profile	0.00	13.34	20.00	53.33	13.33	100.00
Company culture	0.00	0.00	25.00	50.00	25.00	100.00
Communication channel	11.10	11.10	44.44	22.23	11.13	100.00
Leadership	0.00	7.11	14.33	21.43	57.13	100.00
Succession plan	0.00	5.60	16.70	27.70	50.00	100.00
Meeting style	14.30	28.60	42.80	14.30	0.00	100.00
Recruitment policies	0.00	0.00	44.44	44.43	11.13	100.00
Employee interview	12.50	0.00	50.00	37.50	0.00	100.00
Union activity	0.00	8.30	16.70	41.70	33.30	100.00
Community service	7.70	7.70	30.80	38.40	15.40	100.00

It could be observed that the majority of the respondents agreed that a greater proportion of the attributes in this category are useful for decision-making purposes.

10.3.4 Human capital measurements

This section reports on the attributes in the human capital measurements category.

FIGURE 10.5: HUMAN CAPITAL MEASUREMENTS



The results from the figure above indicates that more than 50% (between 61.1% and 84.2%) of the respondents said that they identify attributes such as employee number, value added per employee, name and age of board members, educational background, work experience, name, age, educational background and work experience of top management team, workforce turnover, retention rates performance and productivity as well as dependence on key employees.

On the other hand, more than 50% (between 55.6% and 83.3%) were of the opinion that they do not identify attributes such as employee breakdown by age, seniority, gender, nationality and department as well as average professional experience, average educational level, comments on abilities of the board, comments on abilities of top management team, expert seniority, median age of employees, human capital return on investment, training return on investment, cost of absence, cost of resignations and annual pay audits.

However, for value added per expert, 50% of the respondents said that they do identify this item in CARs while 50% said that they do not. The accompanying table below shows that more than 50% (between 53.3% and 87.5%) of the respondents agreed that all the attributes except three are useful for decision-making purposes. 44.4% of the respondents said that employee breakdown by gender is of little usefulness, 50% were neutral on the usefulness of employee breakdown by nationality and 37.5% were also neutral on the usefulness of employee breakdown by department.

TABLE 10.4: HUMAN CAPITAL MEASUREMENT

HUMAN CAPITAL MEASUREMENTS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Employee number	0.00	15.40	15.40	46.10	23.10	100.00
Employee breakdown by age	0.00	0.00	42.80	14.30	42.90	100.00
Employee breakdown by seniority	10.00	10.00	30.00	30.00	20.00	100.00
Employee breakdown by gender	22.20	22.20	22.20	11.16	22.24	100.00
Employee breakdown by nationality	16.64	16.67	50.00	16.67	0.00	100.00
Employee breakdown by department	12.50	12.50	37.50	37.50	0.00	100.00
Growth/renewal ratios: coverage professional experience	25.00	0.00	12.50	37.50	25.00	100.00
Growth/renewal ratios: average education level	20.00	10.00	10.00	40.00	20.00	100.00
Efficiency ratios: value added per expert	8.32	0.00	8.32	25.00	58.36	100.00
Efficiency ratios: value added per employee	6.64	6.67	6.67	40.00	40.00	100.00
Name and age of board members	6.64	20.00	20.00	26.67	26.67	100.00
Board members educational background (academic career)	0.00	14.30	21.40	35.70	28.60	100.00
Board members work experience (professional career)	0.00	5.60	22.20	38.90	33.30	100.00
Comments on the abilities of the Board	20.00	0.00	10.00	30.00	40.00	100.00
Name and age of top management team	0.00	0.00	26.70	46.60	26.70	100.00
Their educational background (academic career)	0.00	0.00	26.70	46.60	26.70	100.00
Their work experience (professional career)	0.00	0.00	22.20	27.80	50.00	100.00
Comments on the abilities of top management team	9.10	0.00	9.10	54.50	27.30	100.00
Stability ratios: expert seniority	0.00	0.00	28.60	42.80	28.60	100.10
Stability ratios: median age of employee	0.00	0.00	33.30	66.70	0.00	100.00
Human capital return on investment	0.00	11.10	11.10	33.36	44.43	100.00
Training return on investment	0.00	0.00	28.60	42.80	28.60	100.00
Cost of absence	0.00	0.00	42.90	0.00	57.10	100.00
Cost of resignations	0.00	0.00	12.50	37.50	50.00	100.00
Annual pay audits	10.00	0.00	20.00	50.00	20.00	100.00
Workforce turnover	6.70	0.00	13.30	20.00	60.00	100.00
Retention rates	7.10	0.00	14.30	28.60	50.00	100.00
Performance and productivity	6.30	0.00	12.50	25.00	56.20	100.00
Dependence on key employee	7.12	0.00	7.12	28.63	57.13	100.00

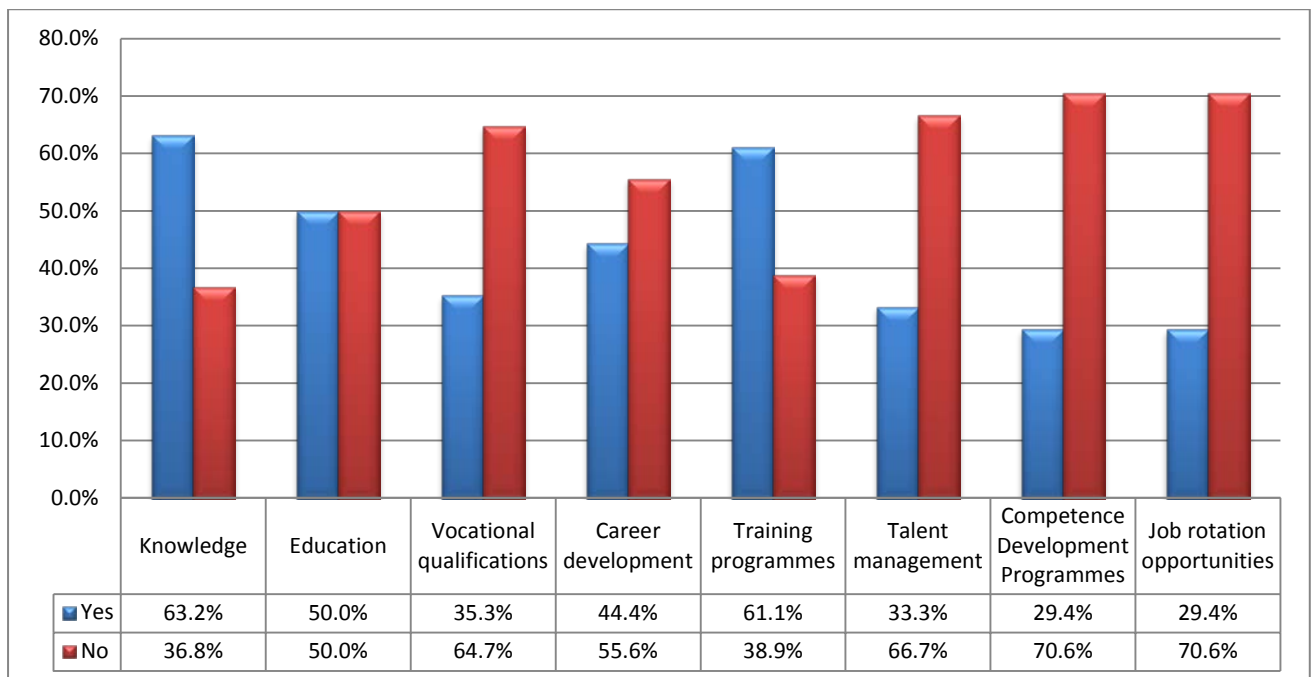
It is observed that the respondents went ahead to indicate that most of these attributes are useful for their decision-making although these attributes could not be identified in CARs. It appears that the respondents considered the usefulness of these attributes on their merit and without considering whether

they appear or not in the annual reports. The implication of this is that the annual reports will be more decision-useful if information on these attributes is disclosed.

10.3.5 Human capital training and development

This theme portrays various disclosure items related to training and development.

FIGURE 10.6: HUMAN CAPITAL TRAINING AND DEVELOPMENT



From figure 10.6 above, more than 50% (between 61.1% and 63.2%) of the respondents agree that knowledge and training programmes are reflected in the annual reports. On the other hand, more than 50% (between 55.6% and 70.6%) of the respondents stated that information on vocational qualifications, career development, talent management, and competence development programmes and job rotation opportunities are identified in the annual reports.

For information on education, 50% of the respondent claimed that they do identify reports on this while another 50% said that they do not. However, the

accompanying table below reveals that more than 50% (between 55.6% and 66.7%) of the respondents claimed that all the attributes except vocational qualifications are useful for their decision-making. In the case of vocational qualifications, 60% of the respondents were neutral with regards to the usefulness of this attribute for decision-making purposes.

TABLE 10.5: HUMAN CAPITAL TRAINING AND DEVELOPMENT

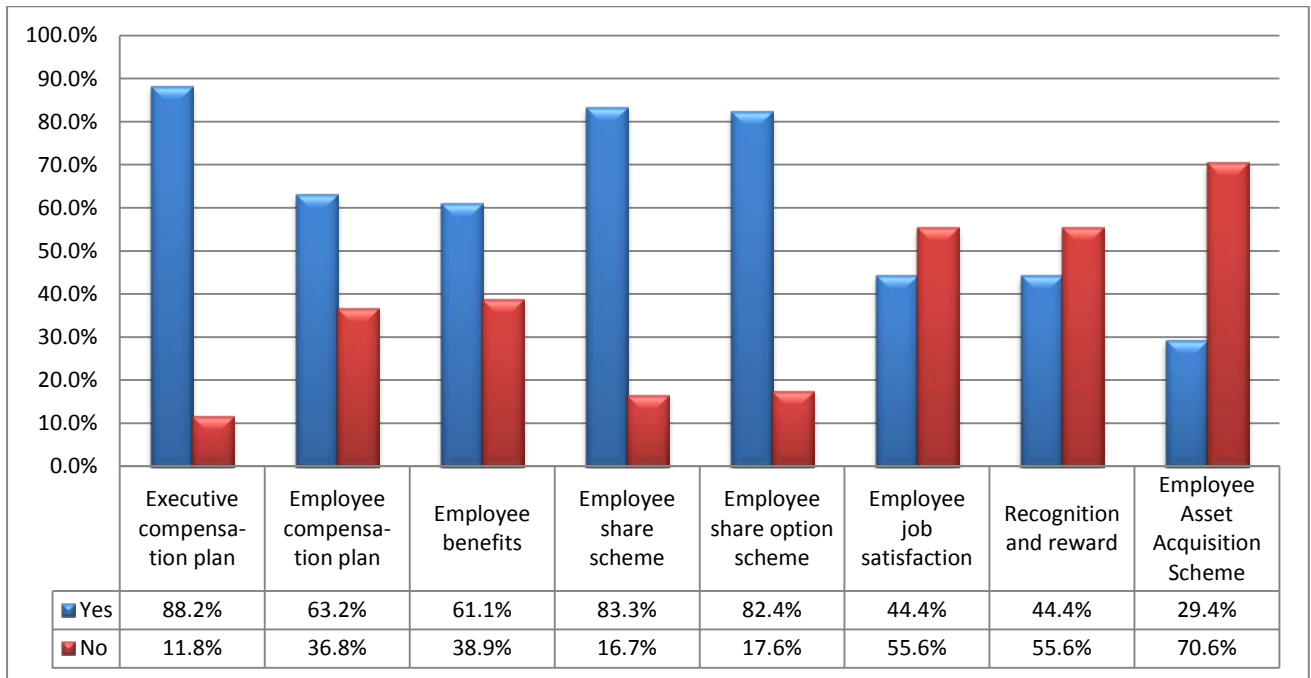
HUMAN CAPITAL TRAINING AND DEVELOPMENT	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Knowledge	0.00	6.70	33.30	20.00	40.00	100.00
Education	7.60	0.00	30.80	30.80	30.80	100.00
Vocational qualifications	0.00	0.00	60.00	30.00	10.00	100.00
Career development	0.00	8.30	25.00	41.70	25.00	100.00
Training programmes	0.00	15.35	23.05	30.80	30.80	100.00
Talent management	0.00	10.00	30.00	40.00	20.00	100.00
Competence Development Programmes	0.00	11.11	33.33	33.33	22.23	100.00
Job rotation opportunities	0.00	11.11	33.33	33.33	22.23	100.00

Again, it seems the respondents saw these attributes as important even though they were not well reported in the annual reports.

10.3.6 Human capital remuneration and welfare

This category describes issues related to employees' remuneration and welfare.

FIGURE 10.7: HUMAN CAPITAL REMUNERATION AND WELFARE



From the figure above, more than 50% (between 61.1% and 88.2%) of the respondents agreed that they identify information on attributes such as executive compensation plan, employee compensation plan, employee benefits, employee share scheme and employee share option scheme. On the other hand, more than 50% (between 55.6% and 70.6%) of the respondents said that they do not identify information on attributes such as employee job satisfaction, recognition and reward as well as employee asset acquisition scheme. However, the accompanying table below also shows that over 50% (between 66.6% and 87.4%) of the respondents agreed that all the attributes are useful.

TABLE 10.6: HUMAN CAPITAL REMUNERATION AND WELFARE

HUMAN CAPITAL REMUNERATION AND WELFARE	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Executive compensation plan	0.00	6.30	6.30	43.70	43.70	100.00
Employee compensation plan	0.00	0.00	13.30	26.70	60.00	100.00
Employee benefits	0.00	0.00	14.30	35.70	50.00	100.00
Employee share scheme	0.00	11.80	11.80	41.10	35.30	100.00
Employee share option scheme	0.00	12.50	12.50	37.50	37.50	100.00
Employee job satisfaction	0.00	0.00	27.30	18.20	54.50	100.00
Recognition and reward	0.00	0.00	27.30	18.20	54.50	100.00
Employee Asset Acquisition Scheme	0.00	11.11	22.23	33.33	33.33	100.00

It seems that the majority of these attributes are disclosed in response to regulations that requires such disclosures particularly those disclosures in respect of board and top management members remuneration.

10.3.7 Human capital equity issues

This section deals with equity issues such as race; gender; religion and disability.

FIGURE 10.8: HUMAN CAPITAL EQUITY ISSUES

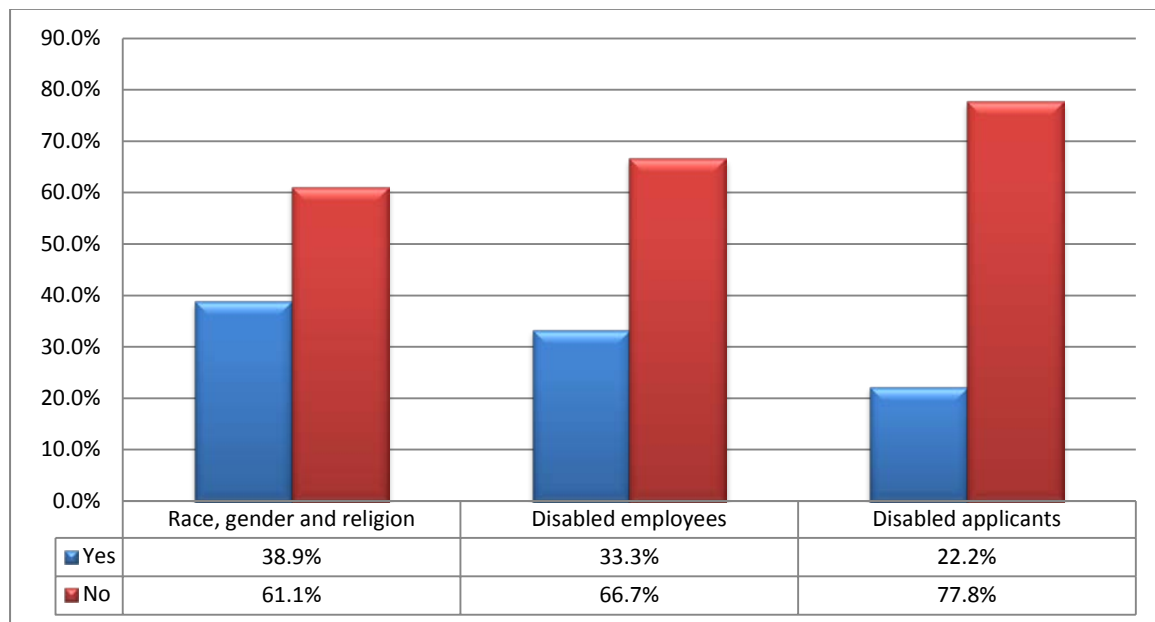


Figure 10.8 indicates that more than 50% (between 61.1% and 77.8%) of the respondents said that they do not identify information on equity issues. In effect, less than 50% (between 22.2% and 38.9%) agreed that they do identify such information. However, table 10.7 shows that between 40% and 50% of the respondents were neutral with regards to the usefulness of these attributes.

