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Motivations behind human capital disclosure in annual reports

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Keywords

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1. Introduction

Traditional accounting can be described as an institutional process regulated by the accounting profession, constructed for the purpose of reporting on and communicating the impact of economic activity. It is largely designed as a reporting mechanism for profit-oriented firms (Boczko, 2000). This regulated process secures economic capital accumulation (hereafter called capital accumulation) through institutional rules, laws and agreements, and norms. The capital accumulation regime is supported by the formulation and implementation of laws, government policies, political practice, rules of negotiation and bargaining, the culture of consumption and social expectations (Amin, 1994, p. 8). Tinker (1985, p. 84) explains that accounting measures and appraises capital accumulation as an exchange between the firm and parties involved in the exchange process. Accounting has become part of that exchange process by helping firms to make decisions relating to economic exchanges favouring capital accumulation.

The combination of factors possessed by individuals and the collective workforce of a firm is referred to as *human capital*, to differentiate it from economic capital. Human capital encompasses knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability and commitment; ability to learn, including aptitude, imagination and creativity; desire to share information, participate in a team and focus on the goals of the firm (Fitz-enz, 2000). Several authorities consider that human capital is important because its extraction creates capital accumulation of firms (Edvinsson & Sullivan, 1996; Graham & Pizzo, 1998, p. 25; O'Donnell et al., 2006).

This study examines the human capital disclosure practices of the top 30 listed firms in Sri Lanka over two consecutive years. The aim of the study is to gain insight into the motivations behind human capital disclosure in annual reports. Three major factors motivated the present research examining the human capital disclosure of firms and their motivations in a developing country, and selecting Sri Lanka as an empirical site. *Motivation* in this paper means the arousal, direction and persistent behaviour of a firm in annual report disclosure (Samson & Daft, 2005, p. 623). First, devising human capital measures for disclosure has so far resulted in little progress in recognising them in financial statements (Roslender, 1997; Fitz-enz 2000, pp. 116-117). Although human capital disclosure is theoretically interesting, there is little empirical evidence to suggest the usefulness of the associated financial models (Flamholtz, 1976; Grojer & Johanson, 1996, p. 24). Second, there is a dearth of research into the motivations behind voluntarily disclosed human capital information of firms in developing nations. The need for a study of firms in developing countries has become increasingly evident because of increasing competition with firms in developed countries due to rapid globalisation, lower transaction costs and more freely available capital. Daley (2001, p. 5) notes that the competitive advantage of firms lies increasingly in intangibles (such as human capital) which are immutable. These immutable intangibles are used to differentiate the products and services of firms. Third, the recent emphasis of the Sri Lankan government on encouraging a knowledge economy (as highlighted in the amendments to the *Intellectual Property Act* and the liberalisation of the foreign ownership of firms) has heightened the importance of utilising human capital for economic growth (BOI, 2000; McSheehy, 2001, p. 57). An amendment to the *Intellectual Property Act* prohibits the application or fixing of a registered trademark in such a way that it is likely to mislead the public. The amendments also deal with areas of copyright and related rights, and geographical indications, which were not sufficiently protected its precursor.

The second section presents a brief review of the capital accumulation of firms in the context of human capital. Section three describes the theoretical perspective of the political economy of accounting and introduces the three constituents influencing or influenced by firms: political, economic, and social. Section four describes the research methods employed. This study coded and analysed human capital disclosures in the sample of annual reports of two consecutive years (2001 and 2002) by frequency of disclosure using content analysis, and subsequently carried out case study interviews to examine the motivations behind such disclosure. The empirical evidence from the content analysis and case study based interviews are presented in section five, while the last section provides the summary and conclusion.

2. Literature review

Capital is more than a mere collection of transferable resources. Capital is an institutional system through which technology and organisational structures are progressively developed, organisational processes are differentiated and legitimated for capital accumulation (Clegg & Dunkerley, 1980, p. 5).

The chaotic search for profits, new products and markets, new technologies, new spaces and locations, and new processes of firms has changed the nature of capital accumulation in the economic environment. Since capital is to a large extent mobile, it is imprudent to analyse capital as if it were immobile and attached to particular activities and firms (Holloway, 1994). The transience of economic capital makes it imperative for a firm to convince economic capital providers to remain with the firm.

Capitalist accumulation strategies have three consequences. First, they can free increasing quantities of human capital and re-allocate them in accordance with the demands of the market (Tinker, 1999, p. 656). Second, they can add to social costs but the firms involved need not be held accountable, because of firm's relations with the government. Such costs are often underestimated by developing countries (such as Sri Lanka) due to their hunger to achieve the material luxuries enjoyed by developed nations (Isaak, 1991, p. 138). Third, the pursuit of individualistic self-interest for capital accumulation aimed at increasing individuals' share of economic wealth may encourage firms to rationalise their approaches towards human capital treatment in interactions with the government and with other social actors (Isaak, 1991, p. 138; Picciotto, 1992, pp. 80-81). This approach of capital accumulation can give rise to unfair competition through imperfect markets, thereby encouraging firms to maximise their capital accumulation through practices such as economies of scale and subordination of human capital practices to technology (Isaak, 1991, p. 166; Murray, 1981, p. 147).

