# EMPLOYEES REPORTING AND COLLECTIVE BARGAINING IN ORGANISATIONS: A NEED FOR DISCLOSURE

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## ABSTRACT

*The underlying significant role which employees play in organizational development has drawn considerable attention all over the world. The argument is that employees increase the performance of organizations through an effective and efficient collective bargaining process which is the most effective instrument in the hands of employees for improving their living conditions. This paper examines the need for organizations to account for the activities of employees and collective bargaining in the annual reports. The purpose of employee reports is to inform employees in the general context of a general communicative and consultative philosophy of the corporate environment in which they work. This paper suggests that organizations in Nigeria should consider the need to expand the content of the annual reports to include employee and collective bargaining accounts for the human resources in the organization to understand their level of contribution as major stakeholders in the corporate survival and growth of organizations in the 21st century.*

**KEYWORDs: Financial reports, employees, collective bargaining, organizations,**

## INTRODUCTION

The success or failure of any organization depends on the employees. Employees play a very strategic role in the growth and development of business organizations. Therefore, there is the need to report the various activities to them as a means to motivate them to improve their productivity for the overall benefit of the organization. According to Glautier and

Underdown (2001), it is recognized that employees have a vested interest in the outcome of management decisions of every kind. Improvements in industrial democracy through employee participation in management have important implications for the supply of financial information to employees.

Alexander and Britton (2002) maintain that employees are obviously closely involved in business. They have to make many important decisions for themselves that will be heavily influenced by the activities, actions and prospects of business organizations. Similarly, Belkaoui (2002) says with the emergence of employees and unions as potential users of accounting information, it also appears, and for or good many reasons, that the annual financial reports to shareholders is not the all- inclusive report suitable for employees. Therefore, the solution lies in the production of a special report to employees and unions. This solution has been accepted by many countries including the United States, Canada, France, Denmark, Norway, Sweden and the United Kingdom.

In their quest for the continuous improvement of organizational activities managers have found that they have had to rely more on the employees closest to the operating processes and being provided with relevant information to enable them to make continuous improvements to the output of process (Drury, 1997). Commenting on the need to disclose employees in financial reports, the Institute of Social and Ethical Accountability (1999) maintains that:

> By challenging its values and reporting on its performance, an organization can improve the recruitment of high quality employees. The loyalty of existing employees will also be supported by evidence of commitment to building a better organization and by the development of programmes to improve training and other aspects of employee welfare. The corollary of this improved loyalty to the organization should be increased productivity.

Therefore, this paper will attempt to examine the need for an expansion of the annual reports published by organizations to include employee accounts and collective bargaining. The paper is divided into five interconnected sections. The next section, presents the conceptual framework which include financial reporting and its objectives, the direct reporting to employees in the form of employee accounts, reporting collective bargaining. The third section presents the materials and methods and the final section contains the concluding remarks.

## CONCEPTUAL FRAMEWORK

### FINANCIAL REPORTING

According to Adebayo (2005), financial reporting is the only way by which managers of organizations give account of their stewardship to their owners and other stakeholders. He further said financial reporting shall disclose in clear terms and languages what resources are acquired and available, how they are utilized and achieved results from such utilization. Also

Obazee (2005) defined financial reporting as the process of communication of financial information. Financial reporting is a key source of information managers need to make informed choices about how to use limited resources to best serve the interest of shareholders.

Jenfa (2006) noted that the objectives of financial reporting was clearly defined in the Trueblood Report published in New York in 1973. The report stated the basic objective as being, to provide information useful for economic decisions. To this basic objective it now adds the following additional objective

1. To serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprises' economic activities;
2. To provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amounts, timing and related uncertainty;
3. To provide users with information for predicting, comparing and evaluating enterprise earning power;
4. To supply information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal;
5. To provide factual interpretation about transactions and other events which is useful for predicting and comparing and evaluating earning power.
6. To report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise.

The determination of the quality of financial report will depend significantly on the objective s of the report. According to Rappaport (1964) in Mainoma (2002), there is no clear understanding on the objective of financial reporting. That is why the extent of reporting may differ. Glautier and Underdown (2001) stated that the failure to establish a framework for financial reporting purposes is directly as a result of the attitude of management. That the report is prepared and presented, you either take it or leave it. It is not even absence of the framework that is the major problem, but to establish a framework may be difficult because the users of financial information vary.

