

A STUDY OF THE IRISH PARADIGM OF DISCLOSURE OF FINANCIAL  
INFORMATION TO EMPLOYEES

Submission for a degree of Doctor of Philosophy

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DECLARATION:

This thesis is entirely the candidate's own work.

NOTE: Unless the context indicates otherwise, the masculine gender is used to indicate the masculine and feminine.

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ABSTRACT

This study examines the case for the disclosure of financial information to employees of enterprises in the Republic of Ireland. A case for the justification of such disclosure within the Decision Usefulness approach is established.

Through literature review, analysis and empirical study, the Irish paradigm of disclosure to employees, insofar as it has developed to date, is described. Current disclosure practice in major Irish enterprises is established, and 'local' characteristics are identified.

It is hypothesized that local characteristics have a significant relationship to the disclosure/non-disclosure patterns of financial information to employees by Irish enterprises.

Factors which emerge as having a significant relationship to disclosure of financial information to employees are the existence of employee participation in the enterprise and the holding of a positive attitude to disclosure by the enterprise's financial accountant.

The conclusion of the study is that in order to promote the development of Ireland's paradigm of disclosure, the attitude of the financial accountant should be strengthened and the creation of a participatory environment should be advanced and supported. Because of the nature of the accountants' attitude towards disclosure of financial information to employees, the educators and trainers of accountants are in a strong position to strengthen attitudes of accountants, and thereby to contribute to the advancement of disclosure to employees in Ireland.

## KEY TO ABBREVIATIONS

ACAS	Advisory, Conciliation and Arbitration Service
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
ASSC	Accounting Standards Steering Committee
CA	Companies Act
CBI	Confederation of British Industry
CII	Confederation of Irish Industry
CPE	Continuing Professional Education
EC	European Community
ED	Exposure Draft
FIE	Federation of Irish Employers
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IASC	International Accounting Standards Committee
ICAI	Institute of Chartered Accountants in Ireland
LS	Least Squares
PARTENV	Participatory environment
PDE	Pre-disclosure education
SIPTU	Services, Industrial, Professional & Technical Union
TGWU	Transport and General Workers Union
UK	United Kingdom of Great Britain and N. Ireland
US	United States of America

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## CHAPTER 1

### AN INTRODUCTION TO THE SCOPE AND BACKGROUND OF THE STUDY

#### 1.1. INTRODUCTION

This study focusses on the disclosure of financial information to employees in the Republic of Ireland. It provides an analytical scrutiny of the topic, together with a report on the findings from empirical investigation undertaken in an Irish context as part of the overall research project.

The purpose of this Chapter is to:

- Explain the background to the topic (1.2.);
- State the objectives of the study (1.3.);
- State the limitations of the study (1.4.);
- Summarize the need for the research and to indicate the contribution which this study will make (1.5.);

Outline the methodologies used in the study (1.6.);  
State the critical definitions used in the study (1.7.); and  
Outline of the remaining chapters of the study (1.8.).

## 1.2. THE BACKGROUND TO THE TOPIC

The choice of this topic is based on an interest in the current developments in Financial Accounting with particular reference to the disclosure of financial information to employees, and to the legitimacy of considering the Irish employee as a "user" of financial information of his employing enterprise.

Over the past two decades, the major developments in financial accounting practice in Ireland have emanated from two main sources, accounting standards and company law.

### 1.2.1. Accounting Standards

Accounting standards (SSAPs and FRSs) were developed in Ireland in response to severe and widespread criticism of accounting methods and to a belief, voiced in the UK by Bromwich (1985 p 15), that Government would intervene if the profession did not act to standardise the accounting methods. The Accounting Standards Committee (ASC) was established in 1970. Its work was taken over in 1990 by the Accounting Standards Board (ASB).

Although Ireland participated fully, through CCAB, in the ASC structure, the Republic of Ireland does not officially adhere to the ASB structure. The Irish Government has appointed the Institute of Chartered Accountants in Ireland (ICAI) as the official standard setting body for the Republic of Ireland. The ICAI has indicated that it will endeavour to adhere insofar as possible to the standards issued by the ASB in promulgating standards for the Republic of Ireland.

The standard setting process set in motion by the ASC has been criticised for its emphasis on a "fire fighting" technique for dealing with accounting crises as they arise. Stamp and Marley (1972 p 17) have articulated a generally agreed weakness of the standard setting mechanism that standards are not founded on the objectives of accounting and that standards are not derived from underlying theoretical concepts of accounting.

The accounting standards are not, therefore, set in the context of an overall philosophy, or conceptual framework of accounting. The ASC made no statement of the objectives of financial accounting which would have, inter alia, included an identification of the "users" of financial statements.

However, the ASB, in its second Bulletin, indicated its intention to consider basic principles of financial reporting. There was an emphasis in the Terms of Reference of the ASC on

the aim of narrowing areas of difference and variety in accounting practice by incorporating generally accepted best accounting practice into standards. Attempts were made by the ASC to issue its own Conceptual Framework of Accounting (for example the Macve Report (1981) and the Solomons Report (1989)) , but such attempts proved unsuccessful. At the date of writing, the ASB has issued exposure drafts of the first chapters of its conceptual framework, "The Objective of Financial Statements", "The Qualitative Characteristics of Financial Statements" and "Presentation of Financial Information" and has outlined its intentions in regard to other chapters.

The exposure draft on Objectives of Financial Statements identified the shareholder as a 'primary user' of financial statements and other users, including the employee, as secondary users. In its response to this document (1991, p2) the Institute of Chartered Accountants in Ireland disagreed with this award of primacy to the shareholder only, indicating its concern that :

"..primary users are defined too narrowly and (we) suggest the primary user category should include:

- investors, present and potential
- employees, present and potential."

On the other hand, the Institute of Chartered Accountants in

England and Wales (1992), in its response to the exposure draft (TR860), recommended placing more emphasis on the primacy given to the interests of shareholders over other users.

This different approach by the Irish representative body (described as 'association') leads one to consider the possibility that there may be a different or 'local' "paradigm" in the Republic of Ireland, as evidenced by the divergent views in the Republic of Ireland and the UK regarding the classification of the employee as "user" of financial statements. (The context in which "paradigm" is used for the purposes of this study is discussed in detail in Chapter 3.) The hypotheses to be considered in this study will centre on the variables which are uniquely Irish in the disclosure of financial information to employees. This study will hypothesize that the characteristics which are uniquely Irish explain the propensity of enterprises to disclose or not to disclose financial information to their employees. If this should prove to be the case, then in the future development of financial disclosure to Irish employees, attention should be directed more towards the uniquely Irish characteristics than towards any which may be imported from a foreign paradigm. These Irish characteristics are referred to in more detail in 1.3.2.



In summary, the standard setting mechanism has been slow to identify the 'users' of financial statements. It is now proposed by the ASB that the employee should be regarded as a secondary user. This may not be appropriate in Ireland.

#### 1.2.2. Company law

Recent developments in company law in Ireland have, in the main, come to us through European Community (EC) Directives. The Companies Act, which governs the contents of financial statements, remained unaltered from 1963 until the 1983, 1986 and 1990 Companies (Amendment) Acts and the 1990 Companies Act were enacted.

In relation to the identification of the 'users' of financial statements, the 1963 Companies Act identifies the shareholder and the debenture holder as recipients of all annual financial accounts.

The 1983 Companies (Amendment) Act enacted the EC Second Directive and related (inter alia) to the calculation of distributable profit, and gave statutory standing to the application of generally accepted accounting principles, but made no reference to the recipients of financial accounts.

The 1986 Companies (Amendment) Act enacted the EC Fourth Directive and stipulated disclosure requirements and formats for accounting statements, but, again, made no reference to the recipients of financial accounts.

The 1990 Companies (Amendment) Act provided for the appointment of examiners and inspectors and tightened the provisions relating to directors and insider dealing. The 1990 Companies Act included provisions relating to the disclosure of directors' interests and introduced a statutory duty (S.52) requiring directors to have regard to the interests of their employees.

It is expected that, by the Summer of 1992, the Minister for Industry and Commerce will introduce a Ministerial Order embodying the requirements of the EC Seventh Directive regulating the preparation and publication of group accounts. The legislation is expected to refer to the requirement (based on the Seventh Directive) for the group accounts to give a true and fair view only to the shareholders of the parent company.

Thus, legislation refers to the requirements for the directors of limited liability companies to lay the Annual Financial Statements before the shareholders at Annual General Meeting. It also requires the filing of modified information with the

Registrar of Companies. Therefore, as yet there is no legal recognition of the employee as a recipient of the annual financial statements or, indeed, of any other financial information.

Thus, at the time of writing, neither our accounting standards nor our company law have addressed the issue of identifying the legitimate recipients of financial reports, other than to assume that the shareholder, debenture holder and (in limited cases) the Registrar are the only such legitimate recipients. A proposed change to our accounting standards (emanating from the UK) recognises the employee as a "user" of financial information, but only as a secondary user. The Irish position, in relation to the latter, is that the employee should be regarded as a primary user.

#### 1.2.3. Possible Future Developments

In addition to the proposed changes to accounting standards referred to in 1.2.2. above, there have been other signs of change. Research reports commissioned by the ASC, including the Corporate Report (1975), the Macve Report (1981) and the Solomons Report (1989) on the Conceptual Framework of Financial Accounting, all addressed the issue of the users of financial reports. Nothing was actually done by the ASC to adopt any of these reports, although the ASC adopted the International

Accounting Standards Committee's (IASC) "Framework for the Preparation and Presentation of Financial Statements" (1988), as the basis for its Conceptual Framework. The IASC document refers to the employee as a user of financial statements. Additionally, research reports such as McMonnies' (1988) and Arnold, Boyle, Carey, Cooper & Wild's (1991) advert to the employee as a user of financial reports. However, none of these studies explores the right of the employee to demand and receive financial information.

Within the context of the Decision Usefulness approach (referred to in Chapter 2), one of the principal factors to be addressed, in the development of a conceptual framework upon which developments in practice may be hung, is the identification of the users to whom financial reports should be addressed, and for whose decisions financial reports should be useful. Other factors, such as the true and fair view, the information content of the report, the relevance of the information and the needs of users, are issues which may be addressed once the issue of identifying legitimate users of financial reports has been accepted.

The EC is taking active steps in this area. The employee has not explicitly been identified as a legitimate recipient of financial statements; but it may be inferred from the 5th and Vredeling Directives that the employee has been so identified.

The 5th and Vredeling Directives on Employee Participation and Disclosure of Financial Information to Employees, respectively, are currently subject to final agreement. They both suffered an initial set-back due to UK government opposition to their proposals; however, the European Commission approved, in December 1989, a programme of social and employment regulations (The Social Charter) which it will seek to implement during the four years to 1993. It is expected that the directives which will emerge from the Social Charter process will include directives based broadly on the 5th and Vredeling Directives. The Irish Government confirmed its acceptance of the Social Charter as part of the Maastricht Treaty of 1991, although the UK government declined to accept this chapter.

The "social dimension" of the EC's internal market, which the Commission's programme aims to create, may provide one of the distinctive flavours of the coming phase of the European integration, and is strongly supported by the President of the Commission, Jaques Delors.

The development of Irish financial accounting is heavily reliant on developments in accounting standards and company law. Much of our recent legislation relating to financial accounting has emanated, and will continue to emanate, from the European Community. The "Social Dimension" in the form of the

Social Charter will have a major impact on our company law and accounting practice. Up to the present date the employee has not been considered as a justified recipient of financial information, either by accounting standards or by Irish company law. But the EC requirements will, if the Maastricht Treaty is adopted, require disclosure to employees within the next five years. Ireland's Financial Accounting practice is, therefore, at a cross road and the issue of disclosure of financial information to employees in Ireland warrants consideration at this juncture. It is a topic of current interest which has received little attention in the Irish literature and a topic on which research is desirable to contribute to the preparation of the accounting profession in advance of the legislative requirements which are on the horizon.

### 1.3. OBJECTIVES OF THIS STUDY

This study is concerned with examining the case of one of the groups of users of financial information, the employee group. The specific objectives of the study are as follows:

- 1.3.1. To examine the justification for viewing the employee as a legitimate user of financial information concerning his employing enterprise.

1.3.2. To identify the major local characteristics of the Irish paradigm of disclosure of financial information to employees insofar as it has developed to date.

1.3.3. To establish the current practice in major Irish enterprises regarding the disclosure of financial information to their employees.

1.3.4. To explain the pattern of disclosure and non-disclosure of financial information to employees by Irish enterprises, in terms of the local characteristics referred to in 1.3.2. above.

#### 1.4. LIMITATIONS OF THIS STUDY

The objectives of this study are as stated in 1.3. There are inevitably a number of facets of disclosure of financial information to employees which will not be considered in isolating the objectives as stated. These facets have not been ignored because of their invalidity or because of their lack of importance, but simply to contain the study within manageable proportions of time and funding.

1.4.1. Important issues which are not being considered in this study are set out below:

1.4.1.1. No attempt is made to rank the disclosure by reference to the quality of the information disclosed or to the satisfaction of the employees' information needs. This study considers whether or not Irish enterprises disclose financial information to their employees and ranks disclosure by reference to the volume of disclosure. This writer feels that research which would rank by quality of disclosure and/or by satisfaction of employees' needs warrants a separate study.

1.4.1.2. The response of the employee to the information currently give to him by his employer has not been examined. Again, although this is a very important issue for the development of good practice in the field of disclosure to employees, it is regarded as outside the scope of this study.

1.4.1.3. Practice among smaller enterprises than those examined may be, and probably is, different from that determined for those enterprises examined. However, the study does not attempt to discover practice among all employing enterprises, but to discover the practice among those larger enterprises which often lead the field in innovative developments, and to whom the expected EC legislation is most likely to apply in the



first instance. At a later stage an examination of smaller enterprises would prove of interest, once best accounting practice has been established in the larger enterprises, however at this juncture, the study is limited to Republic of enterprises employing 500 or more people (see 4.3.1. for discussion of the 500 cut-off point).

1.4.1.4. This study examines the justification of disclosure to the individual employee, and the paradigm of disclosure to employees in the Republic of Ireland. The specific issue of the disclosure of financial information to the employee's representatives for industrial relations negotiations, identified by Amernic (1988) and Purdy (1991), is, therefore, outside the scope of this study, although it would be of interest for further research.