TABLE 10.7: HUMAN CAPITAL EQUITY ISSUES

HUMAN CAPITAL EQUITY ISSUES	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Race, gender and religion	20.00	0.00	40.00	20.00	20.00	100.00
Disabled employees	11.11	0.00	44.43	33.33	11.13	100.00
Disabled applicants	12.50	0.00	50.00	25.00	12.50	100.00

The results here suggest that the majority of the respondents in this category do not make use of the information on these attributes unlike the second user group whose primary responsibility is to monitor the disclosures relating to equity issues. This aspect will be discussed in Chapter 11.

10.3.8 Human capital environmental safety

This category deals with environmental and safety issues in the workplace.

FIGURE 10.9: HUMAN CAPITAL ENVIRONMENTAL SAFETY

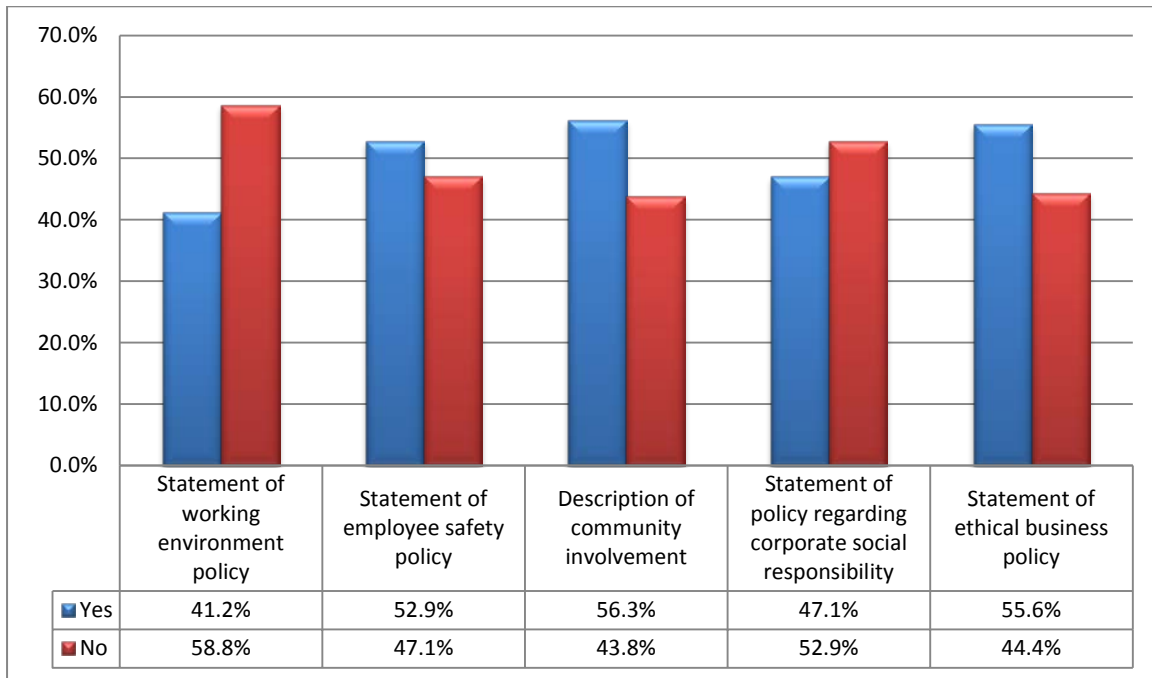


Figure 10.9 shows that more than 50% (between 52.9% and 56.3%) agreed that they do identify information on attributes such as statement of employee safety policy, description of community involvement and statement of ethical business policy while between 58.8% and 52.9% of the respondents respectively agreed that they do not identify information on working environment policy and corporate social responsibility. However, table 10.8 shows that more than 50% of the respondents in this category said that information on these attributes is useful to them except community involvement which only 49.3% of the respondents agreed to its usefulness.

TABLE 10.8: HUMAN CAPITAL ENVIRONMENTAL SAFETY

HUMAN CAPITAL ENVIRONMENTAL SAFETY	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Statement of working environment policy	10.00	0.00	30.00	40.00	20.00	100.00
Statement of employee safety policy	8.31	0.00	33.33	33.33	25.03	100.00
Description of community involvement	8.30	0.00	41.70	41.70	8.30	100.00
Statement of policy regarding corporate social responsibility	8.30	8.30	16.70	50.00	16.70	100.00
Statement of ethical business policy	7.70	7.70	15.40	38.40	30.80	100.00

Environmental safety reporting is a key area in integrated reporting and therefore it has been the main focus of corporate reporting.

10.3.9 Human capital health and wellness

This aspect deals with issues of employee health and wellness.

FIGURE 10.10: HUMAN CAPITAL HEALTH AND WELLNESS

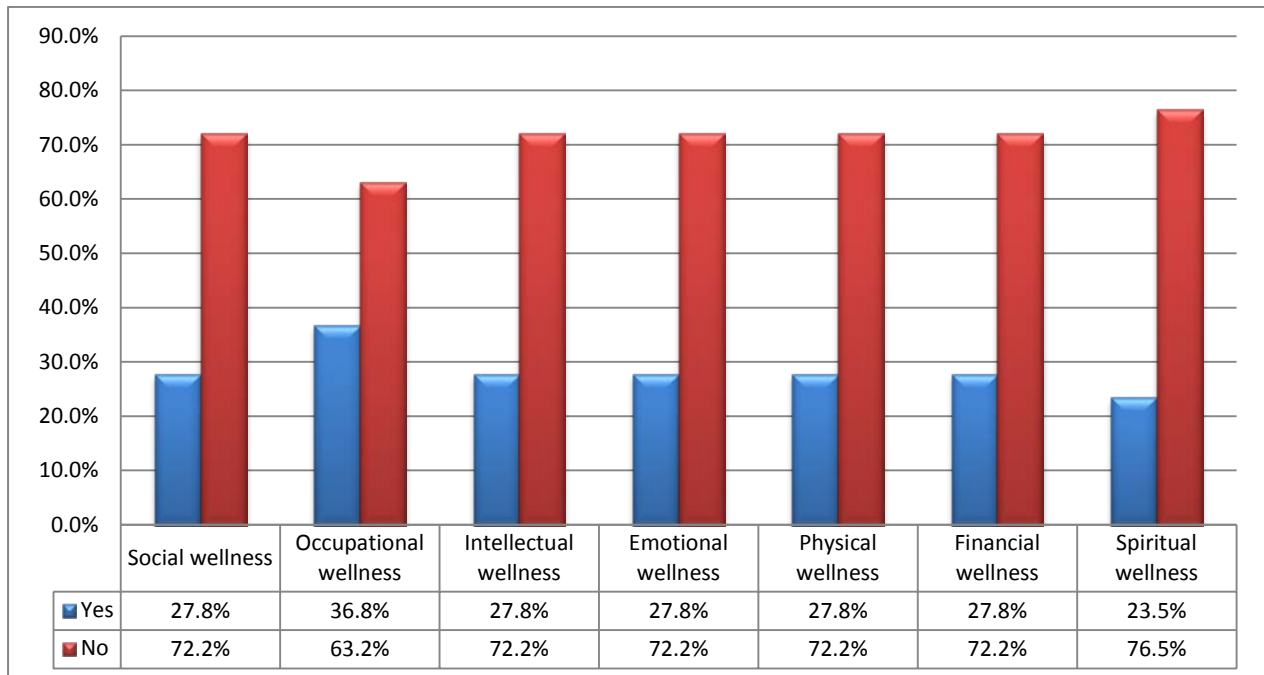


Figure 10.10 shows that more than 50% (between 63.2% and 76.5%) of the respondents said that they do not identify these attributes in the annual reports while the accompanying table 10.9 indicates that more than 50% (between 55.6% and 63.6%) of the respondents agreed that attributes such as social, occupational, intellectual, physical as well as financial wellness are useful to them, a total of 44.3% of the respondents said that emotional wellness is also useful while 50% were neutral with regards to the usefulness of spiritual wellness.

TABLE 10.9: HUMAN CAPITAL HEALTH AND WELLNESS

HUMAN CAPITAL HEALTH AND WELLNESS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Social wellness	0.00	11.11	33.33	33.33	22.23	100.00
Occupational wellness	0.00	9.10	27.30	36.30	27.30	100.00
Intellectual wellness	0.00	11.11	33.33	22.23	33.33	100.00
Emotional wellness	11.11	11.11	33.33	44.43	0.00	100.00
Physical wellness	11.11	11.11	22.23	22.23	33.33	100.00
Financial wellness	11.11	11.11	22.23	22.23	33.33	100.00
Spiritual wellness	12.50	12.50	50.00	25.00	0.00	100.00

Generally, it could be said that information on health and wellness are not frequently reported in the annual reports.

10.4 SUMMARY AND CONCLUSION

The research results of the questionnaires administered on the investment analysts show that the majority of the respondents could not identify a greater proportion of the human capital disclosure attributes although they agreed that these attributes are useful to them. This confirms our proposition that if these attributes are disclosed, it will consequently increase the decision-usefulness of annual reports.

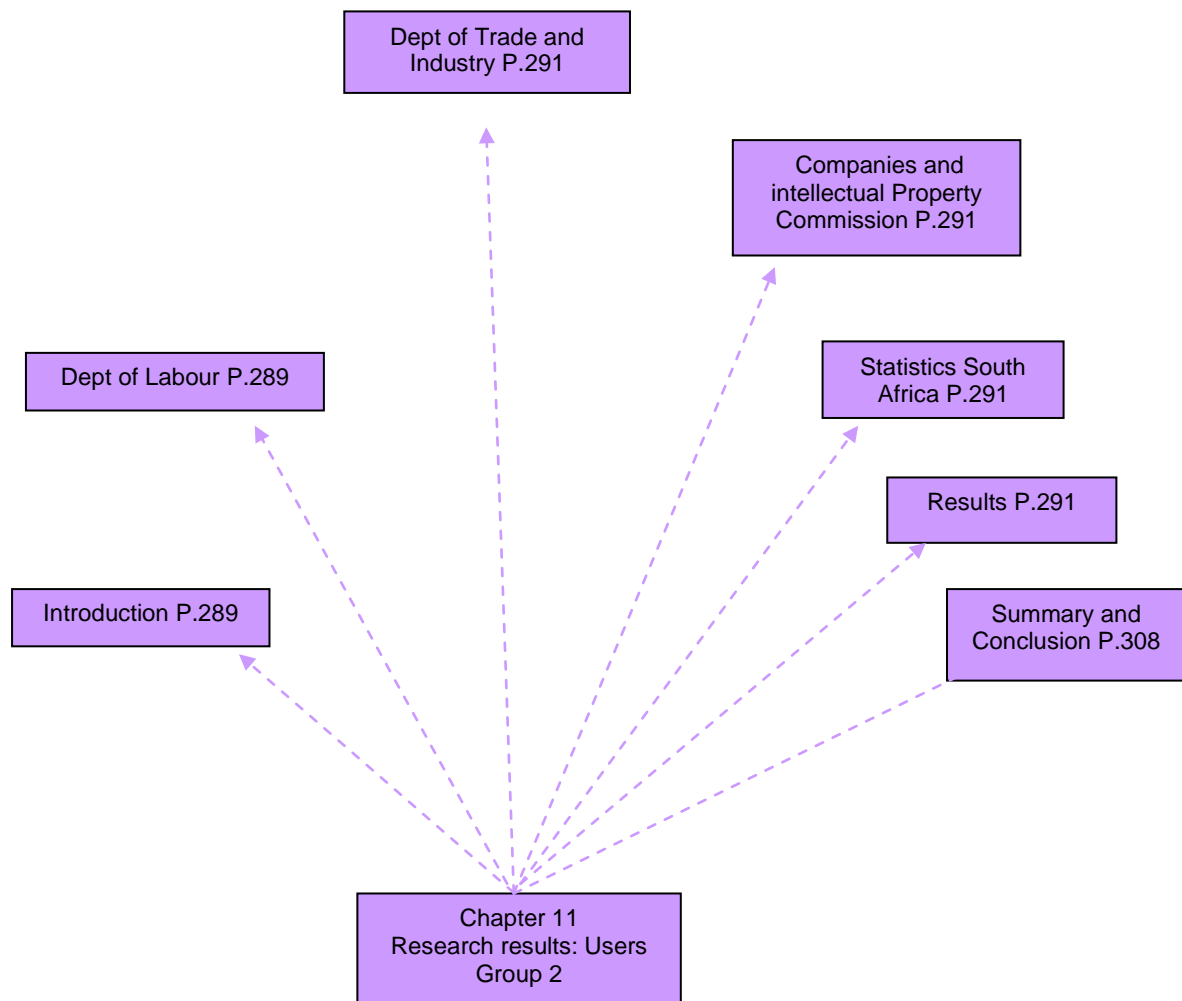
It should be noted that the details underlying the results of the user group could be found in AdePhD-CD: the CD which accompanied this thesis report. Readers are kindly requested to read through the CD for these details.

In chapter 11, the research results on the second group of users that is regulators and government departments are presented.

CHAPTER 11

RESEARCH RESULTS – QUESTIONNAIRES TO USERS GROUP 2: REGULATORS AND GOVERNMENT DEPARTMENTS

Figure 11.1: Network view of chapter 11



11.1 INTRODUCTION

The identified regulators and government departments to which the questionnaires were sent to are the Department of Labour, Department of Trade and Industry (DTI), Companies and Intellectual Property Commission (CIPC) and Statistics South Africa (statsa).

11.2 MEETINGS

Consequent upon lack of response from these organisations, it was decided to visit these organisations so as to explain further the purpose of the research and to facilitate the completion of the questionnaires. Email requests for appointment were sent and all the organisations responded and agreed to have meetings in this direction.

The details of the meetings held with relevant officers in these organisations are presented below.

11.2.1 DEPARTMENT OF LABOUR HEAD OFFICE

As from February 2012, a series of scheduled meetings were held with officials of Government Departments. The first meeting was held with the Executive Manager: Labour Market Information and Statistics at the department of labour head office on 6th February, 2012. The Manager explained that his department does not deal with companies' reports but suggested the following directorates and organisations as relevant:

- Employment Equity Office
- Human Resources
- Finance
- Labour Relations
- Department of Trade and Industry (DTI)
- Companies and Intellectual Property Commission (CIPC)
- Statistics South Africa.

The second meeting was held on 13th March, 2012 with the Directors of the human resources directorate at the Department of Labour head office. All the three Directors in this directorate who were present at the meeting noted that the directorate is only concerned with issues relating to employees at the Department of Labour and does not receive reports relating to labour matters from South African companies.

