

TITLE: **Voluntary employee reporting by the Wholesale and Retail companies listed on the Johannesburg Stock Exchange**

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Special thanks to Professor Daan van der Schyf, Rina Owen and Yaasir Haffejee for their helpful comments. I am also grateful for the comments I received from Professors Elmar Venter and Richard Wilson.

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Chapter 1 - Introduction and research overview

1.1. Research objectives:

- 1.1.1. The purpose of this study is firstly to investigate all literature (local and international) in the area of employee reporting to determine the state of the art, and to identify and describe the relevant accounting theoretical basis.
- 1.1.2. Secondly, to determine the level and extent of voluntary employee related disclosure in the annual reports of the Wholesale and Retail companies listed on the Johannesburg Stock Exchange (JSE).
- 1.1.3. Lastly, what could be the determinants of such disclosures and to explore the possible reasons for the fluctuations and/or determinants that drive employee related disclosures?

1.2. Research problems:

- 1.2.1. There are only a few accounting standards that regulate the disclosure or reporting of employee related information in annual financial reports of South African companies.
- 1.2.2. There are limited studies focusing, specifically on employee reporting.
- 1.2.3. The reporting tendency; in terms of, voluntary employee disclosures in South African business environment is unknown.

Problem statement:

- a) There are few accounting standards that regulate the disclosure or reporting of employee related information in annual financial reports of South African companies, these are IAS 19, IFRS 2 and AC 503. In addition to these prescriptions, companies prefer to report employee related information in their annual financial reports which are not required by the accounting standards.
- b) Most of the existing research (local and international) is focusing on environmental issues or the entire corporate social responsibility (CSR). These studies do not explore much of the reasons for companies to disclose the employee related information, which they disclose in their corporate annual reports.
- c) What is the reporting tendency of the South African companies, listed on the JSE in the Wholesale and Retail Trade sector (W&RT), in respect of, voluntary employee disclosures?

1.3. Research questions:

- 1.3.1. What is the actual level of employee reporting practice of Wholesale and Retail companies in South Africa?

- 1.3.2. What causes the increase or decrease in employee reporting for Wholesale and Retail companies listed on the JSE?
- 1.3.3. Why Wholesale and Retail companies voluntarily disclose the employee related information which they disclose.

1.4. Social implications:

In fact much of the social accounting is concerned with providing information to stakeholders in non-financial terms (Cooper, 2004). The social or economic implications of my topic are, if employees are dissatisfied or not happy:

- a) If employees are dissatisfied, they might withdraw (by force or choice) from the company's business their service or skills and/or seriously damage company's livelihood through fraud/misappropriation, which might lead to severe (permanent or temporary) costs.
- b) If employees are not satisfied the company will not be able to achieve its goals, which will translate in a decrease shareholders' wealth.
- c) Managers' are dependent on employees to achieve their performance targets and goals (in terms of productivity, profitability, etc.). If employees are not performing at their full capacity due to dissatisfaction or aggrieved, their actions might have a negative impact on managers' incentives, if they do not meet targets and beat budgets.
- d) Customers may receive poor service or products of poor quality due to the carelessness or grumpy/disinterested employees.
- e) Suppliers might be blamed for employees' errors and incompetency, which in turn may ruin the relationships with suppliers.

Thereby, one primary stakeholder negative or unbecoming actions will have an interdependent effect on all other primary stakeholders in existence.

1.5. Contribution or importance:

This study will contribute to the literature regarding employee reporting from a South African business environment perspective. I will consider employee related issues that have been voluntarily disclosed by the JSE listed companies in the Wholesale and Retail Trade industry on their annual reports, in 2005 to 2009. With the view, that the South African labour market is characterized as one which has strengthened the rights and protection of workers with more exigent legislations (Makino, 2008).

Therefore, this paper gives a snapshot view of employee disclosures. Firstly, this paper will assist companies to compare their CSR strategies (i.e. priorities or goals), and CSR performance (or activity) with their actual employee disclosures as published in their annual reports. Secondly, this paper will help companies to focus their voluntary employee reporting to truly reflect or communicate; what they want to be known and to what extent they want it to be known.

In return, the benefits for companies in disclosing employee information are good relationship with employees, in addition enhance operational efficiency, and minimize labour problems. At the same time, such employee disclosures will present a perfect picture to the knowledgeable investors when they consider sustainability of the company, value of the company and their indirect social investment.

This paper will also be useful to bodies such as the South African Institute of Chartered Accountants (SAICA), the Johannesburg Stock Exchange (JSE), South African Public Accountant and Auditors firms, and other bodies, which perform reviews or surveys on South African listed companies, by supplying them with a separate independent reference to feed in their social performance monitoring initiatives or projects in an area which is complex and long been ignored.

1.6. Limitations of study:

- 1.6.1. One of the limitations of this study is that, annual reports are by no means the only communication strategy used by an organization to report employees related matters. Companies use various communication methods and/or channels to communicate with employees.
- 1.6.2. The literature review I used has certain limitations, since I have sourced these studies from different countries. Thereby, different ecological systems, research methods, proxies for variables and selection criteria for companies analysed in these studies from mine may lead to invalid inputs into this paper. Therefore, the impact for differences between countries of these studies and South Africa will be managed by adequate explanations of differences and/or through control variables. Hence, the latter will also improve the relevance and context of the above literature.
- 1.6.3. Generalizability of the findings of this study is also a limitation, due to the small sample I used. This means there is no absolute guarantee that the results obtained will occur in every company or environment.

1.7. Research overview:

This paper gives an in depth analysis of employee reporting in the annual reports of companies listed on the JSE in the W&RT sector for the years 2005 to 2009. The W&RT sector consisted of twenty (20) companies which translated to 100 annual reports that were analysed.

In Chapter 2, I look at the requirements of the Companies Act of 1973 and financial reporting standards that affect employee related disclosures, and the participants on the South African labour market. Given, the fact that International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have the following standards that deal with employee related matters, these standards are IAS 19, IFRS 2 and in addition AC 503 in the Republic of South African (RSA). The majority of employee related issues that are being disclosed in the annual reports of South African

Wholesale and Retail companies listed on the JSE are not regulated by the accounting standards yet, however a need for more disclosure in this area is growing. On this chapter, I isolate mandatory accounting requirements or laws, and address issues that are unique to the South African business environment that are likely to have an impact on employee reporting.

In Chapter 3, I investigate all literature (local and international) in the area of employee reporting to determine what have been its development, and the relevant accounting theoretical basis. Chapter 3 also concludes on research objective 1. Under this overview section, I like to highlight the following issues:

- Literature which focuses specifically on employee reporting is limited. Academics and researchers have ignored this area of CSR as part of their work. Lewis et al. (1984) found that employee related disclosures fluctuates, demonstrating a period of high interest and followed by the period of little or no interest before the pattern was repeated, this supports limited work on employee reporting.
- The communication to/about employees can be done in various methods being formal or informal, grapevine or written communication, to/about individuals or everyone. In most cases it is influenced by organizational culture, management style and other external factors (Nicoll, 1994). The limitation of this study is that, annual reports are by no means the only communication strategy used by an organization to report employees related matters. Internet is one of the channels of communication that is being used more frequently (Oyelere et al., 2003; Branco & Rodrigues, 2006; Capriotti & Moreno, 2007).
- The disclosure of financial information to trade unionists for collective bargaining or negotiation purposes is the area that did receive widespread attention in the late 1970s and early 1980s (Gospel, 1976; Dickens, 1980; Lyall, 1981 and Hussey & Marsh, 1983) and more recently (Imbun & Ngangan, 2001).
- Most studies in CSR literature discuss factors for, consequences of, quality of, applicable theoretical contexts, content of, incidents that are connected to and/or media used to disclose social and environmental disclosures (Lewis et al. 1984; Blacconiere & Patten 1994; Gray et al. 1995 and 2001; Hackston & Milne 1996; Botosan 1997; Lang & Lundholm 2000; Patten 2002a; Brammer & Pavelin 2006; Murray et al. 2006; Clarkson et al. 2008).

In Chapter 4, I discuss the research design. I used regression analysis to analyse the determinants of voluntary employee disclosures; and content analysis to measure the levels, location and subject types of voluntary employee disclosures on the selected companies' annual reports. Employees of Wholesale and Retail companies are an essential stakeholder or resource, and they are directly involved in the operations of these companies. Disagreement, unhappiness or disputes with employees often affect the products, services, productivity or business image of the affected companies. Thereby,

companies' recognition of reporting and communication to/about employees in the corporate annual reports is highly recommended (Unerman, 2000).

Statistics South Africa's Labour Force Survey of 2008 indicates the wholesale and retail trade industry employs the most number of employees in total of both formal and informal sector (<http://www.statssa.gov.za/qlfs/index.asp> = accessed 07/07/2010). Hence I used this information as a criterion to select an industry I have conducted my research on.

Chapter 5 presents the actual findings of this study, and I analyse or interpret those findings in accordance with the hypotheses in chapter 3. Chapter 6 summarises this paper's findings and concludes on research objectives 2 and 3, and also gives possible reasons that could have influenced my significant findings.

1.8. Conclusion:

In concluding chapter 1, I have outlined research objectives, research problems, research questions, implications, contribution/Importance, limitations of study and research overview, above.

The next chapter is a background chapter of this study, in which I will discuss the participants on the South African labour market and their powers. Furthermore, to balance this paper which is mainly focusing on voluntary employee disclosures, I will look at mandatory requirements of the Companies Act of 1973 and financial reporting standards briefly, which affect employee related disclosures.

Chapter 2 - Background:

Introduction

In the previous chapter, I presented the abstracts from next coming chapters. Herein this chapter, I will focus on requirements of the Companies Act of 1973 and financial reporting standards, and the participants on the South African labour market.

Body

2.1. Requirements of the Companies Act of 1973 and Financial Reporting Standards

In this part of background section, I provide information specific to South African context. Connected to the above chapter, is the option to understand the mandatory accounting standards and legal requirements that South African companies are required to comply with in terms of employee related matters.

SAICA, JSE and the Accounting Practices Board (APB) of South Africa have recognized the need to be part of a global economy with respect to financial reporting. Therefore, since 1993 South African accounting standards have been harmonised with international accounting standards (Sehoole, 2007).