1.4.2. The attitude of the "financial accountant" has been hypothesized as significant (see 3.6.3.) in preference to the attitude of "management". The reasons for this are indicated in Chapter 3, but also include the following:

1.4.2.1. The difficulty of determining a precise definition of "management". Some enterprises are managed by majority decision of the Board of Directors after lengthy consultations; others are managed by powerful Chief Executives with a largely non-executive Board of Directors, with a range of variations between the two extremes. Assessing the attitude of such an ephemeral person as "management", would, therefore, be difficult and the results may very well be flawed.

1.4.2.2. The Financial Accountant must be regarded as the individual to whom "management" delegates the authority to deal with matters pertaining to the disclosure of financial information. He (with the auditor) is the professional expert whose loyalty to independently determined standards lends integrity to the enterprise's financial statements, and who would normally be regarded as "management's" advisor on developments in reporting practice.

1.4.2.3. It is of interest to draw conclusions for the education and training of the financial accountant, arising from the determination of his attitude, rather than drawing conclusions for "management". This is so, from the perspective of the writer who is both an

accountant and an educator, and from the perspective of the specific application of this research.

#### 1.5. THE NEED FOR THIS RESEARCH AND THE CONTRIBUTION THIS STUDY WILL MAKE

As has already been discussed in 1.2., financial accounting has reached a major developmental stage in its evolution. There are renewed moves to establish a conceptual framework. The Accounting Standards Board is in the process of exposing its conceptual framework and the IASC has adopted its Conceptual Framework, which appears to form the basis for much of the ASB's conceptual framework. The Corporate Report opened the debate on the reporting of financial information to a wider range of users and the adoption of the 5th and Vredeling Directives and subsequently the Social Charter of the European Community herald the approach of statutory requirements to disclose financial information to employees.

The accounting literature suggests reasons why financial information should be disclosed to shareholders, (see Chapter 3 for a discussion of this issue), and legislation supports such disclosure. Proposals for a conceptual framework of financial accounting suggest that the employee should also be regarded as a user of financial information, but without suggesting reasons. It is hoped that this study will contribute to the

development of disclosure of financial information to employees by examining the justification for this suggestion that financial information should be disclosed to employees.

If it can be established that there are valid reasons for ~~disclosing~~ financial information to employees, the process can be advanced one stage further by considering the extent to which an Irish paradigm of disclosure has already developed. As there is a possibility that EC legislation and/or UK standards may enforce a disclosure paradigm on Ireland which is appropriate for other European countries, but which may not be suitable for Ireland, it is hoped to contribute to the development of disclosure to employees in Ireland by identifying any substantive characteristics of the Irish paradigm which are unique to that paradigm, and which should be taken into account before importing a European paradigm.

Having identified characteristics of the Irish paradigm, it is hoped to contribute further to the advancement of disclosure by isolating those characteristics which explain the propensity of enterprises to disclose or not. Such an identification should facilitate an extension of disclosure by pointing to enhancement of those characteristics.

In summary at present, all that can be said with certainty in Ireland is that some enterprises disclose financial information to employees and others do not. It is suggested that it would be a useful contribution to the promotion and increase of disclosure in Ireland if an explanatory model could be derived,

to indicate the variables influencing some enterprises to disclose and to determine the significance of uniquely Irish variables.

The writer, in seeking an area worthy of research, is conscious of Tricker's (1978) warning:

" Proposed changes in the basis of accounting have become so profligate that the jocular tag "flavour of the month accounting" does not seem out of place."

and, cognisant of the importance of selecting an area which will prove of enduring relevance, has chosen the field of employee involvement through disclosure of financial information because:

1.5.1. EC legal requirements and/or UK standard requirements for disclosure will probably be introduced within the next decade in Ireland. It is suggested that local characteristics of paradigms of disclosure in other countries are detectable. It is important for Ireland, that current Irish disclosure patterns should be examined to detect any Irish local characteristics. The identification of such characteristics, would prove useful in the enhancement of the Irish paradigm of disclosure and by way of background knowledge for those who become responsible for disclosure to employees in Ireland.

1.5.2. There is an external need arising from changes in management style in recent years and from increasing participation by employees, for accountancy to change patterns and procedures of financial disclosure. For example Handy (1985 pp 393 - 394) refers to the change in management practice from a practice of acquiring labour and "... dumping it on an inefficient market place as soon as it is surplus to requirements", to the modern practice of regarding labour as a fixed asset which must have money and time invested in "... building up the skills and commitment of the individuals even though the pay-off is long term." Also Kast and Rosenzweig (1984 Chapter 3) cite the "New Look" leadership style advocated by McGregor and by Likert; which is a democratic and group oriented style providing general rather than close supervision and which is concerned with the management of human resources through participation. Additionally Daft (1986 pp 103 - 104) refers to the need for 'system effectiveness' measurement and the need to measure factors such as 'survival', 'scarce resource utilization' and confidence and trust between management and workforce.

1.5.3. It is suggested by writers such as Farnham and Pimlott (1985 pp. 50 -55) that Irish society is changing to a more single-class structure and delineations between the rights and life styles of different classes in particular in the workplace are less clear and, in many

Having selected the reporting of financial information to employees in Ireland as a suitable topic for investigation, it was then necessary to determine the most suitable accounting theoretical framework for the research. An examination of the Dominant Approaches to Accounting Theory (Appendix A) indicates the possible alternative approaches.

An inductive approach to this work is attractive, since there is no existing evidence of current Irish practice or attitudes, and there are difficulties in evaluating practice, once determined, against an 'ideal' paradigm. While such a paradigm could, of course, be derived from current European or UK practice, previous research (Teoh and Thong, 1984) has clearly identified unique "local effects" in the general area of Corporate Social Responsibility Accounting (CSR). It would, therefore, seem inappropriate to use a foreign paradigm to test Irish patterns within an area generally considered within the CSR umbrella. Although the inductive approach fell into some disfavour subsequent to its application by the early pioneers (for example, Paton (1922), Hatfield (1927), and Paton and Littleton (1940)), and the normative-deductive approach came more to the fore; in the field of CSR, a number of researchers have found an inductive approach more appropriate; (for example, Medawar (1976), Ullman (1979), Heard and Bolce (1981) and Gray, Owen and Maunders (1987)).

A normative-deductive approach, which firstly states a paradigm against which the accounting practice can be measured, is more value-laden than the inductive approach, and would, of course, permit some evaluation of the practice as measured against the pre-determined paradigm. The inductive approach does not allow for this evaluation or for any statement of what is missing from current practice.

However, in the first instance, this writer feels that it is important to adopt a broadly inductive approach since there is no existing evidence of an appropriate Irish paradigm. Once actual practice has been established, it will be possible to engage in further research which can combine a normative approach. This issue will be explored in Chapter 3. It is within the decision usefulness approach that the issue of disclosure of financial information to employees will be examined. This matter is discussed in detail in Chapter 2.

In order to achieve the objectives of examining the Irish paradigm of disclosure and of identifying characteristics which are uniquely Irish and not universal, an examination of the literature was conducted to determine:

The historical development of the communication of financial information to employees worldwide,



The proposal to harmonise practice in the European Community on the disclosure of financial information to employees and

Legislation in the field of employee participation and disclosure in Ireland.

The work involved in ascertaining current practice and attitudes among major Irish companies is conducted by means of a survey. The form of this survey is a mail questionnaire and the results are collated using Minitab and TSP (a software package produced by TSP International for regression analysis).

Using Minitab and TSP, the relationship between disclosure and a number of independent variables is examined. Multiple regression analysis and other techniques are used to construct a model of disclosure and non-disclosure of financial information to employees in Irish enterprises.

1.7. DEFINITIONS OF "EMPLOYEES", "FINANCIAL INFORMATION", "DISCLOSURE" AND "LARGE UNDERTAKINGS" FOR THE PURPOSES OF THIS STUDY.

1.7.1. Definition of

employees: All levels of permanent employees, including part-time workers and those

on probationary contracts, but excluding directors, temporary and contract workers.

1.7.2. Definition of financial

information: All forms of historical and predictive financial information, including profit and loss accounts, balance sheets, funds and cash flow statements, added value information, budgets, variances, segmental information, employment costs, absenteeism figures, health and safety expenditure, expansion plans, capital commitments and contraction plans.

1.7.3. Definition of disclosure:

Actively making known financial information by means of written, verbal or audio-visual media.

1.7.4. Definition of large

undertaking: All enterprises in the Republic of Ireland with 500 or more employees (as defined in 1.7.1.)

## 1.8. AN OUTLINE OF THE REMAINING CHAPTERS OF THIS STUDY

1.8.1. Chapter 2 examines the justification for regarding the employee as a legitimate recipient of financial information concerning his employing enterprise. In the context of the Decision Usefulness approach, it is suggested that many of the reasons supporting the shareholder as a justified recipient of information apply equally to the employee.

1.8.2. By reference mainly to the literature and to statute, Chapter 3 examines the development of the Irish paradigm of disclosure of financial information to employees. The sense in which paradigm is used is explained. The current proposals for EC legislation on disclosure of financial information to employees are also reviewed in the context of their impact on Ireland. The influences on the Irish paradigm are reviewed, and hypotheses are developed.

1.8.3. Chapter 4 gives a description of the process of collecting data for the empirical study; explains the methodologies used and gives the reasons for their choice.

1.8.4. Chapter 5 presents the data collected which describes the extent to which information is disclosed to employees and analyses the findings regarding the

significance of characteristics of the Irish paradigm in relation to the propensity of enterprises to disclose or not.

1.8.5. Chapter 6 describes the construction of a multi-variate model of the relationship between characteristics of the enterprise and disclosure. The model is used to test the hypotheses referred to in 1.8.2.

1.8.6. Chapter 7 suggests an interpretation of the results of the study which may be useful in progressing the field of disclosure of financial information to employees in Ireland.

#### 1.9. CHAPTER SUMMARY

This chapter has given the background to the study. The objectives of the study and the limitations of the study have also been specified.

An overview of the need for this research and the contribution it is hoped that this study will make have been given, and the research methodologies to be employed in the study to achieve the objectives have been outlined.

By way of introduction to the study, an overview of the following chapters has been tabulated. Critical definitions used in the study have been stipulated.

## CHAPTER TWO

### THE ASSUMPTION OF VALIDITY OF THE EMPLOYEE AS USER WITHIN THE DECISION USEFULNESS APPROACH

#### 2.1. INTRODUCTION

In this chapter, the assumption that the employee is a user of financial statements is examined. It is hoped to establish the justification for regarding the employee (qua employee) as a recipient of financial information, as a fundamental first step in conducting research into the issue of the disclosure of financial information to employees in Ireland. The case for disclosure is examined within a Decision Usefulness approach, by examining the elements of the decision making process entered into by the employee. During this examination, the parallels between the decision making process engaged in by the employee and the decision making process engaged in by the shareholder are highlighted. If it can be established that the decision making process of the employee has the same or comparable characteristics as that of the shareholder, then given the universal acceptance of the shareholder as a

justified recipient (the 'primary' user referred to by the ASB), it is felt that the case for disclosure to employees is greatly strengthened.

Of course, it could be argued that legislation should simply be introduced to require managers to regard particular users as justified recipients of financial information concerning the enterprise: that there is no need to justify a particular group as a user group; simply instruct managers to disclose, and in an orderly law abiding society, managers will comply. It is unlikely, however, that such an approach would be helpful in encouraging confidence in the information disclosed. On the contrary, much energy and effort would probably be devoted to finding ways around disclosing full and fair information useful to users. Williams' (1984) study revealed that directors often adopt social responsibility reporting practices for reasons of altruism and an appeal to logic and the justice of the claim for information. He suggests that a more useful response to appeals for disclosure of information will result from appeals to altruism, justice and logic than from external statutory pressures.

## 2.2. THE DECISION USEFULNESS APPROACH

Dominant approaches to Accounting Theory have been schematically represented (see Appendix A) as the Classical, Decision Usefulness and Information Economics approaches.

'Accountability' within the Information Economics approach is a possible framework for considering the justification of disclosing financial information to employees (see, for example, Gray et al. (1987 pp 89-90)).

Additionally the 'Social Welfare' argument proposed by Laughlin and Puxty (1982 pp 62-68 and 1983) was considered. This argument is based on the dysfunctional results from the application of the User criterion. Laughlin and Puxty suggest that decision usefulness is actually inimical to societal welfare. This suggestion is based on the failure of the proponents of decision usefulness to prove that basing disclosure on the needs of users improves social welfare, and not on their own proof of the converse. Laughlin and Puxty suggest, although they do not offer any proof, that users should not be given information useful to their decision making, because they will only make decisions which will serve their own short term sectoral interests, and will not make decisions in the best interests of 'the organisation' and of 'society' as a whole. This argument has been rejected in the

context of this study. While there may be some validity in the argument in the case of short term speculative investors, or indeed in the case of career path managers, there is no evidence to support the notion that employees, who are generally interested in long term job prospects (see Hussey & Marsh, 1983), will behave in a way that will damage the provider of their employment.

The Decision Usefulness approach was favoured for this study, since the assumption to be examined is that the nature of the decisions taken by the employee support his classification as a decision maker, and that the nature of those decisions may be paralleled with decisions made by the shareholder. Additionally, much of the literature favours the Decision Usefulness approach for shareholder disclosure (see, for example, Hofstedt (1972 pp 285-315), and Libby (1981 pp 4-10)).

Belkaoui (1984 p 192) suggests that Decision Usefulness is the favoured approach for micro social accounting as all such accounting is concerned to some extent with decision making. Pope and Peel (1981) also support the Decision Usefulness approach to a consideration of disclosure of financial information to employees, as does Parker (1986 pp 67-93) whose view of accounting is as a communication medium (albeit flawed) responsive to the decision maker. Additionally, recent models



proposed for conceptual frameworks for the profession (including Solomons (1989) and the ASB (1991), which were adverted to in 1.2.3. and which are discussed further in 2.4.) have adopted the Decision Usefulness approach.

