

Disclosure of information about employees in the Director's Report of UK Published Financial Statements:
Substantive or Symbolic?

Abstract: The evolution of reporting about employees in the 20th century culminated in the mandatory disclosures of the Companies Act (1985). This paper reports upon a study of the employee reporting practices of FTSE 100 companies that was carried out by examining the year 2000 annual report and accounts.

The analysis whilst noting a wide range of practice among these companies, finds that their annual reports indicate an apparent disregard for the statutory disclosures. Even where such disclosures are made, they often appear to lack any conviction, adhering only to threshold compliance.

INTRODUCTION

The disclosure of corporate information about employees has its present basis in Company law in the UK and, as such, forms a statutory item in the published report and accounts of larger companies. The significance of such disclosure is embedded in the fact that it serves several diverse yet interdependent objectives. As well as discharging the accountability of the organisation towards society, disclosure may also provide a device for monitoring corporate action from a regulatory perspective where law requires such disclosure. Actions taken by the organisation may also be legitimised through the medium of disclosure. Additionally in the context of reporting information about employees, the specific needs of that user group may be addressed and rights to information are specified in the various conceptual framework projects referred to in this paper. However, to be useful to employees (or indeed to other users), information must be both available and sufficiently explicit to fulfil any of the previously identified roles.

The paper commences with a discussion of the role of companies' annual reports in discharging social accountability. This is followed by a review of the history of reporting about employees before the extant statutory requirements of the Companies Act 1985 are debated. Next follows details of the empirical research comprising of an examination of the disclosure practices of major companies to discover whether compliance with the Companies Act takes place and the particular detail (or usefulness) of the disclosure. Following the analysis of the findings, the conclusion attempts to explain the actions of companies in both adherence and non-adherence to the legal requirements and the wider implications of this research.

THE ANNUAL REPORT AND THE DISCHARGE OF ACCOUNTABILITY

Accounting is often referred to as the language of business and the reporting of organisations' corporate social responsibility activities form part of this accounting language. Guthrie and Parker (1990) suggest that corporate social reporting (CSR) is used to 'set and shape the agenda of debate and to mediate, suppress, mystify and transform social conflict' (p. 351), whereas others suggest media agenda setting theory (as espoused by Brown and Deegan, 1998, for example) and signalling theory (which is the concern of Morris, 1987) as offering viable explanations for such reporting. Additionally there is a large body of literature that propose it is used as a means of legitimising corporate action, with the underlying assumption that business operates via a social contract with society, and has accordingly to justify its continued existence by proving to society that it is doing the 'right' things (Parsons, 1956, 1960; Shocker and Sethi, 1974; Dowling and Pfeffer, 1975; Wilkinson, 1983; Woodward *et.al.*, 1996). Dowling and Pfeffer (1975, p.122) describe organisational legitimacy as an attempt by organisations to

'establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are part. Insofar as these two value systems are congruent we can speak of organizational legitimacy.'

Within the context of the legitimisation debate the terms 'substantive' and 'symbolic' have been used to describe the strategies employed by organisations seeking to maintain their acceptability to society with substantive activity involving material changes in organisation goals, structures or behaviour, whereas in contrast symbolic activity rather reflects not a change in behaviour but an attempt at portraying corporate activities in the most favourable light (Ashforth and Gibbs, 1990).

Others have used this classification to develop a framework to examine corporate environmental disclosure with Savage *et.al.* (2000; 2002) identifying three substantive strategies ('role performance', 'coercive isomorphism', and 'altering socially institutionalized practices') and nine symbolic ones ('espousing socially acceptable goals', 'denial and concealment', 'identification with symbols, values or institutions', 'offering accounts', 'offering apologies', 'ceremonial conformity', 'admission of guilt', 'misrepresentation' and 'trivializing the issue' pp. 49-50). These works refer to the *activity* as either substantive or symbolic but the current authors are of the opinion that a similar distinction can be made with respect to the disclosure itself and as such provide insight when seeking an explanation for the extent or approach to disclosure made in respect of employees even when there is a statutory requirement to do so.