The third meeting was held on 9th May, 2012 with the Deputy Director (Policy Development) and the Deputy Director (Employment Equity Advocacy, Compliance and Monitoring) representing Chief Director, Employment Equity Directorate of the Department of Labour Head Office. The Deputy Directors explained the basis of Employment Equity which constitutes a major theme in the survey questionnaire. They stated that the directorate receives reports from companies annually or bi-annually depending on the size of their workforce. Companies with 50 or less employees must submit reports annually while those with more than 50 employees must submit reports bi-annually.

Furthermore, public companies are expected to put a synopsis of employment equity reports in their CARs. The reports must be in a prescribed Form EEA2 (Company's employment equity status) and Form EEA4 (Remuneration data). While Form EEA2 is a public document which can be downloaded from the website, Form EEA4 is not a public document. The two deputy directors completed the hard copies of the survey questionnaire.

The fourth meeting at the Department of Labour head office was held on 12th June, 2012 with the Senior Executive Manager (Labour relations). The officer advised that organisations such as the Unemployment Insurance Fund (UIF) and Compensation Commission receives reports on employees on a monthly and annual basis respectively. The officer later completed a hard copy of the survey questionnaire.

11.2.2 DEPARTMENT OF TRADE AND INDUSTRY (DTI)

A scheduled meeting was held with the officer in charge of Empowerment and Enterprise Development Division (EEDD) of the DTI on the 20th of April, 2012. The officer noted with interest the focus of our study and suggested the Companies and Intellectual Property Commission (CIPC) as a more relevant organisation to respond to the survey questionnaire. He further assisted in contacting the CIPC.

11.2.3 COMPANIES AND INTELLECTUAL PROPERTY COMMISSION (CIPC)

A meeting was held with a senior officer of CIPC on the 22nd of May, 2012. She remarked that her department is concerned with marketing and communication but forwarded our request and the survey questionnaire to relevant officers in the organisation. However, these officers neither responded to the questionnaire nor agreed to have a meeting with us.

11.2.4 STATISTICS SOUTH AFRICA

A scheduled meeting was held with the Executive Manager, Household Labour Market Statistics on the 6th of June, 2012. In his response, the officer said that his department deals with surveys relating to population and household statistics and that the department does not receive reports from companies.

11.3 RESULTS OF COMPLETED QUESTIONNAIRES

A total of three questionnaires (See Appendix E) were completed by this user group, the results of which are discussed below:

11.3.1 Human Capital Terminology

This HCD category aims at identifying the most familiar terminology to this category of users.

FIGURE 11.2: HUMAN CAPITAL TERMINOLOGY

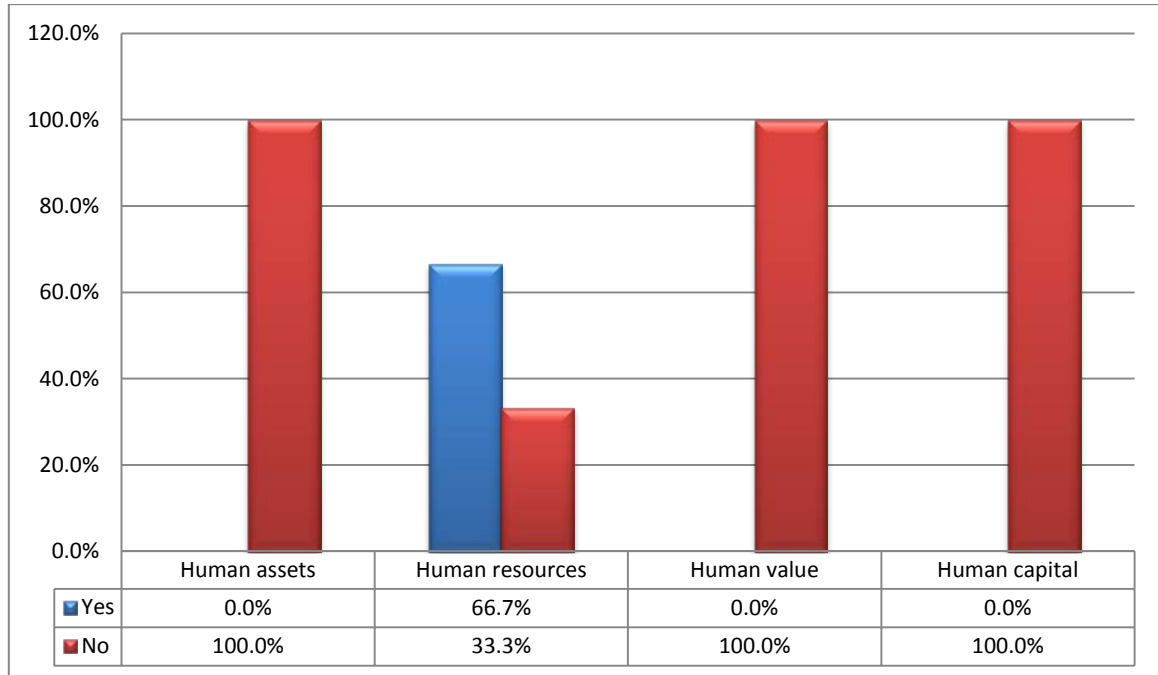


Figure 11.2 shows that all the respondents (100%) indicated that they do not identify the terms human assets; human value and human capital in annual reports while 66.7% of the respondents indicated that they do identify the term human resources in annual reports. However, the supporting table below shows that all the respondents (100%) indicated that human resources are useful for decision-making purposes.

TABLE 11.1: HUMAN CAPITAL TERMINOLOGY

HUMAN CAPITAL TERMINOLOGY	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Human assets	0.00	0.00	0.00	0.00	0.00	0.00
Human resources	0.00	0.00	0.00	50.00	50.00	100.00
Human value	0.00	0.00	0.00	0.00	0.00	0.00
Human capital	0.00	0.00	0.00	0.00	0.00	0.00

It appears that the regulators and government departments are conversant with only human resources terminology with its attendant usefulness.

11.3.2 Human Capital Features

This section deals with the attributes in the human capital features category.

FIGURE 11.3: HUMAN CAPITAL FEATURES

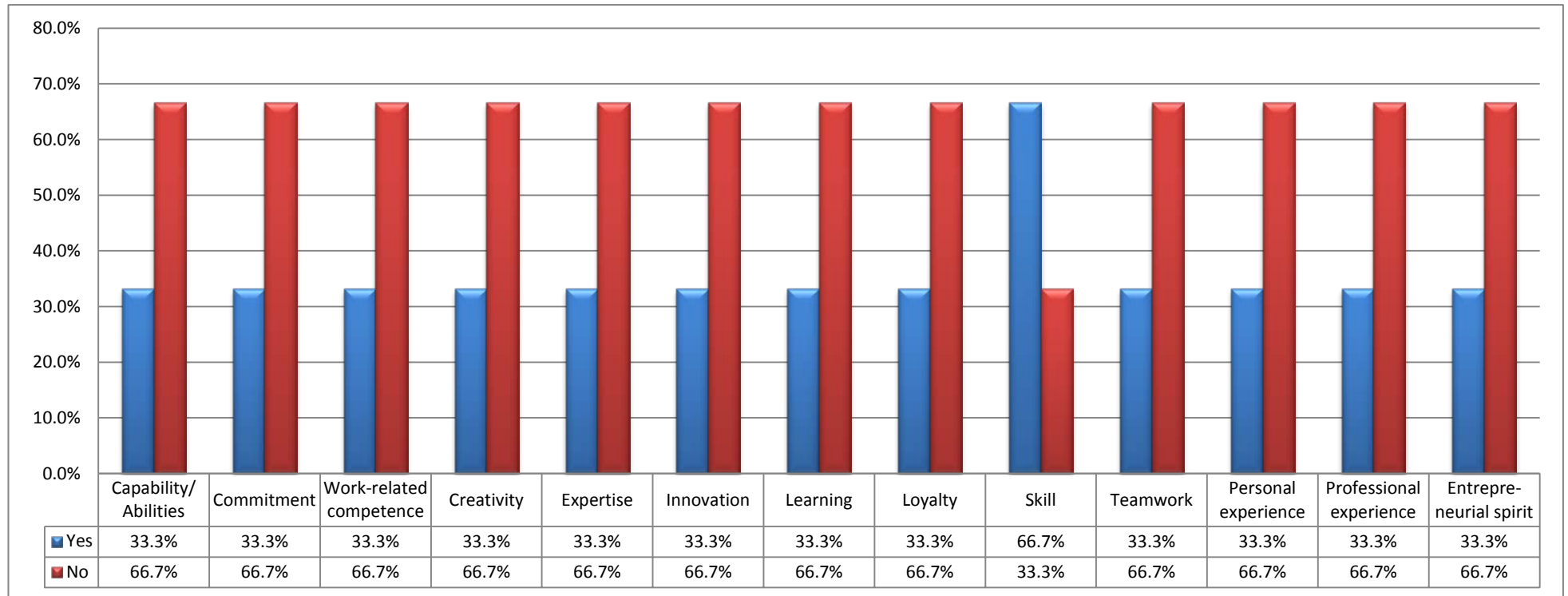


Figure 11.3 above shows that only 33.3% of the respondents indicated that they identify these attributes in the annual reports although all the respondents indicated that attributes such as teamwork, personal experience and professional experience are useful for decision-making. Another 50% of the respondents indicated that skill is also useful for decision-making.

TABLE 11.2: HUMAN CAPITAL FEATURES

HUMAN CAPITAL FEATURES	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Capability/Abilities	0.00	0.00	0.00	0.00	0.00	0.00
Commitment	0.00	0.00	100.00	0.00	0.00	100.00
Work-related competence	0.00	0.00	100.00	0.00	0.00	100.00
Creativity	0.00	0.00	100.00	0.00	0.00	100.00
Expertise	0.00	0.00	100.00	0.00	0.00	100.00
Innovation	0.00	0.00	100.00	0.00	0.00	100.00
Learning	0.00	0.00	100.00	0.00	0.00	100.00
Loyalty	0.00	0.00	100.00	0.00	0.00	100.00
Skill	0.00	0.00	50.00	50.00	0.00	100.00
Teamwork	0.00	0.00	0.00	100.00	0.00	100.00
Personal experience	0.00	0.00	0.00	100.00	0.00	100.00
Professional experience	0.00	0.00	0.00	100.00	0.00	100.00
Entrepreneurial spirit	0.00	0.00	100.00	0.00	0.00	100.00

Although the respondents indicated that they do not identify all these attributes in the annual reports possibly because the focus of this group of users is not on these features, they stated that few of these features are useful for decision-making purposes.

11.3.3 Human Capital Relations

This section reports on the HC attributes related to this theme.

FIGURE 11.4: HUMAN CAPITAL RELATIONS

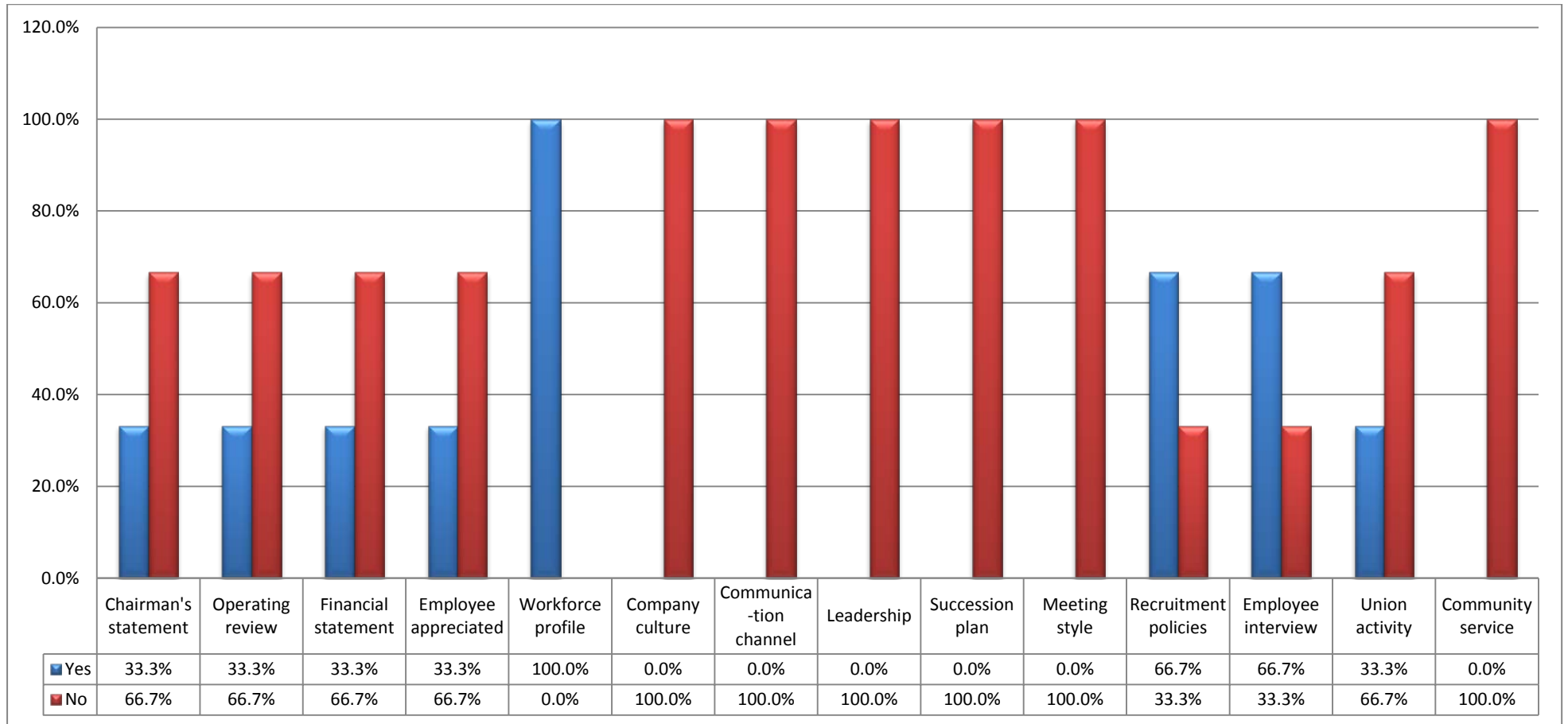


Figure 11.4 shows that 66.7% of the respondents indicate that they do not identify information on HC attributes such as union activity, employee appreciated, and human capital related disclosures in the financial statement, operating review as well as in the Chairman's statement. However, all the respondents indicate that they do not identify information on other attributes such as company culture, communication channel, leadership, succession plan, meeting style as well as community service. The accompanying table 11.3 shows that only workforce profile, recruitment policies and employee interview are useful for their decision-making.

TABLE 11.3: HUMAN CAPITAL RELATIONS

HUMAN CAPITAL RELATIONS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Chairman's statement	0.00	0.00	100.00	0.00	0.00	100.00
Operating review	0.00	0.00	100.00	0.00	0.00	100.00
Financial statement	0.00	0.00	100.00	0.00	0.00	100.00
Employee appreciated	0.00	0.00	100.00	0.00	0.00	100.00
Workforce profile	0.00	0.00	0.00	66.70	33.30	100.00
Company culture	0.00	0.00	0.00	0.00	0.00	0.00
Communication channel	0.00	0.00	0.00	0.00	0.00	0.00
Leadership	0.00	0.00	0.00	0.00	0.00	0.00
Succession plan	0.00	0.00	0.00	0.00	0.00	0.00
Meeting style	0.00	0.00	0.00	0.00	0.00	0.00
Recruitment policies	0.00	0.00	0.00	50.00	50.00	100.00
Employee interview	0.00	0.00	0.00	100.00	0.00	100.00
Union activity	0.00	0.00	100.00	0.00	0.00	100.00
Community service	0.00	0.00	0.00	0.00	0.00	0.00

It could be observed that a greater proportion of the attributes under this category are not identified in the CARs by this group of respondents. In addition, they do not indicate that the attributes are relevant to their decision-making with regards to the measurement of an organisation's value.