In November 2003 (Sehoole, 2007), SAICA issued Circular 5, for alignment of the text of Statements of Generally Accepted Accounting Practice (GAAP) with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). In February 2004 (Sehoole, 2007), APB decided to issue the text of IFRS as South African Statements of GAAP without any amendments. The JSE Securities Exchange revised its Listing Requirements to require the listed companies to comply with IFRS for financial periods commencing on or after 1 January 2005 (Sehoole, 2007).

The Companies Act No. 61 of 1973 chapter XI section 285A requires that a widely held company:

- (a) must comply with financial reporting standards;
- (b) must comply with the provisions of this Act and Schedule 4 that are applicable to public interest companies; and
- (c) must prepare financial statements that fairly present the financial position and the results of the operations of the company (and its subsidiaries, if applicable) in accordance with paragraph (a).

The first requirement of section 285A of the Companies Act as mentioned above refers to the accounting standards. In regard to employee reporting the following are the accounting standards that companies need to comply with:

- a) IAS 19 requires the disclosure of short-term employee, post-employment, other-long term and termination benefits.

- b) IAS 24 requires the disclosure of short-term employee benefits, post-employment benefits, other-long term benefits, termination benefits and share-based payment for key management personnel. This information must be in the form of disclose amounts, outstanding balances, provision for doubtful debts and expense recognized in respect to bad and doubtful debts made to key management personnel of the entity and its parent.
- c) IAS 37 requires termination benefits to be disclosed as a contingent liability, where there is an uncertainty.
- d) IAS 1 demonstrates by an example, the format of the information by nature that must be disclosed, on the illustrated example: employee costs, benefits or expenses are required to be separately disclosed and in addition, restructuring costs or reversal of any provision for the costs of restructuring.
- e) IFRS 2 and IFRIC 8 require the disclosure of share-based payments arrangements or information that occurred during the period.
- f) AC 503 *Accounting for Black Economic Empowerment (BEE) transactions*, (interpretations came into effect on 1 May 2006), prohibiting entities from recognizing intangible assets on BEE equity credentials, instead this amount must be expensed.

The above information is required to be presented on the face of the statement of financial position, statement of comprehensive income, statement of changes in equity, accounting policies and/or explanatory notes to the financial statements.

The second requirement of section 285A of the Companies Act can be explained further by the following information that needs to be disclosed:

- a) Loans to and security for benefit of directors, managers and employees;
- b) Directors' emoluments/compensation and pensions;
- c) Details of shares issued during the year to a director or a member of his or her immediate family;
- d) Retirement benefit information;
- e) Amounts paid as remuneration for managerial, technical, administrative or secretarial services, however described, other than to the bona fide employees of the company; and
- f) Items of income and expense which are material, abnormal and extraordinary of the operating activities of the company.

On this paper I am interested in voluntary employee disclosures made by South African listed companies in the W&RT sector, therefore the above mandatory disclosures are excluded from my analysis of employee reporting. South Africa has fully adopted International Financial Reporting Standards (IFRS) as it is, word for word. The lack of progression in employee related standards is not only a South African problem, but an international problem.

2.2. Participants on the South African labour market

An overview of Companies Act paragraphs and financial reporting standards which are applicable to employees were discussed in the previous section, and here I will look at the participants in the labour market. The South African labour market has five direct and indirect actors; employees, trade unions, government, international investors/companies and local employers. These role players have a history and ambitions in the South African economy.

In 1936, the National Union of Distributive Workers (NUDW) was formed uniting regional-based efforts of organising white (and later coloured and Indian) shop workers. In the 1970s, the retail sector labour market changed substantially (Kenny, 2004). White women left front-line jobs to be replaced by black women. Between 1965 and 1990, the number of black men and women in routine white-collar employment continued to increase while total white employment in these occupations declined after 1979. Young white women entered better paying service jobs in finance and the public sector (Kenny, 2004). Makino (2008) discussed the dichotomy in its way of categorizing participants in the labour market into insiders and outsiders; those who have jobs being insiders and those who do not being outsiders.

NUDW and National Union of Commercial, Catering and Allied Workers (NUCCAW) initiated the Commercial, Catering and Allied Workers Union (CCAWUSA) in 1975 as a parallel union to organise black workers. From a membership of 1,000 in 1977, CCAWUSA grew to 5,000 in 1981, 33,000 in 1984, 50,000 in 1985, 135,000 in 2005 and 107,553 in 2009 (Kenny, 2004 and SACCAWU website - access date 21/10/2010). CCAWUSA in 1989 becoming the South African Commercial, Catering and Allied Workers Union (SACCAWU). SACCAWU is an affiliate of the Congress of South African Trade Unions (COSATU) the largest trade union in South Africa, which was established mid – 1980's.

Before South Africa's first democratic elections in 1994, the major trade union federation, COSATU entered into an alliance with the African National Congress (ANC) and has subsequently played a key role in many areas of policy-making (Cooper, 2005). When the ANC was elected into government in 1994, it had to invite the union's representative to government, for example people like Jay Naidoo, Cyril Ramaphosa, Kgalema Motlanthe and few others (Bezuidenhout & Buhlungu, 2008). In regard to labour matters we might expect laws which favour employees rather than the employers. Cahan and Van Staden (2009) argue the labour unions continue to wield a sizeable influence, even though there are signs that the alliance with ANC is not so strong anymore.

Keeping in mind the history of South Africa, the National Economic Development and Labour Council (NEDLAC) was created in 1995, as the vehicle by which government, labour, business and community organisations will seek to cooperate, through problem-solving and negotiation, on economic, labour, social and development issues, and related challenges facing the country. (<http://www.nedlac.org.za/about-us/founding->

declaration.aspx). NEDLAC's objectives include considering all proposed labour legislation relating to labour market policy before it is introduced in Parliament.

In line with the shift in power and new institutions built; since the early 1990's and post-1994, there has been an increase in labour related legislations which have been introduced and/or amendments to old Acts, for example The Constitution (Bill of Rights), Labour Relations Act, Basic Conditions of Employment Act, Occupational Health and Safety Act, Employment Equity Act, Black Economic Empowerment Act, Compensation for Occupational Injuries and Diseases Act (COIDA), Unemployment Insurance Fund (UIF), South African Qualifications Authority Act (SAQA Act), Skills Development Act (SDA) and Skills Development Levies Act (SDLA)

One of the major problems facing South Africa is unemployment, since entering into the global economy, and there has been strong pressure on the South African labour market to deregulation (Makino, 2008). Van Aardt in Zumanomics suggests the policy changes need to be effected by removal of stringent labour protection and revamping of the educational system to become more labour-market-focused to kick start job creation. In addition, businesses in South Africa have complained that the reporting requirements are too onerous and costly (Herbst, 2005).

Conclusion

Summarising the preceding discussion, the historical matter of apartheid and racial inequality, which was accomplished by using racial discriminating legislation had a major impact in the current state of the labour market. Thereby, with democratisation, racial discrimination in legislation was eliminated, yet it did not mean the coming of an egalitarian society (Makino, 2008).

This chapter suggests that, even though the accounting standards, employee reporting literature and research has dwindled, despite the fact that laws on the other side have advanced and taken a leading role in driving the employee matters. Therefore, the next chapter will be looking at the existing theoretical frameworks and literature review.

Chapter 3 - Theoretical perspective and literature review

Introduction

Continuing on the previous discussion, in which we have learned about legislated South African employee related disclosures, and the participants on the South African labour market with reference to voluntary employee reporting by the Wholesale and Retail companies listed on the JSE. This chapter, underpinning the theoretical basis and literature review of the research, consists of four sections; (a) applicable accounting theories, (b) literature review on voluntary social disclosures, (c) the role of trade unions and (d) the impact of Black Economic Empowerment (BEE); and I will be investigating the existing accounting literature on them.

Body

3.1. Consideration of applicable accounting theories

In this section, I examine the theories in accounting literature that are often used to explain voluntary social and environmental disclosures by companies in their annual reports.

Several theories have been used to explain disclosure of CSR information by the companies; such theories include legitimacy theory, political economy theory, stakeholder theory, positive accounting theory and institutional theory (Gray et al., 1995; Jenkins & Yakovleva, 2006 and Deegan, 2007).

Legitimacy theory asserts that an organization continually seek to ensure that they are perceived as operating within the bounds and norms of the respective societies, that is, they attempt that their activities are perceived by outside parties as being legitimate (Deegan, 2007). A specific feature of legitimacy theory is the idea of social contract (expressed or implied), therefore a relationship need to exist between the society and business of give and take, in a way a two way commitment (Shocker & Sethi, 1974). Hackston and Milne (1996) suggest that organizations disclose information as a means of establishing or protecting the legitimacy of the organization by influencing public opinion.

Political economy has a very long historical tradition and multiple meaning or definitions (Gray, et al., 1995). The political economy theory is the economic domain which cannot be studied in isolation from the political, social and institutional framework within which the economic takes place (Gray, et al., 1995). It has been divided into broad streams of 'classical' and 'bourgeois' political economy. Gray, et al. provided the following distinction; the classical or Marxian political economy places sectional (class) interests, structural inequity, conflict and the role of the state at the heart of its analysis. Whilst bourgeois political economy largely ignores these elements and, as a result, is content to perceive the world as essentially pluralistic (Gray, et al., 1995).

Institutional theory is an extension into political economy theories because it is seen as providing a complementary perspective to both legitimacy theory and stakeholder theory, in understanding how organizations understand and respond to changing social and institutional pressures and expectations (Deegan, 2007).

Watts and Zimmerman's (1978a) paper was a key paper in the development and acceptance of positive accounting theory. In terms of "positive accounting theory", Gray, et al. (1995) argues that this perspective is highly contestable and has little or nothing to offer as a basis for the development of CSR. Generally, this theory relies upon traditional economics literature, by predicting that all people are driven by self-interest (or desires to maximize their own wealth) (Deegan, 2007).

Freeman (1984) describes stakeholders as "any group or individual who can affect or is affected by the achievement of organisation's objectives". Stakeholder theory has an ethical (normative) branch and a positive (managerial) branch. Ethical branch argues that all stakeholders have the right to be treated fairly by an organization and the issue of stakeholder power is not directly relevant (Deegan, 2007). Another branch of stakeholder theory is managerial branch which suggest that the powerful stakeholders will be attended to first (Nasi et al., 1997). The existing literature has evolved in attempts to model or develop approaches, frameworks and concepts that encircle the stakeholder theory pillars as a singular stand-alone theory (Bigley et al. 2007, Mitchell et al 1997, Swift 2001, Deegan 2007 and Gray et al 1995).