The practice of accounting and its subsequent reporting undoubtedly relies heavily on its representational ability with Macintosh and Baker (2002) invoking literary theory to suggest that the traditional view of accounting is that it is 'a translucent medium which presents factual data to the world about an enterprise's financial transactions and economic events' (p. 190) and that a 'good representation corresponds to ... reality' (p.192) and as such is akin to expressive realism in literature where a novel is likened to a mirror reflecting reality. They contrast this view with a structuralist approach to both accounting and works of literature where 'Meaning and reference are the effects of deep structures .. [laws, principles] .. and the words on the page are a reflection of concealed depths' (p.197).

It would appear possible to draw on the theoretical perspectives of both the critical realism versus structuralist debate and the substantive versus symbolic approach to environmental disclosure in considering directors' disclosures re employees. The substantive strategy characterisations appear to have much in common with an attempt to portray behaviour and events translucently (a critical realism approach) whilst symbolic categorisations seem to be attempts to deflect attention and one such strategy is 'espousing socially acceptable goals' which could be likened to compliance with regulations and as such is a structuralist approach to disclosure.

The present endeavour focusing on disclosures about employees in the directors' report may illustrate whether they are an attempt to present factual data in a *translucent* form which would comply with the critical realism view or rather are just part of a 'game' - playing by the rules and complying with statutory requirements at a minimalist level and so representing a structuralist approach.

A BRIEF HISTORY OF REPORTING ABOUT EMPLOYEES

Although the items of disclosure which are being researched in this paper are non-financial, this section illustrates the background to the development of corporate attitudes towards employee information disclosure and the development of both the theoretical and legal bases for such disclosure.

The history of disclosure of information about employees followed societal trends throughout the twentieth century and shows marked changes in attitudes towards employees. Two contrasting attitudes to disclosure can be attributed to the periods both pre and post the Second World War. In

the early part of the twentieth century, companies reported only to shareholders, generally giving them the minimum information consistent with their legal obligations. In the context of financial reporting, Edwards and Webb (1984) describe how management in the UK in the first period was reluctant to disclose information because it would be detrimental to the company and impinge upon such practices as the creation and maintenance of secret reserves. There were however political calls for disclosure when the Liberal Industrial Enquiry of 1928 (strongly influenced by Keynes), introduced ideas of laws designed 'to establish the principle that the worker in a concern whose livelihood depends on its prosperity, had a right to be informed of its financial situation and prospects, and of the trading problems with which it had to deal' (Mitchell *et.al.*, 1980 p 53).

The second period is described by Bircher (1988a) as one where Keynesian ideas of economic management had been practiced in the second world war and, '...the changing perception of social accountability of companies meant that accounting could no longer be defended as a private issue' (p.230). A further product of this war was a stronger awareness of the need for social fairness which was one of the influences on the 1948 Companies Act, whose passage marked an era of greater company disclosure (Bircher 1988b). The post war years with their emphasis on reconstruction and the presence of full employment undoubtedly contributed to the emancipation of labour and their rights to determine some elements of their workplace relations, thus legitimising their right to receive information. Post war practice in the field of disclosure was influenced by the Anglo-American Council on Productivity[1], which based on American experiences of the 1930's and 1940's, recommended explanation of the financial structure and results to employees as an important element of joint consultation. Other management schools of thought[2] were also influential at that time in postulating that motivation depended upon individuals receiving feedback on their performance. The bringing together of the goals of both employees and employers was used in the context of justifying dividends in a Board of Trade publication of 1948 stating that if workers were to be made to feel that they really were partners in an effort to put the country back on its feet again, they were surely entitled to the full facts.

The three main political parties were all committed to extending the information to be disclosed to employees, with election manifestos between 1945 and 1966 calling for employee involvement and information disclosure[3]. The Donovan Report of 1968 (Royal Commission on Trade Unions and Employers Associations) recommended the making available to works representatives of such information that they might reasonably require. The theme of the report was developed in the 1969 White Paper 'In Place of Strife' (Secretary of State for Employment and Productivity) the recommendations of which were contained in the Labour government's Industrial Relations Bill (which was never enacted). The provisions of the Industrial Relations Act, 1971, were broadly similar, and although the information disclosure section did not come into effect, the Act set up the Commission on Industrial Relations which reported to the Secretary of State for Employment on information disclosure. Although the TUC was to withdraw its co-operation from the Report, the conclusion was sufficient to lay down a framework for information provision, suggesting qualitative characteristics and specifying the type of information to be supplied. The Commission also noted the reluctance of many companies to provide an annual report and accounts to trade unions, even though the same information was readily available from other sources.