Rappaport (1964:99) in Mainoma (2002) however posit that a financial statement should serve four main purposes. That financial information should cater for external users needs like the potential investor, consumers, suppliers and the local communities. That it should also satisfy the needs of the shareholders by way of reporting equitable sharing of corporate profit. Rappaport also insist that the information provided should be useful for playing purposes and finally that the information provided should be capable of influencing socially desirable 25uestion and should discourage unethical 25uestion.

According to Lewis and Pendrill (1996), a more recent description of the objectives served by financial statements has been provided by the British Accounting Standards Board. The Board states that:

*The objective of financial statements is to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions.*

According to Belkaoui (2002), the objectives of financial reporting in Statement of Financial Accounting Concepts No. 1, *Objective of Financial Reporting by Business Enterprises* was not limited to the contents of financial statements:

Financial reporting includes not only financial statements but also other means of communicating information that relates, directly, to the information provided by the accounting system – that is, information about an enterprise's resources, obligations, earnings, etc.

Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interests and proceeds from the sale, redemption, or maturity of securities or loan.

Financial reporting should provide information about the economic of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change resources and claims to those resources.

Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise.

Financial reporting should provide information about how an enterprise obtains and spends cash, about his borrowing and payment of borrowing, about its capital transaction, including cash dividends and other distributions of enterprise resource to owners, about other factors that may affect an enterprise's liquidity.

Financial reporting should provide information about how management of enterprise has discharged its stewardship responsibility to owners for use of enterprise resources entrusted to it.

Financial reporting should provide information that is useful to managers and directors making decisions in the interests of owners.

Belkaoui (2002) further said financial reporting is not an end in itself, but it is intended to provide information that is useful in making business and economic decisions. The objectives are not immutable – they are affected by the economic, legal, political and social environment in which financial reporting takes place.

In an empirical study by Puxty (1985) in Mainoma (2002) on the objectives of financial statements, forty five percent (45%) of the respondents believe that the objective of financial reporting is stewardship. Thirty two percent (32%) believe that financial statements are prepared to enable investors make informed decisions. Eight percent (8%) of the respondent however believe that it is all about the determination of value of the business. Twelve percent (12%) believe that it is just a historical document. What this has clearly shown is that different groups might have different reasons for financial information. It is therefore necessary to prepare and present financial information on the basis of needs of the majority of the stakeholders.

According to Alexander and Britton (2000), the fundamental objectives of corporate reports is to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information. The corporate report suggested seven qualities of corporate reporting (Belkaoui, 2002). These seven are relevance, understandability, reliability, completeness, objectivity, timeliness and comparability.

**Relevance** means selecting the information most likely to aid users in their economic decisions. According to Oduwari (2010), information in the financial statements should be relevant to the needs of users for making economic decisions. Information that is relevant has predictive value or confirmatory value or, on occasions both. **Understandibility** implies not only that selected information must be intelligible, but also that the users can understand it. Also Oduwari (2010) said information in financial statements must be understandable to its users: (1) for this purpose, a user is assumed to have a reasonable knowledge of business and economic activities and accounting, and is willing to study the financial information with reasonable diligence; (2) information about complex matters should not, however, be excluded from the financial statements simply because it might be difficult for some users to understand. **Reliability** means the user should be able to have a high degree of confidence in the information presented to him or her. Information must also be reliable. It is reliable when: (1) it is free from material error or bias, (2) it provides a faithfully representation of what it is supposed to represent. According to Oduwari (2010), to be reliable, information should have other qualities such as faithful representation, substance over form, neutrality, benefit and cost, balance between qualitative characteristics, true and fair view/fair presentation. **Completeness** implies that all the information that reasonably fulfills the requirements of other qualitative objectives should be reported. **Timeliness** implies an early communication of information to avoid delays in economic decisions. **Comparability** implies that differences should not be the result of different financial accounting treatments.

**Objectivity** implies the information presented should be unbiased in that it should meet all proper user needs and neutral in that the perception of the measurer should not be biased towards the interest of any one user group.