The Decision Usefulness approach has been depicted by the FASB (1980 p 2) as follows:

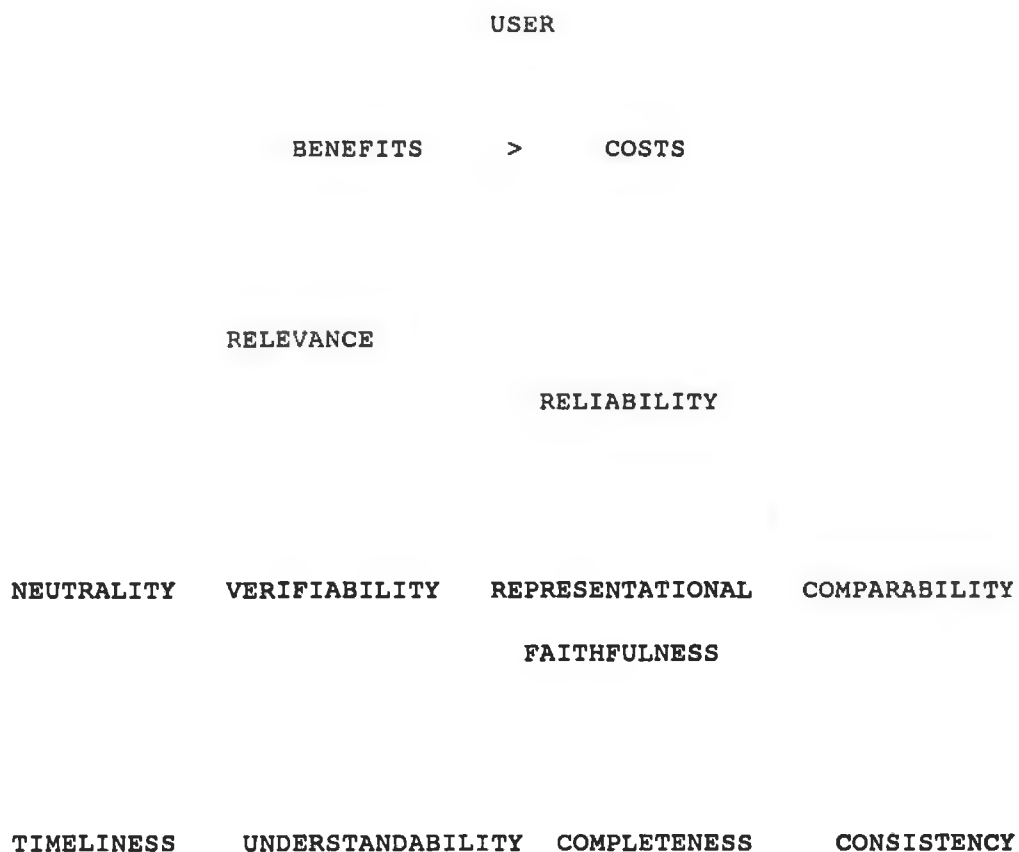


Figure 2.1.

Source: Financial Accounting Standards Board, SFAC2, "Qualitative Characteristics of Accounting Information" (Stamford, Conn: FASB, May 1980)

This chapter considers, within the Decision Usefulness approach to financial accounting indicated above:

a) whether there is validity in considering the employee as a decision maker. If the employee can be shown to be a decision maker, then there is justification in regarding the employee as a USER of accounting information, the first step in the model above, and

b) whether there is evidence in the literature that BENEFITS EXCEED COSTS in relation to the disclosure of financial information to employees, the second step in the model above.

The establishment of these two issues will provide a foundation from which the study can proceed, in Chapter 3, to examine the development of the disclosure of financial information to employees in Ireland.

It should be noted that the further issues referred to in the model, i.e. relevance, reliability etc., have been specifically excluded from the terms of this study in the stipulation of the objectives and limitations of the study (1.4.), and are of interest in the context of future research into the Irish paradigm.

### 2.3. THE NEED TO ESTABLISH THE EMPLOYEE AS A DECISION MAKER

One of the fundamental debates in the development of a framework within the Decision Usefulness approach is the issue of whether financial statements should be directed to specific users and their needs or to a wide variety of unspecified users with unspecified needs, referred to (see Appendix A) as 'The Decision Makers' approach and the 'Decision Models' approach respectively.

Varying views concerning the usefulness of information for decision making have been proposed. For example, writers such as Scott (1941) and Pattillo (1965 p 11) emphasised that decision usefulness derives from the application of equity, truth and fairness to all interested parties, without serving special interests. Sorter (1969) suggested that accounting data should be relevant for a wide range of decision models (The Decision Model approach), and that it is not, therefore necessary to consider who the user is or to cater for his specific needs (The Decision Maker approach); rather to provide a greatly expanded volume of accounting data in the financial reports and to allow each user to make his own predictions and decisions therefrom.

The Decision maker approach is the one on which this chapter is based, on the grounds that the Decision Model approach would result, in to-day's complex business environment, in the problem of information overload noted by Revsine (1970), with the concomitant risk of decline, or even complete loss, of usefulness.

The Decision Maker approach identified by writers such as Hofstede (1972) and Libby (1981) seeks to distinguish between the various individual decision makers and then to identify their needs. Hendricksen (1982 p 11) suggests that while such identification may lead to a single set of accounting principles, that it is not possible to so determine unless the individual decision maker and his needs are identified.

A somewhat similar example may be drawn from the medical profession, which has, as its fundamental conceptual framework, the principles of Hippocrates. Medical conduct is guided by the bedrock principles, described in Walton et al, (1986 p 56), as:

- \* responsibility to the individual patient
- \* the application of the best medical knowledge,
- \* independence from the patient,

- \* prohibition on inflicting any harm on a patient
- \* medicine as a prevention of illness as well as a cure and
- \* confidentiality of information elicited from a patient.

The spirit of these principles, although they date from 370 B.C., transcends their archaisms and continues to inspire the ethics and medical standards of the modern profession. Questions of medical standards on issues identified by McGrew (1985 p+37) as including, for example, genetic engineering, the treatment of prisoners of war and abortion, must be tested for consistency with these fundamental concepts of medicine before they can be fine-tuned for points of detailed application. The first step in this medical conceptual framework was the identification of the individual "user" or decision maker. Hippocrates identified the individual patient, and he justified the choice of the individual patient rather than, for example, Society, the State or the general good, as the primary focus of the doctor's responsibility because of the need of the patient to take decisions about issues like changes in lifestyle, preventative medicine, agreement to surgery or other treatment etc. Therefore in developing the medical conceptual framework, the individual user (i.e. the patient) was identified and justified as a user because he was a decision maker. The patient was identified as the 'primary'

user which serves as an interesting (though by no means perfect) analogy in the examination of the employee and others as users of accounting information.

#### 2.4. RECENT APPLICATION OF DECISION USEFULNESS IN CONCEPTUAL FRAMEWORK CONSTRUCTION

This approach of identifying the individual users of financial reports as decision makers, although not without its critics (see, for example, Puxty 1978), has been adopted by studies proposed in recent times for a conceptual framework of financial accounting, and by the Commission of Financial Reporting in Ireland (1992).

These studies on a financial accounting conceptual framework identify their writers' views on who the users of financial statements are (See Appendix B). Macve (1981), however, goes further than simple identification. He suggests that the reason for the need to identify the users is as a first and fundamental step in the process of agreeing a conceptual framework. He proposes that the very first question to be asked in attempting to agree a conceptual framework is 'For whom are accounts to be prepared?'; and that issues such as 'By whom should accounts be prepared?', 'For what purposes are they

wanted', and 'What kind of accounting reports are suitable for these purposes' would follow from the answer to the first question.

Most's (1982 pp 1-31) suggestion is that a set of qualitative characteristics can be established by identifying users and by analysing their needs as decision makers. He suggests that from these qualitative characteristics various standards, such as methodological standards, evidence standards, measurement standards and disclosure standards can be developed, all leading to publication standards which satisfy the user needs identified originally.

Solomons (1989) takes the same route and identifies four classes of users which he suggests are of prime importance when considering what kind of information financial reports should provide. Solomon's proposal is of interest, as he does not simply list the users he proposes as decision makers, but he suggests that the users that he lists are 'primary' users. This notion of 'primary' and 'secondary' users is taken up again by the ASB proposal referred to below, and is, to some extent, reflected in the accountability approach by what is referred to as the 'primary level influences of organizational activity' referred to by Gray et al. (1987 p 77).

The most recent proposal for a conceptual framework is currently in its draft stages. The ASB's (1991) draft 'Statement of Principles on the Objective of Financial Statements and Qualitative Characteristics of Financial Information' also lists the users of financial statements and includes the employee as a user of financial statements. However, the draft proposes that the shareholder should be awarded a primacy over the other users. The reason stated for this award of primacy is attributed to the position of investors as decision makers who have provided risk capital.

All the conceptual frameworks which have been proposed as working frameworks by the professional accountancy bodies in the last twenty years, have listed the employee as a user of financial statements (See Appendix B). However, none of the proposals has examined rigorously the justification for the inclusion of the employee (or indeed, of the shareholder or of any other user) in the list of users of financial information.

The proposals for a conceptual framework have all adopted the approach of identifying individual users who are suggested as justified users and recipients of published financial statements. The most recent, and the one most likely to form the basis for the framework to be adopted by the Accounting profession in Ireland (i.e. that of the ASB) has suggested that



the shareholder be regarded as a primary user and the employee as a secondary user. As mentioned in Chapter 1, this award of primacy is not readily acceptable in Ireland.

## 2.5. THE NATURE OF THE DECISIONS MADE BY THE EMPLOYEE

An employee has to make decisions every day. He has to decide which overalls to wear, whether to park his car in the managing director's space, and whether to eat his sandwiches before or after answering a query. However, none of these decisions requires access to the company's financial statements for effective decision making. In order to justify the classification of the employee as a user of financial information because he is a decision maker, he must make decisions which require him to use financial statements in order to increase decision effectiveness. This section considers the nature of critical decisions made by the employee which, it is contended, support his classification as a user within the context of the Decision Usefulness approach.

Additionally the section considers how each characteristic of the employee as decision maker compares with the same characteristic of the shareholder, who has been proposed as the decision maker by writers such as Montgomery (1979) who suggests that financial information should be provided to the

shareholder because of his need to make resource allocation decisions. Glautier and Underdown (1982 p 6) attribute the importance attached to financial disclosure to:

".. the need of a capitalist society to mobilize savings and direct them into profitable investments. Investors ... must be provided with reliable and sufficient information in order to be able to make efficient investment decisions."

Solomons (1989) and the ASB (1991) additionally award 'primacy' to the shareholder. In the sections which follow, the nature of the decisions taken by the employee are considered. There is no evidence in the literature of any previous consideration of this issue. However, previous research has suggested that employees are most interested in information about the future of the employing enterprise (Hussey and Marsh (1983 p 97)), and that they are interested in the profitability and in the wages expense (Mitchell et al. 1981). Maunders (1984 pp 10-11) suggested that the employee should be given information which would enable him to make predictions concerning future income from employment together with associated risks. Based on these issues, and on a consideration of comparable decisions taken by the shareholder, the following construct of the MAIN decisions taken by the employee as a decision maker within the Decision Usefulness approach was formulated:

- \* The employee as risk bearer (2.5.1)
- \* The employee as a recipient of income (2.5.2.)
- \* The employee as property owner (2.5.3.)
- \* The employee as stakeholder (2.5.4.)

Under each heading, the nature of the decision made by the employee is examined and the arguments for regarding the employee as a decision maker arising from decisions which he has to make are considered. The nature of those decisions is compared with the nature of comparable decisions made by the shareholder, and the issue of awarding primacy to the employee is also considered. The wider implications of the decision making role are examined in 2.5.4. which examines the employee as a stakeholder.

#### 2.5.1. The employee as risk-bearer

This section examines the proposition that the employee, in entering employment with an enterprise, and in investing his "human capital" is a risk bearer. As a risk bearer the employee has decisions to make which warrant his classification as a user of financial information.

The shareholder invests his capital in a company and takes a risk in a two fold sense:

2.5.1.1 He must wait for his return on his investment until all the other contributors, i.e. employees, creditors, and lenders have received their return. His return is not guaranteed, therefore it is risky.

2.5.1.2 It may be that in the event of the other contributors not receiving the return due to them or of not receiving repayment of the 'capital' invested by them, recourse may be made to the capital invested by the shareholder. He may therefore lose the capital itself, extending the risk, adverted to in 2.5.1.1, to the capital.

The shareholder is a risk-taker who has no guaranteed cover for his risk-taking in a situation where other risk-takers have some form of guarantee for their investment. The debenture holder and lender are guaranteed their interest; and they may negotiate additional protection by securing the debt by a floating or fixed charge. The creditor is guaranteed payment before the shareholder and may also negotiate some form of protection such as the sale of goods subject to reservation of title, and may additionally charge interest for late payment of the liability. The employee is guaranteed his wages and has additional legal protection which classifies him as a preferential creditor in a winding up. Additionally he has the

protection of redundancy payment should his job terminate. Therefore, of all the risk takers, the shareholder, on the grounds that his risk is completely exposed while the other risk takers have some form of cover, has been regarded as the risk-bearer. This factor has entitled him, among other things, to financial information relating to the company for which he is bearing the risk. Traditionally, the employee has hardly been regarded as a risk-taker, and certainly not as a risk-bearer. The sole risk bearer has been deemed, by writers such as Stahl (1976 p.174) to have been the shareholder.:

".... it is easy to assign to the owners of capital a special position. The risk they bear justifies their exercising the decisive influence over the running of the company by appointing the management..".

However, an examination of the situation of the employee indicates that he may very well be regarded as a risk taker. Just as the shareholder has financial capital tied up in the organisation, contingent upon its future performance, so the employee has human capital dependent for its realisation on the same source and subject to equivalent, if not greater risk. An employee has skills, training and labour in varying degrees that constitute his human capital and that permit him to earn income each year. This human capital provides a future cash flow to the employee just as any other form of tangible property which yields a monetary return has a present value to its owner. The employee has an investment decision to make

which is admittedly not a simple one. For example, an employee may have to decide between investing in his stock of human capital or in expending it, in the same way as a capitalist must decide whether to invest his financial capital or expend it. Then the human capital, in the same way as the financial capital may be invested in an enterprise to give the investor a future periodic flow of income. Human capital has many of the characteristics of financial capital. Holders of human capital are, more than ever before, entrepreneurs having to make investment decisions under uncertainty. The highest returns go to those investors who are best able to foresee changing circumstances and to adjust rapidly to them. In many cases, an employee has invested many years of his working life - a long term investment of his human capital - with one company and therefore has a substantial vested interest in the performance and future survival of the company. Risks taken by employees have been identified by Jonsson (1978) as:

1. The risk of damaging health whilst working
2. The risk of becoming unemployed due to a company's closure
3. The risk of being forced to move from a locality where there is a permanent shortage of job vacancies.