Employees can affect any organization which uses their services individual or as a group, and their relation with companies is direct. Managers have to analyse and implement strategies to minimise or avoid the negative actions by employees'. Thus, employees are one of the essential stakeholders in the performance of any organization's operations. In respect to Clarkson (1995), Cooper (2004) and Deegan (2007) employees are one of the 'primary group of stakeholders' if they become dissatisfied and withdraw (by force or choice) from the corporation, then that corporation cannot survive or will be seriously damaged as a going concern. This paper is focusing on employees not on everyone in the business environment or society in which a business operates. Thereby, the theoretical perspective, which I use to explain the relationship between employees and the business organisations, is based on stakeholder theory.

Table 1, shows in a tabulate format, how I linked stakeholder theory to the research objectives and hypotheses developed in this paper. Roberts (1992) stated in his paper '...as the level of stakeholder power increases, the importance of meeting stakeholder demands increases also'. Hence on table 1, the relationships between shareholders, debt providers, employees, trade unions and a company is expected to be influenced by

Table 1. Overview of the construct of this paper

Table 1. Overview of the construct of this paper					
Objective 1:	Various Theories	Literature review - on voluntary social disclosures, trade unions & BEE	Stakeholder Theory	Theory & literature review	Concluded on Th. & Lit. section - chapter 3
	Theory based	Expectation	Depended variable	Measurement instrument	
Objective 2:	Right to know	Increase or decrease over time.	voluntary employee disclosures	Content analysis	Concluded on Findings section - chapter 5
	Theory based	Hypotheses	Explanatory variable	Measurement instrument	
Objective 3:	Powerful stakeholder - employees	H1: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be positively associated to the size of the company.	a number of employees	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Powerful stakeholder - debt providers	H2: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be negatively associated with the company's leverage.	the ratio of total assets to total liabilities	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Powerful stakeholder - investors	H3: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be negatively associated with managerial ownership of the company's shares.	proportion of ordinary shares held by CEO and executive directors and other shares in which they are deemed to have interest	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Powerful stakeholder ... self interest	H4: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be positively associated with the company's profitability.	the net profit (earnings after interest & before taxation) scaled by the number of employees to compute the value/profit attributable to employees	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Right to	H5: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be positively associated to the company's sales performance.	computed as a change or difference on year-to-year sales divide by the earlier year's sales	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Powerful stakeholder or rights	H6: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be positively associated with trade union's visibility and actions towards the company.	a dummy variable	Statistical regression	Concluded on Findings section - chapter 5
Objective 3:	Right to established by law	H7: The volume of voluntary employee reporting in the annual reports for companies listed in the JSE's wholesale and retail trade sector will be positively associated with BEE rating of the company	the total BEE score, will receive a zero BEE score; if a company is not reported in the top 200 companies	Statistical regression	Concluded on Finding section - chp 5
		Reasons for the above:			
Objective 4:	= Findings or analysis	= decrease/increase on voluntary employee reporting = determinants/factors of voluntary employee reporting [positive/negative + significant/insignificant] = correlation between the indepenent variables &/ total voluntary employee disclosures	= link findings to the Stakeholder theor		Concluded on Conclusion section - chapter 6

individual or collective power of each of these stakeholders. Thereby, the rest of the hypotheses which are not covered by the previous sentence are expected to be based on the premises that management of sample companies; believe that the users of the annual reports have a right or deserve to know about the employee issues they voluntarily disclose in the annual reports. For example, if one company's management decides to write in their annual report that their company is committed to its own transformation or supports the right of staff to belong to any union of their choice, therefore this is because they felt users need to be aware of such employee related information.

3.2. Literature review on voluntary social disclosures

This section explores the existing literature on Corporate Social Responsibility (CSR), and the focus of this paper is on the area of voluntary employee disclosures.

CSR is defined by the Commission of European Communities (2001), as ...
a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders.

Hence, this CSR definition has introduced two terms "social" and "environment" in the business of many businesses, beyond only generating profits. Friedman (1962) argues that companies will not advocate for social and environmental reporting unless it is linked to enhancing business profitability.

Social and environmental reporting became more widespread and extensive, in the early and mid-1990's, and of so late many companies are separating their detail social and environmental disclosures from their annual reports by publishing stand-alone social and environmental reports (Deegan, 2007).

If one looks at CSR research studies, you will notice that CSR literature is dominated by environmental studies and studies which look at the entire corporate social and environmental responsibility/performance disclosures. Thereby, it will not hurt to use the findings or results and contributions from these trailblazing perspectives of CSR literature in employee related disclosures research.

Adina and Ion (2008) describe voluntary disclosure as,

"The voluntary disclosure regards information made public through the firm's free choice. It is influenced by culture, social, economic and behavioural factors that are specific to each firm."

Thus we will explain voluntary disclosure as being additional offer of information in relation to different national regulations or international referential of business

reporting, that is, something that is not compulsory by the law, but becomes voluntary through the behaviour regarding publication.”

There are several studies that examine factors which drives voluntary social and environmental disclosures: Boesso and Kumar's (2007), study confirms the findings of previous researchers, and also identify new drivers of voluntary disclosures which are awards obtained for the quality of firms' action or communication, business complexity, volatility and risk associated with the company on an across country contexts (in support of Healy (2001) findings). Boesso and Kumar's paper fell short in terms of measuring the quality of voluntary disclosures, and their paper also had the following limitations; voluntary disclosures examined were from Management Discussion & Analysis (MD&A) section not the entire information on the annual report was examined and only one year 2002 was analysed. Prior to this study, there was an agreement by the social and environmental researchers that firm size, industry in which the company operates and media visibility (Patten, 1992; Botosan, 1997; Sharma & Ngan, 1999; Patten, 2002a & 2002b; Brown & Deegan, 1998) are unwavering drivers or determinants of voluntary social and environment disclosures. Patten (2002a) and others found large firms tend to be subject to higher pressure from the communities they operate in. This pressure will result in, large firms making voluntary environmental disclosures to demonstrate that their actions are legitimate (Ullmann, 1985; Patten, 2002a; Brammer & Pavelin, 2006). It is possible that voluntary employee reporting would react positively to the size of the company, for example, the increase in number of employees would require more attention from company's management and other stakeholders which this would lead to the affected companies disclosing more employee related disclosures. Accordingly, it is hypothesized that:

H1: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated to the size of the company.

Brammer and Pavelin (2006) explore decision to make a voluntary environmental disclosure, and the decisions concerning the quality of such disclosures made by a sample large UK companies. Their findings were consistent with some earlier work, in terms of significant variation across-sectors, firm size influencing voluntary disclosure and highly leveraged companies are significantly less likely to make voluntary disclosures. Brammer and Pavelin's studies found contradicting results on media visibility because there was no significant relationship between media visibility and the decision to make environmental disclosures in their results. Brammer and Pavellin (2006) argue firms with relatively low levels of leverage may experience less pressure from creditor stakeholders, and therefore find it easier to have discretionary ability to focus on organisational activities, such as voluntary disclosure. It is possible that voluntary employee reporting would react negatively to the company's leverage, for example, if a company has high leverage I should expect less disclosure of voluntary employee reporting. It is therefore hypothesized that:

H2: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be negatively associated with the company's leverage.

Kuasirikun and Sherer (2004) investigate the extent to which annual reports of Thai companies reflect the current reality of social and environmental problems confronting Thailand as reported in Thai political commentary and especially in the Thai press. These authors compared 1993 and 1999 sampled annual reports to determine the progression in company's financial condition to the degree of corporate social and environmental responsibility. They also explore the potentialities for enabling practice by point out various inadequacies and adequacies. Kuasirikun and Sherer found in Thai corporate annual reports, the theme of social disclosures were similar to the UK, US and Australia, where the most disclosed subject is employee information. Also, the narrative form of social disclosure predominates social reporting in Thai annual reports for both 1993 and 1999 samples; and chairperson's/director report is not always the most important location of social disclosures, as they are spread across chairpersons' report, operational review and separate sections. The other finding by Kuasirikun and Sherer, is the level or amount of social disclosure of Thai companies is minimal similar to UK, US and Australia. Kuasirikun and Sherer argue that in Thai the level of social and environmental disclosures do not appear to be influenced or motivated by social and environmental legislation and political scrutiny/pressures. Their paper used the method of analysis that was used by Guthrie and Parker (1990) in terms of method of reporting, amount and location of disclosures. In addition, their paper was a comparison to Guthrie and Parker's paper findings, with what is prevalent in Thailand. The weakness of these authors' paper is that the unity of measure of the various disclosures was not clearly explained e.g. proportion of A4 page.

Matten and Moon (2004) compared the practice by US companies to the European companies in regard to employee benefits such as healthcare, fair wages, working time and conditions, healthcare, redundancy, protection against unfair dismissal, just to name a few examples. These authors concluded that the absence of CSR policies in European companies in many employment related issues (and beyond) is due to the fact, that the institutional framework of the economy, in particular formal, mandatory and codified rules or laws define the responsibility of corporations and other societal factors for particular social issues. CSR as a voluntary corporate policy in Europe appears dispensable because these issues are not left to the discretion of corporations; they are part of the legal framework (Matten & Moon, 2004). These authors suggest the terminology of 'explicit' and 'implicit' CSR; they describe 'explicit' as "the way in which issues of social responsibility are addressed by corporations, namely as part of the explicit CSR policies". On the other hand Implicit CSR is described as the entirety of a country's formal and informal institutions assigning corporations an agreed share of responsibility for society's interests and concerns, for example, worker's rights issues, and the role of trade unions and considerable levels of environmental legislation (Matten & Moon, 2004). These authors argued their conceptualization of CSR using institutional theory.

Eng and Mak (2003) examine whether corporate governance is associated with voluntary disclosure. Specifically, their paper examines the association between ownership structure, board composition, government ownership and voluntary disclosure. Next, Eng and Mak argue greater disclosure is made to mitigate the higher agency costs and weaker governance of the firms when government ownership exists. The results of these authors show that ownership structure and board composition, do affect the voluntary disclosures. However, they found that lower managerial ownership and significant government ownership are associated with increased disclosure (Eng & Mak, 2003). But, blockholder ownership is found not related to voluntary disclosure. Eng and Mak (2003) also find that larger firms and firms with lower debt had greater disclosure. Shareholders, creditors or regulators are viewed as having power to influence company's management as a function of their degree of control over the resources required by the company (Ullmann, 1985). Deegan (2007) stated 'as the level of stakeholder power increases, the importance of meeting stakeholder demands increases'. It is possible that voluntary employee reporting would react negatively to significant managerial ownership, for example, when shareholders are not the same persons as managers, they can ask the organisation to demonstrate to them how the organisation is it fulfilling its social responsibility role. It is therefore hypothesized that:

- H3: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be negatively associated with managerial ownership of the company's shares.