Firms must convince capital providers that they are capable of using their assets (such as human capital) at the highest levels of efficiency for capital accumulation. This is done through news releases, which include accounting reports such as company annual reports. The disclosure of human capital is distinctive in two ways. First, human capital disclosure is presently unregulated, allowing firms to choose what, when and where to disclose. Second, human capital disclosure is proactive and voluntary, since there are no legislative or accounting requirements that need to be met. This means that through human capital disclosure firms can set agendas to facilitate their capital accumulation (Tinker, 1985, pp. 14-15).

3. Theoretical perspective

Capital accumulation is achieved through the system of producing and exchanging goods and services. From the viewpoint of political economy, this productive exchange system is about interplay of power and the goals of power wielders. As a framework, political economy extends analysis from market exchanges to the relationships between power wielders (Jackson, 1982, p. 74). Political economy analysis of firms has the following four characteristics: first, it destroys the observed illusionary reality of social processes and structures; second, it elucidates the various ways that social processes are executed to dominate, define, mediate, and legitimate social activities; Third, it examines the arrangement of institutions to explore the notions of power, class and conflict between social constituents (those who constitute society) and the myths underlying such arrangements; fourth, it goes beyond economic efficiency and inquires about moral questions of justice, equity and public interest (Boczko, 2000, pp. 131-153).

The focus of political economy analysis is upon the way firms allocate resources and make decisions from a broader perspective. In this broader perspective, the political economy view of the constitution of a firm has three dimensions: first, a firm is an entity located in the society that is goal-directed and deliberately structured (Samson & Daft, 2003, p. 14); second, it is a set of agreements and understandings which define the limits and goals; and third, the firms creates rights and responsibilities for those who participate (constituents) in relation to the firm. These constituents are economic (capital providers), social (community including workers representing human capital of firms), and political (government) (Jackson, 1982, p. 74).

Political economy in accounting occurs where accounting becomes a way for firms to sustain and legitimise their activities to social, economic, and political constituents (Cooper, 1980, p. 164). Within this construct, disclosure in accounting reports such as annual reports is viewed as a means to create, sustain, and legitimise activities in the private interests of the firm (Guthrie & Parker, 1990) and is suggested as a more suitable and germane way of analysing human capital (Abeysekera, 2006) . Further, the political economy of accounting view is that activities of firms for capital accumulation can create tension between firms and their constituents (Buhr, 1998) and these firms proactively provide disclosure within their accounting reports from their perspective to set and shape their agenda to mediate, suppress, mystify or transform such tension (Guthrie & Parker, 1990). This tension may be analysed by market forces (capital or economic); bureaucratic controls (state or political); and spontaneous solidarity (community or social). The tensions and how firms' perspective to set and shape their agenda to reduce this tension can be better understood by comparing and contrasting them to the sources of motivation that lead to the disclosure of information (Puxty et al., 1987).

4. Research methods

To analyse the sources of motivation that lead to the voluntary disclosure of human capital this study used content analysis to ascertain the human capital disclosure in annual reports in 2001 and 2002, and semi-structured interviews to understand the motivations behind such disclosure.

I. Analysis of content in annual reports

Sample size

The top 30 firms by market capitalisation were chosen for two reasons. First, previous research in voluntary disclosure such as corporate social disclosure (Andrew et al., 1989; Gray et al., 1995, p. 62), environmental disclosure (Kirkman & Hope, 1992) and financial reporting (Mitchell et al., 1995; Smith & Taffler, 2000) reveals that larger firms are more forthcoming in making voluntary disclosure. The trends found in voluntary disclosure are applicable to this study since this study examined voluntarily disclosed human capital in annual reports not mandated by accounting standards or company law (Abyesekera & Guthrie, 2004). Second, larger firms are more likely to voluntarily disclose human capital because of their visibility and the resources at their disposal to sponsor new initiatives (Abyesekera & Guthrie, 2004).

Since differences in human capital disclosure can arise due to variations in size of the firm, this study minimised that effect by selecting firms by market capitalisation (Abyesekera & Guthrie, 2004). It is acknowledged here that market capitalisation is not the only possible proxy for size; others include employee numbers and total assets.

Further, the listing status of the particular stock exchange can be a factor influencing firms in voluntarily disclosing human capital (Cooke, 1989). The sample firms selected were the top 30 companies listed in the Colombo Stock Exchange having the same listing status as fully tradeable shares. Further, the sample represents about 60% of the market capitalisation of the Colombo Stock Exchange (in Sri Lanka), representing a substantial portion of the firms listed in the Colombo Stock Exchange (CSE, 1998, p. 33).