To this list may be added:

4. The risk of investing his life and talents in a skill that may become obsolete
5. The risk of having inadequate funds to finance his future plans owing to a decline in the marketability of his skill.
6. The risk of job dissatisfaction due to poor management policy
7. The risk of depreciation of his assets i.e. his skills and talents due to abuse by his employer

The employees, in the current market position, therefore, can be regarded as risk takers. They are also similar to the shareholders in that there is no complete cover for the risks outlined above which they take. Even though redundancy or compensation payments may be paid in certain circumstances, it is difficult to imagine how money after the event can cover the risk taken by employees of possible damage to health, of family break-up, underutilised skills, loss of employment etc. Employees undoubtedly bear these risks and help to support risky enterprises with their investment of skills, enthusiasm and hard work. To the extent that they do not have any cover for the exposure of the "capital" they are investing, they are similar to shareholders and can be regarded as risk-bearers. It is possible to pursue the argument further and to say that not only are employees risk

bearers, like shareholders, but that they bear a greater risk than that borne by the shareholders. The shareholders, in exchange for the risk they bear, receive compensation in the form of residual profits and residual assets in the event of a liquidation. The risk taken by the employee can, like the risk taken by the shareholder, vary. The more specialised the operation of the company the employee works for, the greater the risk identified above. The shareholder would normally expect a premium attaching to a risk to which he exposes himself, in the form of a higher expectation of return. There is, however, no evidence of any such premium being available to employees. The apparent absence of such premium is explained by Jonsson (1975) by the facts that:

1. Companies are not legally responsible for certain risks (e.g. permanent unemployment owing to a company closing down or reducing its operations) and the consequences of the risk.
2. Employees often have little choice over the jobs they take and those with least choice may be obliged to take jobs with most risks.
3. Employees are not aware of risks especially health risks because they are not entitled to receive the necessary information.



4. Employees are irrational in their behaviour and do not take long term health risks into account.
5. The employees are unable to exact the compensation either in advance or after the loss has been incurred.

Additionally employees are not in a position to spread this risk in the same way as other risk takers can. It is possible for shareholders, lenders, and creditors to have a wide ranging portfolio mixing high and low risk investments. It is not normally possible for an employee to have more than one employment and so he is unable to spread his risk. This factor, quite clearly, exacerbates the degree of risk borne by the employee. In many instances, shareholders, taking a high risk investment, will understand that risk, and will not invest funds that they cannot afford to lose. Employees normally find themselves in the opposite position, that is, the employees taking the riskiest employments may be those who can least afford to lose their jobs.

The risk borne by shareholders and employees can be measured in financial terms as the loss of the capital investment and potential earnings for the shareholder and the loss of wages for the employee. However, the non-financial risk is more difficult to measure. Apart from some suicides in the early

part of this century arising from losses in shareholding there are few documented cases of mental trauma arising from losses by shareholders. The reports of the Black Monday crash of October 1987 do not refer to any evidence of damage to health arising from the crash. On the other hand, there is much evidence of damage to health, both physical and mental arising from employment or lack thereof, both to individuals and, indeed, to whole communities, as the Smith Report (1982) on Consett highlighted in the UK. Writers such as Routh (1986 p 194) have likened the loss of one's job to a social evil on par with infant mortality, drug addiction, road accidents, illiteracy and crime. Haberson's (1986) study has produced evidence that unemployment is not only loss of monetary income, but loss of moral standing and deprivation of the psychological supports normally found in employment.

Therefore, for the reasons that firstly, the employee does not receive any compensating premium for at least some of the exposed risk he is taking and secondly, he cannot spread the risk he is taking, it would appear that not only is the employee a risk-bearer, but that he bears a greater risk than the shareholder.

It is suggested that the employee as risk-bearer has decisions to make around the risks he takes which warrant his classification as a user of financial statements.

Shareholders take risks in investing their financial capital. The ASB (1991) justified the shareholder as a primary user of financial statements arising from the risk inherent in his investment. It is, therefore, proposed that, arising from his role as risk-bearer, the employee is as entitled as the shareholder to be regarded as a primary user of financial statements.

#### 2.5.2. Employee as a recipient of income

The second characteristic of the employee which should be considered in examining the nature of the decisions he has to make, is the employee as a recipient of income. The employee has to make decisions concerning the form, content and extent of his remuneration package.

Of course, the shareholder also has to make decisions concerning the income which he takes from the enterprise. As early as 1908 Smalenbach proposed that shareholders were entitled to information regarding the income which had been earned on their investment and related distributions, in addition to information regarding the state of their investment. Edwards (1989 p 116) agreed that one of the

primary purposes for giving financial reports to shareholders was to give them a basis on which to evaluate the total dividend.

Although it may appear that the distributions to the shareholder may be more discretionary than those to the employee, and more closely linked to profit, thereby supporting the idea that the shareholders are more entitled to receive financial information in order to make decisions concerning their income, this may not be the complete picture.

This writer would suggest that the employee, in his role as income-taker may be as entitled as the shareholder, in his role as income-taker, to receive financial information for three principal reasons:

2.5.2.1. The magnitude of the income taken by the employee will, in most instances, be a greater proportion of the enterprise's total income than that taken by the individual shareholder.

2.5.2.2. The employee's economic reliance on the income from the enterprise probably outweighs that of the shareholder, but at the very least, is almost certainly equal to it.

2.5.2.3. Research by writers such as Lintner (1953 pp 218-249), and Fama (1970), and more recently, Aharony and Swary (1980) and Asquith (1983) indicates that the dividends paid to shareholders are not likely to be based on 'ability to pay' but on a desire for 'dividend smoothing' or 'dividend stability', whereas the income taken by employees is, in the current economic climate in Ireland, more likely to have been based on 'ability to pay' than ever before. This is supported by discussions which the writer has had with Trade Union research officers of SIPTU and ICTU. Therefore, it would seem that if the shareholder is entitled to financial information because he is in receipt of income, the level of which is dictated by the financial results, then the employee should also be justified in receiving financial information as he is in receipt of income which may be more closely related to the financial results.

For the above reasons, it would seem that employees, in their role as income-takers, are entitled to be regarded as users of financial information. Additionally it is suggested that they are, at least, as entitled as shareholders in their role as income-takers to receive financial information.

### 2.5.3. The employee as a property owner

The third characteristic of the employee which casts him in the role of decision maker is that of property owner.

This section considers the employee as an investor of capital, i.e. his stock of human capital, in an enterprise. In the same way as shareholders investing financial capital in the enterprise are entitled to assess the manner in which their capital is being utilised and to make decisions concerning their capital, employees are entitled to make decisions concerning their capital. In an Irish context, there is the added dimension of the view of the capital invested as 'property' which is capable of attracting the Constitutional protection of property rights. (Art. 40)

The term "property" has an extremely wide definition in law, ranging from the ownership of land to things having a proprietary character, such as intellectual property, identified by Fitzgerald (1966), life, liberty and estate, identified by Locke (1920 p 251) to that now thankfully out-moded concept of a man's property right to "conjugal affection", identified by Hobbes (1651). Kocourek (1928 p 178) was even prepared to include "jural things of no direct economic value, like a man's reputation for social relations, corporal integrity, life, and family relations." Lord Shaw

(1916) thought that "a man's aptitudes, his skill, his dexterity, his manual or mental ability were all his own property." However for this purpose a definition more susceptible to accounting measurement will provide a more useful benchmark against which to compare the employee's property rights arising from his job with the property rights of a capitalist arising from his shares. The definition proposed for property is "an asset, tangible or intangible in which the owner has established ownership by contractual or other legal arrangement either with or without measurable consideration and from which the owner expects a future flow of revenue which may or may not be quantifiable in monetary terms". It is suggested that an employee has a 'property right' to his job once he has established ownership.

Historically this view of the employee's property right to his job has been considered, although sometimes with a slightly different perspective. For example, Lord Denning's widely quoted "right to work" refers rather to the social desirability (although perhaps practical impossibility) of the provision by society of a job of work to all members of society willing and able to undertake paid employment. Another example is the case of the rules of the Birmingham Friendly Society of Wire Weavers quoted in Webb & Webb (1919 p291), which stated "...that the trade by which we live is our property ... to be protected by all fair and legal means",

which was more a cry for unity amongst the workers against the actions of employers than a statement of property rights of individual workers to their particular job established by tenure and consideration.

In 1770 (p 123) Adam Smith wrote of "..the property which every man has in his own labour", stating that it was "..the original foundation of all other property," and thus, "..the most sacred and inviolable".

By the mid-nineteenth century, however, the fear of organised labour had become very clear, and a Royal Commission on Trade Unions was set up. In 1869 (p 17), in its final report, the notion of the protection of the employer was uppermost, and to the extent that there was any consideration of employee's rights, the report only considered the rights of individual employees who wished to stand alone against the Trade Union:

"It is more important that the law should protect the non-unionist workman in his right freely to dispose of his labour as he thinks fit, because, standing alone, he is the less able to protect himself." (pp 17-18)

Clearly what was behind this seeming concern for the rights of the employee was not that he should be protected from his employer, but that he be protected from the trade union. The Royal Commission report went on:



"It is important to ensure that no obstruction be placed in the way of the employer resorting elsewhere in search of a supply of labour."

In other words, it was quite clear that the EMPLOYER was the party in possession of the property (i.e. the job), and it was his property, not the employees, to do with as he pleased.

During the nineteenth century the legal relationship in which an employee stood was that of party to a contract. However a breach of a contract of service was a criminal offence. The Conspiracy and Protection of Property Act 1875 abolished nearly all forms of criminal liability flowing from breach of contract. What has been referred to by Webb & Webb (1919 p 291) as a "fundamental revolution in the law" meant that thenceforward master and servant became, as employer and employee, two equal parties in a civil contract. This was the theory of the new law, although it has been suggested by Heppple (1979 p 340) that "the legal duties imposed on the employee are more onerous than those of the employer at common law," and Sir Otto Kahn-Freund (1984 p 164) described the individual relationship as:

" .. an act of submission, in its operation it is a condition of subordination however much the submission and the subordination may be concealed by that indispensable figment of the legal mind known as the "contract of employment" .. which is a command under the guise of an agreement".

However, the effect of the replacement of "real property ownership" by "contract" as the primary source of legal rights began to be seen on cases effecting employment. Bramwell B. in R. v. Druitt (1867) in his address to the jury said:

"No right of property or capital .. was so sacred or so carefully guarded by the law of this land as that of personal liberty.. but that liberty was not liberty of the body only. It was a liberty of the mind and will; and the liberty of a man's mind and will, to say how he should bestow himself and his means, his talents, and his industry, was as much a subject of the law's protection as was that of his body."

A very early mention of the property right of employees to their jobs was seen in 1899 in the case of Allen v. Flood. The argument was put that the workers had "..an interest in their occupations like the property in land or personalty." This argument was accepted by Grantham J. when called upon to give an opinion in the House of Lords:

"This right to work as he likes is as much a personal right of the individual as is his right not to be molested in his person or his property".

There was not complete unanimity, however, on the issue, and Mathew J. disagreed:

"I am not aware of any authority for the proposition that the law recognises a man's interest in his trade, profession or business as analogous to property in land or to a right created by contract."

More recent evidence of a slight shift towards the view of employee having a property right to the job, was seen in the 1940 case of *Noakes v. Doncaster Amalgamated Collieries Ltd.*, heard by the House of Lords. It was decided that an employer's contractual right to the services of his workers did not form part of his property for the purposes of the Companies Act 1929.

Lord Denning has repeatedly stated since the 1952 case of *Abbott v. Sullivan* that "the right of a man to work is just as important to him, if not more important, as his rights of property." He indicated in the 1969 case of *Lloyd v. Brassey* that "... a worker of long standing is now recognised as having an accrued right in his job; and his right gains in value with the years."

In 1964 (p 3) Meyers sought to identify "the right to continue in employment at the will of the employee." More specifically Meyers thought that there existed a "consistent direction of social change" giving workmen "a control resembling that of a property owner over his property."

In Ireland the doctrine of 'voluntaryism' or non-intervention by the State in the field of employment law, which had characterized the scene since the Conciliation Act 1896, began

to suffer encroachment with the introduction of several pieces of legislation in the early 1970s which were designed to protect the position of an employee within his employment. The application of this legislation has led to what is effectively a "property right" to a job, once it has been established as a job. These pieces of legislation lay duties (usually designed to protect the employee) on the parties, which cannot validly be set aside by agreement. This was anticipated by Dicey (1926 p 284), who concluded that the "rights of workmen would become a matter not of contract but of status." Since the provisions relating to unfair dismissal, all employees within their scope have obtained legal rights designed to protect their job security, and the new significance of "status" as a legal concept is that it confers an automatic right to reinstatement in the event of a dismissal not justified by law. Also it confers rights on employees to what is effectively a compensation payment similar to other capital compensation payments for depriving property owners of their rights to their capital assets.

Legislation, now on the statute books, which includes unfair dismissals legislation, redundancy legislation and equality legislation, endows employees with rights which are not enshrined in the employment contract. For example, the right not to be unfairly dismissed exists under statute, separate from contractual rights. There are therefore, on one hand,

rights enshrined in the employment contract enforced in civil actions in the ordinary courts and, on the other, a separate minimum "floor of rights" for individual workers enforced by civil claims in the industrial tribunals. This statutory "floor of rights" recognises many conceptual rights such as the right not to be unfairly dismissed, the right not to be sexually harassed, the right to retain one's job even though one is sick or having a baby, the right to strike, to equal pay etc.