Lim and McKinnon (1993) investigated the influence of political visibility on voluntary disclosure by the state-owned companies in one of the Australian states in 1984. They examine financial and non-financial information using political cost hypothesis, they found positive correlation between political visibility and the level of voluntary disclosure of non-sensitive information. There was no positive correlation between political visibility and the voluntary disclosure of sensitive information (Lim & McKinnon, 1993)). This suggests that companies when they decide to voluntary disclose information on their annual report it might not be the entire picture. This results were supported by Verrecchia (1983), Dye (1985) and Shalev (2009) who believe that there is an equilibrium where, managers tend to reveal good news (news that they believe or expect to affect the stock price or firm's value positively/favourable) and withhold bad news. There other arguments are the additional costs for disclosure; and partial disclosure may be optimal, if it is not costly to disclose (Dye 1986). Information which is withhold is assumed to be negative (Shalev 2009), complex or there is uncertainty about it. Frantz and Walker (1997) argued against Pope and Peel's proposition that all firms that disclose information processing costs are zero, as this proposition not being generally correct. They found that both full-disclosure and non-disclosure equilibrium always obtain and that no other equilibrium can possibly obtain.

Bradley, et al. (2005) identified two perspectives in relation to Corporate Social Disclosure managerial and non-managerial stakeholders. They argue few studies that have focused upon this issue of non-managerial stakeholders have tended to examine the information

needs and views of stakeholders who are relatively economically powerful in relation to specific corporations. They examine and analyse a gap in the literature on less economically powerful stakeholders that remains by their opinions. Bradley, et al. (2005) further found there is a need for administrative reform which must be motivated by the recognition of the wider society's "rights" to information and a wish to mandate improved corporate performance in the social and environmental domain. Hence they suggest a legislative backing for CSD is required to develop the practice of also providing information on social and environmental impacts to less economically powerful stakeholders (Bradley, et al., 2005).

In addition, previous researchers (Alnajjar, 2000 and Cowen et al., 1987) have found contrasting results in profitability variable as a significant factor influencing social disclosures and also in regard to the sign of firm size variable. The objective of Alnajjar's (2000) study was to investigate the relations between individual corporate characteristics and social responsibility disclosures (SRD's). Alnajjar (2000) extended Cowen et al. (1987) research study by investigating the effects of the explanatory variables on each type (i.e. monetary, quantitative and narrative) of disclosure within each of Cowen et al., (2000) seven major areas of disclosures. Alnajjar (2000) used multiple regression analysis to analyze SRD's; and content analysis to quantify and measure SRD's. However, companies with higher profits are subject to significant pressure from various stakeholders, therefore profitable companies will disclose more voluntary disclosure to demonstrate that they are catering for every stakeholders needs (Roberts, 1992). It is possible that voluntary employee reporting would react positively to the company's profitability, and it is therefore hypothesized that:

H4: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with the company's profitability.

The second part of the CSR definition is talking about the interaction with stakeholders, clearly knowing that there are various stakeholders affecting or affected by South African Wholesale and Retail companies. On the next few paragraphs I turn to employees as one of the stakeholders.

Earlier research analyses whether employees are satisfied with the information they receive, their level of interest in the information and/or do they read the information received/issued (Hussey & Marsh, 1983). Macintosh (1987) followed with a paper that identifies the areas of information of interest to employees.

Objectives of employee related reports are mixed. Some of the motives which have been identified in prior literature are to: involve employees more in the affairs of the company, motivate employees towards higher productivity, discharge company's proper responsibilities, discharge the proper responsibilities, be a leader of best practice, enable the market situation to be better appreciated, moderate high wage demands, other companies are doing it, belief in the right to know, improve industrial relations

environment and other objectives (Hussey & Marsh, 1983). Despite various objectives for employee reporting, Brown (1997) attempted to bring closer the diverse perspectives. He documented the differing ideologies in the accounting and industrial relations environment, as well as a framework in understanding the underlying differences.

However, undertaking this research with one objective for employee reporting in mind will be limiting. Companies voluntarily disclose employee related information for various reasons, which most academicians might agree and disagree on. Therefore, employee reporting progression could be explained with certain factors, as it was explained corporate management objectives for disclosing voluntary employee information are by themselves hard to understand with the degree of precision.

Gray et al. (1995) found CSR disclosures are subject to change over time and in according to company sizes. They investigated a period of 13 years if there were changes in the disclosure practices by the UK companies. Employee-related disclosure in their study was dominated by employment data plus “employee other” disclosures (predominantly thanks to staff, discussion of redundancy and, less frequently, longitudinal statistics on employment rates and employee turnover) and information about pension, health and safety. In addition, industrial relations data on training and equal opportunities also rose.

Day and Woodward (2004) examine the employee reporting practices of UK FTSE 100 companies in year 2000. The purpose of their study was 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. They found a high degree of non-compliance with the statutory requirement for large listed companies to disclose employee-related information in the Directors’ Report. The second finding is the position that certain users’ needs are not currently being met, and half of the companies surveyed appeared to promote an awareness of financial and economic factors affecting performance except when employees benefited from share schemes. They identified employees, government and other stakeholders as the beneficiaries or possible causes why there are statutory requirement to disclose information.

A longitudinal study by Lewis et al. (1984) examines the financial reporting pattern to employees from 1919 to 1979, and to identify specific employee issues that were reported, and isolate socio-economic factors that may have influenced the general pattern of financial reporting to employees, which are (1) application of new technology in the work place, (2) increased merger activity in the corporate sector, (3) groundswells of anti-union sentiments and, (4) economic recession and/or fears of recession. I predict that voluntary employee disclosures by companies could be a function of economic conditions. However, there are several economic indicators and I will use company’s retail sales performance or growth as a proxy for economy climate measure experienced by the sampled companies. It is possible that voluntary employee reporting would react positively to the company’s sales performance. The increase in turnover or high sales

growth is likely to lend to the company being subject to significant political pressure (or attract attention) from various stakeholders, who may want a share from the company's growth (Deegan, 2007). Hence, Ness and Mirza (1991) argued that beside companies adopting income-reducing accounting techniques, companies can make voluntary social disclosures in their annual reports to explain their efforts to meet every stakeholders needs. Based on the aforementioned discussion, it is hypothesized that:

- H5: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated to the company's sales performance.

Summarising, the research articles above beside the fact that the majority of these studies are old. They discuss the objectives for employee disclosures by companies, the level of interest in employee information by employees or other stakeholders, mandatory employee information as required by the Companies Act or accounting standards, content of or what employee reporting disclosures consists of, the trend in terms of the information being disclosed, location of employee information in the annual reports and the significant factors that lead to or drive voluntary disclosures.

3.3. The role of trade unions

In this section, I am linking accounting disclosures to unions.

Mir (2001) argue that unions representing the staff have ideological obligations to promote its' members' interests in the enterprise bargaining. Imbun and Ngangan (2001) found that the information asymmetry seems to influence to some degree by the level of tension between trade unions and company management in Papua New Guinea. Therefore they argue that management may in fact gain more in the bargaining process by developing greater trust with employees and unions through increase disclosure of company information. There is an assumption that unions prefer information from published financial statements rather than other various sources in the negotiation process (Imbun & Ngangan, 2001). Given the latter, there might be an endogenous relationship between unions and voluntary employee related disclosures.

Frantz and Walker (1997) analyses the voluntary disclosure strategies of a privately informed firm manager when the information is relevant to both financial market valuation purposes and a union for wage bargaining purpose. They found that both full-disclosure and non-disclosure equilibrium always obtain and that no other equilibrium can possibly obtain. The model used by Frantz and Walker assumes the manager is prevented from making an offer, hence have no bargaining power. The findings of this paper are not necessary generalisable to real world wage bargaining process. In addition, they assumed that the factors that drives' non-disclosure equilibrium are the financial market and a union.

Dawkins and Ngunjiri (2008), compare Corporate Social Responsibility Reporting (CSRR) for 2006 in leading South African companies to that of leading companies representing economically advanced countries, which are the United States, Japan, Germany, and Great Britain. They found that there was a significant difference in CSRR on the employee relations by South African companies dimension from those of leading global companies. Therefore, a high percentage of the companies provided employee related information, and they said this is because of the prevalence of labour unions in South Africa was a contributing factor (Dawkins & Ngunjiri, 2008). I predict that voluntary employee disclosures could be a function of specific strikes, disputes or labour actions that were targeted to individual sampled companies, beside the agreed scheduled collective bargain sittings, process or resolutions. It is likely that voluntary employee reporting would react positively to trade unions' visibility, for example, if a company experienced a number of strikes, disputes or labour actions in a particular year which would lead to the company disclosing more employee related disclosures. Following on the above, it is hypothesized that:

- H6: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with trade union's visibility and actions towards the company.

Nonetheless, most of the papers which discuss employees and union actions are found under industrial relations literature, and it is not the intention of this paper to elevate or prioritize organized labour and/or unions conduct or thinking which I deem is beyond the scope of this paper.

3.4. The impact of Black Economic Empowerment (BEE)

Subsequent to the 1994 elections; the new government introduced Black Economic Empowerment (BEE) Act. Some of the objectives of the BEE Act are to:

- transform South Africa's economy to allow meaningful participation by the black people;
- substantially change the racial profile of companies' owners, managers and skilled professionals; and
- promote investment that leads to broad-based and meaningful participation in the economy by black people.

Cahan and Van Staden (2009) found a positive association between BEE performance and disclosure of Value Added Statement (VAS). They concluded that the use of BEE performance and disclosure of a VAS by South African companies is a strategy to establish substantive legitimacy with labour. BEE measure has seven categories, in which two are specifically pertaining to employees; these are: employment equity and skills development. Cahan and Van Staden's study was examining VAS on the annual reports, which are disclosed voluntary by South African companies. With this in mind, I expect BEE performance to have a significant and positive influence on voluntary employee

reporting and at the same time, BEE consideration might be viewed as one of South Africa's unique or specific variables. It is therefore hypothesized that:

- H7: The volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with BEE rating of the company.