11.3.4 Human Capital Measurements

The accompanying figure and table in this section show the respondents' views on the attributes related to human capital measurements.

FIGURE 11.5: HUMAN CAPITAL MEASUREMENTS

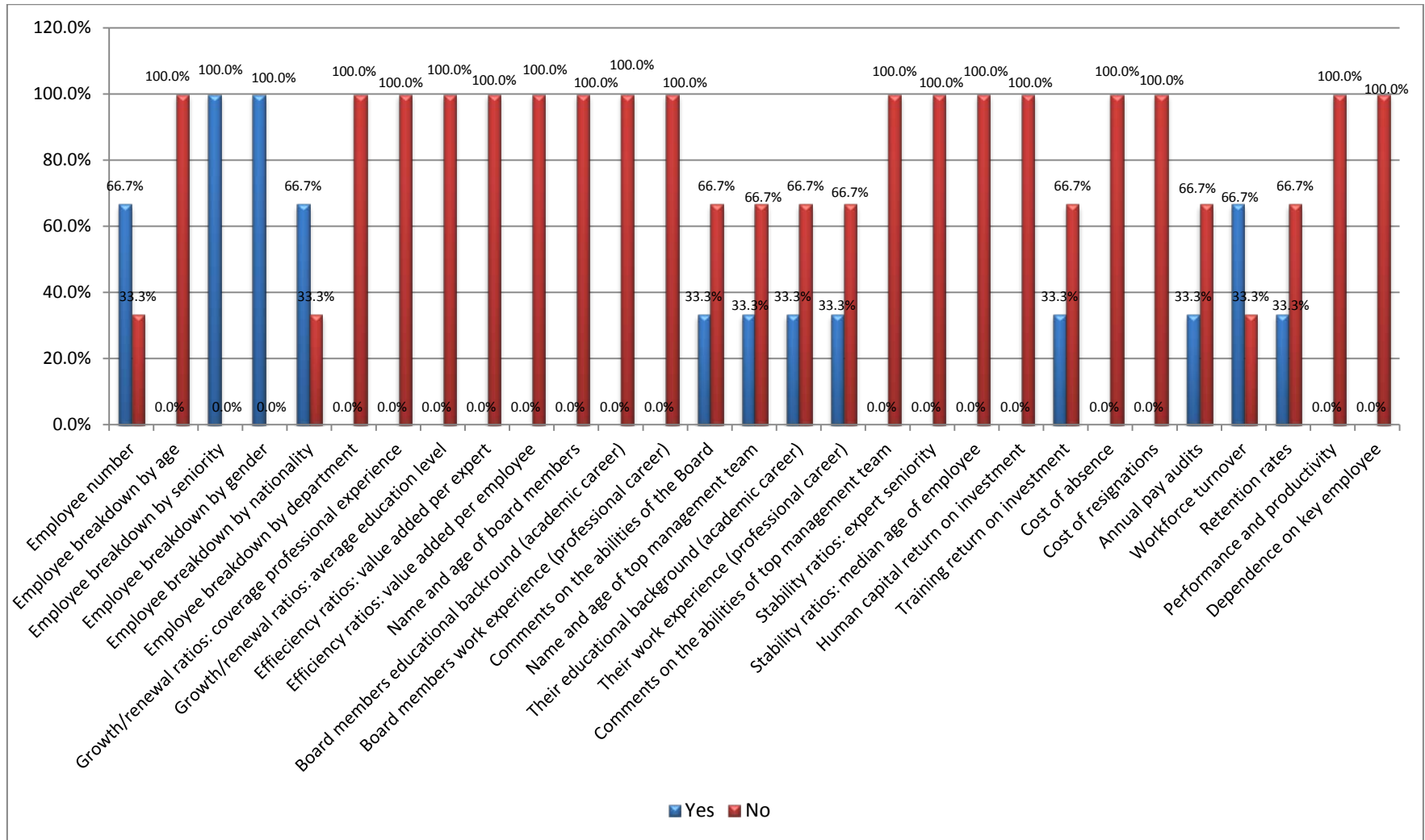


Figure 11.5, all the respondents indicate that they do not identify attributes such as employee breakdown by age, employee breakdown by department, average professional experience, average education level, value added per expert, value added per employee, name and age of board members, academic and professional background of board members. Others are comments on the abilities of the top management team, expert seniority, median age of employee, human capital return on investment, cost of absence, and cost of resignations, performance and productivity and dependence on key employees.

However, 66.7% of respondents indicate that they do not identify other attributes such as comments on the abilities of the board, name and age of top management team, academic and professional background of board members, training return on investment, annual pay audits and retention rates. On the other hand, all the respondents indicate that they do identify a few attributes such as employee breakdown by seniority and employee breakdown by gender while 66.7% of the respondents also indicate that they identify other attributes such as employee breakdown by nationality and workforce turnover. The accompanying table shows that only few attributes such as employee number, employee breakdown by seniority, gender and nationality, names and ages of top management team as well as their academic and professional career, annual pay audits, workforce turnover and retention rates are useful for their decision-making.

TABLE 11.4: HUMAN CAPITAL MEASUREMENTS

HUMAN CAPITAL MEASUREMENTS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Employee number	0.00	0.00	0.00	100.00	0.00	100.00
Employee breakdown by age	0.00	0.00	0.00	0.00	0.00	0.00
Employee breakdown by seniority	0.00	0.00	0.00	66.70	33.30	100.00
Employee breakdown by gender	0.00	0.00	0.00	33.30	66.70	100.00
Employee breakdown by nationality	0.00	0.00	0.00	50.00	50.00	100.00
Employee breakdown by department	0.00	0.00	0.00	0.00	0.00	0.00
Growth/renewal ratios: average professional experience	0.00	0.00	0.00	0.00	0.00	0.00
Growth/renewal ratios: average education level	0.00	0.00	0.00	0.00	0.00	0.00
Efficiency ratios: value added per expert	0.00	0.00	0.00	0.00	0.00	0.00
Efficiency ratios: value added per employee	0.00	0.00	0.00	0.00	0.00	0.00
Name and age of board members	0.00	0.00	0.00	0.00	0.00	0.00
Board members educational background (academic career)	0.00	0.00	0.00	0.00	0.00	0.00
Board members work experience (professional career)	0.00	0.00	0.00	0.00	0.00	0.00
Comments on the abilities of the Board	0.00	0.00	100.00	0.00	0.00	100.00
Name and age of top management team	0.00	0.00	0.00	0.00	100.00	100.00
Their educational background (academic career)	0.00	0.00	0.00	0.00	100.00	100.00
[Their work experience (professional career)	0.00	0.00	0.00	0.00	100.00	100.00
Comments on the abilities of top management team	0.00	0.00	0.00	0.00	0.00	0.00
Stability ratios: expert seniority	0.00	0.00	0.00	0.00	0.00	0.00
Stability ratios: median age of employee	0.00	0.00	0.00	0.00	0.00	0.00
Human capital return on investment	0.00	0.00	0.00	0.00	0.00	0.00
Training return on investment	0.00	0.00	100.00	0.00	0.00	100.00
Cost of absence	0.00	0.00	0.00	0.00	0.00	0.00

TABLE 11.4: HUMAN CAPITAL MEASUREMENTS (CONT...)

HUMAN CAPITAL MEASUREMENTS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Cost of resignations	0.00	0.00	0.00	0.00	0.00	0.00
Annual pay audits	0.00	0.00	0.00	0.00	100.00	100.00
Workforce turnover	0.00	0.00	0.00	50.00	50.00	100.00
Retention rates	0.00	0.00	0.00	0.00	100.00	100.00
Performance and productivity	0.00	0.00	0.00	0.00	0.00	0.00
Dependence on key employee	0.00	0.00	0.00	0.00	0.00	0.00

On the whole, only a few of these attributes are identified by this user category but they perceive some attributes to be relevant for decision-making even though they are not identified in CARs.

11.3.5 Human Capital Training and Development

This section shows the results for human capital training and development category.

FIGURE 11.6: HUMAN CAPITAL TRAINING AND DEVELOPMENT

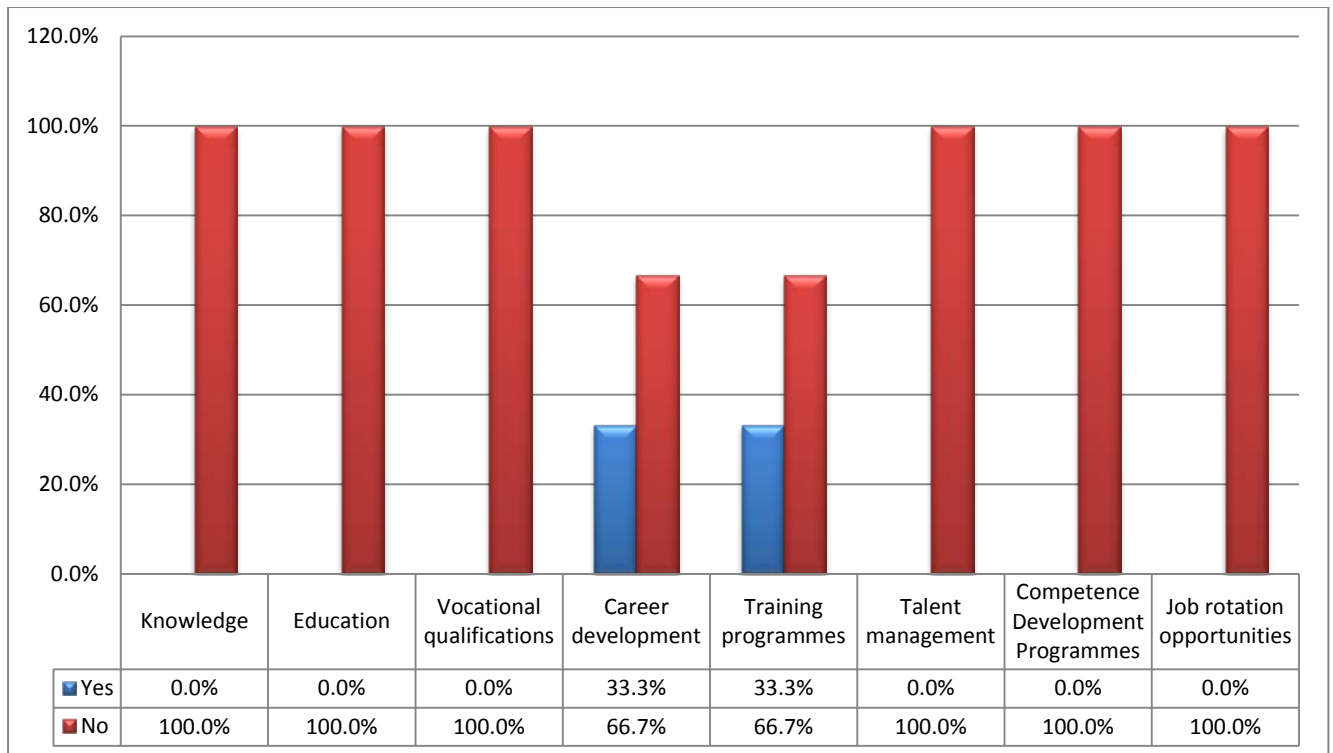


Figure 11.6 shows that all the respondents indicate that they do not identify attributes such as knowledge, education, vocational qualifications, talent management, competence development programmes as well as job rotation opportunities. Only 33.3% of the respondents indicate that they do identify career development and training programmes. The accompanying table shows that only career development is seen to be useful for decision-making purposes.

TABLE 11.5: HUMAN CAPITAL TRAINING AND DEVELOPMENT

HUMAN CAPITAL TRAINING AND DEVELOPMENT	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Knowledge	0.00	0.00	0.00	0.00	0.00	0.00
Education	0.00	0.00	0.00	0.00	0.00	0.00
Vocational qualifications	0.00	0.00	0.00	0.00	0.00	0.00
Career development	0.00	0.00	0.00	100.00	0.00	100.00
Training programmes	0.00	0.00	100.00	0.00	0.00	100.00
Talent management	0.00	0.00	0.00	0.00	0.00	0.00
Competence Development Programmes	0.00	0.00	0.00	0.00	0.00	0.00
Job rotation opportunities	0.00	0.00	0.00	0.00	0.00	0.00

It appears that these attributes represent core functional areas of HR and thus are not of much interest to this category of user group.

11.3.6 Human Capital Remuneration and Welfare

This section deals with the issues relating to human capital remuneration and welfare.

FIGURE 11.7: HUMAN CAPITAL REMUNERATION AND WELFARE

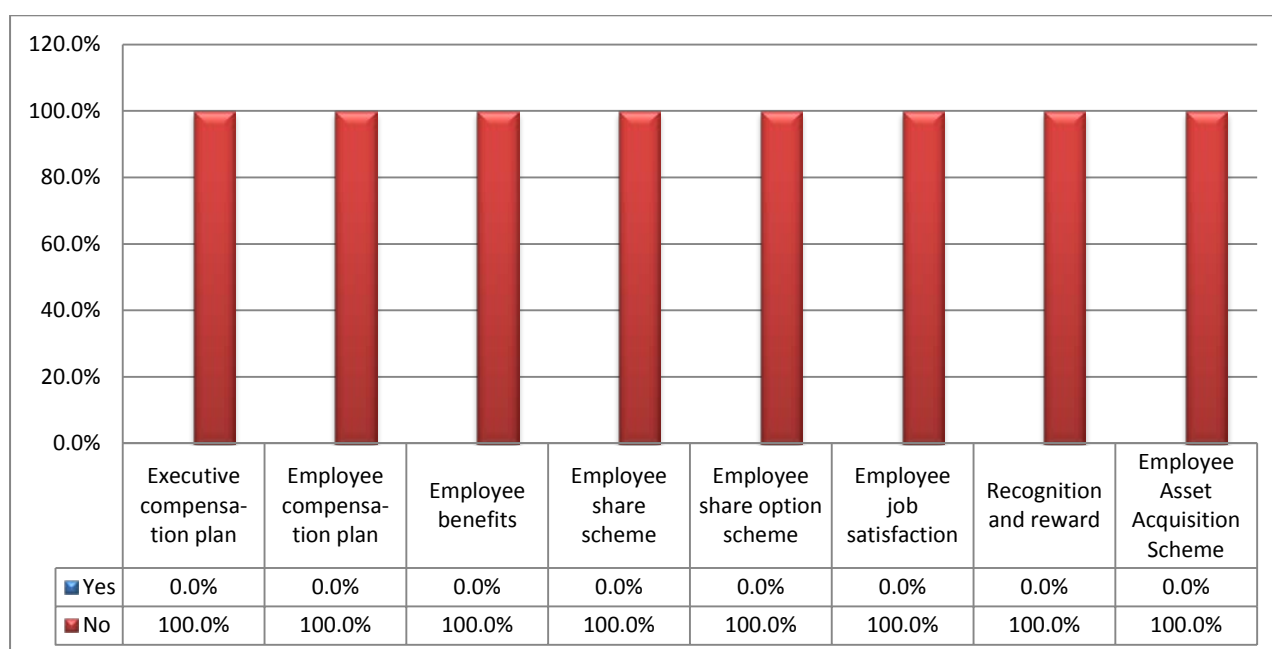


Figure 11.7 shows that all the respondents indicate that they do not identify any of the attributes in this category. The accompanying table 11.6 also shows no indication of the usefulness of any of these attributes to this user group.