These Acts include the Unfair Dismissals Act of 1977 which included provisions protecting the right of an employee to retain his job once it has been established as his job, usually by tenure of more than twelve months. In other words, where it had been previously assumed that an employer offering a job was the "owner" of that job and could withdraw the job from an existing holder at will and fill it with another person, the "ownership" of the job has shifted from the employer to the holder. It is now difficult to detach an employee from his job, once he has established it as his job by holding the position for the period stipulated by the Act. Of course, the ownership of property confers certain rights. For this purpose it may be said that ownership is not a single category of legal 'right' but is a complex "bundle of rights". These property rights have been classified by Abrahamsson and Brostrom (1980 pp 324-326) as "property for power" and "property for use." If an employee has this "property right" to his job, then it is

probable that what he has is a "property for power" right rather than a "property for use" right. It is inconceivable that an employee could dispose of and use his "property," i.e. his job, in any manner he thinks fit, but it is more appropriate to regard his property right as a "property for power" right, which entitles him to certain benefits and responsibilities deriving from the property and also (inter alia) to relevant information relating to the property.

When the Redundancy Act was introduced into Britain, in 1965, there was by then, a developed belief that an employee, deprived of his "property" (that is, his job) through no fault of his own, was entitled to a compensation payment for this deprivation of property, in a similar manner to the compensation payment for the compulsory acquisition of property. The Times of London (1965) editorialized:

"A man has some rights in his job just as an employer holds rights in his property, and his rights gain value with the years".

This development was cemented by the introduction of the Unfair Dismissals Act 1977. Redmond (1980 p 89) has said of this legislation :

".. it is the greatest signpost to date on the road to recognition of proprietas on property rights in employment."

An explicit statement came from the President of the Industrial

Tribunals in Britain in the case of Wynes v. Southrepps Hall  
Broiler Farm (1968):

"Just as a property owner has a right to his property and when he is deprived he is entitled to compensation, so a long-term employee is considered to have a right analogous to a right of property in his job."

It follows that the enterprise, co-managing the "property" with the employee is responsible to the employee for actions which may impinge on his "property". Although not explicit in the statute, it is implicit in the Constitution that a citizen is entitled to information concerning his property. Article 40 s.3. states that the State will "..protect as best it may .. the property rights of every citizen." It can be argued that since the State protects the property rights of a citizen owning shares in an enterprise by insisting that the enterprise gives information to the shareholder, then presumably there is also a Constitutional right for an employee holding a property right to his job in an enterprise to receive equivalent information since his property right is analogous to the property right of the shareholder. This constitutional position was most clearly stated by Costello J. in Caffola v. O'Malley (1985), when he said :

"Generally speaking, the right to earn a livelihood can properly be regarded as an unspecified personal right first protected by Art.40.3.1. But this right also exists as one of a bundle of rights arising from the

ownership of private property capable of being commercially used, and so receive the protection of Art.40.3.2."

This constitutional protection of the property right of the employee to his means of earning his livelihood was cited and accepted even in cases where statute specifically allowed the removal of a holder of an office "at any time" as in the case of *Garvey v. Ireland* (1981), and where the dismissal of an employee would have adversely affected his future employment prospects and his reputation as in the case of *The State (Gleeson) v. Minister for Defence* (1976).

The European Commission's Green Paper (1975) clearly summarized the situation:

" Employees are increasingly seen to have interests in the functioning of enterprises which can be as substantial as those of shareholders, and sometimes more so."

The position of Ireland as a member of the EC will be considered in Chapter 3.

Hoxley (1930), referred to the right of the shareholder to financial information which would assist him in appraising the value of his investment. In the UK, the Gladstone Committee



(1844) proposed the disclosure of the balance sheet to shareholders to allow them to assess the 'real state of the concern'.

In Ireland, the Constitution (Bunreacht na hEireann) affords, in Art. 40 s.3. an assurance that the State will "... protect as best it may .. the property rights of every citizen." This right, which has no direct equivalent in the UK, has been applied to the right of a shareholder with shares in a limited company in a number of ways, including, for example, the right to dispose of his shares in any legal manner he thinks fit, and to require that his statutory entitlement to financial information arising from the holding of "property", i.e. his share capital, be made available to him. Arising from this Constitutional right, case law has prohibited the Revenue Commissioners from applying the doctrine of Ramsay v. Rawlings in Ireland, (in Re: Patrick McGrath v J.E. McDermot, 1988), and has forced a company to produce statutory accounts for a shareholder, where a company had simply not produced accounts and continued to pay the fine imposed under the Companies Act (Musgrave v. McGrath Ltd. 1979).

The shareholder is an investor of capital in which he has a property right. The employee is also an investor of capital in which it has been established that he has a property right.

Both groups are entitled to be regarded as users arising from the decisions which have to be made surrounding their respective properties.

In summary, it is suggested that the employee is entitled to receive financial information arising from the decisions which he must make concerning the investment of his property, i.e. his human capital in the enterprise. The decision making in which the employee engages in his role as property owner is similar to the decision making in which the shareholder engages in his role as property owner.

#### 2.5.4. The employee as a stakeholder

As a risk-bearer, a recipient of income and a property holder, the employee undoubtedly has a 'stake' in the enterprise. The "stakeholder" concept is derived from a perspective of the corporation as an entity controlled by the managers who serve jointly the shareholders, creditors, employees, customers and others with whom they have contractual arrangements. (This concept is, of course, insufficiently broad for some critics who view the enterprise as responsible to all of society. However, such a broad view, although it may have validity, is outside the terms of this dissertation).

At the time when accounting, as we now recognise it, was developing, social structures in the capitalist society of the time ascribed primary decision making status to the shareholder and secondary status to the creditors. Financial accounts were designed to give a 'true and fair view' to the shareholder. Sullivan (1987) has suggested that the reason why the law required financial statements to be given to shareholders and to no other group was because of the social structures in place at the turn of the century in Ireland. He contends that the shareholders were the capitalists in what was then a mainly capitalist society, and that their role as capitalists gave them the power which permitted them to influence the flow of information towards them. Under the shareholder concept, the shareholder was the person with the power to make decisions, and therefore the person to whom financial information was disclosed. Employees were not regarded as decision makers.

Concurrent with the development of the modern financial statements there existed what Sismondi (1903 p211) described as two distinct social classes, the rich and the poor, the capitalists and the workers, whose interests were in constant conflict with one another. Parker, Ferris & Otley (pp 132-134) refer to the early 1900s view of 'scientific management' where employees were regarded as controllable in similar

fashion to machines. It is hardly surprising that the disclosure of information, in such an environment, should be to the powerful capitalist and not to the worker.

Accountants who do not disclose information sometimes quote the lack of legal requirement as their justification for not doing so. (See analysis of empirical findings in Chapter 5). Presumably they would regard a legal requirement as their main justification for disclosure. This view, however, displays a failure to perceive that the law alone does not, and should not lead Society's view on any matter. The law responds to societal concerns, but Society must express its concern in the first instance, viz. O'Higgins (1987) suggested:

"Law is one of the principal methods whereby society gives effect to social policy."

Roshier and Teff (1980 p 122) lend support to this view:

".. the formulation and operation of law is much more a result of social economic and political conditions than it is a cause of them".

There is in the socio-legal literature, considerable debate on the precise influence of particular social structures on the manner in which social consensus is reflected in the law, but there is little disagreement with the fundamental view that law

emerges and changes in response to societal demand and not the other way around. (See, for example, Pound (1954) and Dworkin (1965)).

It is suggested here that social evolution is underway in the area of Society's perception of the employee in the workplace.

It has been suggested that the right of shareholders to receive information about the enterprise in which they have invested sprang from their position as providers of capital within a capitalist economy. At a time when many shareholders, because of the development of large enterprises, could not directly control the professional managers, there arose a concern among society's decision makers, i.e. the capitalists, about the protection of shareholders and their right to information to enable them to make decisions. The law responded to the societal concern of the time by legislating for rights to information.

There are now many "capitalists" who sell their labour, and many "workers" who derive income from the holding of assets, be it the holding of a bank or building society account, the ownership of a house or the holding of equity, either directly or through a pension fund. Society is evolving. Management styles have changed and are still changing. The philosophy of the employee as a member of a collaborative team rather than as

a servant is emerging. In this regard the culture of Japanese organizations and the philosophy and practices of Japanese managers with a high degree of participative management have received considerable attention. (For example, Ouchi (1981 p 143) suggests that US corporations need to adopt a new participative approach to management.) As Bullock (1977) pointed out in his report to the Department of Trade in the UK, the significance of educational developments is not just that more people have received a basic education, but that the nature of education has changed. There is now less concentration on formal authoritarian teaching methods and more encouragement to children to adopt independent and questioning approaches to develop individual initiative and ability. The effect of these post-war social changes has been an increasing desire among employees to control their working environment and to have a say in decisions which affect their working lives.

The concept of the right to a day's wage for a day's work and nothing more emanates from the "servant" view of the employee. If it is accepted that the societal view of the employee is moving away from the view of "servant" towards the view of the employee as a "member of the enterprise" or "stakeholder" or "contributor" (as described above) then the implicit legal rights of the employee move away from the right to only a fair day's wage for a fair day's work. The proposition here, it must be stressed, is not that Society has CHANGED, but that

Society is CHANGING: as Pound (1954) described it, "a stage in social evolution". We are currently in a transitional period and our views of the rights of the employees are also changing.

It is within this context of evolution that this study tries to examine the future when the employee will come to be regarded much more widely as a "stakeholder" than as a "servant". One of the consequences of this shift is that the employee makes decisions not just as an income taker, but also as a stakeholder. Maunders (1984 pp 23 - 24) summarises the literature on the decision making engaged in by the employee as a stakeholder as including decisions relating to health and safety risks associated with employment, the arrangements for participation in decision making and the motivational devices in which he is asked to participate.

#### 2.5.5. Summary

Section 2.5. considered the validity of regarding the employee as a decision maker and therefore as a user of financial statements of his employing enterprise arising from the nature of the decisions which he has to make. It also tested the justifications for regarding the employee as a decision maker in this context against the justifications which are implied for regarding the shareholder as a decision maker in the

context of users of financial statements. This writer suggests that, because of the nature of the decisions made by the employee, there is validity in assuming that he is a decision maker and therefore a user of financial information. Additionally it is suggested that, given the parallels established between the decisions taken by the employee and those taken by the shareholder, the case for awarding 'primacy' to the shareholder over the employee is very weak.

## 2.6. A CONSIDERATION OF 'BENEFIT > COST' OF DISCLOSURE

### 2.6.1. Difficulties in determining 'cost' and 'benefit'

Within the Decision Usefulness approach referred to in 2.2. above, the next step, having considered the Users, is to examine the cost and the benefit of the proposed disclosure. Some research has been done on the cost benefit analysis of disclosure to employees. Puxty (1978) considered the constraints on Decision Usefulness, but in relation to employee decision makers, Pope and Peel (1981) suggest that the only constraint on information should be the processing costs. They contend that management often over-estimates the costs of greater information disclosure to employees and under-estimates the benefits.



It is difficult to measure both the 'benefit' to be derived from the disclosure of financial information to employees and the 'cost' of such disclosure. Additional difficulties arise from the fact that there are a number of potential beneficiaries and cost bearers associated with the disclosure whose interests may either overlap or conflict. What may be beneficial for the employees may not prove beneficial for the shareholders, and what may be beneficial for one group of employees may not prove so for another group. The benefit or cost may not be exclusive. What may be a benefit for the employees may have the same benefit for other stakeholders.

#### 2.6.2. Benefits arising from the disclosure of information

Benefit streams arising from the disclosure of financial information to employees flowing to different beneficiaries may overlap. For example, if disclosure improves communication between employees and management, both employees and management probably benefit. However, it is useful to consider the classifications identified by Parker (1976). He identified benefits under the headings 'benefits accruing to the organization', 'benefits accruing to management' and 'benefits accruing to the employees'.

#### 2.6.2.1. Benefits accruing to the organization

The financial benefit arising from the disclosure of financial information has been proposed by writers such as Craig and Hussey (1982) who refer to the business planning benefit where improved organizational performance can be achieved by providing employees with feedback on their performance. They also refer to the achievement of a 'progressive image' in the eyes of the employees and others which may result from disclosure to employees. The Institute of Directors advocated disclosure, relying on the Bolton Dickenson Report (1985) as a justification for such disclosure. This survey, found that of companies which had introduced employee communication schemes, 66% reported improved morale and loyalty, 62% increased productivity, 55% fewer industrial disputes, 49% better customer relations and 41.5% reduced employee turnover. These results were achieved in companies ranging in size from 4 - 72,000 employees.

Leavitt and Mueller (1977) report an improvement in company performance as the quantity of feedback to employees increased. They also observed high hostility and low confidence when no feedback existed. Herzberg (1968) reported a positive motivational response when periodic reports were made directly available to workers.

Companies in the UK like John Lewis, and Levi Strauss in the US, state in their corporate manifestoes that their employees are their central, though by no means, their only concern. Other organisations cite the development of their human potential as a prime objective, although not one that supersedes a series of others. Such organisations are reported by Lessem (1977) as having been judged as "successful". Research done by Turner et al. (1977) supports the belief that the provision of information to employees as part of an "employee communications" policy favours industrial peace.

The conclusion that one is to draw from these reports and others like them is that communication to employees is beneficial, and therefore justified by that very benefit. There has been no attempt, however, to measure the benefit in financial terms. This, of course, would not be an easy exercise in the absence of agreement as to the meaning of benefit. In this context benefit is measured as the benefits to the organisation, i.e. the increased loyalty to the organisation, reduction in absenteeism and staff turnover rates and higher productivity. These factors benefit the organization of course, but they must also prove beneficial to all the stakeholders and to management, as increased profit and higher productivity will also permeate as gains to all stakeholders in the form of increased purchasing, increased market share,

greater stability for lending, greater job satisfaction, higher productivity bonuses, higher organisation-wide morale and better long run job security.

Parker (1976) identified other benefits to the organization from disclosure to employees as including the extension of the total organizational communication system (and its overall effectiveness), the reaching of organizational personnel directly (rather than only via press reports), the correction of rumours and inaccuracies circulating, and the establishment of a potential channel for two-way communication that stimulates further exchanges of views between management and employees.