Conclusion

In concluding on the above literature review, I have dealt with voluntary social disclosures, the role of trade unions and the impact of BEE prior researches. My first research objective has been covered in this chapter, of investigating the existing literature which relates to employee reporting. In answering, the second and third research objectives of this paper of, determining the extent of voluntary employee related disclosure in the annual reports; and identifying the determinants for South African companies listed on the JSE's W&RT sector to disclose the voluntary employee information which they disclose; I have hypothesized only firm size, leverage, profitability, sales growth, unions and anti-union sentiments, BEE and managerial ownership. The latter, are independent variables that I have hypothesized to verify relationships that may exist with voluntary employee disclosures which is a dependent variable. Incidentally the independent variables used in my hypotheses are motivated by the findings by these authors; Lewis et al. (1984), Alnajjar (2000), Eng and Mak (2003), Brammer and Pavelin (2006), Boesso and Kumar's (2007), Dawkins and Ngunjiri (2008), Cahan and Van Staden (2009); and by a stakeholder theory. In short, the annual aggregated decreases or increases in voluntary employee reporting of the JSE listed Wholesale and Retail companies over the sample period will be linked to the hypothesized independent variables, which in turn are expected to be explained by the stakeholder theory premises.

In summarising the theory base I will use, the companies listed in the W&RT sector need to demonstrate that they are responding to the most powerful stakeholder's needs and/or acting in a manner that says 'we treated all stakeholders fairly' regardless of the stakeholder's power. Thus, in this light, stakeholder theory may or may not be supported by the research findings I will obtain after performing this study. The research findings will entail discussions on relationships between independent variables and dependent variables as outlined in the hypotheses above.

In the next chapter, I will be look at research design of the study in terms of how to measure and analyse voluntary employee disclosures, and on what the required data is going to obtain and for when. The research design chapter will also assist me to answer the above-mentioned hypotheses.

Chapter 4 - Research Design

Introduction

In the previous chapter applicable accounting theories, the existing literature on voluntary social disclosures, also literature on the role of trade unions and the literature on the impact of BEE were considered. This research design chapter will discuss (a) where the data will be collected, (b) how the data will be collected and measured, and (c) how the collected data will be analysed to arrive at a sound and well supported conclusion.

Body

4.1. Data

The McGregor BFA database (<http://0-research.mcgregorbfa.com.innopac.up.ac.za/> = access date 28/08/2010) was used to obtain data in the form of annual reports of South African companies listed on the JSE's W&RT sector for the years from 2005 to 2009. The selected sample of companies had to be listed on JSE specifically for the 2009 period. In terms of CSR studies, there are a number of studies that use small samples of around 20 firms, and it is normal for studies using content analysis to use small sample sizes (Bozzolan et al. 2003; Williams, 2001; Guthrie & Petty, 2000, Campbell et al. 2003).

This is an empirical study using secondary data from annual reports. I analysed corporate audited annual reports because they possess high degree of credibility and it would have been impossible to identify all press releases, website news, notice-board displays, internal/external communication, briefings, general meetings points of references, booklets or pamphlets, employee reports and videos (Unerman, 2000). Annual reports are not the only channel of communication which is used to interact with employees and/or stakeholders.

4.2. Method

1. Measuring level or extent of employee related disclosures

Content analysis is considered the most commonly methodology by researchers in investigating corporate social and environmental disclosures. Content analysis is defined by Abbott and Monsen (1979) as:

“a technique for gathering data that consist of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity”.

There are two popular means of collecting employee related information, surveys such as interviews or questionnaires (Hussey & Marsh, 1979) and examination of the content and presentation of the target media of communication (Unerman, 2000 and Hirst et al., 2007).

The method of analysis will be in accordance with the method used by Guthrie and Parker (1990) which contains method of reporting (i.e. narrative, monetary, non-monetary, photographs & charts/graphs/ tables), amount (or level) and location of disclosure (Kuasirikun & Sherer, 2004). Theme or category of CSR, I am examining in this paper is disclosures regarding employees.

Firstly, I drafted a list with words and phrases that are associated with employee related disclosures; the classification list is presented in Annexure 6. Secondly, sentences or paragraphs on the annual reports of the selected companies with the words and phrases as they are on the classification list, were used as a recording unit. Individual words have no meaning to provide a sound basis for coding social and environmental disclosures without a sentence or sentences for context, therefore, to provide complete, reliable and meaningful data for further analysis (Hackston & Milne, 1996; Milne & Alder, 1999). Thirdly, the number of words in these sentences or paragraphs are counted, and finally the assessment of reliability and validity of the disclosures which are coded. Thereby, the level or extent of employee related disclosures will be measured by counting all the words in the sentences or paragraphs in which the words in my classification list appears.

Words counted will be tallied and added next to each word or phrase in the classification scheme, so I can measure the level or amount of voluntary employee disclosures. This method is similar to that used by Deegan et al. (2000); Wilmhurst & Frost (2000); Hackston & Milne (1996); and Gray et al. (1995b). The limitations of this measure, firstly it ignores photographs and charts. Secondly, two or more words in the list I used might be in one sentence and this might lead to double counting. The voluntary disclosure results in this paper will exclude the issues or phrases discussed above as required by the Companies Act and existing accounting standards.

The other approaches: percentage of pages and proportion of CSR disclosure to total disclosures that were used by Gray et al. (1995b) and Trotman and Bradley (1981) to measure the extent of disclosure, I noted these, due to the complexity level of measuring photographs, diagrams and tables such methods will be excluded from this paper.

In this section, I have discussed a measurement instrument to answer research objective 2, as shown in Table 1.

Reliability and validity

Krippendorff (1980) identifies three types of reliability for content analysis; reproducibility, stability and accuracy. Krippendorff also pointed out that reliability in content analysis involves two separate but related issues. First, content analysts can seek to attest that the coded data or data set that they have produced from their analysis is in fact reliable. A second issue is the reliability associated with the coding instruments themselves.

I will use Krippendorff's [alpha] to measure the reliability, which requires the total number of coding decisions each coder makes, and the coding outcome of every one of those coding decisions be known. In regard to, accuracy and validity, I will use two coders and discrepancies between coders will be analysed to be as minimal as possible.

2. Measuring determinants of employee reporting

A standard multiple regression will be used to determine the likely drivers of employee reporting or in employee related disclosures. This is similar to the method used by Boesso and Kumar (2007), and Eng and Mak (2003).

I examine the level and determinants of voluntary employee reporting over the sample period by estimating the following regression:

$$Discl = \beta_0 + \beta_1 \times Size_1 + \beta_2 \times Union_2 + \beta_3 \times Growth_3 + \beta_4 \times Profit_4 + \beta_5 \times Coow_5 + \beta_6 \times BEE_6 + \beta_7 \times Lever_7$$

Where:

DISCLOSURE (Discl): represents the voluntary employee disclosures

Firm size (Size): I will use a number of employees from the sampled companies as a proxy for company size, because the focus of this study is employee related disclosures (Boesso & Kumar, 2007).

Leverage (Lever): I will use the ratio of total liabilities to total assets to measure leverage (Brammer & Pavelin, 2006).

Managerial ownership (Coow): will be measured with the percentage of ordinary shares held by CEO and executive directors, and other shares in which they are deemed to have interest (Eng & Mak, 2003).

Profitability (Profit): I will use the profit before taxation scaled by the number of employees to compute the value/profit attributable to employees (Brammer & Pavelin, 2006)

Sales growth (Growth): will be computed as a change or difference on year-to-year sales divide by the earlier year's sales (Cahan & Van Staden, 2009).

Trade unions visibility/actions (Union): will be a dummy variable which will be equal to 1 for each year, for the individual sampled companies; if they had CCMA sittings, strike and/or dispute with employees that are identified. I will search for data over the sample period which the sampled companies have incidents, about Commission for Conciliation, Mediation and Arbitration (CCMA) sittings, strikes and/or disputes with employees or unions'. This information will be gathered from SA Media database, which has newspaper reports and media articles found at <http://0search.sabinet.co.za.innopac.up.ac.za/webZ/>, accessed date 14/12/2010; and annual reports of the sampled companies. In accordance

with Imbun and Ngangan (2001) information relating to unions negotiations, disputes, membership and strikes can be obtained from various sources. Unions have an endogenous relationship with firms (Yamaji, 1986).

BEE Score (BEE): I will use BEE ratings from Empowerdex to measure this variable. Empowerdex calculates the total BEE score (out of 100) based on seven subcategories (each out of 100), which are: ownership in the company, management, employment equity, skills development, affirmative procurement, enterprise development, and corporate social investment (Cahan & Van Staden, 2009). If a company is not reported in the top 200 companies in the BEE rating list, it will receive a zero as its BEE score.

In this section, I have discussed a measurement instrument to answer research objective 3, as shown in Table 1.

4.3. Analysis

As a follow up on the above sub-section, the information gathered will be analysed as follows, for objectives 2 and 3.

Words counted will give me the total amount of voluntary employee disclosures for each year on the sample period. I will note the location and subject type of voluntary employee disclosures as I will be counting words in the annual reports of the selected companies. Therefore these two, location and subject type will be presented as notes and also in table formats.

On this paper to determine the factors that have an association with voluntary employee disclosures, I will use the values computed for the independent control variables (refer to measuring determinants of employee reporting sub-section for further details) and totals from the words counted in the annual report of companies listed in the JSE's W&RT sector as a dependent variable in a regression equation. In addition to discussing the research findings in relation to the control variables calculated, I will also employ the following analysis methods:

- Data display tables – control variables, relationship between variables, statistical significance
- Descriptive data table or statistics = variable, mean, variance, standard deviation
- Pearson correlation analysis.

Conclusion

In conclusion, the data will be hand collected and counted from the corporate annual reports of the sampled companies listed on the JSE in the W&RT sector, for the period 2005 to 2009. In order to measure the extent of voluntary employee disclosures, I will use a technique of word counting.

In terms of testing hypotheses, seven proxies have been created and which have been linked to the hypotheses. Thereby, all the seven proxies will be used in a regression analysis to determine which variables significantly influence voluntary employee disclosures levels. Also refer to Table 1, to see the linkage from the proxies to hypotheses and from hypotheses to research objectives.

Furthermore, above I have mentioned the additional methods or tests that I am going to use in analysing the data in the next chapter. The following chapter is dealing with the actual findings or results of this study, and I will in addition be analysing those findings in detail.