Accrual and value relevance model focus on earnings quality measurement. Accrual models are used to measure the extent of earnings management under current rules and legislation. These models assume that managers use discretionary accruals, i.e. accruals over which the managers can exert some control, to manage earnings. Earning management is assumed to negatively influence the quality of financial reporting by reducing its decision usefulness (Tendeloo and Vanstraelen, 2005). The main advantages of using discretionary accruals to measure earnings management is that it can be calculated based on the information in the annual report. In addition, when using regression models it is possible to examine the effect of company characteristics on the extent of earnings management. The main difficulty when using accruals models is to distinguish between discretionary and non-discretionary accruals. Furthermore, it is only an indirect proxy of earnings quality, excluding non-financial information. Therefore, conclusions concerning the quality of financial reporting information based on accruals models do not provide direct and comprehensive evidence concerning the quality of financial reporting information and its dimensions of decision usefulness.

The value relevance models measure the quality of financial reporting information by focusing on the associations between accounting figures and stock – market reactions (e.g. Barth et al, 2001; Nicholas and Wahlen, 2004). The stock price is assumed to represent the market value of the firm, while accounting figures represent firm value based on accounting procedures. When both concepts are correlated, it is assumed that earnings information provides relevant and reliable information (Nicholas and Wahlen, 2001). This method is also used to examine earnings persistence, predictive ability, and variability, as elements of earnings quality (Schipper and Vincent, 2003; Francis et al, 2004). The focus of value relevance literature on relevance and faithful representation is consistent with accounting standards.

Accrual models and value relevance literature focus on information disclosed in financial statements to assess the financial reporting quality (Barth, et al., 2001; Leuz, 2003; Nicholas and Wahlen, 2004). However, a comprehensive measurement tool of financial reporting quality would at least include the complete annual report, including both financial and non-financial information. The third realm of research focus on assessment tools that measure the quality of specific elements of the annual reports in depth and includes both financial and non-financial information. It evaluates the influence of presenting specific information in the annual report on the decisions made by the users. For instance, Hirst et al (2004) put emphasis on the use of fair value accounting and financial reporting quality. Gearemynck and Willekens (2003) examine the relationship between the auditor's report and decision usefulness of financial reporting information. Cohen et al. (2004) highlights the relationship between corporate governance mechanisms and financial reporting quality. However, research that focuses on a specific element in the annual report has a partial focus, and thus does not provide a comprehensive overview of total financial reporting quality.

Methods that operationalize the qualitative characteristics aim to assess the quality of different dimensions of information simultaneously to determine the decision usefulness of financial reporting information. Jonas and Blanchet (2000), Lee et al. (2002) and McDaniel et al (2002) develop questions referring to the separate qualitative characteristics in order to assess information quality. Although their research indicates that qualitative characteristics can be made operational, their operationalizations are based on current frameworks of accounting standards.

To construct a measurement tool, Beest, Braam and Boelens (2009) used prior literature which defines financial reporting quality in terms of the fundamental and enhancing qualitative characteristics underlying decision usefulness as defined in the International Accounting Standard. The fundamental qualitative characteristics (i.e. relevance and faithful representation) are most important and determine the content of financial reporting information. The enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) can improve decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB, 2008).

## EMPLOYEE REPORTING

Employees need some indication of future profitability, as do other users, but they also need other additional information. Some may be financial and others non financial. According to Lewis and Pendrill (1996), employee reports usually contain a simplified set of accounts together with a narrative view of those accounts. The emphasis is on making the information as easy to understand as possible and such reports try to avoid technical language and frequently include charts and diagrams. Similarly, Glautier and Underdown (2001) remarks that the emphasis in employee reports is on making information visually attractive and comprehensible. They further noted that the general problem with employees is the low level of interest in company affairs, and to overcome apathy, colours, diagrams and cartons are used.

The purpose of employee reports is to inform employees in the context of a general communicative and consultative philosophy of the corporate environment in which they work. Many organizations have embarked upon the practice of informing employees about matters of which management believes they should be aware (Cullinan, Clark and Knoblett, 1994).