Political statements from the main parties were remarkably similar at this time[4],

and ultimately, the relevant sections of the 1971 Act which had not previously come into effect were re-stated with only minor amendments in the Employment Protection Act of 1975. This Act imposed a general duty on employers to disclose to the representatives of an independent trade union, a) information without which the union would be materially impeded in carrying out collective bargaining and b) information which should be disclosed for the purpose of collective bargaining in accordance with good industrial relations practice. The recommendations of the Donovan Report of 1968 had therefore passed relatively unscathed to enactment via one Bill, two Acts and two changes of government.

Under the 1975 Act, companies were given grounds on which they could claim exemption from these provisions by appeal to the Central Arbitration Committee which could refer the matter to the Advisory, Conciliation and Arbitration Service (ACAS), if it could be settled by conciliation. In 1977, ACAS had produced its code of practice on the subject, which, although non-mandatory, specified examples of the type of information relevant in bargaining situations under the broad headings of Pay, Conditions of Services, Employment, Productivity and Financial. The Code has been described as a political document attempting to steer a middle course between the TUC shopping list and the CBI counter list (Gospel, 1976).

Meanwhile, the Accounting Standards Steering Committee (ASSC) had produced 'The Corporate Report' (1975) to examine the aims of published financial reports and the means by which these aims could be achieved[5]. The Report included employees as one of the user groups of financial information by virtue of their relationship and economic ties with their employers. This same theme was echoed by the Bullock Report (Department of Trade, 1977a), which accepted that as a basic principle, in a democratic society, a socially responsible company could only operate by taking account of the interests of its employees[6]. Both the Bullock Report and the Corporate Report were referred to by 'The Future of Company Reports' (Department of Trade, 1977b) which re-iterated the responsibilities of companies towards groups in society, including employees. It proposed the introduction of value added statements and an extension of the employment statement, but lack of parliamentary time up to the 1979 general election, prevented any further legislation.

A further move forward in practice could be seen in the Employment Act of 1982 which amended Section 16 of the 1967 Companies Act. It required, for companies with over 250 employees, a statement, as part of the Directors Report, of what action had been taken in the last year to a) provide employees systematically with information on matters of concern to them as employees, b) to achieve an awareness on the part of all employees of the financial and economic factors affecting the performance of the company and c) to consult employees so that their views may be taken into account. Additionally, the Report should include information taken on steps to involve employees in the company's performance through an employee share scheme, or some other means[7].

Since the incorporation of these requirements into the 1985 Companies Act, two further conceptual framework projects have discussed users and their information needs. In 1989 the International Accounting Standards Committee (IASC) produced its 'Framework for the Preparation and Presentation of Financial Statements'. This

statement focussed on information on stability and profitability, to enable employees to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities. This was echoed ten years later by the Accounting Standards Board's Statement of Principles (ASB, 1999), the only significant difference being that the information should be in a more relevant disaggregated form.

The preceding, albeit brief, history of reporting about employees provides some indication of the acknowledgement of both employees' right to receive information and the supply of information about employees. The next section debates the extant legal requirements enacted to regulate the supply of this information in the United Kingdom.

REQUIREMENTS OF COMPANIES ACT 1985

Central to this study are the legal requirements contained in the Companies Act 1985 Schedule 7 Section 234 (3),(4); *Matters to be dealt with in Directors Report*. It requires, in Part 5 *Employee Involvement* paragraph 11 (3), that where the average number employed over the financial year exceeds 250 'a statement describing the action that has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

- a) providing employees systematically with information on matters of concern to them as employees,
- b) consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests,
- c) encouraging the involvement of employees in the company's performance through an employee's share scheme or by some other means,
- d) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company'.

The first requirement, to provide employees systematically with information of concern to them as employees, does not specify what such information should consist of, but prior to the inclusion of this requirement into the Companies Act there had been a large amount of research carried out into the identification of this information. Surveys in 1978 and 1979 by Mitchell *et.al.* (1981a, 1981b) focussed on financial information disclosure. Workers were asked why they wished to receive such information and the responses covered five main areas; 1) to know how the company was getting on, 2) to assess future prospects of the company and job security, 3) to assess the fairness of wages, 4) to increase involvement and 5) because they felt it was a fundamental right.