Source documents

Annual reports were chosen as the source documents because they are regularly produced and present a historical account of the concerns of a firm. They outline management's thoughts in a comprehensive and compact manner (Niemark, 1995, pp. 100-101). However, annual reports may not reflect the objective reality of the firm, since firms may use the annual report as a promotional document rather than merely to comply with accounting standards and corporate law. On the other hand, annual reports provide a special communication opportunity for firms to go beyond reporting simply financials (Cameron & Guthrie, 1993) and to show leadership and vision in reflecting the values and the position of the firm (Niemark, 1995, pp. 100-101; Clackworthy, 2000).

Content analysis

Content analysis of this study examined human capital disclosure in annual reports. Content analysis is a technique for gathering data, in which qualitative information is codified into pre-defined items to derive quantitative scales (Abbott & Monsen, 1979, p. 504). It is designed to present information systematically, objectively and reliably for analysis (Holsti, 1969, p. 3; Krippendorf, 1980, p. 21). Content analysis of annual reports is a well established technique in examining voluntary disclosure, and has been used in social, environmental and accounting studies (Abbott & Monsen, 1979;

Abeysekera & Guthrie, 2005; Newson & Deegan, 2002) and human capital studies (Subbarao & Zeghal, 1997; Olsson, 2001).

The content in annual reports of year ending 2001 and 2002 was analysed by coding pre-defined human capital items and recording the frequency of occurrence in the coding sheet for each year. The frequency was the number of times a human capital item was described in an annual report. Based on two year data the average frequency of occurrence of human capital items was computed to determine the level of frequency.

The study used two methods to increase objectivity in recording and analysing data. First, the human capital items used in the coding framework were pre-defined. Second, the annual reports were re-examined some time after the coding to confirm the consistency of the coding frequency. Two persons independently coded the data, each person reviewing his own coding after a period of time interval to ensure high intra-coder reliability. Thereafter these two persons cross-checked their coding and agreed upon the coded items to attain high inter-coder reliability. The coding framework was updated with the agreed coding data.

Case study based interviews

Case study based interviews examined the motivations behind human capital disclosure items in the coding framework used for content analysis by interviewing the key human resource executives of firms (i.e. directors and senior managers). Comments made by the human resource executives about human capital disclosure items in the annual reports were analysed to understand how human capital disclosure was intended to reduce tension between the firms and their constituents: political constituents (i.e. government and statutory bodies), social constituents (i.e. community), and capital constituents (i.e. capital providers).

It is acknowledged that an exclusive focus on annual reports is unlikely to result in a complete picture of firms' human capital disclosure practices (Unerman, 2000). Case study based interview, on the other hand, enable to examine the phenomena underlying such disclosure to be investigated (Yin, 1994, p. 13). Further, the combination of content analysis and case study based interview techniques can increase the validity of inferences (Carney, 1972, p. 199; Sepstrup, 1981, p. 139).

The case study based interviews were conducted in two stages. The first stage was a pilot interview with a human resource executive from a listed firm not in the sample, using a semi-structured interview questionnaire framework. The results obtained helped to formulate and re-frame questions for the second stage case study based interviews. The second stage involved conducting 11 case study based interviews using the semi-structured interview format. The questions in the interview format related to human capital disclosure items included in the coding framework that was used to record data from the content analysis. Eleven companies were selected representing industry sectors in the sample, using a stratified sampling technique, since disclosures could vary due to differences in industry characteristics (Cooke, 1992; Dye, 1985; Lev & Zarowin, 1999). The companies are identified here as Bank Ltd, Beverage, Diversified Ltd, Engineering Ltd, Finance Ltd, Food Ltd, Hotel Ltd, Land & Property Ltd, Manufacturing Ltd, Toba Ltd, and Trading Ltd, to maintain anonymity as stated in the ethics agreement.

This study adopted following five steps to increase the validity and reliability of the case study based interview method: managing the interpersonal behaviour of the researcher; carefully selecting respondents holding senior positions; using an interview format that enabled the researcher to take active control of the interview; using a semi-structured questionnaire; and the researcher taking notes during the interview process.

Interviewees were company directors, and in the absence of a director, the senior manager who was responsible for human resource function. When information obtained from the first person interviewed was not sufficient, another person of similar ranking in the same functional area was interviewed. The interview time allocated was 60 minutes.

Data analysis

Since items in the coding framework were descriptive, this study clustered the 25 human capital items into seven human capital classes which are frequently discussed in the human capital literature, to bring analytical rigour to the data interpretation. Human capital items were clustered based on how well they represented each human capital class (or label). These human capital classes were: (i) training and development; (ii) entrepreneurial skills; (iii) equity issues; (iv) employee safety; (v) employee relations; (vi) employee welfare; and (vii) employee-related measurements. The training and development class comprised know-how, vocational qualifications, career development, and training programs. The equity issues class comprised equity issues relating to race, gender, religion, and disability issues. The employee relations class comprised union activity, employee thanked, employee featured, and employee involvement with the community. The employee welfare class comprised employee and executive compensation plans, employee benefits, and employee share and option ownership plans. The employee related measurements class comprised value-added statements, employee numbers, professional experience, education levels, expert seniority, and age of employees. Although human capital items were clustered, the discussion of results draws on 25 human capital items.