TABLE 11.6: HUMAN CAPITAL REMUNERATION AND WELFARE

HUMAN CAPITAL REMUNERATION AND WELFARE	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Executive compensation plan	0.00	0.00	0.00	0.00	0.00	0.00
Employee compensation plan	0.00	0.00	0.00	0.00	0.00	0.00
Employee benefits	0.00	0.00	0.00	0.00	0.00	0.00
Employee share scheme	0.00	0.00	0.00	0.00	0.00	0.00
Employee share option scheme	0.00	0.00	0.00	0.00	0.00	0.00
Employee job satisfaction	0.00	0.00	0.00	0.00	0.00	0.00
Recognition and reward	0.00	0.00	0.00	0.00	0.00	0.00
Employee Asset Acquisition Scheme	0.00	0.00	0.00	0.00	0.00	0.00

Again, it could be observed that these indicators are not of interest to this user group.

11.3.7 Human Capital Equity Issues

The following section shows the perspective of this user category to human capital equity issues.

FIGURE 11.8: HUMAN CAPITAL EQUITY ISSUES

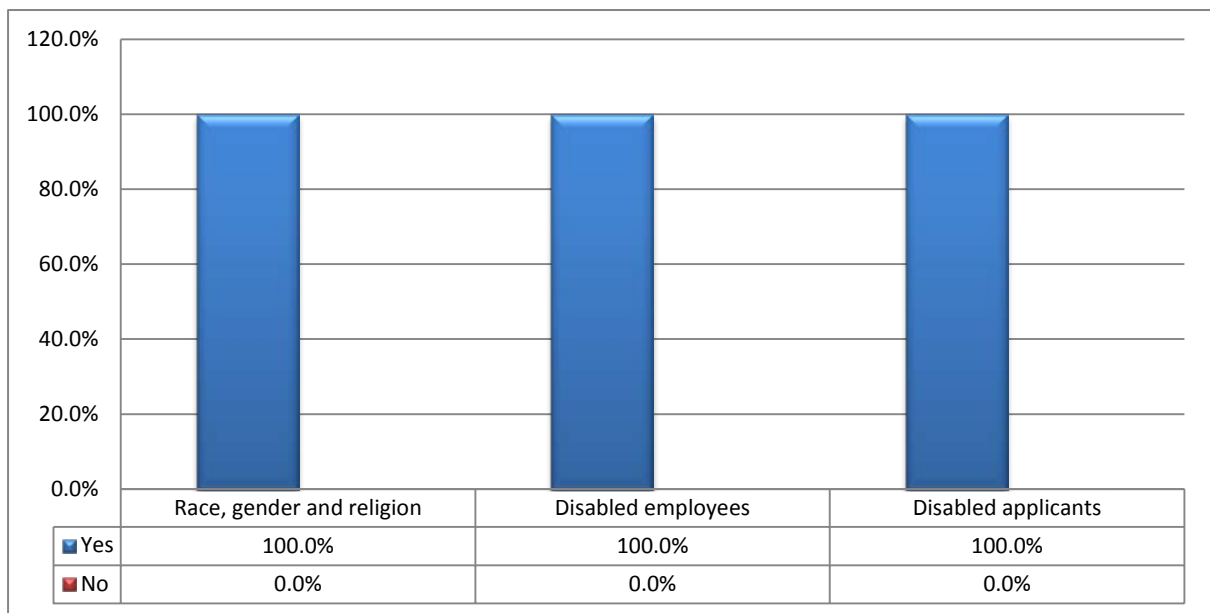


Figure 11.8 above shows that all the respondents indicate that they do identify these attributes in the annual reports and that they are very useful for their decision-making.

TABLE 11.7: HUMAN CAPITAL EQUITY ISSUES

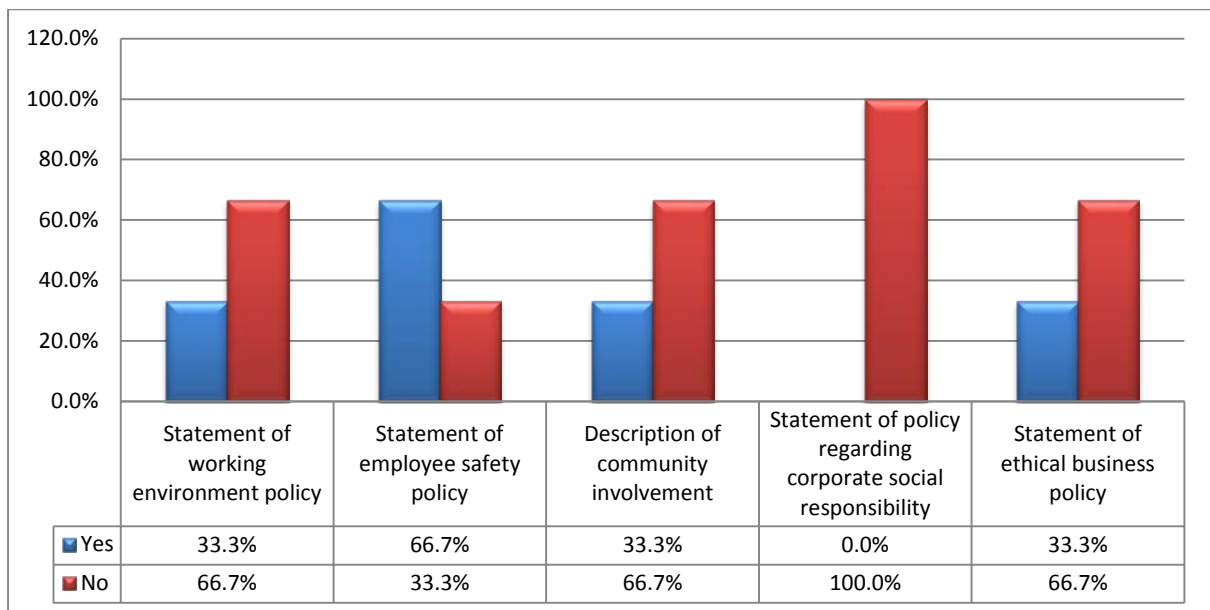
HUMAN CAPITAL EQUITY ISSUES	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Race, gender and religion	0.00	0.00	0.00	0.00	100.00	100.00
Disabled employees	0.00	0.00	0.00	33.30	66.70	100.00
Disabled applicants	0.00	0.00	0.00	33.30	66.70	100.00

It is noted that this user group actually monitors compliance with these equity issues and therefore they are of much interest to them.

11.3.8 Human Capital Environmental Safety

This section also shows the perspectives of this user group to human capital environmental safety issues.

FIGURE 11.9: HUMAN CAPITAL ENVIRONMENTAL SAFETY



From Figure 11.9, the majority of the respondents indicate that they do not identify these attributes with only 66.7% indicating that they do identify statement of employee safety policy. The accompanying table below shows that statement of working environment policy, statement of employee safety policy as well as description of community involvement are useful for their decision-making.

TABLE 11.8: HUMAN CAPITAL ENVIRONMENTAL SAFETY

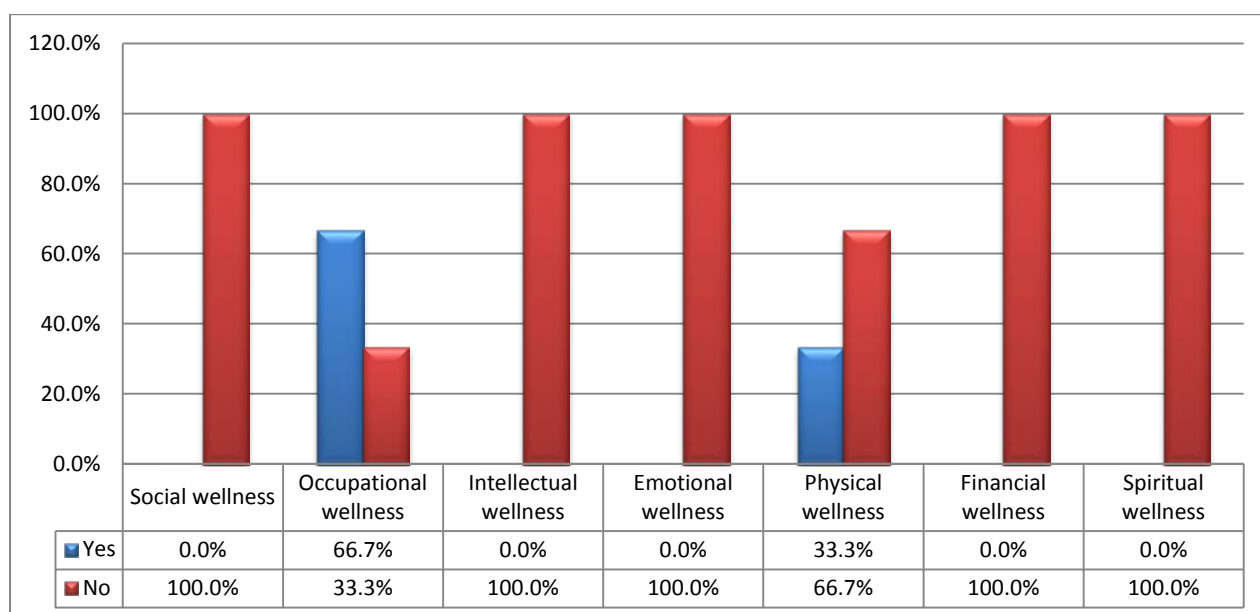
HUMAN CAPITAL ENVIRONMENTAL SAFETY	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Statement of working environment policy	0.00	0.00	0.00	100.00	0.00	100.00
Statement of employee safety policy	0.00	0.00	0.00	0.00	100.00	100.00
Description of community involvement	0.00	0.00	0.00	0.00	100.00	100.00
Statement of policy regarding corporate social responsibility	0.00	0.00	0.00	0.00	0.00	0.00
Statement of ethical business policy	0.00	0.00	100.00	0.00	0.00	100.00

It appears that this user group is fairly interested in these attributes because they relate to employee safety in the workplace.

11.3.9 Human Capital Health and Wellness

This section deals with issues relating to employees' health and wellness.

FIGURE 11.10: HUMAN CAPITAL HEALTH AND WELLNESS



From Figure 11.10, all the respondents indicate that they do not identify attributes such as social wellness, intellectual wellness, emotional wellness, financial wellness as well as spiritual wellness. However, 66.7% and 33.3% of the respondents indicate that they do identify occupational wellness and physical wellness respectively. Table 11.9 also shows that occupational wellness and physical wellness are very useful for their decision-making.

TABLE 11.9: HUMAN CAPITAL HEALTH AND WELLNESS

HUMAN CAPITAL HEALTH AND WELLNESS	Not useful at all	Of little usefulness	Neutral	Useful	Very useful	Total
	%	%	%	%	%	%
Social wellness	0.00	0.00	0.00	0.00	0.00	0.00
Occupational wellness	0.00	0.00	0.00	0.00	100.00	100.00
Intellectual wellness	0.00	0.00	0.00	0.00	0.00	0.00
Emotional wellness	0.00	0.00	0.00	0.00	0.00	0.00
Physical wellness	0.00	0.00	0.00	0.00	100.00	100.00
Financial wellness	0.00	0.00	0.00	0.00	0.00	0.00
Spiritual wellness	0.00	0.00	0.00	0.00	0.00	0.00

11.7 SUMMARY AND CONCLUSION

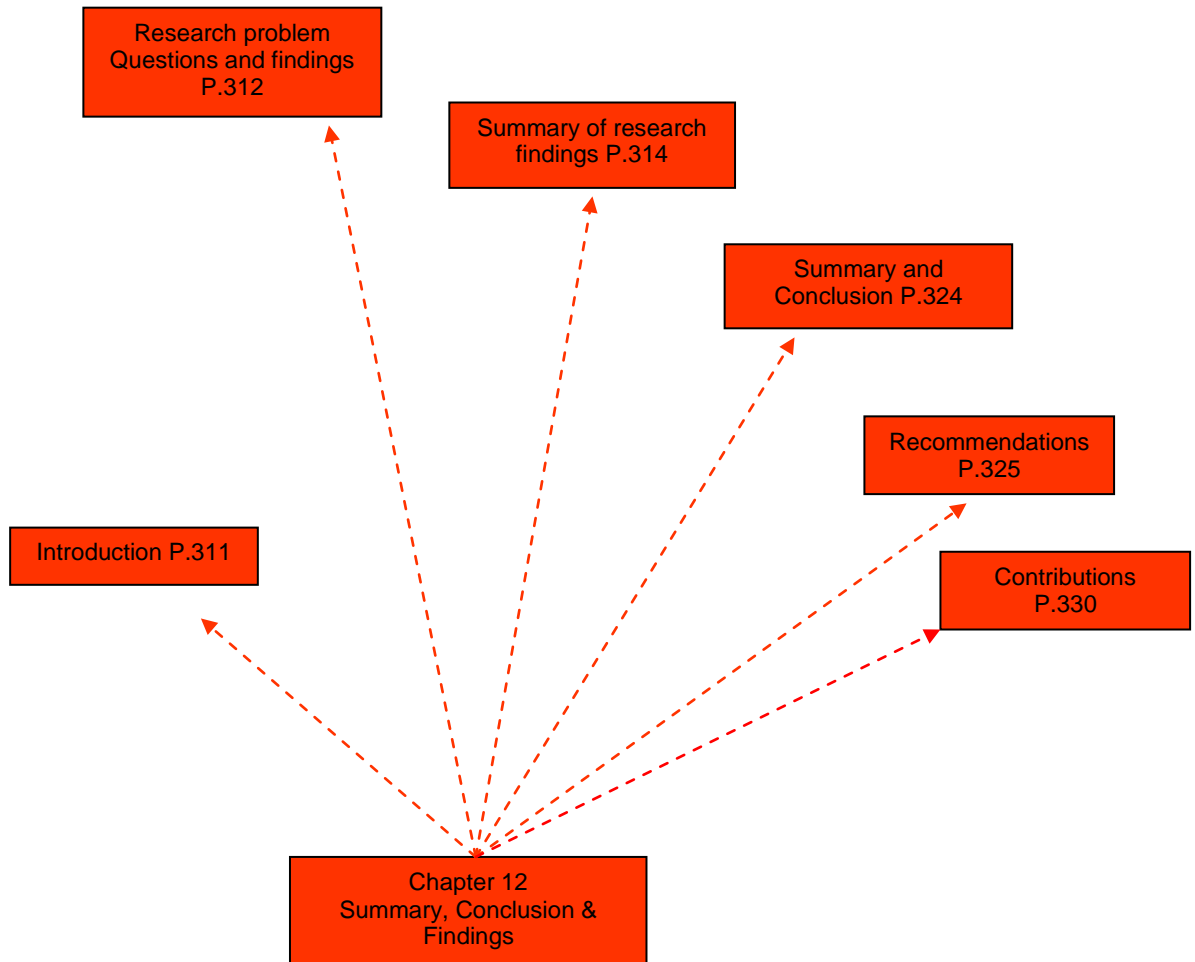
It appears that this user group which was identified as regulators and government departments does not make use of the majority of attributes under the HCD categories except for issues relating to the equity and labour relations which some of these users are expected to monitor in the annual reports of companies. For example, the results under the human capital equity issues indicate that all the attributes are very useful to them as regulators and government departments. Also, the South African Department of Labour grants the certificate of compliance on BEE issues to deserving companies, these are frequently disclosed in most of the corporate annual reports examined in this study.

It should be noted that the details underlying the results of the questionnaires to this group of users could be found in AdePhD-CD: the CD that accompanied this thesis report. Readers are kindly requested to read through the CD for these details. In the next chapter, the summary, conclusions and recommendations in respect of this study are presented.

CHAPTER 12

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Figure 12.1: Network view of Chapter 12



12.1 INTRODUCTION

The main objective of this thesis was to develop guidelines for full disclosure of HC in the discretionary part of CARs prepared by corporate entities thereby providing research evidence towards the improvement of financial reporting practice with respect to human capital disclosures in CARs. In achieving this objective, a comprehensive list totaling 91 human capital disclosure checklist items were compiled from the review of literature reported in chapters 2 to 5. An assessment of the level of disclosure and the significance of the disclosure checklist items was made in the CARs of 60 randomly selected companies listed on the Johannesburg Stock Exchange using the literature review, content analysis and survey questionnaire methodologies.