Elements of this research were summarised by Maunders (1981) as interest in job security and job prospects and later detailed by Sherer *et.al.* (1981) as basic pay, productivity, working conditions, redundancies and closures, employment opportunities, health and safety and long term prospects. These attributes corresponded closely with Lyall's (1982) specification (which also included the notion of equity by addressing matters of wealth sharing). Maunders (1984) later defined relevant information as variability of earnings of the undertaking and variability of labour requirements.

One other main characteristic of necessary information was recognised by Cooper (1977) who

considered that in order to be useful, information should include a breakdown of data to the level of operating units. Against a background of more and more decisions being made at plant level (Jenkins, 1982), with collective bargaining being based on the place of work rather than company or industry-wide, published information with a high level of aggregation was less useful for decision-making. Therefore whatever information was disclosed should be produced on a disaggregated basis.

Following the preceding discussion, the nature of disclosures likely to be of interest to employees are taken to include statements regarding issues of health and safety, equal opportunities, future employment prospects, training opportunities and appraisal methods. Whilst disablement policies is also likely to be of concern to them as employees this is not regarded as necessarily being in compliance with s 234 as this information must be disclosed separately under Section 7, *Disclosure concerning Employment, etc., of Disabled Persons*, of the 1985 Act.

The other three required disclosures: employee consultation; involvement in company performance; and the achievement of financial and economic awareness are deemed to be self-explanatory and as such require no additional amplification.

This study, by analysing Directors' Reports within the Annual Report of large UK companies, will provide empirical evidence of the degree to which larger organisations comply with the statutory requirement to report therein to their employees.

DATA SAMPLE AND METHOD OF ANALYSIS

The initial purpose of this study is to identify the degree of compliance with the Companies Act 1985, as amended 1989, requirement to disclose information about employees within the directors' report, which forms part of the audited financial statements required for all UK Limited Liability companies. The empirical analysis presented in this paper is based upon a study of the Annual Reports of one hundred large UK London Stock Exchange listed companies (in terms of market capitalisation and their presence on the FTSE 100 list at the end of 2000)[8].

The ready availability of the Annual Reports of these larger public limited companies make their selection an obvious choice but the decision to only include large and listed companies in the sample is not solely pragmatic but justified by reference to the literature. Gray *et.al.* (1996, p. 64) suggest that 'The state lays down a minimum set of conditions for organisation behaviour in law [and] ...it comprises two elements: responsibility for action; and responsibility for *disclosure* about action (i.e. accountability)' indicating that all organisations should be making disclosures but the Corporate Report (ASSC, 1975 p. 30) recognises that, whilst every economic entity has a responsibility to the community which it serves, the economic and social importance of its activities will normally be greater the larger its size and therefore their compliance with statutory requirements is potentially of more significance.

This study employs a form of content analysis[9] which is utilised as 'a method of enquiry into the symbolic meaning of messages' (Krippendorp, 1980 p.22). Whilst recognising that messages may not have a universal single meaning much sympathy is found with the approach of Stone *et.al.* (1966, p.5) who consider that 'Content analysis is a research technique for making

inferences by systematically and objectively identifying specified characteristics within a text'. This approach is in contrast to that of using it as 'a research technique for the objective, systematic and quantitative description of the manifest content of communication' (Berelson, 1952:18). In the latter formulation it is a frequently used tool in corporate social reporting research (Unerman, 2000) with the number of words or amount of space devoted to a particular topic being quantified and taken to be representative of the importance placed upon issues by the reporting organisation. In contrast this study, rather than suggesting the amount of space or number of words used can be taken as compliance or otherwise, is concerned with identifying not only strict compliance with statutory requirements but with the intent underlying the disclosures. When considering intent it may be here appropriate to draw on the work of Adams and Harte (1998) who in their study of women's employment in the retail and banking sectors recognised that 'what is not disclosed can be seen as important as that which is' (p.783). Thus it is seen as appropriate, within the context of this analysis, to draw inferences about intentions from both disclosure and non-disclosure.

Whatever approach to content analysis is adopted, and Gray *et.al.* (1995, p. 80) suggest it can take many forms with different levels of complexity, it is important 'that definitions employed in the data collection are negotiated to achieve "shared meanings" which create the same referents in all the associated researchers'. Indeed this shared meaning is similarly important for those who are reading the results of the research. It thus becomes necessary to identify disclosure criteria sufficiently robust to differentiate clearly between the two categories of substantive and symbolic disclosure.