5. Results and Discussion

Appendix 1 summarises the frequency count of human capital items and classes, as derived from the content analysis. Table 1 outlines the data by human capital class disclosure in annual reports. A wider array of human capital practices for each human capital class by sample firms is displayed in Appendix 2. This sample of firms disclosed the following human capital classes (in descending order of frequency): employee relations, employee measurement, training and development, entrepreneurial skills, employee welfare, equity issues, and workplace safety. Each human capital class is discussed below.

<<Insert Table 1 about here>>

Table 1

Human capital disclosure analysed by agenda setting

Annual reports	Human capital class	Cause for tension	Concerned constituent	Agenda
A. Most disclosed	**Employee relations**	Semi-skilled and unskilled employees gradually replaced by technological systems.	Social	Divert attention away from early employee termination.
B. Second most disclosed	**Employee measurement**	Early termination of semi-skilled and unskilled employees.	Social Political	Construct a perception through value-added statements that firms carry out business for the common good of participants, and managers and workers are not same stakeholders. Win government favour in that firms help create jobs and keep unemployment rate down.
C. Third most disclosed	**Training and development**	Training is provided for employees in operating maintaining products and processes, and human relations rather than innovative skills.	Political	Avoid too much disclosure of the nature of training and avoid giving the impression that the educated workforce is under-utilised.
D. Fourth most disclosed	**Employee welfare**	Government supports social development. Approval of society based on societal culture.	Political Social	Win government favour by portraying firms as responsible corporate citizens. Win community support.
E. Fifth most disclosed	**Entrepreneurial skills**	Entrepreneurial skills encouraged are limited to improving and modify products and services.	Political	Avoid too much disclosure of entrepreneurial skills to hide the nature of skills developed.
F. Sixth most disclosed	**Equity issues**	Fear of recruiting terrorists having an association with a certain ethnic group. Low job opportunities for disabled people. Concerns about employing women due to restricted work hours and nature of business activity.	All Political Economic All	Report less because disclosure does not help to win favour of any constituent. Avoid initiating a non-priority agenda where government must incur additional funds on an already burdened budget. Maximise capital accumulation through an able workforce. Avoid initiating an agenda not in favour of constituents. Subscribe to cultural notion where men are considered breadwinners and are relatively more literate. Win favour of government because it can enforce further legislation.
G. Least disclosed	**Workplace safety**	On-going civil war reduces public safety.	Political Social	Avoid highlighting an issue that can cause embarrassment to government. Subscribe to society's view which has accepted the risk to life as a reality. Increased reporting about safety does not help to win support of constituents.

A. Employee relations

This sample of firms disclosed most about their employee relations by featuring employees, thanking employees for their contribution, and reporting about the good relations with their workers' unions. Featuring employee contributions to enhanced employee relations was the most disclosed human capital item in the annual reports. Several respondents (Diversified Limited, Manufacturing Limited and Toba Limited) reported that their firms awarded medals for outstanding employee contributions, publicised employee contribution in in-house newsletters, and funded employee vacations (by paying for transport and hotel accommodation) as a way of showing that they appreciated outstanding employee contribution.

In the case study based interview, three underlying motivations emerged for a firm to disclose employee contribution. First, respondents unanimously indicated that their firms were restructuring their activities, and one such measure was reducing staff numbers to increase profitability. Respondents noted that reducing employee numbers involved negotiating with the employee unions, which often opposed it. Firms were conscious that a tension had arisen due to job insecurity and that they needed strategies to motivate employees, in order to increase their capital accumulation. As a strategy firms proactively disclosed in their annual reports the good relations they maintained with their employees. Second, the government looked to these top listed firms to steer the knowledge-based economy in the deregulated economic environment. Therefore, firms needed to appear to subscribe to this agenda set by their political constituent. Respondents said that they contributed to the knowledge economy by encouraging their employees to transfer and share their tacit knowledge with each other. However, the respondents admitted that the beneficiaries of tacit knowledge transfer were the firms themselves, as it reduced the loss of knowledge when employees terminated or were terminated from employment. Third, respondents said that capital providers such as investors perceived that good relations between a firm's management and workers' unions enabled the firm to increase capital accumulation. For instance, respondents at Toba Limited revealed that firms having a cordial relationship with their workers' unions continually created a culture of trust. Hence, solidifying these relations with the unions and disclosing them in the annual reports enabled firms to convince capital providers that capital accumulation was unhindered, despite the environment of employee lay-off undertaken by these firms.

The respondents acknowledged that early termination of employees can lead to tension between firms and the community seeking greater public accountability for their actions. It is in an attempt to ameliorate this tension that top 30 firms disclosed most about strong employee relations in their annual reports. Disclosure about positive employee relations, with little or no disclosure about continuous reduction in employee numbers, helped divert public attention away from the social costs of early employee termination designed to maximise capital accumulation.