CARs are the most popular communication channel between public companies listed on the Johannesburg Stock Exchange (JSE) and the various stakeholders in South Africa. Consequent upon various legislations on corporate reporting; rules on integrated reporting and corporate governance principles, CARs of companies in South Africa have experienced momentous changes over the years and are continuously undergoing changes which has made South Africa one of the few countries that has embraced good corporate reporting practices.

The purpose of this chapter is to revisit the research problem formulated in chapter 1 and also presents a summary of research findings from the literature reviews and the empirical evidence received. Thereafter, conclusions are drawn on the basis of the research results. In addition, recommendations which include a suggested framework for human capital disclosure are made. Lastly, the contributions of this study to the science of accounting with possible areas for further research are discussed.

12.2 RESEARCH PROBLEM, QUESTIONS AND FINDINGS

The research problem focuses on the lack of appropriate reporting guidelines for human capital in the information systems of CARs, which results in making CARs less decision-useful and reduces the value creating capacity of human capital. In the following section, the findings on research questions formulated in the first chapter are presented.

(a) Why has the current reporting practice not made provision for full disclosure of human capital?

The research findings show that CARs are products of two major information systems, which are, the mandatory financial information system (MFIS), responsible for producing statutory disclosures based on generally accepted accounting practices and the discretionary information system (DIS), responsible for producing discretionary disclosures based on discretionary accounting practices.

Furthermore, the findings reveal that corporate entities tend to lay more emphasis on statutory disclosures than discretionary disclosures irrespective of how important the issues under consideration are. A good example is human capital which all organisations see as important by repeating the usual slogan “employees are our most important asset” but failed to back up this slogan with comprehensive disclosures on human capital intangibles.

Another finding is that there is no standard guiding the full disclosure of human capital attributes hence all entities are not bound to disclose most of the HC disclosure items considered in this study. For instance, in respect of the results from preparers group 1, the financial directors/managers indicate that remuneration and equity issues are mostly disclosed, this is as a result of findings in Chapter 5 that these issues are expected to be disclosed in view of regulations such as the Companies Act, 2008, King III code of corporate governance and the employment equity act.

The literature reviews in chapters 2 and 3 reveal that out of the three major categories of intellectual capital, human capital is the least disclosed. The findings from these chapters reveal that human capital is faced with measurement problems which creates a stumbling block to the disclosure of many of the attributes considered in this study.

(b) To what extent has business organisations in South Africa disclosed the large expenditures on human capital in their CARs?

The findings from content analysis in Chapter 7 show that majority of the companies in our sample basically limited their disclosures on human capital to those issues that were backed up by regulations reviewed in Chapter 5. However, some presented details regarding human capital in separate reports such as human capital reports and sustainability reports.

(c) What are the guidelines for full disclosure of human capital in the discretionary information content of CARs?

In Chapter 1, it was mentioned that mandatory disclosures are products of mandatory financial information systems. Therefore, one of the major requirements for full disclosure is for standard setters to wake up to their responsibility by considering it an acceptable accounting practice to make full disclosure in CARs. It was further argued in Chapter 1 that most of generally accepted accounting practices (GAAP) and the recent conceptual framework for the financial statements represented by accounting standards developed by standard setters such as IASB and FASB are products of discretionary accounting practices.

(d) What form should such disclosures take in the CARs?

It was noted in Chapter 1 that the measurement problem of human capital was the major obstacle to its full disclosure, this was confirmed in Chapter 7

where the majority of the attributes in the human capital measurement category were not disclosed. Although, the study admitted the existence of measurement problems in recognition of the money measurement principle of accounting, we then argue that the measurement problems should not prevent the disclosure of human related items in the discretionary part of CARs so that the users may reasonably assess its value in their decision-making.

(e) What will be the effect of such disclosures on the corporate performance, image and profile?

Chapter 3 presents a comprehensive literature review in human capital intangibles. The chapter reveals that human capital is indispensable to value creation. The responses of users group 1 presented in Chapter 10 also shows that majority of the human capital attributes are useful in their decision-making with regards to the measurement of corporate value even when they claimed not to have identified such attributes in CARs.

12.3 SUMMARY OF RESEARCH FINDINGS

In this section, the conclusions from each chapter in this study are presented.

12.3.1 Chapter 1

A significant conclusion from this chapter is that the study will contribute to the body of knowledge of corporate disclosure practices and to the knowledge of the preparers and users of CARs as well as to accounting teachers, students and practicing accountants. The study shows that in order to have a holistic picture of an organisation, CARs should include more inclusive disclosures of human capital attributes.

12.3.2 Chapter 2

The chapter commenced by exploring the general definitions of assets and its major classification into tangible and intangible assets. An illustration of asset mix in the old and new economy was portrayed. The chapter shows the different terminologies used by different authors for intangible assets followed by expositions on the definitions of various terms by the authors. Furthermore, the major components and the respective constituents of intangible assets were highlighted as human capital, structural capital and relational capital with brief explanations of these major components.

This was followed by a schedule of categorisation of intangible assets by various authors and the characteristics of intangible assets. Previous studies on intangible assets and firms' performance were highlighted; this was followed by a synopsis of the various valuation models and methods in the literature. The section on reporting of intangible assets was followed by a summary of attempts by some companies to report on their intangible assets.

Accountants have long argued that there are strong reasons for not treating intangibles as assets on a company's statement of financial position, this arises because of definitional and measurement problems, leading to the valuation of assets on a historical basis in the statement of the financial position of a firm. However, the need for a system of reporting, which will ensure that the statement of financial position is forward-looking in terms of future economic benefits cannot be overemphasised and developing an acceptable and viable system of accounting and reporting for intangibles is one of the greatest challenges of the accountancy profession today. The chapter reveals that an increasing number of researchers, practitioners, scholars, institutions and countries are rising to this challenge.

12.3.3 Chapter 3

The purpose of this chapter was to create a theoretical base for human capital intangibles as a major input for value creation in the new economy organisations. The concept of human capital was explored right from its development in 1776 by Adams Smith through to the time of Economist Schultz from whom the term human capital originated and to the time of the early researchers in the field of human resources accounting. Definitions from various authors were explored with some definitions portraying the value creating capacity of human capital. In support of the value creation capacity of human capital, the concept of human capital advantage and human capital management were discussed.

The chapter discussed the main issues pertaining to human capital measurement and reporting. The reasons for measurement and reporting of human capital in the literature were highlighted before a review of analytical models for human capital reporting was discussed. Human capital disclosures in the forms of both internal and external disclosures were discussed. The chapter shows the concern of the academics and practitioners towards external disclosures of human capital by focusing on the previous research works by various authors.

The overall conclusion from this chapter is that in the new economy characterised by knowledge intensive organisations, investors need better information as an explanation for the intangible value of human capital and that this could be achieved through strategic human resource management (HRM) practices and systematically collected and analysed data on human capital and more importantly through both internal and external communication of these data.

12.3.4 Chapter 4

The purpose of this chapter was to pinpoint the theoretical basis of the research work. It was pointed out that the study was based on the decision-usefulness theory on the assumption that firms disclose information on human capital intangibles because users find such information relevant for decision-making. The chapter also reiterated the fact that there are two major kinds of disclosures in CARs that is the mandatory and the discretionary disclosures and that the two kinds of disclosures are necessary in order to present a big picture in CARs.

In support of the decision-usefulness theory, it was disclosed that the most important objective of financial statements was 'decision-making' and that the mandatory financial information system (MFIS) and the discretionary information system (DIS) both provide information for decision-making although the DIS has the capacity to produce more information particularly those that are non-financial in nature. The extended information so provided could assist the users of CARs to understand better the content of CARs by shedding more light on the numbers and figures generated through the MFIS. The chapter shows the various categories of users of CARs and their respective information needs. A summary of both the mandatory and discretionary disclosures in the 2011 integrated reports of some of the companies in our sample was presented.

The chapter concludes with a discussion on the decision-usefulness approach to corporate annual reporting including the applications of this approach and its characteristics. The pronouncements of some major accounting bodies with respect to decision-usefulness approach were also highlighted.

Basically, the major finding here is that users do not only need information, they need decision-useful information. This was supported by the results of the questionnaires sent to the investment analysts and stockbrokers (users group 1) reported in chapter 10 which shows that this user group consider

most of the HC attributes as important to their decision-making although they were not disclosed in the CARs produced by the preparer group.

12.3.5 Chapter 5

The chapter discusses major international and local legislations and regulations affecting reporting practice of entities in South Africa. In doing this, we considered the sections of those regulations and legislations relating to human capital issues. The major international and local regulations reviewed are:

- International Financial Reporting Standards (IFRS)
- Global Reporting Initiative (GRI) Guidelines (2002)
- United Nations Global Compact (UNGC)
- The South African Companies Act, 2008 as amended by the Companies Regulations Act No. 3 of 2011.
- The King Code of Corporate Governance (King I, King II and King III)
- The Exchange (The Johannesburg Stock Exchange)
- The Professional Accounting bodies (SAICA)
- South African Labour Laws and Regulations which includes
 - Labour Relations Act (1995);
 - Basic Conditions of Employment Act (1997);
 - Skills Development Act (1998);
 - Occupational Health and Safety Act (1993);
 - Mine Health and Safety Act (1996);
 - Employment Equity Act (1998); and
 - Broad Based Black Economic Empowerment Act (2003).

An important conclusion from this chapter is that disclosures in CARs are largely influenced by the international and local legislations and regulations. An important recommendation arising from the chapter is that more

legislations are required to enable preparers of CARs provide more comprehensive disclosures on human capital intangibles.

12.3.6 Chapter 6

This chapter describes the various methods used in the research work. These methods are a literature review, a content analysis and the use of questionnaires. Chapters two to five cover the literature review aspect. The chapters reflect previous research works on intangible assets in general, human capital intangibles in particular, the decision-usefulness theory as well as the international and local regulatory framework for corporate reporting. It was stated that the literature review formed the basis for the development of the 91 HC disclosure checklist items used in this study.

The second method referred to as content analysis involved the codification of major phrases, sentences and short paragraphs relating to the 91 HC disclosure checklist items from the CARs of the 60 selected companies. The third method involves the administration of survey questionnaires to four groups of respondents namely the Financial Directors/Managers, the Human Resource Directors/Managers, the Investment Analysts and the Regulators and Government Departments. The chapter included the detailed description of various steps taken in collecting and analysing both the qualitative and quantitative data.

The chapter also included the methods employed for data analysis called 'Atlasti'– a qualitative data analysis software for the analysis of qualitative data obtained from the content analysis method and the Statistical Package for Social Sciences (SPSS) for the analysis of the quantitative data obtained from the survey questionnaire method. Furthermore, it was stated that charts and tables were used to summarise the data sets obtained. Lastly, the limitations of the empirical investigations were stated.

12.3.7 Chapter 7

A content analysis was conducted on the CARs of 60 randomly selected companies from the top 100 companies listed on the JSE for the accounting periods ending in 2011 (with few companies having the accounting periods falling within 2012). The chapter presents research evidence for answering the research question: 'To what extent has business organisations in South Africa disclosed the large expenditures on human capital in their CARs?' posed in chapter 1.

The analysis involved the determination of the frequency of disclosures of the entire 91 human capital disclosure checklist items (See Chapter 6, section 3.4) used in this study through 'Atlasti' software. Major phrases; sentences and short paragraphs referring to specific disclosure items were quoted directly from the annual reports. This was done to show actual disclosures rather than relying on disclosure frequencies alone.

It was stated that the majority of the companies in the sample were presenting the first integrated reports in line with King III Code of Corporate Governance and so are expected to include more information than the CARs produced for the previous accounting periods.

The 91 disclosure checklist items (See chapter 6, section 3.4) were categorised in nine themes or families (See appendix A) and the results were analysed according to these categories. The results for category 1 show that most organisations preferred the use of human resources and human capital because they possibly have human resources departments and human capital management committees dealing with human capital related issues. On the other hand, human assets and human value were not used possibly because this will suggest that humans could be equated to physical assets and because of the acknowledged measurement problem.

The result in category 2 shows that the disclosures here were largely influenced by regulations such as broad-based black economic empowerment regulation and the King III Code of Corporate Governance. This confirms the conclusion in Chapter 5 that some disclosures were in response to some local regulations.

In category 3, the results show that the frequently disclosed attributes are meeting style; leadership; union activity and succession plan; those that were fairly disclosed are HC related information in the Chairman's statement in the form of appreciation to board members, management and employees while the least frequently disclosed items are employee related information in the operating reviews and the financial statements, workforce profile, company culture, employee interview and community service.

The results for category 4 reveal that only six out of the 30 disclosure items in this category have disclosure frequencies reported. This confirms the measurement problem identified in chapter 3 as a major obstacle to human capital disclosures. In category 5, the results show very low disclosure frequencies on issues concerning training and development which is very paramount to human capital management. The assumption here is that some of these information remained within the confines of the human resources department.

For category 6, the results show that many companies disclose information on employee benefits and share scheme which also confirms that disclosures are products of certain legislations and regulations as observed in Chapter 5. Similarly, the results on equity issues from category 7 were also influenced by regulations and legislations.

Category 8 disclosures were influenced by both the international and local occupational health and safety standards. Most of the large companies listed on the JSE are in the mining sector where occupational health and safety policies put in place must necessarily be disclosed in their CARs. Lastly, the

results for category 9 show that disclosures on occupational wellness were most frequent. This is also in response to certain regulations and legislations examined in chapter 5.

The general conclusion from the chapter is that relevant human capital data needed by users for rational decisions are still lacking in the majority of the corporate annual reports. Overall, the research results give validity to the assumption of this study that appropriate reporting guidelines should be developed through the discretionary information system of CARs so that users can make use of these guidelines to assess and determine the fair value of human capital in their decision-making.

12.3.8 Chapter 8

A questionnaire with two questions having a yes or no answer on whether information on the 91 HC disclosure checklist items were provided by the financial directors identified as preparers of CARs as the first question. The second question was for the financial directors to indicate the extent to which such items contribute to creating value for their companies if the answer to the first question is yes. The answers to the second question were provided with a rating scale indicated as no contribution; weak contribution; moderate contribution; strong contribution and very strong contribution.

The research results on the questionnaire to financial directors are also in accordance with our research proposition which seeks to determine why companies do not disclose enough information on human capital although it is perceived to be an important factor in creating value in an organisation. This will be of value to the preparers of CARs as it points out many attributes of human capital that if well reported on will improve the decision-usefulness of CARs . It therefore gives validity to the research assumption that appropriate reporting guidelines should be developed so as to enable users of CARs assess and determine the fair value of human capital in their decision-making.

12.3.9 Chapter 9

A questionnaire with two questions having a yes or no answer on whether information on the 91 HC disclosure checklist items were provided by the Human Resource Directors identified as preparers of CARs as the first question. The second question was for the human resource directors to indicate the extent to which such items contribute to creating value for their companies if the answer to the first question is yes. The answers to the second question were provided with a rating scale indicated as no contribution; weak contribution; moderate contribution; strong contribution and very strong contribution.

The significant issue arising from the results of the questionnaire to Human Resource Directors is that they considered most of the disclosure items as useful while they also indicated that they were not provided in the annual reports. The pertinent question is: who should be responsible for providing information on human capital related issues? This study identified the finance and the human resource departments as preparers of CARs, this indicates that the two departments must interact with each other in order to produce decision-useful information on human capital intangibles.

12.3.10 Chapter 10

A questionnaire with two questions having a yes or no answer on whether information on the 91 HC disclosure checklists were identified by the investment analysts identified as users of CARs as the first question. The second question was for the investment analysts to indicate the degree of usefulness to their decision-making with regards to measurement of company's value if the answer to the first question is yes. The answers to the second question were provided with a rating scale indicated as not useful at all; of little usefulness; neutral; useful and very useful.