Within the context of this paper symbolic disclosure is seen as being a minimum or threshold compliance with statutory requirements. This level of disclosure is identified where the particular aspect, for example, employee involvement in company performance, is at least mentioned in the Directors' Report but fails to provide any information on how they are involved which may suggest that the organisation is concerned to be seen to be doing the right thing but is only willing to pay 'lip-service' to Companies Act requirements as such could be described as a structuralist approach.

It is suggested that society is likely to prefer substantive actions to reduce the legitimacy gap (Ashforth and Gibbs, 1990) but 'Management generally favours the offering of symbolic assurances, rather than the more concrete substantive action, since the former are usually more economical and flexible' (Savage *et.al.*, 2002) and therefore the offering of symbolic disclosure alone could be equated with a minimalist acceptance of the rights of employees to receive information.

Turning to categorising disclosure as substantive Savage *et.al.* drawing on Dowling and Pfeffer (1975) used as one of demonstrations of a substantive strategy 'role performance' where the organisation 'adapts its goals, methods of operation, and/or its output' (p.48). Role performance in the context of disclosures about employees could be demonstrated as recognised as substantive if at least one of the following criteria is met:

- details are provided of the mechanisms or strategies employed to ensure employees are consulted, involved or informed
- an expression of the rationale for the behaviour described.

These two approaches to disclosure demonstrate that the reporting firm is willing to explain ‘how’ and/or ‘why’ it fulfils its obligations to employees and as such is seen to be substantive disclosure. This type of disclosure, if indeed it presents factual data in a translucent form, would be analogous to seeing accounting reports fulfilling the criteria of the critical realism viewpoint.

FINDINGS

The first stage of the analysis of disclosures in the Directors’ Reports focuses upon *any* disclosure that could be described as being in ‘compliance’ with the Companies Act, even at the most minimalist or symbolic level. The findings indicate that many companies do not disclose across the four mandated areas. Figure 1 graphically demonstrates that while 88 per cent of companies provide some indication of provision of information of concern to employees only 73 and 58 per cent respectively furnish details covering involvement in performance and consultation. It can further be seen that almost half of all reports do not make any mention of strategies to achieve awareness on the part of employees of the financial and economic factors affecting company performance.

Insert Figure 1 here

The low level of disclosure is further exacerbated when consideration is given to the *nature* of the disclosure by asking: Is the provision of information simply symbolic and demonstrating a minimalist compliance with the regulatory requirements or symptomatic of active intent and taken to be substantive disclosure? It is apparent there is fairly extensive compliance amounting to little more than re-iteration of the Companies Act terminology or simply referring to the areas prescribed in the Act. By way of illustration of the concepts of substantive and symbolic disclosure extensive use is made of examples drawn from appropriate Directors’ Reports.

In the example of the provision of information on matters of concern to employees, out of 88 companies including this disclosure, only 83% made a disclosure which could be termed substantive. The Directors’ Report for Logica plc provides a useful illustration of a substantive disclosure covering this area.

‘ One of the group’s key objectives is to achieve a shared commitment by all employees to the success of the business. Throughout the world there is close consultation between employees and management on matters of mutual interest and information is disseminated through individual performance reviews, team briefings and in-house newsletters.

The Logica Employee Communication Forum (the Forum), with elected employee representatives, exists with the aim of establishing a means of social dialogue for information and communications with the employees of Logica group of companies. The Forum promotes the exchange of views and information with the aim of extending understanding and facilitating the introduction of policy changes to the Logica group. The Forum has been set up under the voluntary arrangements in the EU Directives on European Works Councils’ (Logica plc, 2000 p.26).

In contrast as illustrative of a statement that does not attempt to explain actions to provide information of concern and therefore considered symbolic, the Directors' Report of Sage Group plc blandly asserts:

'The group has continued its policy of employee involvement by making information available to employees on matters of concern to them' (Sage Group plc, 2000 p.21).

