

**Determinants of the Voluntary Disclosure of Employee
Information in Annual Reports: An Application of Stakeholder
Theory**

Presented By

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A thesis submitted in total fulfilment of the requirements of the degree of

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STATEMENT OF ORIGINALITY

This thesis is submitted to Bond University in fulfillment of the requirements of the degree of Doctor of Philosophy. This thesis represents my own original work towards this research degree and contains no material which has been previously submitted for a degree or diploma at this University or any other institution, except where due acknowledgement is made.

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DEDICATION

With much love to my extraordinary family who have shaped my life

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ABSTRACT

This paper seeks to examine why Australian publicly listed companies voluntarily disclose employee-related information in their annual report. The purpose of this study is to research the quantity and quality of the voluntary employee-related disclosures present in 2004 Australian company annual reports. Ullmann's (1985) stakeholder framework is applied comprising three dimensions, stakeholder power, strategic posture, and economic performance. The second objective is to investigate the type and nature of employee-related disclosures made by Australian companies within their annual reports. The final objective is to determine whether publicly listed companies choose to disclose employee-related information to legitimise their place in society as a result of former adverse publicity.

A number of key explanations are proposed for the provision of voluntary employee-related disclosures in Australian corporate annual reports. Companies are placing more importance on the human capital in the company over time (Stewart, 1997) and numerous researchers argue that the demand from stakeholders for additional disclosure on intellectual capital, including information about the company's employees, is increasing. Employees are an important intangible asset for many companies, therefore another explanation is that there could be benefits for the company in acting responsibly to the employees. Another benefit is attempting to be an accountable or responsible company by reporting employee-related practices publicly. An alternative reason is that companies voluntarily disclose employee-related information in response to adverse publicity from the media to legitimise their relationship with society.

Companies with a 30 June 2004 balance date are extracted from all of the companies listed on the Australian Stock Exchange (ASX), to create a sample of 970 companies. This consists of 649 companies that disclose information about their employees in their annual report, and 321 companies that do not disclose any employee-related information. Data was collected to measure

components of employee-related disclosure, proxies for Ullmann's three-dimensional stakeholder framework, individual corporate governance variables and threats to legitimacy.

The results indicate that companies that have greater employee power disclose more employee-related information and disclose higher quality employee-related information than companies with less employee power. Specifically this study examines the companies' propensity to provide employee-related information and the quality of voluntary employee-related disclosures in relation to employee stakeholder power represented by employee share ownership and trade union membership. Evidence shows that employee share ownership does empower employee stakeholders regarding the quantity and quality of corporate employee-related disclosures. In contrast, highly unionised companies disclose less voluntary employee-related information in their annual report.

The results also find that companies displaying a more active strategic posture towards employee-related issues disclose more high quality employee-related information than companies displaying a less active posture to these issues. Companies employ strong corporate governance best practice systems to strategically manage employees through disclosing quality voluntary employee-related information. Corporate mission statements that recognise employees are also evidence of strategic posture, but only for quality of employee-related disclosures.

Companies with higher past or present economic performance disclose a greater amount of high quality employee-related information than companies with lower past or current performance. Economic performance represented by return on assets and Tobin's Q shows mixed results with return on assets marginally associated with the quality of employee reporting, while Tobin's Q is related to the amount of employee-related information a company discloses. Larger companies and companies with higher levels of adverse publicity are significantly associated with higher levels of voluntary annual report employee-related disclosures.

ABBREVIATIONS

Abbreviation	Meaning
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AEOA	Australian Employee Ownership Association
ASX	Australian Securities Exchange
CCPA	Centre for Corporate Public Affairs
CEP	Council of Economic Priorities
CSR	Corporate Social Responsibility
FASB	Financial Accounting Standards Board
GICS	Global Industry Classification Standard
GRI	Global Reporting Index
IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commission
LFS	Labour Force Survey
NYSE	New York Stock Exchange
OECD	Organisation of Economic Co-operation and Development

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