According to Lewis, Parker and Suteliffe (1984), the literature has identified various objectives for reporting to employees. The survey on financial reporting to employees between 1919 and 1979 in the United States of America identified the following objectives: (a) promoting a higher degree of employee interest, (b) responding to management fear of wage demands, strikes, and competitive advantages, (c) meeting information requirements peculiar to employees, (d) building company image, (e) facilitating greater employee participation, (f) responding to legislative or union pressure, (g) explaining the relationship between, management and shareholders, (h) promoting interest in understanding of company affairs and performance, (i) explaining management decisions, (j) presenting management propaganda.

Taylor, Webb and McGinley (1979) in Belkaoui (2001) identified the following benefits of employee reporting to management:

- Building a favourable employee impression of the management group;
- Reducing the resistance of employees to changes initiated by management; and
- Providing a useful response to union pressure for more corporate financial information from management.

Foley and Mauders (2001) also identified the following arguments supporting the disclosure of employee report:

- Feedback of information to employees will improve job performance via learning effects and also serve to increase motivation.
- The role of employees reporting is crucial to effective worker participation which will contribute to the efficiency of the organization;
- The fundamental change in the nature of the organization and its social responsibility legitimizes employee reporting;
- Employee reporting may be seen by some employees as a possible way of resurrecting the concept of joint consultation as a means of avoiding unionization;
- Finally, with the ultimate objective of changing the basis of ownership and control of resources sees employee reporting as a step to increase workers control and develop self confidence.

However, Glautier and Underdown (2001) notes that employee reports may be slanted towards giving employees only what the management wishes them to know. For this reason, employee reports may not be seen by employees as providing them with information directly relevant to their needs. Also, the desire to simplify employee reports so as to make them readily understandable may lead to misleading generalizations. Taylor et al (1979) in Belkaoui (2001) made this submission:

> It must be a report, capable of satisfying additional information needs of employees rather than simply supply information already provided through alternative internal channels or providing unwanted information. Unless preparers of an annual reports to employees can identify a genuine information void left by other internal communication channels, and can justifiably believe that such a report can fill this void, and then the report has no real justification.

Alexander and Britton (2000) says in spite of this, many accountants would regard the provision useful to employees as being a necessary component of the total reporting package. This was certainly the view of **The Corporate Report,** which recommended that reporting statements should include an employment report containing the following information:

1. Numbers employed, average for the financial year and actual on the first and last day;

2. Broad reasons for changes in the number employed;
3. The age distribution and sex of employees;
4. The functions of the employees;
5. The geographical location of major employment centers;
6. Major plant and site closures, disposals and acquisitions during the past year;
7. The hours scheduled and worked by employees;
8. Employment costs, including fringe benefits;
9. The costs and benefits associated with pension schemes and the ability of such schemes to meet future commitments;
10. The cost and time spent on training.
11. The names of unions' recognized by the entity.
12. Information concerning safety and health including the frequency and severity of accident;
13. Selected ratios relating to employment.

Lewis and Pendrill (1996) states that perhaps not surprisingly, organizations have been reluctant to publish employment reports, especially given the fact that there has been little publish work explaining which users find the particular pieces of information useful and for what purposes they may be useful.

**REPORTING** FOR **COLLECTIVE BARGAINING**

Collective bargaining is the method of negotiation between the representatives of labour and management to solve some labour dispute and to enter some agreement to prevent a dispute. As we all know that strikes and lockouts go against the interests of the organization and society, therefore genuine collective bargaining is important in promoting industrial harmony (Nwachukwu, 2004). Collective bargaining is a method to prevent the situations arising for strikes and lockouts. Fashoyin (1992) says "*collective bargaining is a machinery for discussion and negotiation, whether formal or informal, between employee (s) and workers' representatives, aimed at reaching mutual agreement or understanding on the general employment relationship between the employer(s) and workers."* According to Sharma (1999), collective bargaining can be described as a procedure whereby employer must reach an agreement about wage rates and basic conditions of labour with the trade unions instead of the industrial workers. Therefore, it is basically a give - and – take process involving proposals and counter proposals. As Fashoyin (1992) reports:

Collective bargaining is a standard – setting machinery, which constitutes an important source of regulation governing wages, salaries and other employment conditions mutually agreed between labour and management and in conformity with public policy. In several work situations, collective bargaining has become, so to speak, the guiding principle of labour relations. It is a method through which the wage rates and other employment conditions are determined. It also establishes a set of rules guiding relations between the parties during the life of a collective agreement, as well as providing for an orderly method of settling grievances that are bound to occur from time to time.