The requirement to provide information about how employees are consulted on a regular basis was the aspect with the lowest overall compliance (58 companies, but of those who did comply, 77% did so substantively). The Director's Report of Logica plc previously quoted also illustrates substantive disclosure of consultation and 3i provides an example where the term 'consultation' is used, but by allying it to 'informal', initially does little to suggest that there is a system ensuring that the employee's views are in fact taken into account on a broader organisational scale. The final sentence within the quote however redressed this omission and led to their statement being classified as a substantive disclosure;

'Employee appraisals and informal consultations, which are the group's principal means of keeping in touch with the views of its employees, have been maintained and developed during the period. Managers throughout the Group have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved through structured communication including regular meetings of employees' (3i plc p 38).

The annual report of BG Group plc, whilst making substantive disclosures in certain areas, merely states 'When necessary consultation with employees and Trade Union representatives also takes place' (2000 p 43) and was thus deemed to be symbolic.

In respect of the requirement to furnish details of involvement of employees in performance, out of the 73 of companies who complied, the vast majority (92%) did so substantively. The following extract from the Annual General Report for United Utilities plc provides an example of a statement that is regarded as particularly substantive:

'Owning shares in the company is an important way of strengthening employees' involvement in the development of the business and of bringing together their and shareholders' interests. The company's new initiatives to encourage and help the group's people to hold shares include the multi-stock United Utilities ISA and enhanced access to independent financial advice, in addition to the employee sharesave scheme. The record take up of the offer in the year increased the percentage of employees in the sharesave scheme from 63 to 71 per cent. The directors are inviting shareholders to approve at the annual general meeting the adoption of a new all employee share ownership plan, which would increase the opportunity for employee share ownership.' (United Utilities plc, 2000 p 34).

This example is deemed to be substantive on both measures previously identified, first it provides details of the employee share ownership schemes and the increase in participation over the period but additionally it also overtly demonstrates why this form of involvement on the part of

employees is considered important. The statement expresses the belief that employee commitment is re-enforced by such participation and leads to increased symmetry between shareholder and employee interests. In stark contrast the statement included in the Directors' Report of Smiths Industries plc:

'Share option schemes enable employees to participate financially in the affairs of the company' (2000 p 33).

does little more than express a simple truism and thus is deemed symbolic (in fact it could quite justifiably be argued that it does not even comply with Schedule 7 of the Companies Act 1985 as it does not 'describe the action taken during the financial year to introduce maintain or develop arrangements...').

The lowest area of compliance is related to achieving a common awareness of the financial and economic factors affecting performance (51 companies), and of these disclosures some 78% were considered to be substantive. Among these, the statement in the Directors' Report of Reuters Group plc commences with a substantive explanation of how employees are kept informed and briefly mentions the purpose or belief in the value of keeping them informed;

'To encourage employees' involvement and to ensure that employees are aware of the financial and economic factors affecting the Group, extensive use is made of the company's intranet as a communications tool. Meetings between management and employee representatives, including where appropriate, union representatives, are held regularly so that the views of employees can be taken into account in making decisions which are likely to affect their interests. Reuters European Employees Forum operates as a pan-European works council. Reuters believes its relationship with its labour unions is satisfactory. The involvement of employees in the company's performance is encouraged through employees' share plans' (Reuters Group plc, 2000 p 10).

The statement then however proceeds to differ very greatly from any other in the sample by including personal tributes to employees who died whilst in service and emphasises the organisation's commitment to the safety of all employees:

'The directors record with deep regret the death of Kurt Schork who died while reporting for Reuters in Sierra Leone. The directors also record with regret the deaths in service of Yu Fai Chan, David Kirby, Veselin Pavkovic, Navdeep Ranawat, Roswitha Sediqie-Siepen and Eliane Vanden Bossche.

The Board values the courage and professionalism shown by employees operating in zones of conflict. Reuters aims to cover news wherever it breaks but instructs staff to avoid risks wherever possible and provides hostile environment training for journalists. Reuters policy is to manage its activities so as to avoid causing unnecessary or unacceptable risk to the health and safety of its employees and the company provides training to staff to build awareness of health and safety issues' (*op.cit.*).

By contrast, symbolic compliance with Company Act requirements is demonstrated by Cable and Wireless plc not only in respect of matters of concern as employees but also with regard to factors affecting the performance of the company when they assert:

'The group values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the group' (2000 p 31).

Figure 2 shows the proportion of those who do provide information that is deemed to be substantive as opposed to symbolic across the four areas of disclosure required.