The overall results here show that the respondents could not identify the majority of the disclosure items in CARs. Therefore, the degree of usefulness of the reports to them seems to be limited because they see the attributes as useful to them. This further confirms our proposition for development of guidelines for human capital disclosure.

12.3.11 Chapter 11

A questionnaire with two questions having a yes or no answer on whether information on the 91 HC disclosure checklist items were identified by the regulators and government departments referred to as users of CARs. The second question was for the regulators and government departments to indicate the degree of usefulness to their decision-making with regards to measurement of company's value if the answer to the first question is yes. The answers to the second question were provided with a rating scale indicated as not useful at all; of little usefulness; neutral; useful and very useful.

The results here show that the regulators and government departments are not concerned with majority of these human capital categories apart from issues bordering on employment equity and conditions of employment legislations which they are expected to monitor the compliance of business organisations operating in South Africa.

12.4 SUMMARY AND CONCLUSION

The overall goal of this thesis was to obtain an understanding of the nature and significance of human capital as value-generating assets. The present level of disclosure on human capital falls short of the expectations of the investors and other users of CARs. The major reason behind this is that disclosures on human capital are still left to the discretion of preparers of CARs because there is presently no standard compelling the organisations to

present a comprehensive report on the performance and management of their workforce.

This study argued that although human capital could not be treated like tangible assets or other forms of capital in view of its measurement problems, it is nevertheless an important predictor of firm's performance particularly in the new economy characterised by value-creating intangibles. Another important issue emanating from this study is that both the preparers and the users agree to the fact that human capital creates value but that the workforce metrics and matters that could assist the users to reasonably assess human capital value are lacking in CARs.

It was observed during this study that disclosures in CARs are made up of mandatory disclosures and discretionary disclosures and that the latter complements the former so as to present a holistic picture of CARs. Although, there is no generally acceptable model or framework at present for human capital disclosure in the statutory sections of the annual reports, the discretionary section could be expanded to include measures and matters related to human capital. This was confirmed by the results of the content analysis of CARs which shows that most of the human capital related disclosures were made in the discretionary sections of these reports.

12.5 RECOMMENDATIONS

This study aims to recommend a framework for human capital disclosures. In view of the multidimensional nature of human capital, a range of measures and matters will be needed to adequately capture the nature and contribution of human capital. The framework is based on nine categories of human capital strategy, features, relations, measurements, training and development, remuneration and welfare, equity, environmental safety as well as health and wellness.

The foundation of human capital disclosures should be the provision of information on the organisation's human capital strategy in the broad terms of acquisition, development, management and performance of human capital intangibles. The human capital strategy statement will also allow CARs users to recognise the organisational vision for human capital as a strategic value creating asset while indicating the strengths and weaknesses as well as opportunities and threats inherent in the organisation's human capital.

Furthermore, a specific statement should be made so as to identify the significant role of HR directorates in ensuring that the management of human capital is done with the goal of achieving maximum contributions to corporate value.

Secondly, comments should be made on the important HC features such as capability, commitment, competence, creativity, expertise, innovation, learning, loyalty, skill, teamwork, experience and entrepreneur spirit.

Thirdly, information could be provided on some human capital relations attributes such as workforce profile, company culture, communication channel, leadership, succession plan, meeting style, recruitment policies including interviews, union activity community service, appreciation of employees. Some organisation's chairman's statement or letter as well as the operating reviews contain some of these attributes.

Fourthly, matters and metrics requiring disclosure on the human capital measurement functional area includes employee number, employee breakdown by age; seniority; gender; nationality as well as department, board and top management names, ages, abilities, educational background and work experience. Other attributes in this functional areas include growth or renewal ratios; efficiency ratios; human capital return on investment; training return on investment; cost of absence; cost of resignations; annual pay audits; workforce turnover; retention rates; performance and productivity as well as dependence on key employee.

Fifthly, issues that could be disclosed on the human capital training and development functional areas include knowledge; education; qualifications; career development; training programmes; talent management; competence development programmes and job rotation opportunities. The sixth functional area could feature attributes such as executive compensation plan, employee compensation; share scheme; share option scheme as well as asset acquisition scheme, job satisfaction and recognition and reward.

The seventh functional area could contain information on equity issues such as race, gender, religion and disability while the eight functional area could also contain reports on working environment policy, employee safety policy, community involvement, corporate social responsibility and ethical business policy. Lastly, the ninth functional area could contain information on social; occupational; intellectual; emotional; physical; financial as well as spiritual wellness.

This study acknowledged that the majority of these attributes cannot be measured in monetary terms in line with the age-long money measurement principle of financial accounting, a way out is to report these items in the discretionary or contextual sections of CARs. It is also recommended that each functional area should include indicators relating to the functional areas, a statement of objectives and the organisation's approach to each functional area highlighting the problems that are peculiar to each firm; industry, location and the operating conditions, the overall HC strategy could also be broken down into policies that are specific to these functional areas.

Details of the framework is set out in table 12.1.

TABLE 12.1: HUMAN CAPITAL DISCLOSURE FRAMEWORK

Functional areas	Indicators	Objectives	Approach
Human capital strategy	Acquisition; development; management and performance.	To indicate the overall human capital strategy.	Establishment of procedure for demand and supply of human capital; HC management practices and performance measurement procedures.
Human capital features	Capability; commitment; competence; creativity; expertise; innovation; learning; Loyalty; skill; teamwork; experience and entrepreneur spirit.	To indicate specific human capital features relevant to value creation process.	Establishment of procedure to identify relevant features specific to an organisation's human capital.
Human capital relations	Workforce profile; company culture; communication channel; leadership; succession plan; meeting style; recruitment policies including interviews; union activity; community service; appreciation of employees.	To indicate relational attributes between an organisation and its employees.	Specific statements on these relational attributes.
Human capital measurements	Employee number; employee breakdown by age; seniority; gender; nationality; department; board and top management names, ages, abilities, educational background and work experience; Other attributes in this functional area includes growth or renewal ratios; efficiency ratios; human capital return on investment; training return on investment; cost of absence; cost of resignations; annual pay audits; workforce turnover; retention rates; performance and productivity as well as dependence on key employee.	To indicate the quantitative and qualitative measures relating to human capital.	Statement of values relating to these measures.

TABLE 12.1: HUMAN CAPITAL DISCLOSURE FRAMEWORK (CONT...)

Functional areas	Indicators	Objectives	Approach
Human capital training and development	Knowledge; education; qualifications; career development; training programmes; talent management; competence development programmes and job rotation opportunities	To indicate the human capital development policies in an organisation.	Reports on training and development programmes.
Human capital remuneration and welfare	Executive compensation plan, employee compensation; share scheme; share option scheme as well as asset acquisition scheme, job satisfaction and recognition and reward.	To indicate the remuneration and welfare policies in an organisation.	Reports on remuneration and welfare policies and extent of compliance to relevant legislations and regulations.
Human capital equity issues	Race; gender; religion and disability.	To indicate the organisational policies on equity issues in the workplace.	Statements on issues of race, gender, religion and disability and extent of compliance to relevant legislations and regulations.
Human capital environmental safety	Working environment policy; employee safety policy; community involvement; corporate social responsibility and ethical business policy.	To indicate the organisational policies on workplace safety.	Statements on environmental safety policies and extent of compliance to relevant legislations and regulations.
Human capital health and wellness	Social; occupational; intellectual; emotional; physical; financial as well as spiritual wellness.	To indicate the organisational health and wellness programmes.	Report on the organisational health and wellness programmes.

Another recommendation from this study is that preparers of CARs need to include more information on human capital so as to make these reports more decision-useful. The users on the other hand should interact with the preparers on the nature of information on human capital needed for their decision-making. However, more research work is still needed to determine the kind of human capital information needed by users and the kind of information that should be supplied by the human resources departments in

order to meet the needs of the investors and other heterogeneous users of CARs.

The study also recommends that standard setters should see the need to start the process of standardising human capital disclosures so that over time, they could be introduced into the statutory section of CARs. Accounting issues that have been standardised at present were formally issues reported in the discretionary sections of CARs.

Lastly, it is recommended that the accounting curriculum should be expanded to incorporate the important issues of human capital disclosures in CARs.

It is important to note that the human capital disclosure journey has started but most organisations are yet to join the road leading to the provision of a more qualitative and reliable information on human capital which is considered as the most important organisational asset. This study aims at providing opportunity for the preparers of CARs to embark on the journey to more holistic reporting on human capital.

12.6 CONTRIBUTIONS OF THIS STUDY TO THE SCIENCE OF ACCOUNTING

From this study, it may be concluded that human capital is a value-creating intangible asset particularly in the new economy organisations. Secondly, this research shows that the level of human disclosures in CARs is low considering the fact that most organisations consider human capital as their most important asset. This means that this statement has not been matched with corresponding actions. Thirdly, that international and local legislations and regulations have a significant effect on CARs.

Fourthly, the study points to further research areas such as human capital strategic management and reporting. Fifthly, this study shows that human capital related disclosures could reasonably be made through the discretionary section in CARs; sixthly, discretionary disclosures has the

characteristics of providing more meaning to statutory disclosures and so both are complementary to each other in providing a big picture of CARs; seventhly, the study will assist the preparers in making CARs more decision-useful and lastly the study will further contribute to the body of knowledge on human capital disclosures in CARs.

APPENDIX A

HUMAN CAPITAL DISCLOSURE CHECKLIST

A. Human Capital Terminology

1. Human assets
2. Human resources
3. Human value
4. Human capital

B. Human Capital Features

5. Capability/Abilities
6. Commitment
7. Work-related competence
8. Creativity
9. Expertise
10. Innovation
11. Learning
12. Loyalty
13. Skill
14. Teamwork
15. Personal experience
16. Professional experience
17. Entrepreneurial spirit

C. Human Capital Relations

18. Chairman's statement
19. Operating review
20. Financial statement
21. Employee appreciated
22. Workforce profile
23. Company culture
24. Communication channel
25. Leadership
26. Succession plan
27. Meeting style
28. Recruitment policies
29. Employee interview
30. Union activity
31. Community service

D. Human Capital Measurements

32. Employee number
33. Employee breakdown by age
34. Employee breakdown by seniority
35. Employee breakdown by gender
36. Employee breakdown by nationality
37. Employee breakdown by department
38. Growth/renewal ratios: average professional experience
39. Growth/renewal ratios: average education level
40. Efficiency ratios: value added per expert
41. Efficiency ratios: value added per employee
42. Name and age of board members
43. Board members educational background (academic career)
44. Board members work experience (professional career)
45. Comments on the abilities of the Board
46. Name and age of top management term
47. Their educational background (academic career)
48. Their work experience (professional career)
49. Comments on the abilities of top management team
50. Stability ratios: expert seniority
51. Stability ratios: median age of employee
52. Human capital return on investment
53. Training return on investment
54. Cost of absence
55. Cost of resignations
56. Annual pay audits
57. Workforce turnover
58. Retention rates
59. Performance and productivity
60. Dependence on key employee

E. Human Capital Training and Development

61. Knowledge
62. Education
63. Vocational Qualifications
64. Career development
65. Training programmes
66. Talent management
67. Competence Development Programmes
68. Job rotation opportunities

F. Human Capital Remuneration and Welfare

69. Executive compensation plan
70. Employee compensation plan
71. Employee benefits
72. Employee share scheme
73. Employee share option scheme
74. Employee job satisfaction
75. Recognition and reward
76. Employee Asset Acquisition Scheme

G. Human Capital Equity Issues

77. Race, gender and religion
78. Disabled employees
79. Disabled applicants

H. Human Capital Environmental Safety

80. Statement of working environment policy
81. Statement of employee safety policy
82. Description of community involvement
83. Statement of policy regarding corporate social responsibility
84. Statement of ethical business policy

I. Human Capital Health and Wellness

85. Social wellness
86. Occupational wellness
87. Intellectual wellness
88. Emotional wellness
89. Physical wellness
90. Financial wellness
91. Spiritual wellness

APPENDIX B

**PARTICIPATION IN AN ACADEMIC RESEARCH STUDY
TITLE: HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)
CHECKLIST QUESTIONNAIRE TO PREPARERS OF CARs: FINANCIAL
DIRECTORS/MANAGERS**

Dear respondent

You are invited to participate in an academic research study being conducted by Michael Adelowotan, a doctoral student in Financial Accounting under the supervision of Professor CJ Cronjé and Professor HC Wingard of the School of Accounting Sciences, University of South Africa.

The purpose of this study is to determine the extent to which companies in South Africa reflect information on Human Capital in their CARs and to research the contribution of Human Capital Disclosures (HCD) to the decision-usefulness of CARs.

The responses obtained from the individual questionnaires aimed at the preparers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

An electronic copy of the final research study will be made available upon request as soon as the research is completed. Kindly forward this questionnaire to other Financial Managers/ Directors who can also make significant contributions to this study.

Please access and complete the questionnaire electronically by pressing Ctl+Click to follow this link <http://surveys.unisa.ac.za/index.php?sid=18474&lang=en>. The survey should take approximately 15 to 20minutes to complete. It will be much appreciated if the completed questionnaire is returned before the 31st January, 2012.

Should you require any further information, please do not hesitate to contact:

Michael Adelowotan (FCA)
Department of Financial Accounting
University of South Africa

OR

Prof Christo Cronjé CA(SA)
Chair of Department:
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Tel: +27124294718; +27795222530

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(Please mark for my attention)

E-mail: 35809884@mylife.unisa.ac.za

Fax: +27124293424

(Please mark for my attention)

E-mail: cronjci@unisa.ac.za

Thanking you for your kind cooperation and assistance with this research project.

Yours sincerely,

MICHAEL ADELOWOTAN

14 November 2011

HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)

There are 10 questions in this survey

Section A Sectoral Affiliation

1 The main sector in which the company operates is: (Please select one option only.)
*

Please choose **only one** of the following:

- Basic Materials
- Oil & Gas
- Industrials
- Consumer Goods
- Health Care
- Consumer Services
- Telecommunications
- Financials
- Technology
- Development Capital
- Venture Capital
- Alternative Exchange
- Other

Section B

Human Capital Terminology

2

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Human assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human value	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section C Human Capital Features

3

Please choose the appropriate response for each item:

Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?

If YES, to what extent do the following components contribute to creating value for your company?

	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Capability/Abilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Commitment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work-related competence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Creativity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Expertise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Learning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skill	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Teamwork	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personal experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Entrepreneurial spirit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section D

Human Capital Relations

4

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Chairman's statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operating review	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee appreciated	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce profile	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company culture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communication channel	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leadership	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Succession plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting style	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recruitment policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee interview	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Union activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Community service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section E

Human Capital Measurements

5

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Employee number	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by age	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by gender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by nationality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: coverage professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: average education level	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per expert	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of board members	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Comments on the abilities of the Board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of top management term	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: expert seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: median age of employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of absence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of resignations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Annual pay audits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retention rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance and productivity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dependence on key employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section F Human Capital Training and development

6

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
1 Knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 Education	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Vocational qualifications	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 Career development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 Training programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 Talent management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 Competence Development Programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8 Job rotation opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section G Human Capital Remuneration and Welfare

7

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Executive compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee benefits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share option scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee job satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recognition and reward	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee Asset Acquisition Scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section H Human Capital Equity Issues

8

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
1 Race, gender and religion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 Disabled employees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Disabled applicants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section I Human Capital Environmental Safety

9

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Statement of working environment policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of employee safety policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Description of community involvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of policy regarding corporate social responsibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of ethical business policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section J Human Capital Health and Wellness

10

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
1 Social wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 Occupational wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Intellectual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 Emotional wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 Physical wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 Financial wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 Spiritual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

01.01.1970 – 02:00

Submit your survey.
Thank you for completing this survey.