B. Employee measurement

Employee measurement was the second most frequently reported human capital class. The value added (revenue or profit generated by the firm) by employees was shown in monetary terms in the firms' voluntarily disclosed value added statements. The value added statements analyse revenue and profit earned by companies, in relation to costs incurred (such as remuneration of employees, cost of raw materials) in a reporting period. That and the number of staff employed were two the most frequently disclosed human capital items under employee measurement. As summarised in Table 1, the firms in the sample attempted to mediate their intended agenda in two ways: through value-added statements and disclosure of employee numbers.

Respondents (for instance, with Engineering Limited and Hotel Limited) confirmed that the primary objective of the firm was to increase capital accumulation. To do so firms need the support of employees, community and the government. Value added statements had an economic focus of convincing the capital providers of capital accumulation. Such statements were a useful reporting strategy to mediate the intended agenda of the firm for two reasons. First, firms in Sri Lanka have successfully avoided being mandated by their regulators to disclose human capital, allowing them to use voluntary disclosure such as value added statements. The value added statement is known to be inconsistent, being open to manipulation (Van Staden, 2002). The case study based interview revealed that the firms were gradually replacing the semi-skilled and unskilled labour force with technology. The value added statements in the annual reports enabled these firms to create an impression to constituents that they were not solely driven by capital accumulation but also by the common good of employees. Through value added statements these firms also constructed a view that management and semi-skilled and unskilled workers functioned as a single stakeholder, while it was clear from the interviews that the firms considered them as separate stakeholders. Second, the level of employment offered by these firms was useful to maintain good relations with the government. The government had made a substantial investment in educating its workforce, and was looking for a rate of return on that investment. Further, a high unemployment level was a cause of concern for the government (Central Bank of Sri Lanka Annual Report, 2000, p. 127; McSheehy, 2001, p. 57). However, the decreasing level of employment (due to replacing human capital with technology) was a cause of tension between firms and the government, as it increased the social and political pressures associated with unemployment. The firms in the sample appeared in their annual reports to mediate the tension by drawing attention to the current level of employment rather than reporting on increases or decreases in employment, with the aim of avoiding the introduction of further legislation which could reduce their accumulation of capital.

The reason given for the low level of disclosure regarding executive compensation plans for employees was that the share prices were not increasing due to the civil war prevailing in the country during that period. Therefore, respondents considered that share option schemes and share discount schemes would have little effect in motivating employees and thereby increasing the firms' capital accumulation.

C. Training and development

The third most disclosed class in annual reports was training and development. Respondents (for example, in Diversified Limited, Property Limited and Toba Limited) revealed that their firms mostly trained their employees in operational and human relations skills rather than in innovative or entrepreneurial skills. The firms also trained their employees in 'soft qualities' relating to conduct, attitudes, willingness to learn, and relationship building. Firms matched training programs to develop operational skills required by their employees. The respondents from Trading Limited reported that they bought technological products from overseas which needed local assembling for sale, and hence the skills required from employees were for assembling and operating the technology rather than designing or inventing a product. Beverage Limited reported that they collaborated with international firms to set up and operate technology for which they paid a royalty to use.

The training and development of employees in firms has implications for the government. The government is conscious of the drain in country's foreign exchange to buy technologies and brands developed elsewhere, and are concerned about the under-utlised locally available educated workforce (Central Bank of Sri Lanka Socio-Economic Data, 2001, pp. 1, 63; Human Development Report, 2000, pp. 157-160; McSheehy, 2001, p. 57; UNDP Sri Lanka, 1998). This tension between firms and the government is addressed by firms highlighting the importance of training in job-specific skills in their disclosure. Respondents (from Finance Limited and Diversified Ltd) said that job-specific training was provided to employees at no cost to them, but firms offered loans for employees to undertake career development. Respondents considered that job-specific training had a greater and more immediate impact on a firm's capital accumulation. This trend is consistent with the previous literature which indicates that firms tend to neglect their social responsibilities in the pursuit of maximising capital accumulation (Armstrong, 1987; Boczko, 2000, p. 135-138; Tinker, 1985, p. 56).

D. Employee welfare

Respondents (for example from Engineering Limited and Toba Limited) reported that their firms offered funded meals during work hours through their in-house catering facilities to increase employee attendance and motivation to increase capital accumulation. On the other hand firms encouraged employees to take initiatives in welfare activities that had less impact on capital accumulation. For instance, firms considered that it was employees' responsibility to form and operate sports clubs. These corporate activities were disclosed in annual reports to indicate that firms were responsible corporate citizens, with the ultimate aim of winning government and the community support.