Insert Figure 2 here

CONCLUSIONS

The research carried out shows a high degree on non-compliance with the statutory requirement for large listed companies to disclose employee-related information in the Directors Report. The authors consider that there are three possible reasons for the disclosure requirement;

1. For the benefit of employees themselves in accordance with their user status described in conceptual framework projects (FASB 1978, IASC 1989, and ASB 1999).
2. For the benefit of other stakeholders who may be interested in the relationship between employees and the reporting entity (from either a commercial or ethical viewpoint).
3. For the benefit of government in order to promote one aspect of public policy and monitor its compliance.

From whichever perspective this disclosure requirement arose, the findings of this paper imply that certain users needs are not currently being met. Although a large proportion of companies provided information on matters of concern to employees, this may be a function of the wide definition given in this paper of 'matters of concern'. On the other hand, only about half the companies surveyed appeared to promote an awareness of financial and economic factors affecting performance, perhaps relying on the annual report and accounts to carry out this function where distributed to employees who benefited from share schemes. A larger number of companies disclosed in respect of involvement in performance, actively describing the way in which this is enacted but consultation disclosures were less than 60% and few companies claiming that they consult with employees actually specify the method.

In general, the level of compliance with disclosure of information required under the Companies Act is surprisingly low. Out of 400 required disclosures, only some 270 were actually made, demonstrating that some 33% of these disclosures were not being made by the listed companies surveyed and therefore this represents the level of non-compliance with the Companies Act. If a strict interpretation of the legal requirement is used, under which the actions taken during the year must be disclosed, then the elimination of these symbolic or passive disclosures increases the level of non-compliance to 44%. Despite this, the investigation into these disclosures unearthed some interesting examples. Appendix 1 quotes extensively from the Directors' Report for United Business Media, which the authors believe provides an exemplar of reporting employee involvement.

It is difficult to provide a simple rationale that explains Directors' failure to comply with the

Companies Act substantively, or even by making passive and symbolic disclosures. Sanctions exist under law, but do not appear to be enforced[10]. Lack of monitoring of the information content may be one reason and the filing of annual reports and accounts involves only a general check by the Registrar of Companies[11]. Although the Department of Employment formerly had a section that monitored such disclosures, no action was ever instigated[12]. Additionally, the Auditors report under s 235 of the Companies Act limits the auditors' responsibility for the Directors Report to the consistency of that report with the financial statements. A further reason for the non-compliance could be the reluctance to make a negative statement. For example if no consultation takes place, companies may feel it preferable to remain silent on the matter[13]. If this is assumed then the level of employee involvement in the largest UK companies appears to be extremely low, and echoes the reluctance identified during the 20th century to make disclosures of any sort to employees. Alternatively, there could be the underlying assumption that where share ownership plans are present, there is no need to report on any other matters as share ownership carries with it minor elements of the other disclosure areas, although the authors believe that this reasoning does not echo the spirit or the original intention of the law.

The level of non-compliance highlighted in this study has important implications in the wider debate about how organisations demonstrate their standards of behaviour. It has been suggested that it may be 'necessary to develop enforcement mechanisms to ensure companies meet the[ir] moral responsibilities' (Unerman and Bennett forthcoming, page number not available) and Gray *et.al.* (1996) question why the State does not introduce more legislation by setting down a 'minimum set of conditions for organisations behaviour in law [which] ... comprises two elements: responsibility for action; and responsibility for *disclosure* about action (i.e. accountability)' (p.64). The current analysis demonstrated that even where legislation is in place the lack of monitoring of compliance suggests that the government acted symbolically by enacting the requirements rather than with the substantive intent of making organisations accountable.

The study also demonstrates an interesting set of events over time. The first section of the paper describes the social changes in attitudes towards employee involvement which took place during the 20th Century. The 1970s was probably the decade where the most significant structural changes were being developed. It is no coincidence that the number of academic writings proliferated at this time as can be seen by the cluster of the dates of writings referenced by this paper. By the mid 1980s there was a dearth of writing or interest in the subject. The authors of this paper offer a simple explanation for these events. Most academic writers at the time believed that the subject had been exhausted by the disclosure provisions of the Companies Act coming into force. In other words, the law would take over where the research had pointed the way. This would normally be the case, as breaches of company law would be dealt with by the courts. In the case of employee reporting, it could be argued that the lack of arrangements for monitoring such disclosures on a systematic basis, account for the findings of this paper.