APPENDIX C

**PARTICIPATION IN AN ACADEMIC RESEARCH STUDY
TITLE: HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)
CHECKLIST QUESTIONNAIRE TO PREPARERS OF CARs: HUMAN RESOURCE
MANAGERS/DIRECTORS**

Dear respondent,

You are invited to participate in an academic research study being conducted by Michael Adelowotan, a doctoral student in Financial Accounting under the supervision of Professor C.J. Cronjé and Professor H.C.Wingard of the School of Accounting Sciences, University of South Africa.

The purpose of this study is to determine the extent to which companies in South Africa reflect information on Human Capital in their CARs and to research the contribution of Human Capital Disclosures (HCD) to the decision-usefulness of CARs.

The responses obtained from the individual questionnaires aimed at the preparers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

An electronic copy of the final research study will be made available upon request as soon as the research is completed. Kindly forward this questionnaire to other Human Resource Managers/Directors who can also make significant contributions to this study.

Please access and complete the questionnaire electronically by pressing Ctl+Click to follow this link <http://surveys.unisa.ac.za/index.php?sid=34128&lang=en> . The survey should take approximately 15 to 20minutes to complete. It will be much appreciated if the completed questionnaire is returned before 3st January, 2012.

Should you require any further information, please do not hesitate to contact:

Michael Adelowotan (FCA)
Department of Financial Accounting
University of South Africa

Tel: +27780624358

Fax: +27124296841

(Please mark for my attention)

E-mail: 35809884@mylife.unisa.ac.za

OR

Prof Christo Cronjé CA(SA)

Chair of Department:

Professional Programmes

University of South Africa

Tel: +27124294718; +27795222530

Fax: +27124293424

(Please mark for my attention)

E-mail: cronjci@unisa.ac.za

Thanking you for your kind cooperation and assistance with this research project.

Yours sincerely,

MICHAEL ADELOWOTAN

14 November 2011

HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)

There are 10 questions in this survey

Section A Sectoral Affiliation

1 The main sector in which the company operates is: (Please select one option only.)
*

Please choose **only one** of the following:

- Basic Materials
- Oil & Gas
- Industrials
- Consumer Goods
- Health Care
- Consumer Services
- Telecommunications
- Financials
- Technology
- Development Capital
- Venture Capital
- Alternative Exchange
- Other

Section B

Human Capital Terminology

2

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Human assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human value	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section C Human Capital Features

3

Please choose the appropriate response for each item:

Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?

If YES, to what extent do the following components contribute to creating value for your company?

	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Capability/Abilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Commitment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work-related competence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Creativity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Expertise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Learning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skill	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Teamwork	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personal experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Entrepreneurial spirit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section D

Human Capital Relations

4

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Chairman's statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operating review	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee appreciated	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce profile	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company culture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communication channel	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leadership	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Succession plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting style	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recruitment policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee interview	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Union activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Community service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section E

Human Capital Measurements

5

Please choose the appropriate response for each item:

Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?

If YES, to what extent do the following components contribute to creating value for your company?

	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Employee number	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by age	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by gender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by nationality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: coverage professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: average education level	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per expert	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of board members	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Comments on the abilities of the Board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of top management term	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: expert seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: median age of employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of absence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of resignations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Annual pay audits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retention rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance and productivity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dependence on key employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section F Human Capital Training and development

6

Please choose the appropriate response for each item :

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Education	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vocational qualifications	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Career development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Talent management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Competence Development Programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Job rotation opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section G Human Capital Remuneration and Welfare

7

Please choose the appropriate response for each item :

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Executive compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee benefits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share option scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee job satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recognition and reward	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee Asset Acquisition Scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section H Human Capital Equity Issues

8

Please choose the appropriate response for each item :

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Race, gender and religion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled employees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled applicants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section I Human Capital Environmental Safety

Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs ?

If YES, to what extent do these components contribute to creating value for your company?

9

Please choose the appropriate response for each item:

	Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, to what extent do the following components contribute to creating value for your company?				
	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Statement of working environment policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of employee safety policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Description of community involvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of policy regarding corporate social responsibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of ethical business policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section J Human Capital Health and Wellness

10

Please choose the appropriate response for each item :

Does your organisation disclose externally the following quantitative and/or qualitative information relating to Human Capital in CARs?

If YES, to what extent do the following components contribute to creating value for your company?

	Yes	No	No contribution	Weak contribution	Moderate contribution	Strong contribution	Very strong contribution
Social wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupational wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Intellectual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Emotional wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Physical wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Spiritual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

01.01.1970 – 02:00

Submit your survey.
Thank you for completing this survey.

APPENDIX D

PARTICIPATION IN AN ACADEMIC RESEARCH STUDY

TITLE: HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)

CHECKLIST QUESTIONNAIRE TO USERS OF CARs: INVESTMENT/FINANCIAL ANALYSTS

Dear respondent,

You are invited to participate in an academic research study being conducted by Michael Adelowotan, a doctoral student in Financial Accounting under the supervision of Professor CJ Cronjé and Professor HC Wingard of the School of Accounting Sciences, University of South Africa.

The purpose of this study is to determine the extent to which companies in South Africa reflect information on Human Capital in their CARs and to research the contribution of Human Capital Disclosures (HCD) to the decision-usefulness of CARs.

The responses obtained from the individual questionnaires aimed at the preparers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

An electronic copy of the final research study will be made available upon request as soon as the research is completed. Kindly forward this questionnaire to other investment/financial analysts who can also make significant contributions to this study.

Please access and complete the questionnaire electronically by pressing Ctl+Click to follow this link <http://surveys.unisa.ac.za/index.php?sid=81343&lang=en>. The survey should take approximately 15 to 20 minutes to complete. It will be much appreciated if the completed questionnaire is returned before 31st January, 2012.

Should you require any further information, please do not hesitate to contact:

Michael Adelowotan (FCA)
Department of Financial Accounting
University of South Africa

OR

Prof Christo Cronjé CA(SA)
Chair of Department:
Professional Programmes
University of South Africa

Tel: +27780624358

Tel: +27124294718; +27795222530

Fax: +27124296841

Fax: +27124293424

(Please mark for my attention)

(Please mark for my attention)

E-mail: 35809884@mylife.unisa.ac.za

E-mail: cronjci@unisa.ac.za

Thanking you for your kind cooperation and assistance with this research project.

Yours sincerely,

MICHAEL ADELOWOTAN

14 November 2011



HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)

There are 10 questions in this survey

Section A Sectoral Affiliation

1 The main sector in which the company operates is: (Please select one option only.)
*

Please choose **only one** of the following:

- Basic Materials
- Oil & Gas
- Industrials
- Consumer Goods
- Health Care
- Consumer Services
- Telecommunications
- Financials
- Technology
- Development Capital
- Venture Capital
- Alternative Exchange
- Regulators
- Government Departments
- Other

Section B

Human Capital Terminology

2

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Human assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human value	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section C Human Capital Features

Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARS?

if **YES** state the degree of usefulness to your decision making with regards to the measurement of company's value?

3

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARS?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Capability/Abilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Commitment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work-related competence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Creativity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Expertise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Learning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skill	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Teamwork	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personal experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Entrepreneurial spirit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section D

Human Capital Relations

4

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Chairman's statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operating review	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee appreciated	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce profile	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company culture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communication channel	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leadership	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Succession plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting style	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recruitment policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee interview	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Union activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Community service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section E

Human Capital Measurements

5

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Employee number	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by age	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by gender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by nationality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: coverage professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: average education level	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per expert	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of board members	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of the Board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Name and age of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: expert seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: median age of employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of absence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of resignations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Annual pay audits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retention rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance and productivity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dependence on key employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section F Human Capital Training and development

6

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Education	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vocational qualifications	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Career development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Talent management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Competence Development Programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Job rotation opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section G Human Capital Remuneration and Welfare

7

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Executive compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee benefits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share option scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee job satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recognition and reward	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee Asset Acquisition Scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section H Human Capital Equity Issues

8

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Race, gender and religion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled employees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled applicants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section I Human Capital Environmental Safety

Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARS?

if **YES** state the degree of usefulness to your decision making with regards to the measurement of company's value?

9

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
1 Statement of working environment policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 Statement of employee safety policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Description of community involvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 Statement of policy regarding corporate social responsibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 Statement of ethical business policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section J Human Capital Health and Wellness

10

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
1 Social wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 Occupational wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 Intellectual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 Emotional wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 Physical wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 Financial wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 Spiritual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

01.01.1970 – 02:00

Submit your survey.
Thank you for completing this survey.

APPENDIX E

**PARTICIPATION IN AN ACADEMIC RESEARCH STUDY
TITLE: HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)
CHECKLIST QUESTIONNAIRE TO USERS OF CARs: REGULATORS AND GOVERNMENT
DEPARTMENTS**

Dear respondent,

You are invited to participate in an academic research study being conducted by Michael Adelowotan, a doctoral student in Financial Accounting under the supervision of Professor CJ Cronjé and Professor HC Wingard of the School of Accounting Sciences, University of South Africa.

The purpose of this study is to determine the extent to which companies in South Africa reflect information on Human Capital in their CARs and to research the contribution of Human Capital Disclosures (HCD) to the decision-usefulness of CARs.

The responses obtained from the individual questionnaires aimed at the preparers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

An electronic copy of the final research study will be made available upon request as soon as the research is completed. Kindly forward this questionnaire to other regulators and government departments who can also make significant contributions to this study.

Please access and complete the questionnaire electronically by pressing Ctrl+Click to follow this link <http://surveys.unisa.ac.za/index.php?sid=92973&lang=en> . The survey should take approximately 15 to 20minutes to complete. It will be much appreciated if the completed questionnaire is returned before 31st January, 2012.

Should you require any further information, please do not hesitate to contact:

Michael Adelowotan (FCA)
Department of Financial Accounting
University of South Africa

OR

Prof Christo Cronjé CA(SA)
Chair of Department:
Professional Programmes
University of South Africa

Tel: +27780624358

Tel: +27124294718; +27795222530

Fax: +27124296841

Fax: +27124293424

(Please mark for my attention)

(Please mark for my attention)

E-mail: 35809884@mylife.unisa.ac.za

E-mail: cronjci@unisa.ac.za

Thanking you for your kind cooperation and assistance with this research project.

Yours sincerely,

MICHAEL ADELOWOTAN

14 November 2011

HUMAN CAPITAL DISCLOSURES IN CORPORATE ANNUAL REPORTS (CARs)

There are 10 questions in this survey

Section A Sectoral Affiliation

1 The main sector in which the company operates is: (Please select one option only.)
*

Please choose **only one** of the following:

- Basic Materials
- Oil & Gas
- Industrials
- Consumer Goods
- Health Care
- Consumer Services
- Telecommunications
- Financials
- Technology
- Development Capital
- Venture Capital
- Alternative Exchange
- Regulators
- Government Departments
- Other

Section B

Human Capital Terminology

2

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Human assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human value	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section C Human Capital Features

3

Please choose the appropriate response for each item

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Capability/Abilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Commitment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work-related competence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Creativity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Expertise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Innovation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Learning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loyalty	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skill	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Teamwork	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personal experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Entrepreneurial spirit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section D

Human Capital Relations

4

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Chairman's statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operating review	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee appreciated	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce profile	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company culture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communication channel	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Leadership	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Succession plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meeting style	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recruitment policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee interview	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Union activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Community service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section E

Human Capital Measurements

5

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Employee number	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by age	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by gender	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by nationality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee breakdown by department	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: coverage professional experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Growth/renewal ratios: average education level	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per expert	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Efficiency ratios: value added per employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Name and age of board members	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board members work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of the Board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Name and age of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their educational background (academic career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Their work experience (professional career)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Comments on the abilities of top management team	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: expert seniority	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stability ratios: median age of employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Human capital return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training return on investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of absence	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of resignations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Annual pay audits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workforce turnover	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retention rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance and productivity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dependence on key employee	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section F Human Capital Training and development

6

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
			Not useful at all	Of little usefulness	Neutral	Useful	Very useful
	Yes	No					
Knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Education	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vocational qualifications	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Career development	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Talent management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Competence Development Programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Job rotation opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section G Human Capital Remuneration and Welfare

7

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Executive compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee compensation plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee benefits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee share option scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee job satisfaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recognition and reward	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employee Asset Acquisition Scheme	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section H Human Capital Equity Issues

8

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Race, gender and religion	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled employees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Disabled applicants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section I Human Capital Environmental Safety

9

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Statement of working environment policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of employee safety policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Description of community involvement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of policy regarding corporate social responsibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of ethical business policy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Section J Human Capital Health and Wellness

10

Please choose the appropriate response for each item:

	Do you identify the following quantitative and/or qualitative information relating to Human Capital in CARs?		If YES, state the degree of usefulness to your decision making with regards to measurement of company's value?				
	Yes	No	Not useful at all	Of little usefulness	Neutral	Useful	Very useful
Social wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupational wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Intellectual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Emotional wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Physical wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Spiritual wellness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

01.01.1970 – 02:00

Submit your survey.
Thank you for completing this survey.

APPENDIX F

Responses of preparers of CARs not willing to participate in the survey

Some companies in the preparers group were not willing to participate in the survey. Reasons adduced for their unwillingness to participate are revealed in some of the responses below:

“The study you are contemplating is noted with interest. However, we are being inundated with questionnaires of this nature issued by educational authorities, organisations doing research and post-graduate students over and above the compulsory questionnaires called for by governments. These questionnaires all require the attention of senior personnel and we found that too much time of senior officials would be taken up if these questionnaires were all replied to. It would also be invidious and in fact impossible task to make a selection according to merit and importance. In view of the foregoing, it has been decided not to participate in studies requiring the attention of senior officials and we consequently regret that your request to complete the questionnaire can unfortunately not be met.”

“We appreciate the confidence in which you have written to us. However, we regret that it will not be possible to comply with your request. Requests to complete questionnaires arrive at our offices almost daily. To respond to all would be extremely time-consuming. On the other hand, to make exceptions would be unfair. For these reasons, it has been company policy over many years not to participate in questionnaires, surveys and other similar projects. We trust that you will understand our position.”

“We receive numerous requests for participation in survey and research studies. Unfortunately, we cannot participate in all and will therefore not be able to participate.”

“Thank you for your email. As you will appreciate, XYZ plc. receives numerous requests to participate in questionnaires and surveys. As a consequence, we are unable to respond to them individually. Best wishes for your studies.”

“Thank you for your email. We no longer participate in these types of surveys due to frequency of requests.”

“Regrettably, the company will not be participating.”

“Thank you for the opportunity, our company does not participate in doing surveys. We wish you the very best in doing your research.”

“Unfortunately, it is the company’s policy not to participate in surveys, but we wish you good luck with your research.”

“On behalf of Financial Director, I would like to inform you that he will not be able to take part in the survey/research mentioned below”

“Our managers are busy till next year.”

APPENDIX G

Responses of users of CARs not willing to participate in the survey

“Sorry, we are unable to provide you with email contact details of our members (Investment Analysts Society of South Africa).”

“Thank you for the consideration to contact XXX bank with regards to your request to participate in this research project. The bank’s policy is currently not to participate in any research project or case studies. We regret that we are therefore, not able to engage further regarding your request.”

“Sorry Michael, I did try but found it quite inapplicable to my situation.”

APPENDIX H

Responses of preparers and users who are interested in the research study

“I have completed the questionnaire a bit late though. I am interested in a summary of your findings.”

“Michael, would you let me know when your research paper is complete. I would be interested in the outcome”

“We acknowledge the receipt of your email regarding research enquiry relating to labour issues in South African companies. Kindly send your enquiries to us.”

“Good morning, I am forwarding your email to the director of labour market programs in the department of labour who will assist you further”

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