Chapter 5 - Findings

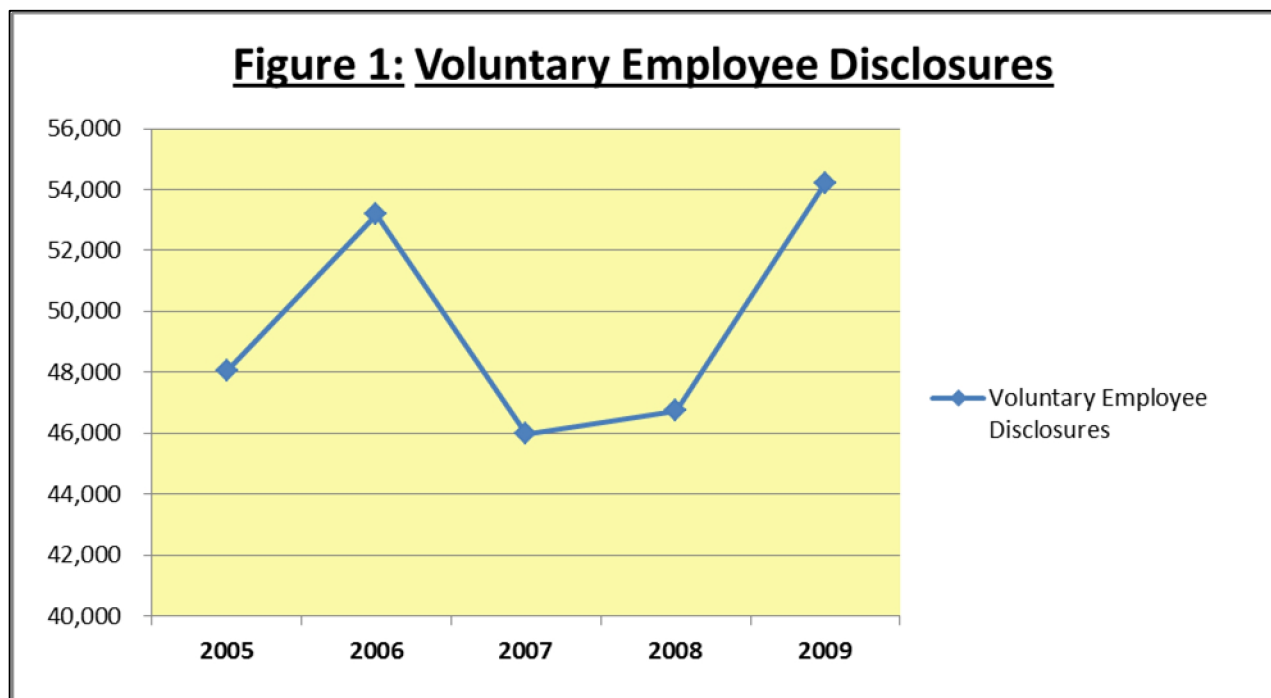
Introduction

Before I explain the results of the regression analysis, in which my hypotheses are tested, I present the extent, location and subjects of voluntary employee disclosures over the sampled period. After the location and subjects, I will follow with descriptive statistics, hypotheses and lastly, correlation coefficients for the dependent and independent variables. I should not forget to mention, that the previous chapter provided me with the tools to perform the analysis and tests in this chapter.

Body

5.1. Extent

I begin with an exploratory analysis of the trends over the five years period, of the voluntary employee reporting by the companies listed in the W&RT sector on the JSE. The total voluntary employee disclosures reported on the annual reports of the 20 selected companies are 48 046 for 2005, 53192 for 2006, 45 971 for 2007, 46 736 for 2008 and 54 202 for 2009. Figure 1, plots the total voluntary employee information reported. Thereby, employee disclosures increased from 2005 to 2006, but for 2007 there is a decrease in employee disclosures and for the rest of the sample period the employee disclosures increased. Overall, the voluntary employee disclosures have increased over the sampled period.



5.2. Location and subjects of employee reporting disclosures

Table 2, indicates that more than 40% of employee disclosures were located on the sustainability report section of the annual report until 2007. In 2007 and 2008 respectively, Woolworths and Massmart management introduced a shift in reporting strategy of corporate social responsibility (CSR) or performance by disclosing sustainability reports

Table 2

<u>Location: (excl. information on directors' report & financial statement sections)</u>										
	<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009</u>	
Chairman's report	2,929	6.1%	2,221	4.2%	2,178	4.7%	2,623	5.6%	3,154	5.8%
CEO's report	4,239	8.8%	4,362	8.2%	3,928	8.5%	4,226	9.0%	4,534	8.4%
Finance director's report	767	1.6%	1,316	2.5%	1,353	2.9%	1,425	3.0%	1,301	2.4%
Sustainability report	20,732	43.2%	23,103	43.4%	18,699	40.7%	17,022	36.4%	20,007	36.9%
Divisional manager's reports	10,034	20.9%	12,889	24.2%	8,355	18.2%	8,528	18.2%	9,866	18.2%
Corporate governance	7,600	15.8%	7,629	14.3%	6,762	14.7%	8,364	17.9%	10,155	18.7%
Other	1,745	3.6%	1,672	3.1%	4,696	10.2%	4,548	9.7%	5,185	9.6%
	48,046		53,192		45,971		46,736		54,202	

separately from the corporate annual reports. This shift had a significant impact on employee disclosures in the annual reports of these companies. The location of employee disclosures is mainly presented in the sustainability report and another third is in the divisional or operational review section ranging from 14.3% to 24.2%.

Table 3, presents a comparative overview of employee disclosures by Wholesale and Retail companies listed on the JSE from 2005 to 2009. This table indicates that the majority of these disclosures are: specific employee disclosures; general issues such as country-wide employment, human resource systems, workplace and other non-employee specific issues; and lastly, training and development. However, it is also notable that the average subjects being disclosed by the Wholesale and Retail companies are the following: transformation; HIV/AIDS; employee benefits; strategy, code, focus or proposition; and attracting, retaining, promoting from within, incentivising and rewarding employees.

5.1. Determinants or hypotheses

Annexure 1: Panel A provides descriptive data for the independent variables. This information relates to twenty (20) companies (see, Annexure 5) that were listed on the JSE in the W&RT sector, over five years which resulted to a sample period of five (5).

The mean for SIZE is 12 269 with a range from 0 to 83 866.

The mean for GROWTH is 124.71% with a range from -94.82% to 11 468.22%.

The mean for PROFIT is 107 053 with a range from -116 060 to 825 503.

Table 3

Subject of disclosure	2005	2006	2007	2008	2009	Total
Remuneration, salaries & wages	1,275	1,318	1,722	1,872	2,745	8,932
Training, learning & development	5,943	6,537	6,122	5,707	6,361	30,670
Transformation, BEE & employment equity	3,460	4,456	3,159	2,777	3,810	17,662
HIV/AIDS	3,808	3,589	3,240	2,251	2,272	15,160
Health & safety	2,485	1,994	1,849	1,902	2,292	10,522
Thanks & appreciations	1,186	1,657	1,294	1,310	1,553	7,000
Employees, teams, staff, work profile or classification	10,559	11,982	10,308	11,199	13,324	57,372
Unions & strikes, negotiation, staff engagement	977	1,269	1,280	842	1,209	5,577
Employee benefits (i.e. retirement or medical benefits)	4,027	3,741	2,954	2,776	3,108	16,606
Strategy, code, focus & future plans	3,106	3,540	3,078	2,507	2,609	14,840
Retention, incentive, career opportunities/path & attract	3,180	3,896	2,935	4,879	5,035	19,925
Other general (i.e. industry, country wide, HR systems & etc.)	6,756	7,509	6,448	7,029	8,173	35,915
Financial - analysis	1,284	1,704	1,582	1,685	1,711	7,966

The mean for BEE is 13.99% with a range from 0.0% to 68.37%.

The mean for COOW is 23.19% with a range from 0.0% to 74.91%.

The mean for LEVER is 237.92% with a range from 112.44% to 547.98%.

The mean for DISCL is 2 481 with a range from 0 to 10 416.

Annexure 1: Panel A simple descriptive statistics reflect a mean of 23.82% (2 481 divide by 10 416 percent) for the voluntary employee disclosures (DISCL), thereby the following variables closely approximate the level of these disclosures: COOW (23.19%), SIZE (14.63%) and BEE (13.99%). These averages suggest I must expect COOW, SIZE and BEE variables to be significant determinants of voluntary employee disclosures for the sampled companies.

Annexure 1: Panel B provides frequency for the independent variable UNION. UNION is a dummy variable. There were six (6) Wholesale and Retail companies that had incidences of specific strikes, CCMA referred cases and/or labour disputes over the sample period.

Next, the hypotheses are tested by examining whether the explanatory variables are statistically significant at the 0.05 level in the predicted direction using a regression equation. All the variables included in the models are used for hypothesis testing. Annexure 2 present the results of the determinants of the level or extent of total voluntary employee disclosures by the Wholesale and Retail companies listed on the JSE.

H1 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated to the size of the company. In Annexure 2, SIZE is not statistical significant at the 0.05 level for the whole sample period and has a positive sign for the sample period.

H2 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be negatively associated with the company's leverage. In Annexure 2, LEVER is not statistical significant at the 0.05 level for the whole sample period and has a positive sign for the sample period. This result fails to support H2.

H3 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be negatively associated with managerial ownership of the company's shares. In Annexure 2, COOW is statistical significant at the 0.05 level ($p = 0.0001$) and has a negative sign for the sample period as predicted.

H4 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with the company's profitability. In Annexure 2, PROFIT is not statistical significant at the 0.05 level for the whole sample period. PROFIT has a positive sign for the sample period.

H5 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated to the company's sales performance. In Annexure 2, GROWTH is not statistical significant at the 0.05 level. It has a negative sign for the sample period. This result fails to support H5.

H6 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with trade union's visibility and actions towards the company. In Annexure 2, UNION is not statistical significant at the 0.05 level and it has a positive sign for the sample period.

H7 predicts the volume of voluntary employee reporting in the annual reports for companies listed on the JSE's wholesale and retail trade sector will be positively associated with BEE rating of the company. In Annexure 2, BEE is statistical significant at the 0.05 level ($p = 0.0031$) for the sample period and has a positive sign for the sample period. However, in 2007 there were no BEE ratings which were published.