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APPENDIX 1

Extract from Directors Report United Business Media (2000, p.34).

“The company recognises the talents, professionalism and commitment of its employees and continues to place emphasis on their involvement and development.

Over the past year the company has introduced a range of employment initiatives to attract, motivate and retain employees to the group. The group is committed to the improvement of performance through training and development of employees. While most training is provided at local level, in 2001 the company has launched a group-wide management development programme which is designed to create a pool of high potential managers within the group who network and share knowledge across businesses;

The company believes that it is important that all employees should achieve a good work/life balance. In 2000 a flexible working party policy called WorkChoice was introduced into the company and subsidiaries are being encouraged to roll this out into their operations. Other policies such as a parental leave and sabbatical policy have been introduced.

In 2000 the company set up an Alumni programme to identify any steps that need to be taken in order to continue to attract and retain employees and to develop ongoing dialogue with key talent after leaving the company so that ex-employees feel more comfortable about returning to United at some future time.

The group is committed to a programme of action to make our equal opportunities policy fully effective. Selection of employees for recruitment, training, development and promotions is determined solely on their aptitude, skills and ability that are relevant to the job and in accordance with the laws in the country concerned. Consideration is given to making reasonable adjustment to premises or employment arrangements if these substantially disadvantage a disabled employee or potential employee and efforts are made to provide appropriate re-training should employees become disabled during their employment.

The company updates employees on corporate performance, business objectives and development through various formal and informal channels of communications, including local intranet sites, in order to promote a better understanding of the group's business. Each division is responsible for deciding on the appropriate forum for and level of consultation with its staff. A European Works Council with a formally agreed constitution meets as appropriate to consult over transnational European issues.

Participation in the company's saving related share options schemes continues to be strong.”

[1] The Anglo-American Council on Productivity was formed in 1948 as a joint US/UK initiative to 'promote economic well-being by a free exchange of knowledge in the realm of industrial organisation, method and technique, and thereby to assist British industry to raise the level of its productivity' (AACCP 1952).

[2] For example the 'human relations school of management'. For a summary of such thought see Hussey and Marsh, 1979.

[3] See for example Craig (1970) for examples of the manifestos of the Liberal Party 1945, 1955, 1964 and 1966, the Conservative Party 1950 and 1955, and the Labour Party 1950.

[4] Anthony Wedgewood Benn, Secretary of State for Industry in 1974 advocated that all employees of companies with more than 500 workers should receive a copy of the annual report and accounts from their employers. This was generally opposed by industry, but Michael Heseltine, Chief Opposition Spokesman on Trade and Industry in the same year sent a circular to companies urging them to get their financial message across to their workers.

[5] Although in its aims the Corporate Report talks about 'financial information', nevertheless the content of the publication suggests that narrative information is equally important.

[6] The Report recommended the involvement of the employee in decision-making at company level and put forward a formula for the composition of boards of directors. The CBI, somewhat predictably, opposed these recommendations, mainly because they saw it as an extension of union power into the boardroom. Additionally, they argued, that a board constituted under the formula would represent conflicting interests, *inter alia*, in the area of short term versus long term interests.

[7] This might have been regarded as a step forward had the 1981 Companies Act not reduced the amount of information to be disclosed by small and medium sized companies.

[8] Only the directors' reports were included in the analysis except where specific reference was made within the report to the availability of employee information in another section of the Annual General Report.

[9] Analysis sheets were completed independently by the joint authors and the results cross-checked for reliability. All discrepancies of coding were investigated and where necessary the categories redefined more precisely with examples.

[10] S 234 (5) of the CA 1985 states ' In the case of any failure to comply with the provisions of this Part as to the preparation of a directors' report and the contents of the report, every person who was a director of the company immediately before the end of the period of laying and delivering accounts and reports for the financial year in question is guilty of an offence and liable to a fine.'

[11] In reply to an email enquiry, Companies House replied 'The document examination department checks that the required reports are contained within the accounts. It does not, however, check the contents of the reports, as we are not suitably qualified to do this'.

[12] See Day (2000) for details

[13] Adams and Harte (1999) in the context of equal opportunities disclosures assert 'firms should wish to be seen to be complying with the law...' but '...firms may not be complying with the legislation, since to do so would open them to challenge if it is shown that they do not have policies acceptable to public opinion' p.24