#### 2.6.2.2. Benefits to management

On closer inspection, however, this argument that everyone benefits gives rise to the question of whether some may benefit more than others. Whilst disclosure of financial information to employees may be beneficial, the fruits of the benefit may be seen as available to management, who alone are in a position to cream off any increased profits arising in the form of increased perquisites and benefits to themselves. The suggestion is that disclosure of financial information to employees, arises, not from any feelings of natural justice or progressive social corporate thinking but simply as a

management strategy to influence the employees and their representatives. Labour is viewed as a potentially malleable commodity in terms of how it may be used, but also a commodity ultimately controlled by an independent and often hostile will. Therefore, management (according to writers such as Rose (1975), Freidman (1977) and Storey (1983)) is continually engaged in devising and developing a variety of strategies for obtaining co-operation and securing compliance from workers for managerial objectives, of which, disclosure of selected information is one.

Strategies of consent such as scientific management, human relations, industrial welfare, job enrichment and work humanisation programmes, staff status and participation in decision making via worker directors; far from representing a radical reconstruction of the social relations of production, may all be viewed, as indicated by Fox (1974 p 77), as essentially "policies of expediency designed to render labour a more efficient, co-operative and committed production resource". From this perspective the disclosure of information by management to employees may be regarded as management strategy which benefits management.

A further benefit to management has been identified by Maunders

(1984 p 179) as the improvement to the management information system which would result from the collating and reporting of previously unreported information to employees.

Parker (1976) suggests that the benefits to management of disclosure to employees include the projection of a positive self-image, reducing employee resistance to organizational change, responding to union pressure or anticipating and shaping the agenda for future regulatory changes in the area.

#### 2.6.2.3. Benefits to employees

Perhaps the most relevant group in this examination of benefits, is the employees themselves.

If the suggestion adverted to in 2.6.2.2. is valid, and employee communications are regarded as a means of "softening up" a hostile workforce, then such disclosure can hardly be regarded as a benefit to employees.

Research in the UK (Lyall 1982) has shown that the motivations of management for disclosure are to improve productivity, to improve communications with employees and to "get the message across" to the workers. The results of research for this dissertation indicate that Irish managers disclose for different reasons. This will be referred to in Chapter Five.

However, perhaps some caution should be exercised with these results, as these motivations are those STATED by management as their reasons for disclosure, and no tests have been carried out to determine if these are the actual motivations of management for disclosure.

Perhaps, however the motivation of the managers who install a communications system is not relevant to an assessment of the "benefit" of the system. Although Ogden and Bougen (1985) may view disclosure as a sinister plot by management against the employees, a more moderate view must be that if the rate of absenteeism has gone down and the staff turnover rate has gone down and if the relations with management have become more friendly and if productivity has increased, and this has occurred coterminously with an improvement in communications between the employees and management, then while there may be other causal variables, it is probable that the benefits have resulted from the improvement in communications, and that the benefits are clearly perceived as such by the employees. It is almost immaterial that management's motivation was to make the work force sympathetic to management's viewpoint, provided the result is in the employees' interests.

Cushing (1977) has suggested a framework for evaluating the desirability of any change in disclosure practice. This

involves calculating the increment in expected utility ( $D_i$ ) as a result of the new disclosure for each employee ( $i$ ) receiving the information.

In order for the disclosure to be regarded as beneficial, it is necessary (although not sufficient) that the expected utility differential for each employee be non-negative (i.e.  $D_i > 0$  for all  $i$ ).

The differential is decomposed by Cushing into three elements:

$$[G_i + A_i - C_i]$$

$G_i$ : the private gain  $i$  could expect to get as a result of the new information, in the absence of its public disclosure, excluding any information costs,

$A_i$ : the additional gain or loss to  $i$ , over and above  $G_i$ , assuming it is publically disclosed, excluding any information costs, and

$C_i$ :  $i$ 's portion of the incremental costs of producing, transmitting and using the information.

If information, previously not disclosed to employees, is now disclosed, then, theoretically, it may be said that  $G_i$  must be non-negative. This is supported by the application of Blackwell's fineness theorem, since the new information set is



"finer" than the old (see Demski 1973). However the magnitude of the incremental gain, from an information economics point of view, depends on the incremental effect of the new information on user decisions. This depends on both the content and timing of the 'new' information and the nature of the 'old' information, if any.

$\Delta i$  may be either positive or negative, and indeed it may have some elements which are positive and some which are negative. Demski (1974) has suggested that it is theoretically possible for the negative elements to completely cancel any positive benefits. For example, if an employee report or an employment report were made generally available, and not just distributed to employees, it is possible that such disclosure could lead to reallocation of resources within the economy which would lead to gains and losses to the employees. However, although the theoretical possibility of the losses exceeding the gains has been pointed out by Cushing (1977), there is no empirical evidence that this is, in fact, the case. Such evidence as there is has been summarized by Maunders (1984 pp 177-180) as indicating that supplying employment information generally through the annual report is not a cost effective function of those reports, but that the supply of such information separately, even if it is also made available to shareholders, is cost efficient.

In common with  $G_i$ , the magnitude and direction of  $A_i$  is relevant. Maunders (1984) indicates that no general assumptions can be drawn, due to the variable factors which include:

- the tastes and beliefs of the individual employees,
- the varying expertise of individual users (and even as between employees with equivalent expertise, the extent to which they have access to expert advice),
- the information overload thresholds of individual users and
- the manner in which the information is presented.

However, although the magnitude of the benefits of disclosure is not capable of measurement, it is possible to observe that there are benefits for the employees from such disclosure.

The manifestation of these benefits has been summarised by Parker (1976) as including the broadening of employee perspectives beyond their own immediate workplace, the demystification of financial information and results, an understanding of the role and importance of shareholders, cash flow and profits and the improvement of communication and

confidence between management and employees. Craig and Hussey (1982) refer to the improvement in human relations and in the sense of common purpose among employees.

### 2.6.3. Cost of disclosure to employees

As with the benefit factor, the measurement of cost of disclosure of financial information may be difficult. Costs may be financial and non-financial in nature. It is not always clear who bears the costs of disclosure.

#### 2.6.3.1. Costs to the employee

The costs (Ci) referred to in 2.6.2.3. have been described by Maunders (1984) as direct costs which are those costs to the employee of processing and assimilating the information for predictive or evaluative purposes for his decision making.

Another cost which could apply equally to other stakeholders, and even to management, is the cost of information overload (Revsine 1973 pp 15-18), where the information disclosed to employees is added to the already extensive information available in the annual report.

#### 2.6.3.2. Costs to the organization and to management

A factor which has been identified as a cost by Prakash and Rappaport (1977), but could, in some circumstances be regarded as a benefit, is the "information inductance" factor. This is the impact of reported information on the behaviour of the reporter. It can be occasioned by a change in organizational practices as a result of having to report on certain aspects of the operations. Maunders (1984 p 180) cites the 1982 Employment Act as an example of this.

Pope and Peel (1981) adverted to the possible cost arising from the disclosure of confidential information by the employees to third parties. (See Chapter 5 for a consideration of this issue in an Irish context).

There is no evidence in the literature of any such breaches of confidentiality in enterprises where information is disclosed to employees. The Irish Transport and General Workers Union, in a submission on the reform of Irish Company Law (1978) argued against:

"... confidentiality escape clauses in proposed legislation on the grounds that .... there is no reason, on the basis of either logic or experience, to assume that a worker, in possession of commercially "hot" information, has an interest in using this to the detriment of the company, and hence, ultimately to the detriment of his or her own livelihood."

The critical evidence here is the "experience" referred to. While, logically, employees may not intentionally damage their own jobs, increased disclosure of commercially sensitive information must undoubtedly increase the risk of, at the very least, inadvertent disclosure of information. However, to date, experience both abroad and here in Ireland, have indicated that the risk of leakage of confidential information by the main body of employees is slight. Leakage of such confidential "insider information" by management may not, on the other hand, be so slight!

Information concerning the most direct cost associated with the disclosure of financial information to employees is not yet publicly available in Ireland. That is, of course, the cost that enterprises incur in the design, production, printing and distribution of information whether in the form of written reports or of video or other reports. Research conducted in England by Hussey (1991) indicates that while the cost can be high (up to £20 per copy for an employee report and up to £10 per employee for a video presentation), 65% of those surveyed spent less than £2 per copy for the employee reports. The research suggests that UK organizations are spending more on their employee reports in 1991 than they did in 1979 (after

adjusting for price level changes), and that the desire, amongst disclosing enterprises, to communicate more effectively is regarded as a more important factor than cost.

#### 2.6.4. Cost/benefit summary

It is not possible to measure and compare the benefits and the costs of disclosing financial information to individual employees. On balance, it may be said that the potential costs of systematic information disclosure to employees may, as suggested by Maunders (1984 p 181) easily be over-estimated. It may also be said that there are benefits arising from such disclosure, which appear to outweigh the costs in general. In specific instances, it would be necessary to consider the costs and the benefits in those instances in order to determine whether benefits exceed costs. This section has considered the general sources of those costs and benefits.

## 2.7. SUMMARY

In summary, because of the nature of the decision making in which the employee engages and because of the extent to which the profile of the employee as a decision maker matches the profile of the shareholder as decision maker, it is suggested that there is validity in the assumption that the employee is a user of financial statements arising from his position as decision maker. The issue of whether the benefit of disclosure to the employee decision maker would exceed the cost of such disclosure was also considered. There would appear to be good reason to believe that disclosure of financial information has a benefit which, in general may be described as being in excess of the cost; although in specific instances such a generalization may not be applicable.

The next stage in this study, having established that the Irish employee is, theoretically, a user of financial reports because of his role as a decision maker, and having established that benefit probably exceeds costs of such disclosure, is to examine the influencing factors, the focus and extent of such disclosure in Ireland. This is achieved by examining the Irish paradigm in Chapter 3, and by conducting an empirical examination of the Irish paradigm, which is described in Chapters 4, 5 and 6.

## CHAPTER THREE

### CHARACTERISTICS IN THE DEVELOPMENT OF THE IRISH PARADIGM OF DISCLOSURE

#### 3.1. INTRODUCTION

In Chapter 2 the employee was established as a user of financial information within the Decision Usefulness approach.

Disclosure of financial information to employees is not a new phenomenon in an international context (see, for example, Parker, 1988). However it is a new aspect of financial reporting in Ireland. Thus, experience in the area is very limited and no academic research has been conducted on any aspect of such disclosure in Ireland.



Because of the very early stage of development of disclosure to employees in Ireland, it is proposed that this study should, inter alia, contribute to our understanding of disclosure in Ireland by identifying the main characteristics of the Irish paradigm.

The purpose of this chapter is to examine the Irish paradigm of disclosure. The examination is conducted in the context of Puxty, Wilmott, Cooper and Lowe's (1987) framework (modified as described in 3.3.2.). Within this framework, the historical development of the Irish paradigm is traced, the influence of foreign paradigms is briefly explored, and the Irish paradigm is contrasted with other paradigms. Following from this examination hypotheses regarding the local characteristics affecting the disclosure of financial information to employees are developed. (The subsequent testing of these hypotheses will be described in Chapters 5 and 6.)

### 3.2. SENSE IN WHICH 'PARADIGM' IS USED IN THIS STUDY

This chapter is concerned with an examination of what is referred to as the 'paradigm of disclosure'. There is a considerable literature which considers the term 'paradigm' and its usage in external financial disclosure. This section explains the sense in which 'paradigm' is used in this study.

Kuhn's (1962) original use of the word 'paradigm' referred to the shared elements which account for the relatively unproblematic character of professional communication and for the relative unanimity of professional judgement within a scientific community. He subsequently (1977 p 297) modified his stance by suggesting that this 'paradigm' or 'set of paradigms' would be more correctly described as a 'disciplinary matrix' having as constituents 'symbolic generalizations', 'models' and 'exemplars'.

Wells (1976) has used the modified Kuhnian ideas and terms to describe the present structure and knowledge stock of external accounting and the environment in which this came about. The Statement of Accounting Theory and Theory Acceptance (SATTA) (1977) also quoted Kuhn in classifying a great number of approaches, procedures etc. as paradigms:

" ..each of the accounting approaches currently advocated involves a unique way of looking at the accounting problem at hand whatever it may be .. in short each approach begins to take on the attributes of a distinctive paradigm." (p 42)

"Depending upon the level of generalisation at which one might choose to apply this view the decision-usefulness approach and the economic approach to analysing accounting information issues might each be treated as an alternative paradigm."  
(p 43)

However, the Kuhnian 'paradigm' is based on the natural sciences, and Kuhn acknowledged (1977), that whatever terminology is used, there exists within an individual science

the 'preparadigm period', when the practitioners of a science are split into a number of competing schools, each claiming competence for the same subject matter but approaching it in different ways. He suggests that this developmental stage is followed by a relatively rapid transition usually in the aftermath of some notable scientific achievement, to a postparadigm period characterized by the disappearance of all or most schools, a change which permits far more powerful professional behaviour to the members of the remaining community.

Laughlin (1981) has questioned the validity of applying the Kuhnian ideas on paradigms to Accounting. He suggests that Kuhnian descriptions apply to the natural sciences where the knowledge of the science in question increases through 'normal' scientific activities explicating the core paradigm and through revolution in terms of changing the paradigm in question and pursuing 'normal' science under this new form. He concludes that this notion of paradigms can only apply to mature sciences. In his view the concepts of accounting do not possess the attributes required to be paradigmatic in nature. Watts and Zimmerman (1979) support this view, suggesting that accounting concepts (such as double entry, conservatism etc.) are more in the nature of methodological 'excuses' or rationalizations of extant practice.

This writer would agree that it is difficult to support the application of Kuhn's (1970b) view of the main hallmark of normal science, i.e., making 'good predictions' from the 'practice of the field', to the development of Accounting to date. So, it is not the Kuhnian or Masterman (1970) natural science definition of 'paradigm' which is used in this study.

Rather, classifying Accounting as a social science instead of a natural science indicates the context in which 'paradigm' is used in this study. Such classification has been proposed by Klaassen and Schreuder (1979) and is well supported by philosophers and social scientists such as Winch (1959), Ryan (1970) and Bernstein (1976). Within that classification, since accounting is a special form of language, (Jain 1973, Belkaoui 1979), the 'paradigm' model designed by language theorists offers a more appropriate reference.