Given the results of the determinants on the voluntary employee disclosures for the Wholesale and Retail companies above, COOW ($p = 0.000$) and BEE ($p = 0.0031$) were significant predictors, whereas SIZE, PROFIT and UNION seems to have no significant influence. The R-square, on Annexure 2 is represented by 0.3655, which indicates a

possibility that I omitted a significant independent variable is minimal and there is a significant relationship between voluntary employee disclosures and two of the independent variables I used.

5.1. Correlations

The Pearson correlation between total voluntary employee disclosures and various independent variables is reported in Annexure 3. The three variables which had a significant correlation with DISCL are COOW, BEE and SIZE (with coefficients $r = -0.490$, $r = 0.424$ and $r = 0.282$, respectively).

Annexure 4 presents a Pearson correlation matrix for the independent variables. The significant correlations indicated are SIZE and LEVER ($r = -0.3662$); COOW and BEE ($r = -0.3005$); SIZE and COOW ($r = -0.2216$) and SIZE and PROFIT ($r = -0.2006$) over the sample period. Thus, SIZE indicates large companies (or Wholesale and Retail companies with large numbers of employees) have low managerial ownership, high levels of leverage and are less profitable. In addition, high managerial ownership (COOW) is in conflict with the high BEE score. A limitation of this study, several independent variables seems to be closely linked in some way or another.

Conclusion

Summarising the preceding discussion, the extent of voluntary employee disclosures showed a fluctuating trend. Given, I draw a regression line between 2005 and 2009 to represent the total voluntary employee disclosures; the line will have a positive slope. Thereby, voluntary employee disclosures overall have increased over the sampled period. Not ignoring, the decrease in voluntary employee disclosures in 2007, possibly it was largely due to the strike by public sector employees. In 2007, there was a national strike by the workers in the public sector which was sparked by the food inflation, increased interest rates and a decline on the workers standard of living (Johnson, 2007). The magnitude of 2007 public servants strike is best demonstrated on the following extract by Johnson (2007), when he wrote:

“One million workers across South Africa went on strike June 1, shutting down public services throughout the country. While their immediate demand was an across-the-board pay increase, the strike also reflected workers’ growing dissatisfaction with the government led by the African National Congress (ANC) and President Thabo Mbeki. The strike is the country’s largest since apartheid rule ended in 1994.

The strike led to what one source called “a total public service shutdown,” with hospitals and schools reportedly particularly hard hit. Courts and government offices were also affected.”

In terms of the location of voluntary employee disclosures; these disclosures are found mainly in the sustainability report, operational review and corporate governance sections of the sampled companies' annual reports. This finding is consistent with Kuasirikun and Sherer (2004) observation that the chairperson's and CEO's reports are not the most important location for social disclosures. However, the most disclosures are presented on the sustainability report. The corporate social or sustainability disclosures have been removed from the corporate annual reports and disclosed separately, by few companies thereby this lead to a moderate increase in voluntary employee disclosures which are disclosed in the corporate annual reports.

Furthermore, substantial disclosures subjects were particular employee disclosures; general issues such as country-wide employment, human resource systems, workplace & other non-employee specific issues; and lastly, training, learning & development. Average disclosures subjects were transformation & BEE; employee benefits; HIV/Aids; attracting, retaining, promoting from within, incentivising & rewarding employees; and lastly, strategy, code, focus or proposition. Minimal disclosures subjects were remuneration, salaries & wages; health & safety; thanks & appreciation; unions, strikes, negotiation, labour relations & staff engagement; and lastly, financial employment costs or analysis.

In testing hypotheses, I wish to highlight the results on Annexure 1: Panel A, that if they are plotted on a graph, they will produce a distribution graph that is skewed to the left on the X-axis. This is because the evidence shows 45.0% of the sampled companies had total voluntary employee disclosures that are less than the annual mean in all the sampled years. Further analysis shows 77.8% of the 45.0% of the sampled companies have a significant directors' shareholding (or managerial ownership) of between 30.0% and 74.9%. This provides limited support for *H3* (also refer to Annexure 2). In addition, BEE is indicated as having a significant association with voluntary employee disclosures over the sample period, this result is given in Annexure 2.

I find the firm size, profitability, growth, union and leverage to be statistical insignificant thereby not influencing the progression of voluntary employee disclosures for the Wholesale and Retail companies listed on the JSE. Then, this situation presents me with a difficult challenge to understand, firstly why these variables did not influence the growth of voluntary employee disclosures? Secondly, I have to find what other external factors influenced the subsequent levels of employee disclosures and these questions are answered in the next chapter. In addition, this chapter is a success because of the previous chapter, which holds all the important tools to arrive into the above mentioned results; that I am carrying forward to the conclusion chapter for further discussion.

Chapter 6 – Conclusion

Introduction

This chapter is a follow up from the previous chapter; I will be summarising last chapter's findings and also give reasons for such. What is very important in this chapter is that I will be concluding on my research objectives that I set in chapter 1. The issues that I have discussed below are the extent and determinants of voluntary employee disclosures. Furthermore I have discussed the stakeholder theory in the light of the reasons that support the trend and the influential determinants identified of voluntary employee reporting. Lastly I present some of limitations of this study and future research.

Body

The annual reports of South African companies listed on the JSE in the W&RT sector for the years from 2005 to 2009, were examined using content analysis and regression equation in order to determine the level, location, subject type, and determinants of voluntary employee related disclosures. In addition, this paper explores the possible underlying reasons for the identified trends and/or determinants of voluntary employee disclosures, in consideration of stakeholder theory, legal or institutional environment, or shareholders' perspective of accounting. I collected and counted the levels of total voluntary employee disclosures from the selected annual reports by hand.

The second objective of this study is to determine the level and extent of voluntary employee related disclosure in the annual reports. I find an increase in the voluntary employee disclosures over the sampled period. However, few companies have transferred the majority of corporate social reporting into stand-alone sustainability or corporate social responsibility reports. Why employee related disclosures increased? First, there is an indirect pressure to Wholesale and Retail companies listed on the JSE, to be accountable and to act responsible to their stakeholders including employees, which arise because of institutional arrangements such as JSE Socially Responsible Investment (SRI) Index, Global Reporting Initiatives (GRI) guidelines and/or corporate governance. Second, as it was mentioned in chapter 2 above, since the early 1990's and post-1994, there has been an increase in labour related legislations which have been introduced and/or amendments to old related Acts. Hence, the legal environment exerts pressure to Wholesale and Retail companies listed on the JSE to illustrate how they have dealt with legal issues such as employees' rights to freedom of association, fair dismissal, occupational health and safety, and so forth.

The third objective of this paper is to determine the factors that have a relationship with voluntary employee disclosures by Wholesale and Retail companies listed on the JSE. I find BEE and managerial ownership to have the significant influence on voluntary employee disclosures. However, my findings suggest there is an external factor which drives employee disclosures beside the independent variables considered in my regression equation. As I illustrated in the previous chapter, the public sector strike of

2007 had an impact on voluntary employee disclosures. With this in mind, I can conclude that country-wide events such as strike, new legislation and others; do significantly influence voluntary employee disclosures. In line with this, first, the Broad-based Black Economic Empowerment legislation became effective in January 2004. Second, Empowerdex compiled the first annual Top 200 JSE listed companies list which was ranking the top Empowerment Companies and this list was published on the Financial Mail, in 2005. Third, the BEE Code of Good Practice was gazetted in February 2007. Therefore, I believe these three events supports *H7*, which proposes that BEE score to have a significant impact on voluntary employee disclosures, and this finding is supported by the fact that the subject of transformation is an average or normally disclosed subject in the corporate annual reports of the sampled companies (also refer to Table 3). Thereby, this finding supports earlier Cahan and Van Staden's (2009) finding that there is a positive association between BEE performance and disclosure of voluntary Value Added Statement (VAS) by South African companies.

In answering, why firm size, profitability, sales growth, union visibility and leverage do not significant influence the progression of voluntary employee disclosures for the Wholesale and Retail companies listed on the JSE. The possible explanations are:

- UNION variable represents few or haphazard number of strikes and/or disputes which sampled companies had with their employees. Therefore, UNION variable has insufficient observed instances to impact on voluntary employee disclosures.
- LEVERAGE on the sampled companies is low, which means the sampled companies have a good net asset value and there is no pressure from the debt providers. Thereby, the sampled companies were not obliged or pressured to prove their sustainability. Consistent with agency costs motivate (or constrain) identified by Graham et al. (2005) which suggest a lack of information disclosure limits the ability of capital and labour markets to monitor and discipline managers effectively. Also, in answering why the finding for *H2* is contrary to my earlier prediction. The sampled companies do not have a debt risk, therefore their management have the choice not to disclosure more voluntary social disclosures than they wish to. I will assume they used their discretionary ability to focus on other organisational activities which need more attention besides voluntary disclosures (Brammer & Pavellin, 2006; and Deegan, 2007), because high levels of leverage did not have a negative relationship with voluntary employee disclosures as I predicted.
- SIZE indicates voluntary employee disclosure movements by the Wholesale and Retail companies listed on the JSE are not significantly influenced by the number of employees the sampled companies employs. The reason why it might be, because the targeted stakeholders by these companies when issuing annual reports are not primarily employees and/or employees do not use the annual report. This leads me to believe, the information which gets disclosed voluntarily on the annual reports is dependent on management discretion, and employees are not powerful stakeholders.
- SALES GROWTH is due to an increase in demand and sales (or services rendered). Thereon to grow sales, one needs to have excess stock or increase

production. Given there is an increase in sales and it is due to employees' efforts, I would expect more recognition to the employees (or a decrease in sales and it is due to reckless actions of employees, I would expect punishment on or no recognition for the employees). My finding is that voluntary employee disclosures are not a function of sales growth or decrease for South African companies, listed on the JSE in the W&RT sector, and this finding is supported by the fact that the subject of thanks and/or appreciations are a minimal disclosed subject in the corporate annual reports of the sampled companies (also refer to Table 3). Consistent with information asymmetry motivate (or constrain) identified by Graham et al. (2005) which suggest when managers have more information than the outsiders do, reduce the information risk by investors by means of increased or reduced voluntary disclosure. Also, in answering why the finding for *H5* is contrary to my earlier prediction. In 2008, we saw the world waking-up to global financial melt-down or crisis (<http://www.globalissues.org/article/768/global-financial-crisis#Thefinancialcrisisandthedevelopingworld>; date accessed 01/05/2011), and South African economy also felt the impact of financial crisis. If I analyse the industries that makes up W&RT sector, we find motor vehicle, furniture, and clothing and food industries. These sub-industries of W&RT sector responded differently to the economic recession, for example: food industry and private education companies were not affected; whilst motor-vehicle and luxury/lifestyle goods stores suffered severely losses. Below, I quoted two senior executives of two companies listed on the JSE in the W&RT sector, who stated:

- *Total turnover increased by 24,5% to R59,319 billion. The combined sales of the three supermarket brands - Shoprite, Checkers and Usave and including the non-RSA operations - increased by 24,8% to R53,866 billion, up from R43,147 billion in 2008. The period under review was marked by the effects of the global credit crisis and a general slowdown in the economy. The Group, however, managed to overcome all these negative factors with the strong foundation laid in the past. Shoprite, 2009 Annual report – M Bosman. General manager: Group finance.*
- *The year under review was arguably the most difficult trading period for the retail motor industry in the past 50 years. The month-on-month decline in new vehicle sales continue to the extent that the industry has experienced 24 consecutive months of negative growth. Over a two-year period the cumulative effect during the number of months was a 40% fall in sales levels. CMH, 2009 Annual report – JD McIntosh. CFO.*

The above extracts support the evidence that indicate the negative relationship between voluntary employee reporting and sales growth, even though the food companies' sales grew by more than 15% whilst retail sales rose with a range between 3.4% - 4.9% in 2009 (Pickelsimer & Ntloedibe, 2011). The retail industry sales are weighted down by the motor industry, furniture (mostly the ones' which are making credit sales), clothing and luxury/lifestyle goods stores. Hence the

economic downturn led to the negative sales growth for the sampled companies over sample period.

- On PROFIT variable, I was expecting profitable companies to be more socially responsible and disclose more social disclosures. Because companies with higher profits are subject to significant pressure from various stakeholders (Roberts, 1992). The reasons why wholesale and retail companies' profitability might not have significantly influenced voluntary employee disclosures are that (1) employees are not well-informed or lack knowledge about the purpose or meaning of the annual reports hence they do not use (or read) annual reports, (2) employees are not the primary stakeholder the annual reports are issued for, (3) employees do not demand much from the sampled companies' management because they are well remunerated and/or (4) the existence of unions which negotiate wages or salaries on behalf of the employees. My finding is that employees by themselves without the assistance of the trade unions have no claims on profits of companies they work for; hence management has other avenues or channels where they discuss how profits are spent. Consistent with agency costs motivate (or constrain) identified by Graham et al. (2005) which suggest a lack of information disclosure limits the ability of capital and labour markets to monitor and discipline managers effectively.

The above discussion suggests, more importantly on sales growth and leverage, the relationship between voluntary employee reporting and the proposed determinants, does not work like two opposite sides of a coin whereby the voluntary employee disclosures increase and the other independent variable decreases (or vice-versa); or the voluntary employee disclosures increase and also the other independent variable increases (or vice-versa). Lastly, it is highly possible that in actual fact the determinants of voluntary employee disclosures are not and will not stay fixed from time to time; in addition to various external factors which companies cannot control.

The results of this study are consistent with both wings of stakeholder theory. Companies with great directors' shareholding disclose less voluntary employee disclosure, this illustrates that these companies respond to powerful stakeholders in this case, the directors. On the other hand, South African employees' rights stem from the "bill of rights" and the impact of labour related laws into social accounting disclosures which is unplanned by the regulators.

This study has limitations and the findings hereby should be considered carefully or any interpretations must take into account the narrow category of social disclosure I examined. In real life, people and companies do not make decisions in isolation. The study was performed in a South African environment which might present a challenge to generalise its results in a different country or industry or environment. Other limitations can be found, given in detail on chapter 1.

Future research should address the question of what were the factors which had a significant association with voluntary employee disclosures on the period before 2005.

This study could also be replicated on the entire social disclosures and/or using a different theory or model. Other research could investigate what are the views or expectation of management when they disclosure voluntary disclosure.

Conclusion

This paper revealed that there is an association between these independent variables, which are BEE, country-wide strike, directors' shareholding and varying levels of voluntary employee disclosures by the Wholesale and Retail companies listed on the JSE. Most importantly, management discretion, professional judgement and/or beliefs play a huge role in deciding which or which not, and how much information is to be voluntary disclosed in corporate annual report (Deegan, 2007).

In chapter 1, I mentioned possible benefits for companies in disclosing employee information and the influence such disclosures may have on shareholders or investors. Therefore, the information reported by the Wholesale and Retail companies, which has to do with treating their employees fairly as all other stakeholders or providing information about employees (or to employees) might be a strategic move by management of the sampled companies to create a caring image on shareholders' or investors' minds. Arguably, if companies are serious about employee reporting benefits, such benefits can only be attained, if employee, employment and/or workplace issues disclosed are addressed honestly, clearly, accurately and with certainty.

Lastly, the findings of this paper are relevant to regulators, shareholders, management and other researchers to reflect on pros and cons of an overregulated environment like the one we are having in South Africa, and in conclusion regulation of social and environmental disclosures might not be necessary.

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Annexure 1 – Part A

The SAS System

The CORR Procedure

6 With Variables:	size growth profit bee coow lever
1 Variables:	discl

Simple Statistics

Variable	N	Mean	Std Dev	Sum	Minimum	Maximum
Size	100	12269	18366	1226885	2.00000	83866
growth	100	1.24710	11.45990	124.71014	-0.94816	114.68220
profit	100	107053	168266	10705260	-116060	825503
Bee	100	0.13997	0.18415	13.99720	0	0.68370
coow	100	0.23189	0.25304	23.18880	0	0.74910
lever	100	2.37921	1.28165	237.92141	1.12435	5.47979
discl	100	2481	2131	248100	0	10416

Annexure 1 – Part B

The SAS System

The FREQ Procedure

union	Frequency	Percent	Cumulative Frequency	Cumulative Percent
0	87	87.00	87	87.00
1	13	13.00	100	100.00

Annexure 2

The SAS System

The REG Procedure

Model: MODEL1

Dependent Variable: discl

Number of Observations Read	100
Number of Observations Used	100

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	7	164281288	23468755	7.57	<.0001
Error	92	285246364	3100504		
Corrected Total	99	449527652			

Root MSE	1760.82480	R-Square	0.3655
Dependent Mean	2481.00000	Adj R-Sq	0.3172
Coeff Var	70.97238		

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	2182.95398	547.16085	3.99	0.0001
union	1	526.30750	571.58267	0.92	0.3596
size	1	0.02015	0.01118	1.80	0.0748
growth	1	-7.64461	15.57753	-0.49	0.6248

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
bee	1	3229.00132	1063.07183	3.04	0.0031
profit	1	0.00036474	0.00110	0.33	0.7402
coow	1	-3034.35191	759.18759	-4.00	0.0001
lever	1	85.99295	151.36823	0.57	0.5713

Annexure 3

The SAS System

The CORR Procedure

6 With Variables:	size growth profit bee coow lever
1 Variables:	discl

Pearson Correlation Coefficients, N = 100 Prob > r under H0: Rho=0	
	discl
size	0.28265 0.0044
growth	-0.10283 0.3086
profit	-0.01307 0.8973
bee	0.42444 <.0001
coow	-0.49024 <.0001
lever	-0.06978 0.4903

Annexure 4

The SAS System

The CORR Procedure

6 Variables: size growth profit bee coow lever

Simple Statistics						
Variable	N	Mean	Std Dev	Sum	Minimum	Maximum
size	100	12269	18366	1226885	2.00000	83866
growth	100	1.24710	11.45990	124.71014	-0.94816	114.68220
profit	100	107053	168266	10705260	-116060	825503
bee	100	0.13997	0.18415	13.99720	0	0.68370
coow	100	0.23189	0.25304	23.18880	0	0.74910
lever	100	2.37921	1.28165	237.92141	1.12435	5.47979

Pearson Correlation Coefficients, N = 100 Prob > r under H0: Rho=0						
	size	growth	profit	bee	coow	lever
size	1.00000	-0.06225	-0.20062	0.09542	-0.22160	-0.36620
		0.5384	0.0454	0.3450	0.0267	0.0002
growth	-0.06225	1.00000	0.00433	-0.01996	0.12108	0.02721
	0.5384		0.9659	0.8438	0.2301	0.7881
profit	-0.20062	0.00433	1.00000	0.08636	0.10791	0.18702
	0.0454	0.9659		0.3929	0.2852	0.0624

Pearson Correlation Coefficients, N = 100 Prob > r under H0: Rho=0						
	size	growth	profit	bee	coow	lever
bee	0.09542	-0.01996	0.08636	1.00000	-0.30053	-0.11760
	0.3450	0.8438	0.3929		0.0024	0.2439
coow	-0.22160	0.12108	0.10791	-0.30053	1.00000	0.07141
	0.0267	0.2301	0.2852	0.0024		0.4802
lever	-0.36620	0.02721	0.18702	-0.11760	0.07141	1.00000
	0.0002	0.7881	0.0624	0.2439	0.4802	

Annexure 5

List of companies: (which were studied)

Advtech
African & Overseas Enterprises***
Cashbuild*
Combined Motor Holdings***
Italtile***
JD Group
Lewis Group***
Massmart
Mr Price Group*
New Clicks Holdings*
Nictus***
Pick n Pay Stores**
Rex Trueform Clothing Company***
Shoprite Holdings*
The Foschini Group
The Spar Group***
Tradehold***
Truworths International
Verimark Holdings***
Woolworths Holdings**

*** Total voluntary employee disclosures, are below the mean value for all the sample period.

** For three years: 2007, 2008 & 2009; total voluntary employee disclosures, are below the population mean value.

* For one year; total voluntary employee disclosures, are below the population mean value.

Annexure 6

	<u>Classification of Subject types: Voluntary employee disclosures</u>
1.	Remuneration, salaries & wages
2.	Training, learning & development
3.	Transformation, BEE, employment equity
4.	HIV/AIDS
5.	Health & safety
6.	Thanks & appreciations
7.	Employees, teams, staff, work profile or classification
8.	Unions & strikes, negotiation, staff engagement
9.	Employee benefits (i.e. retirement & medical benefits)
10.	Strategy, code, focus & future plans
11.	Retention, incentive, career opportunities/path & rewards
12.	Other (i.e. industry, country wide, HR systems, workplace & un/employment)
13.	Financial – analysis