E. Entrepreneurial skills

The fifth most frequently mentioned class in annual reports was entrepreneurial skills of employees. Respondents indicated that entrepreneurial skills were encouraged but they were limited to improving and modifying products, services, and processes. They noted that firms in Sri Lanka did not demand as high a level of entrepreneurship from their employees as firms in developed countries to maximise capital accumulation. Both Food Limited and Toba Limited respondents reported that were member firms of a worldwide group receiving virtually all their branded products from their multinational counterparts, and that most of the associated research and development was carried out elsewhere, in a developed country within their worldwide group. They stated that sharing brands among the global group enabled them to spread their research and development costs to increase capital accumulation for the global group of firms. Toba Limited and Beverage Limited respondents remarked that it was too expensive for firms in Sri Lanka to build internationally acclaimed brands on their own since to do so would require heavy financial commitment. Therefore the firms in Sri Lanka did not have a need for employees with innovative entrepreneurial skills to maximise their capital accumulation. However, this approach by firms is contrary to the expectations of the government. The government recently introduced new legislation to encourage entrepreneurship by strengthening intellectual property rights (*Code of Intellectual Property Act No. 40 2000*), with the aim of encouraging employees and firms to generate new ideas and driving the economy towards a knowledge basis. Some respondents highlighted the number of trademarks their firms had registered and disclosed in their annual reports, supporting the drive towards a knowledge economy. Although trademarks are part of intellectual property, there was little rigour evidenced in utilising the innovativeness of employees compared with developing patents. Such disclosure appeared merely to satisfy the information needs of the political constituent.

F. Equity issues

All firms disclosed little about equity issues. The interviews revealed that many firms (Bank Limited, Finance Limited, Trading Limited, and Engineering Limited) had a policy to recruit employees based on merit. However, firms acknowledged their fears of erroneously recruiting terrorists (from a particular ethnic group) into their firms. It should be noted that these interviews were carried out during the civil war period in Sri Lanka. This anomalous employment strategy was acceptable to the majority of political and social constituents, because of the growing concern about terrorist attacks, loss of innocent human life and the negative impact of terrorism on the economy. Therefore, disclosure about employment opportunities provided to particular ethnic groups would offer little opportunity for firms to gain support of their constituents for capital accumulation.

The interviews revealed that all firms had concerns about employing disabled people and the extent of their contribution towards capital accumulation. Respondents

(Diversified Limited) noted that insurance firms refused to provide workers' compensation insurance cover to employ disabled workers, and the poor public infrastructure for them to commute to work was an additional barrier to their employment. A respondent (Diversified Limited) stated, "We have more able people who are unemployed, and they should be looked after first". Another respondent noted that the firm was in the business of maximising profits, and disabled people were an inhibitor to capital accumulation. Some firms had employed a few disabled staff in the past but had offered a redundancy package and those employees had now left (Toba Ltd, Trading Ltd). Engineering Ltd highlighted that they were unable to employ disabled people because of the nature of their business activities. However, Engineering Ltd had no disabled staff in office-related jobs. The government meanwhile had more immediate priorities rather than care of disabled people. During the time of this study the government was engaged in combating a civil war in the country, which placed a heavy burden on national budgetary expenditure. Further, the lack of infrastructure to allow disabled workers to commute to work and the lack of workers' compensation insurance for disabled people implied that the government desired to keep a low profile about its attitude towards providing employment opportunities for disabled people. Bank Ltd was an exception; it employed deaf people in its centalised cash counting department. Although the respondent prided about the support of that firm for disabled people, there no disclosure about it in the annual report. Promoting opportunities for disabled people would forces the government to provide infrastructure and other compensatory costs, further adding to its already eroding budgetary burden (McSheehy, 2001). Greater disclosure about employment or lack of employment opportunities for disabled people could have created tension between the firms and the government.

Some firms (Engineering Ltd, Trading Ltd) had concerns in employing women in certain activities, due either to the nature of their business activities or to the restrictions imposed by law on their work hours. Trading Ltd reported that it preferred to employ men in its data processing division because employees in that division often needed to work long hours, which could not be demanded of women due to legislation. Engineering Limited did not employ women in fieldwork because they were not physically strong enough to carry out engineering and construction work. The relatively lower employment opportunities offered to women did not give rise to tension in the context of the social, political and economic framework in Sri Lanka. In the Sri Lankan context men play a more dominant role socially, politically, and economically than women, and are considered the breadwinners of the family. The relatively high unemployment rate (Central Bank of Sri Lanka Annual Report, 2000, p. 127; McSheehy, 2001, p. 57) also heightened the competition for employment, and it was acceptable to social and political constituents for men to take precedence over women for jobs. Further, men in Sri Lanka have a higher adult literacy rate than women (Human Development Report, 2000, pp. 157-16), which also helped firms to justify offering more jobs to men than women. It became evident from the responses from Engineering Ltd and Trading Ltd that the laws relating to equal employment of the sexes favoured men in terms of liberal work hours and the types of activities in which they could be employed to facilitate accumulation of capital.

G. Workplace safety

All firms disclosed least about workplace safety. However, the case study based interviews revealed that many firms were highly involved in managing workplace safety. All respondents reported that their firms had a safety plan and managed their safety aspects well. Also, all firms had an ISO 9000 certification which required them having a safety program audited periodically by Lloyds of London. The workplace safety standards were upheld by the firms as a mandatory requirement for certification. Respondents stated that quality standards have become a minimum requirement to market their products and services in a competitive market.