The paradigm equivalent proposed by Katz (1966 p 109) comprises broad generalizations which are given meaning in specific situations (actual or potential) by the addition of 'local' factors. In this sense the empirical activities are not, strictly speaking, trying to amplify the generalizations but are rather an application of them in unique and often different situations. This is similar to the methodological form used by

mathematicians, as Mattessich (1978) observed. The assumption is that a specific system should contain basic assumptions and the amplified 'localised' auxiliary assumptions:

"A particular accounting system is tested by trying to determine systematically whether it is the most 'satisfactory' system 'under the circumstances'."  
(Mattessich 1972 p 486)

This is supported by research by Schreuder (1979) and by Teoh and Thong (1984) which indicates that attitudes to, experiments with and focusses on corporate social responsibility (including the disclosure of information to employees) vary noticeably from country to country. Gray et al. (1987) conclude that simply translating ideas from one country to another is not to be recommended. Gambling (1977) has argued that the local or "cultural effect" is the one broad major principle governing current international practice. Ullman (1979) suggests that much disclosure practice is political in nature, and argues that the increase in employee reporting in mainland Europe reflects a change in the political power of the employee group there.

In summary, it may be said that accounting, and more specifically, accounting to employees, is in a preparadigmatic state in the sense that there is no universally acceptable paradigm of accounting to employees. However, using the linguistic and mathematical models, it is valid to observe the existence of what are referred to in this study as 'paradigms

of disclosure with local characteristics'. For the purposes of this study, the term 'paradigm' is taken to mean the combination of patterns, background, policies and practices of disclosure of financial information to employees. The assumption is that a universally acceptable paradigm has not developed and that the local empirical activities referred to by Katz are present as local characteristics in paradigms of disclosure insofar as they have developed to date. The selection of 'paradigms of disclosure with local characteristics' which may be relevant and worthy of consideration in an Irish context are considered in the next section.

### 3.3. INTRODUCTION TO THE EXAMINATION OF THE IRISH PARADIGM OF DISCLOSURE

Ireland is a newly developed Republic, but as a separate nation of people, has been in existence for some millenia. Thus, although, in practice, much of our commercial practice, philosophy and legislation has come to us from an ex-colonial power, and in more recent times from the European Community, it may not be valid to assume that the most relevant commercial and accounting paradigms for the Irish people necessarily come from a former colonial power or from the EC.

### 3.3.1. The choice of other paradigms for consideration

The other paradigms chosen for contrast with the Irish paradigm are those of states which have influenced and are influencing the development of the Irish paradigm of general financial accounting.

There are many suggested overseas influences on the general pattern of Irish Financial Accounting practice and policy proposed in the literature. The AAA's (1977) morphological structuring classification model indicates that our political system and our economic system are pivotal to the type of accounting system which has emerged. This would suggest that UK and US influences might be to the fore, as we have a constitutional democracy (although not based on a federal political system), and a mixed economy similar in some respects both to the US and the UK.

The Sphere of Influence classification proposed by Seidler (1967), i.e. British, American and Continental European, would indicate our classification under the British system, but with the addition of the increasing influences which the countries in Continental Europe are having on our accounting systems (for example the Plan Comptable from France and the Two-tier board system from Germany), the distinction is less clear.

Nair and Frank's (1980) classification, based on measurement practices, classifies Ireland with the UK, Australia and other British Commonwealth Countries.

Nobes (1985) suggests a classification which groups Ireland with the UK, based on the influence of pragmatism of the individual accounting decision, legal system and user group.

What is clear from all these classifications, is that Ireland is not regarded as unique in any major respect or as a leader under any classification, but is rather considered as a country influenced and following the pattern established in the UK, or US or France or Germany or some combination of all. The examination of the Irish paradigm which follows will, therefore, advert to possible influences of the USA, and to the UK, France and Germany, as the main, or 'vital' (Mason, 1978) EC influences.

Ireland's current position is that we are beginning to develop our policies and practices of disclosure of information to employees. In such development we may be subject to external influences. This will be particularly true if we wait for direction from the EC before engaging in indigenous experimentation. On the other hand, research referred to above indicates that it would be preferable for us to develop



our own practice and policy using our own local "cultural" and "political" characteristics as the foundation for such development.

### 3.3.2. The framework for the examination of the Irish paradigm

The development to date of the Irish paradigm will be scrutinised in the context of the framework developed by Puxty et al. (1987), based on the work of Streeck and Schmitter (1985). Although the framework of Puxty et al. was relevant for general financial reporting, it will serve as a useful basis for the examination of development of the Irish paradigm of disclosure of financial information to employees. Puxty et al. identified the following influences:

The Market

The State

The Community

Within the framework formed by these three, fall the four influencing factors of:

Liberalism

Legalism

Associationism

Corporatism (see Fig. 3.1.)

At one extreme is liberalism, whereby disclosure would be governed exclusively by the discipline of the capital market principles, where information would only be provided if it were demanded commercially. At the other extreme is legalism, which relies upon the unreserved application of state principles. The third major influence is the community influence which emerges from the spontaneous solidarity of the local community (this would include the 'local characteristics' referred to in 3.2.) Within these three fence posts are ringed 'associationism' and 'corporatism' which combine elements of the Market and the State with some evidence of Community influence. In associationism, regulation is accomplished through the development of organisations that are formed to represent and advance the interests and attitudes of their members. In this context, the influence of the attitude of the individual financial accountant and of his representative bodies is of interest, as is the influence of the individual employee and his representative bodies. Corporatism involves greater reliance upon the state principle of hierarchical control. Warranting consideration in this area is the extent to which state control married with professional and community influence can impinge upon the creation of a relevant paradigm.

In testing the Irish paradigm of disclosure of financial information to employees against this framework, it is also necessary to refer to the impact of 'external' influences, since Ireland has been influenced, as referred to above, in the development of her general financial disclosure paradigm, by foreign influences. The framework proposed by Puxty, fig.3.1., has therefore, been extended to incorporate the influence of foreign paradigms, see fig. 3.2.

Within this framework the historical development of the Irish paradigm will be traced, the influence of foreign paradigms will be explored and the Irish paradigm contrasted with other paradigms. From this examination hypotheses regarding the local characteristics affecting the disclosure of financial information to employees will be developed.

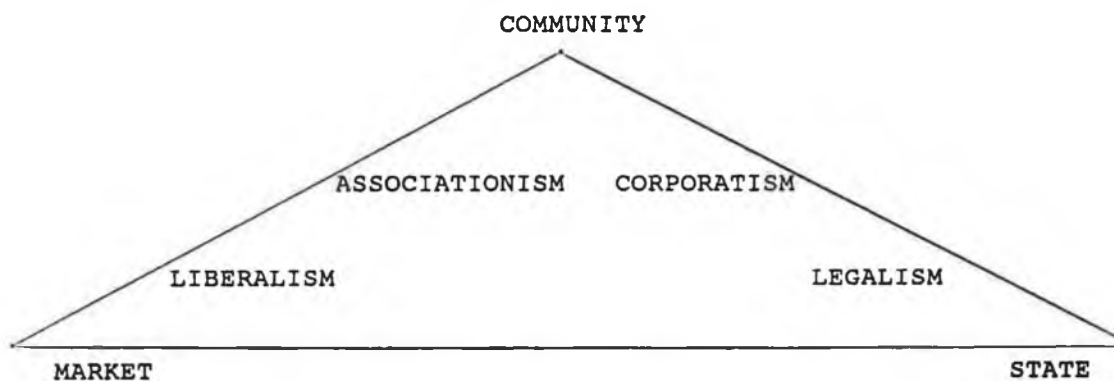


Figure 3.1. Framework for Financial Accounting  
Source: Puxty et al. (1987), p. 283

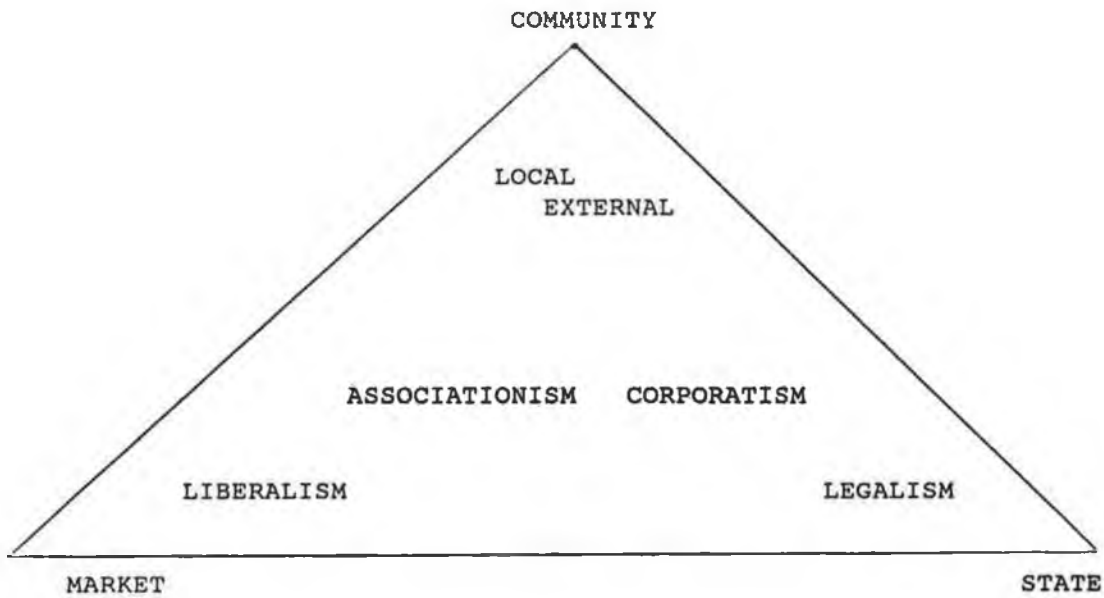


Figure 3.2.  
Modification of Puxty et al. framework

#### 3.4. AN ANALYSIS OF THE IRISH PARADIGM

The analysis which follows will be based on an examination of the Irish paradigm of disclosure under the headings contained in the framework referred to in 3.3. and shown in Figure 3.2., The State (3.4.1.), The Local Community (3.4.2.), The Market (3.4.3.) and External Influences (3.4.4.)

### 3.4.1. The State

The objective of this section is to analyse the current Irish paradigm of disclosure of financial information to employees in the context of the influence of "The State" on the development of the paradigm.

In analysing the current Irish paradigm on disclosure, it is necessary to consider the historical background to the development of the paradigm in order to appreciate the impact of the Irish government on such development. This section, therefore, considers the background to the development of the influence of the state on the Irish paradigm.

#### 3.4.1.1. Political background

Legislation requiring the disclosure of information to employees and the participation of employees in their employing enterprises is most usually associated with periods of government of a left of centre shading. For example, much of the pro-Trade Union legislation in the UK is associated with a Labour Government and conversely anti-Trade Union legislation with a Conservative government. The adoption of the Social Charter by the European Community is associated with a left wing Commissioner and a majority left-wing European Parliament. In Ireland, much of the legislation and pre-legislative

discussion on Employee Participation and on Employment Rights has occurred during periods of Labour party influence in Government. However, in the Irish context it is more difficult to be categorical about such linkage, as the left - right spectrum of Irish politics is not as clearly defined as in other countries.

Unlike many other European countries with broadly right wing and left wing political parties competing for votes against each other, Ireland has two major parties, both right wing (Fianna Fail and Fine Gael), one minor right wing party (The Progressive Democrats) and two minor left wing parties (The Labour Party and the New Agenda). The Labour Party has, from time to time, entered into coalition with one of the two major parties to form a government, but has rarely offered a numerically strong opposition and has never formed a left wing government. The influence of the New Agenda (formerly the Workers' Party) has been even less. Thus, a "pendulum pattern" of legislation has never developed in Ireland as it has in the UK, with legislation followed by repealing legislation as right wing and left wing Governments alternate. Figure 3.3. indicates a chronology of events impacting on disclosure of financial information in the UK, illustrating the influence of left- and right- wing governments.

SUMMARY OF EVENTS IN UK, INDICATING 'PENDULUM' EFFECT

LABOUR	CONSERVATIVE
1947 Cohen Committee	
1968 Donovan Report	1957 BIM declaration that disclosure is a technique to get employees' co-operation
1969 "In place of strife"	
1971 S.57 Industrial Relations Act	1971 Repealed IR Act. Trade Union and Labour Relations Act
	1972 Commission IR - problems of disclosure
1975 Employment Protection Act	
1975 Corporate Report	
1976 ACAS Code of Practice	
1976 CBI Guidelines	
1976 Dept. Trade Discussion Document	
1976 Hundred Group Report	
	1982 Employment Act
	1989 Refused to sign Social Charter
	1991 Refused to sign Social Chapter
	Maastricht Treaty

Figure 3.3.

In Ireland in 1922, when the Free State was established, the opposing political parties derived their ethos, not from the conservative/liberal/socialist spectrum, but from their stance on the issues of Republicanism and the Treaty partitioning the North and South of Ireland. The Treaty (as the Articles of Agreement for a Treaty between Great Britain and Ireland became known), gave a 26 county Ireland, to be known as the Free State, Dominion status within the British Commonwealth. It involved an oath of allegiance to the British Crown and the appointment of a Governor General. Opinion in Ireland was sharply divided about the terms of the Treaty. The split

largely resulted from differing views on the issues of constitutional status, the oath of allegiance and the question of the partition of Ulster. Consequently, the political divide ranged not across the right/left spectrum, but across the pro/anti-Treaty spectrum.

Fianna Fail, the Republican party, was anti-Treaty. Fine Gael was a party formed in 1933 from an amalgamation of the Blueshirt fascist party, the Centre party and Cumann na nGaedhael, which was a pro-Treaty party traditionally identified with the commercial and professional classes and large farmers.

The Labour Party was in existence before the declaration of the State but never succeeded in winning more than thirteen percent of the seats in the Dail and, therefore never formed a main opposition party and certainly never offered any prospect of forming a single party Government. The Labour Party's origins were rooted in the Trade Union Movement. In 1892 the Belfast Trades Council organised a local Labour Party. In 1894 the Irish Trades Council was formed and in the same year a branch of the Independent Labour Party was founded in Dublin by Kier Hardie. From 1911 onwards local Labour parties were formed in Dublin and in provincial towns to contest local elections.