Glautier and Underdown (2001) says the construction of a normative theory of financial reporting relevant to collective bargaining between employers and employees and their representatives ought to be based on the criteria suggested by the Accounting Standards Board's Statement of Principles. They further notes that the information which may be assumed to be most relevant to collective bargaining is related to two factors:

(1)The minimum acceptable settlement which is based on considerations of equity, and is made up of a combination of factors including the cost of living, comparability with other industries and value added. (2) The ability to pay, which determines whether the firm is in a position to afford to meet a pay claim without endangering profitability (Cullinan, 1992).

Collective bargaining is the most effective instrument in the hands of employees for improving their living conditions. The benefits of collective bargaining according to Sharma (1999) include:

- It ensures lasting industrial peace and avoids conflicts.
- It fosters responsibility on both parties.
- It helps in achieving the important status for employees.
- It encourages the industrial democracy.
- It is best method to settle employers and employee disputes.

Fashoyin (1992) also maintains that the functions of collective bargaining include: (1) the provision of arrangements for the peaceful settlement of grievances and disputes arising out of the interpretation of a collective agreement, or other areas not included in the agreement; (2) the establishment of what is called industrial jurisprudence; and (3) to win wage concessions from the employer through collective action.

Many of the arguments which resolve around the issue of reporting collective bargaining are really issues about management. According to Glautier and Underdown (2001), it is evident that the successful communication of financial information during collective bargaining hinges to some extent on management – union relationship. The main benefit of financial reporting for collective bargaining process is that it makes that process more rational. However, several studies have shown that union officials do not understand the information content in financial reports. Another argument against disclosure of financial reports for employee and collective bargaining is that it may increase the bargaining strength of unions to the detriment of the long term advantage of the organization and also important information may be revealed which could be harmful to the negotiating position if leaked outside the organization.

## MATERIALS AND METHODS

The materials for this study were collected from secondary sources. The secondary data are those obtained from works of other scholars for different purposes, which includes textbooks, journals, business magazines, professional publications, and past research studies. The secondary data collected were analysed using descriptive analysis. According to Ndiyo (2005), descriptive research studies are designed to obtain information concerning the current status of phenomena. They are directed towards determining the nature of a situation, as it exists at the time of the study. Baridam (2001), Osuala (2005) also stated that descriptive analysis largely describes and explains the various activities of human actions in the society.

## CONCLUDING REMARKS

The aim of this paper has been to examine the issues of reporting to employees and collective bargaining as users of financial reports. The interests of investors have been the major interest in terms of the Companies and Allied Matters Act 1990 and accounting theory. However, due to changes in the economic, social and political environment attitudes have began to emphasize the relevance of employees in the whole structure of organizational success. Glautier and Underdown (2001) opine that this process may be seen in the context of the movement towards participation in decision making which has featured largely in the literature of management science.

Employees as users of financial reports need such information for decision making. Financial reporting to employees occurs at two levels: first, direct reporting by management to employees as part of the process of good management- employee relations; second, information disclosure in the course of collective bargaining. Lewis and Pendrill (1996) reports that companies have been reluctant to publish employment reports, especially given the fact that there has been little published work explaining which users find the particular pieces of information useful and for what purposes they may be useful. However, the attitude of employers to issues of employee and collective bargaining in Nigeria is captured in the following by Fashoyin (1992):

*The typical Nigerian who is rich enough to buy a company feels too big to sit down and discuss company business with his 'labourers' who represent the workers. Some companies have driven trade union activities underground, or terminate the employment of employees identified as union 'ringleaders'. Some indigenous entrepreneurs have, after assuming full control of the business from expatriates, called in the workers and told them to leave the company voluntarily if they expect to continue to belong to unions. The tendency is for the indigenous entrepreneurs to regard the trade unionists as agitators and saboteurs instead of potentially constructive force for company growth and prosperity.*

Conclusively, employees are human assets of an organization, and as such, they have a value to the organization. An employee's value will be higher if he has more financial information that relates to employee reports and collective bargaining. Therefore, Nigerian organizations should consider the need to expand the content of the annual reports to include employee and collective bargaining accounts to increase the contributions of employees as stakeholders in the corporate survival of organizations.

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