However, the management of workplace safety had little merit in convincing the community or the government. The on-going civil war during the period of the study reduced the safety of the community outside the work environment. Both social and political constituents in the framework accepted the lack of safety in people's lives as a perceived reality and as a national issue that affected all firms. Therefore, no single firm could alter the perceived reality of its constituents by disclosure about workplace safety. Further, more frequent disclosure about the safety of employees in annual reports could embarrass the political constituent due to the lack of a safe environment outside the workplace.

6. Concluding remarks

As O'Donnell et al. (2006) argued, critical theory is more likely to reveal the underlying tensions between the particular state of capital-labour relations in time, place, and space of firms. This study demonstrates that firms had different motivations when they voluntarily disclosed human capital in annual reports. These disclosures were intended to convince the three major constituents – capital, social and political, so that firms could operate in ways that facilitated capital accumulation.

Some of the motivations behind human capital class disclosure were common to all industries. For instance, all firms disclosed about employee relations and employee measurements in an attempt to win the support of the social constituents as all firms were adopting technology replacing semi-skilled and unskilled workforce. On the other hand, the motivations for rationalising equitable treatment across minority groups differed from one industry sector to another.

Some human capital classes were the most frequently disclosed (employee relations and employee measurement) while others were the least disclosed (equity issues and workplace safety). The most disclosed classes gave rise to the most tensions and the least disclosed classes gave rise to the least tensions. The restructuring undertaken by firms replaced unskilled and semi-skilled workers with technology. This activity created most tensions with the social constituent, the support of which was needed by firms for capital accumulation. On the other hand, lack of government support for enabling the disabled to work, absence of workers' compensation for disabled workers, restrictive legislation for women with regard to work hours, and cultural attitudes about work suitable for women, created the least tensions between constituents and firms in relation to their capital accumulation. Hence the annual report disclosures were driven by the level of contemporary tensions between firms and constituents, as perceived by the firms.

It is possible that the nature and type of tension between the firm and its constituents, and hence the firm's approach to resolving those tensions, could differ from one set of firms to another. The Colombo Stock Exchange where these firms are listed is relatively small by market capitalisation and relies heavily on foreign investors to maintain its liquidity, to bridge the gap between investments and savings (CSE 1997). Firms in a capital market that had greater liquidity might approach resolving tensions between the firms and their constituents differently.

The characteristics of the social constituent may also influence the type of tensions between the firm and social constituent and the approach taken to resolve them. Although Sri Lanka has performed well in social development, it has lagged in economic development (UNDP Sri Lanka, 1998, pp. 5-42). In 1999, the unemployment rate was 7.7% of the labour force (Central Bank of Sri Lanka Annual Report, 2000, p. 127; McSheehy, 2001, p. 57). The adult literacy rate during 1998 stood at 91.8% (Central Bank of Sri Lanka Socio-Economic Data, 2001, pp. 1, 63; Human Development Report, 2000, pp. 157-160; McSheehy, 2001, p. 57; UNDP Sri Lanka, 1998). The contextual effects of high social development and low economic development in Sri Lanka might not be applicable to the social constituent in another country.

Although care was taken to maximise the validity and reliability of the case study based interviews, interviewer bias and observer bias may have influenced the findings. There were occasions when the researcher inferred conclusions from less explicit answers given by respondents. The fact that only the human resource managers and directors were interviewed might have provided a one-sided perspective. Interviews with staff from different functional areas might have offered richer results.

Appendix 1
Frequency of human capital disclosure in annual reports

Human capital items	*2001*	*2002*	*Average*
A. Employee Relations	**937**	**784**	**861**
1. Employee involvement in the community	14	6	10
2. Union activity	6	2	4
3. Employee thanked	103	40	72
4. Employee featured	814	736	775
B. Employee Measurement	**120**	**124**	**122**
5. Employee numbers	31	47	39
6. Growth/renewal ratios: Average professional experience	1	0	1
7. Growth/renewal ratios: Average education level	1	0	1
8. Efficiency ratios:Value added per expert	1	6	4
9. Efficiency ratios: Value added per employee	67	71	69
10. Stability ratios: Expert seniority	17	29	23
11. Stability ratios: Median age of employee	2	7	5
C. Training and Development	**117**	**88**	**103**
12. Know-how	27	5	16
13. Education	1	2	2
14. Vocational qualifications	0	0	0
15. Career development	8	7	8
16. Training programs	81	74	78
D. Welfare	**40**	**27**	**34**
17. Executive compensation plan	0	0	0
18. Employee compensation plan	7	0	4
19. Employee benefits	4	6	5
20. Employee share scheme	11	6	9
21. Employee share option scheme	18	15	17
E. Entrepreneurial Spirit	**20**	**17**	**19**
22. Entrepreneurial spirit and innovativeness	20	17	19
F. Equity	**9**	**6**	**8**
23. Equity issues: race, gender, and religion	8	6	7
24. Equity issues: disabled	1	0	1
G. Safety	**9**	**3**	**6**
25. Employment safety	9	3	6

Appendix 2: Some human capital practices described by respondent companies

Respondent company	Human capital class						
	Training and development	**Entrepreneurial skills**	**Equity issues**	**Employee safety**	**Employee relations**	**Employee welfare**	**Employee-related measurements**
Bank Ltd	Opportunities given, but employee must take the initiative	Revising the appraisal system to include creativity	Deaf employee manages the entire cash department but not in annual report	Round the clock insurance for all employees	Allocates 20% of the budget to protect environment	Employees can buy shares from the profit bonus and can sell them when they leave	Too many employees but the firm needs them for verification of automation
Beverage Ltd	Moving towards the ‘multi-skilling’ of employees	Considering including entrepreneurship as a core competence in the performance appraisal	Has not done much and does not have a company policy about hiring disabled staff	Monitor accidents and take pride in reducing accidents	Issues employees a commendation certificate	Nil	‘Multi-skilling’ its workforce in anticipation of reducing head count
Diversified Ltd	Employees responsible to carve their own career path	Creativity is assessed at the employee appraisal	Current political climate prompts care in recruiting unknown; concern about terrorists	Relevant people must wear safety gear, and violation is treated as lack of discipline	Wants to reduce workforce to achieve better quality workforce	Share option offered based on length of service and seniority in management	Prefer younger people because they have newer ideas, more forward looking and cope with change
Engineering Ltd	The long hours required from employees by the firm hinders their career development	Suggestions scheme operates to increase profits and employees are rewarded both monetarily and non-monetarily	Requirements to wear safety gear and heavy engineering work environment can increase risk of accidents to disabled persons	Employees must wear safety gear or face fines or suspension	Certificate given, photograph sent to home and employee featured in the quarterly company newsletter	Provides breakfast, lunch, and dinner in-house free; employee attendance incentives	Has a policy not to fill vacancies and a voluntary retirement scheme

Appendix 2: Some human capital practices described by respondent companies (continued)

Respondent company	Human capital class						
	(i) training and development	**(ii) entrepreneurial skills**	**(iii) equity issues**	**(iv) employee safety**	**(v) employee relations**	**(vi) employee welfare**	**(vii) employee-related measurements**
Finance Ltd	No succession plan and career development plan	Non-monetary rewards to employees in ideas competition	Not proactive about employing disabled staff	Buildings insured against terrorist activities and glass partitions are shatter-proof	Monetary rewards for outstanding employee performance	Employee share scheme being considered	Computerisation should reduce the overall headcount
Food Ltd	Corporate training needs and individual training needs identified from performance appraisal	Corporate guidelines state renovation and innovation are important activities of the firm	No proactive role in employing disabled staff, but would consider them on an equal footing with others for positions	Factories are fully prepared with fire drills	Salary increase and short term bonuses provided	Nil	Firm needs to do some succession planning at production level
Hotel Ltd	Add more responsibilities on return from training	Employees encouraged to get involved in problem solving to increase productivity	Disabled applicants not considered due to acute focus on cash flow	Practice fire drills, sprinkler system	Employees rewarded monetarily by bonuses, incentives and performance related pay	Employees can sell shares acquired through share scheme only when they leave	under-staffed

Appendix 2: Some human capital practices described by respondent companies (continued)

Respondent company	Human capital class						
	(i) training and development	**(ii) entrepreneurial skills**	**(iii) equity issues**	**(iv) employee safety**	**(v) employee relations**	**(vi) employee welfare**	**(vii) employee-related measurements**
Land & Property Ltd	Determined by supervisors and informal chats with employees	Encouraged as a response to maintenance work and included in the performance appraisal	Physical infrastructure, nature of business activities restricts the employment of disabled people	Safety gear given to relevant employees	No unions, only welfare society; names displayed in internal notice board to give recognition	No share option or share scheme for executives	Numbers are short of what is anticipated
Manufacturing Ltd	Several employees trained on the same task	Fostering a culture for creativity	Nature of activities prevent recruiting disabled staff	Has a safety officer	Trend is to reduce to compete with other overseas locations and to respond to more automation	Free uniforms to factory workers	Productivity levels regularly reported to the management
Toba Ltd	Team building programs for all staff	Changed reward strategy to reward then and there	Does not encourage the employment of disabled persons because the firm is under pressure to reduce cost	Employees must sign an agreement that they adhere to safety rules and procedures	Photographs of outstanding employees published in in-house magazine	Free breakfast, lunch and dinner	Performance related pay
Trading Ltd	Rewards employees for sharing knowledge at the annual appraisal	Small group competitions held for annual conventions and rewarded non-monetarily	50% of staff are marketing and the nature of their activities restrict them from employing disabled persons	Safety and welfare committee	Very cordial relationship with unions due to good communication among employees and open negotiations	Comprehensive medical scheme for family of employees	Beginning this year the firm intends to reduce the headcount by looking at unproductive areas and employees

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