Opinion was divided as to affiliation with the British Labour Party. However the Irish Labour Party was formed in 1912 as described by Kennedy and Good (1984 p 87) as a:

"..trade unionists' party with membership limited to union members."

For some thirty years after the Civil War in 1922, much of Irish parliamentary time was spent in setting up the structures of the new State including legislation on reforms of the electoral system, the release of political prisoners, abolition of the Oath of Allegiance, setting up of constituencies and the establishment of the Constitution. Economic structures had to be established and the state airline, shipping line and other utilities were formed. There were delays to the business of establishing economic structures, including the Economic War with the UK and The Emergency (as the Second World War was known in Ireland). However, by the mid-sixties, Ireland had concluded a free trade agreement with the United Kingdom and the Lemass/O'Neill (between the Republic's Taoiseach and the Northern Ireland Prime Minister) talks on Northern Ireland had relaxed some of the tensions of the Northern Ireland situation. Attention began to be focussed on social issues, and in 1966 a new Government Department, the Department of Labour was established.

In 1965 Fine Gael, sensing a new interest in social and economic questions at that time introduced a manifesto entitled "The Just Society" (1965 p 4), which included as party policy:

"Works committees elected by the workers will be established in State-sponsored bodies to meet management periodically for discussions on matters of mutual interest.

... more information on the affairs of the enterprise in which he works should be made available to the worker.

Fine Gael will make immediate provisions for the representation of workers on the boards of state enterprises.

Fine Gael will introduce tax incentives to encourage profit sharing with workers."

However, Fine Gael lost the election, and their subsequent manifesto in 1969 reverted to more conservative policies.

By 1969 the Fianna Fail leadership had passed from Eamonn de Valera, who had been its leader since the civil war, to Sean Lemass, and the party was transformed from the populist nationalist party of the thirties to a party identified with the brasher face of big business. At the same time the Labour party adopted a radical new policy and declared itself a Socialist party for the first time. Labour, with a strong package of workers' participation policies launched, in 1969, its strongest ever attempt at power, and rallied many

well-known supporters, including Conor Cruise O'Brien to punch home the message of "The Seventies will be Socialist". However the traditional Irish fear of radical policies and the impact of the "Reds" campaign by the right wing parties referred to by Brown (1981 p 26) meant that the Labour party lost seats around the country.

The Labour party has been in coalition on four occasions: the first being from 1943 - 1948 with Fine Gael. It served in 1954 with Fine Gael for a further three years. However, they had little influence on Government policy, and indeed, in 1954 - 57 the ultra-conservative Minister for Finance introduced severe cuts in social welfare benefits which the Labour party was powerless to prevent. However evidence of the Labour party influence on legislation is clear during the period 1973 - 1977 when they were again in coalition with Fine Gael. This time they steered legislation on unfair dismissals, employment equality, anti-discrimination, redundancy payments and worker participation in State Enterprises through the Oireachteas.

In summary, it may be said, that there has been a 'conservative' complexion on most Governments formed since the inception of The State, and it may be said that such complexion has not encouraged a significant body of legislation on employees' rights in general, and rights of participation and information in particular.

It may also be observed that such legislation as there is in place is mainly associated with a period of influence of the Labour party. However, although such a link is clear, it is not true to say that Fianna Fail are actively against such legislation; rather that they do not regard it with as high a degree of priority as did the Labour party when in coalition. No Fianna Fail Government has subsequently repealed any of the employment legislation introduced by the Fine Gael/Labour Government. Indeed, a Fianna Fail Government was responsible for the introduction of the Employment Participation (State Enterprises) Act 1988, and a Fianna Fail Government has indicated (Plan for National Recovery 1987 p 56) that it favours the expansion of participation and disclosure when budgetary conditions allow.

Moreover, it was the right-wing Coalition of Fianna Fail and Progressive Democrats which set up the Industrial Relations Commission under the terms of the Industrial Relations Act 1990. The Commission is charged with establishing Codes of Practice to provide a guide for parties as to standards of good behaviour in particular areas of industrial relations. While it is not (at the time of writing) clear which subjects will be covered by these Codes of Practice, it has been suggested by

the Minister for Labour that the issue of participation of employees in the workplace and disclosure of information to employees should be included.

In general, while it may be observed in other countries that legislation on disclosure and participation is associated with left of centre Governments, with right wing Governments opposing such legislation, the situation in Ireland is not so clearcut. Legislation introduced in Ireland under the influence of left of centre governments has not been repealed by more conservative successors, and indeed, conservative governments have added to such legislation. It may be foreseen that future participation and disclosure legislation may be progressed in a period without left of centre influence in Government. This condition may be observed as a 'local characteristic' in the Irish paradigm.

3.4.1.2. The chronology of development of the Irish paradigm of disclosure to the extent influenced by the State

As referred to above, although right wing governments in Ireland have not been antipathetic to legislation relating to the rights of employees, much of the pressure for such legislation may be traced to the trade union movement. In

Ireland the first steps were taken at the Irish Congress of Trade Unions' Conference in May 1967 when Congress adopted the motion:

"Congress supports the principle and practice of industrial democracy providing for workers' participation in management."

The Conference instructed the Executive Council to examine how best the principle of industrial democracy might be brought into practice in Ireland having regard to experience of its operation in other countries, and the particular context of industrial, commercial and economic life generally in Ireland.

In February 1968, the Congress Industrial Democracy Conference posed the question "Why Industrial Democracy?", and responded with quotations from Pope John XXIII's encyclical (1962 p 38) and from James Connolly's work (1913 p 108). The former emphasised "... the legitimacy of the workers' active part to play in the management of the concern in which they are employed, whether that concern be public or private". Connolly foresaw in the reconstitution of societies based on the Ralahine co-operative experiment "the framework and basis of a free Ireland." The Congress also referred to the Constitution of Congress which includes as an objective:

"To work for such fundamental changes in the social and economic system as would secure for the workers of Ireland adequate and effective participation in the control of the industries and services in which they are employed."

This, the Industrial Democracy Conference declared was, therefore, "...to be understood as a permanent social objective of the Labour Movement."

Based on its study of the operation of industrial democracy abroad and on industrial, commercial and economic life in Ireland, the Conference rejected management arguments that Irish workers were incapable of participating in management. The evidence indicated, it said, "that given reasonable access to training, workers had the capacity to participate in decision-taking within the undertaking."

In May 1968, there was a lively debate on industrial democracy at the Annual Conference of the Irish Congress of Trade Unions. Mr. Michael O'Leary T.D., (Labour) stated that industrial democracy should begin in the State sector. Nine years later, as Minister for Labour, he was to introduce legislation putting worker directors onto the Boards of Management of seven State enterprises.

In January 1969 the Labour Party adopted outline policy on workers' democracy. By February of 1973 (Ireland having joined the EEC in the previous month) the Fine Gael/Labour coalition government was elected on a 14 point programme which included a commitment to provide for the election of worker

representatives to the Boards of State enterprises. A Worker Participation Unit was set up in the Department of Labour. By July 1975 a White Paper on the Election of Employees to Boards of State Enterprises was issued. The Worker Participation (State Enterprises) Act 1977 was signed by the President in April 1977.

In 1980, following consultations, a wide ranging discussion document was issued by the Department of Labour (1980). This document covered several facets of participation and disclosure of information including:

#### 3.4.1.2.1. Employee representation at Board level

The discussion document suggested that the law should be amended to afford companies, who so wish, an opportunity to adopt a two-tier board structure, providing for employee representation on the supervisory board.

#### 3.4.1.2.2. Employee representation at plant level

It was proposed that joint co-operation at plant level could be formalised in three broad categories:



- i) Information, citing the low incidence of the availability of information to Irish workers compared with that which is available elsewhere;
  
- ii) Consultation, suggesting that both sides of industry should be prepared to establish consultation machinery at plant level, and that it should be invested with adequate personnel, authority and responsibility and
  
- iii) Co-responsibility, stating that there is a strong case for establishing areas of co-responsibility (such as safety, rules, discipline, etc) where final decisions may not be made by management without the prior agreement of employee representatives, or, in the absence of that agreement, without clearly established procedures for further consultation.

The document suggested that in the light of the poor response to previous proposals that works councils with an information flow network should be set up on a voluntary basis by enterprises, there was no merit in relying entirely on voluntary initiatives.

#### 3.4.1.2.3. Employee participation in shop floor organisation

The discussion paper proposed increased management training which should aim at developing a more participative style of management capable of encouraging workers' involvement and commitment to change. Such training should also assist management to cope with the erosion of their management prerogatives which would result from direct participation such as job rotation, job enlargement, job enrichment, semi-autonomous group working, work restructuring and flexible working hours, all of which are desirable to contribute to better industrial relations and to improving Irish industry.

#### 3.4.1.2.4. Financial participation by employees

Financial participation whether through the introduction of profit-sharing or employee shareholding schemes was recognised as having great potential as a means of developing a company-wide identity and corporate image uniting the managers, employees, trade unions, and shareholders.

#### 3.4.1.2.5. Disclosure of information to employees

Unions and management should agree the nature of information to be disclosed, the form in which it is to be presented, and the timing of its release. Arrangements should be reached for preserving and safeguarding the confidentiality of certain types of information.

The document also recognised the need for social accounting methods and regular reporting on safety, health and welfare conditions.

The Discussion Paper proposed that Government policy should be:

"Boards of Directors under existing law owe no specific duties to their employees. .... the time for change has arrived and ... formal recognition should be accorded to the status of employees, having regard to the extension of the employees' rights through the contract of employment and through the development of a philosophy and pattern of employee participation in the affairs of the company."

In 1982 the Finance Act made provision, for the first time, for employee share-holding schemes.

In 1985, with a Fine Gael/Labour coalition once again in power,

the Advisory Committee on Worker Participation Below Board Level was established by the Minister for Labour, with the following terms of reference:

"To advise the Minister for Labour on the scope for the development of employee participation at sub-board level in different types of work organisation; to promote interest in practical experimentation in workplace participation; to identify research needs and make recommendations."

In 1986 the Report of the Advisory Committee on Worker Participation was issued. This Report concluded that increased employee participation is desirable both for the personal development of employees and for the benefit of enterprises, and that as many organisations as possible should engage in such participation. It recommended guidelines towards Employee Participation which covered areas such as forms and structures, direct participation, job design and enrichment, financial involvement, Board representation, information sharing and communication, Trade union and Management attitudes and training and development policy.

Guidelines towards Employee Participation were commended to organisations interested in introducing participation.

It was recommended that renewed efforts should be made to reach agreement on suitable participative arrangements in all areas of the Public Service.

In many respects the document followed the recommendations of the 1980 document. However, the Advisory Committee only succeeded in achieving a majority opinion in favour of the introduction of enabling legislation in the private sector for all organisations employing more than one hundred people. Such legislation would give status and impetus to the development of participation, with a network of initiatives for organisations employing less than one hundred people. This failure to reach consensus on the issue of mandating legislation gives an indication of the significant opposition (largely from the employing community) to State influence.

The importance of relevant education and training was recognised and in particular the need to encourage management towards new styles of managing which would allow them to "look beyond certain erosions of traditional authority to the positive advantages of participation." It was also recognised that employees would be likely to require basic courses in business, accounting and marketing in order to understand the language of management. The Report recommended the development of links between industry and higher education both to conduct further research and to support training courses. It was also suggested that the transition year programme in Second Level education could fruitfully be used to spread the message of participation among the young population. There was unanimity

on this issue and, within the Irish paradigm, it flags the awareness of the need for pre-disclosure education. This issue will be taken up in the empirical investigation.

The Report also recommended the establishment of a Council on Employee Participation with a supporting Agency to promote participation.

By 1987 the (Fianna Fail) government came to an agreement with the Irish Congress of Trade Unions, the Federated Union of Employers, the Confederation of Irish Industries and Farmers' organisations on a Plan for National Recovery for the period 1987 - 1990. This was to form the basis for Government policy which was supported by unions, employers and farmers; and was the model for the subsequent Programme for Economic and Social Progress for 1991 - 1994. Sec. 6.4. of the Plan referred to support for worker participation, and stated:

"The Government proposes to introduce enabling legislation to facilitate the introduction of worker participation at sub-board levels in State Enterprises. The recommendations of the Advisory Committee on Worker Participation (1986) are being considered by the Minister for Labour with a view to identifying the options which might be achievable in the light of present budgetary constraints."

In 1988 the Worker Participation (State Enterprises) Act was signed and, together with the 1977 Act, constitutes the only labour legislation covering employee participation and

disclosure, although the setting up of the Industrial Relations Act 1990 (referred to in 3.4.1.1.) is expected to progress the issues of participation and information disclosure to employees in a non-legally binding, although authoritative, manner. A Department of Industry and Commerce representative indicated to the writer that Government intends to wait until such time as the EC position on the 5th and Vredeling Directives becomes clearer, before making any moves towards legislation.

However the setting up of the Industrial Relations Act 1990 is expected to progress the issues of participation and information disclosure to employees in a non-legally binding, although authoritative, manner. (See 3.4.1.1.).

#### 3.4.1.3. Conclusions on the influence of the State

As referred to in 3.4.1., the view of government in Ireland in relation to the issue of influencing and regulating the disclosure of financial information to employees reflects a general acceptance that it will be necessary, in the long term, to introduce at least minimal legislation governing the areas of participation and disclosure of information to employees. This indicates that the Irish paradigm may be expected to lean somewhat towards the legalism referred to in Puxty's framework. However, the reluctance of government to take any statutory steps, and the introduction of the guideline

routing in the Industrial Relations Act 1990, together with the failure of the Advisory Committee to agree on the issue of legislation (referred to in 3.4.1.2.), suggest that neither the purist legalism approach, nor the corporationist approach are influences on the Irish paradigm, but rather a more associationist approach, that is, allowing preparers to develop, and their 'association' to regulate voluntary, non-statutory disclosure approach with de minimis legalism input. The extent to which this approach by the Irish government reflects the view of preparers of financial statements will be tested and referred to in Chapter 5.

This conclusion, that the state is reluctant to apply a rigid statutory framework to the Irish paradigm, is seen as a striking contrast to the paradigms developed in Germany and France. In the case of Germany, for example, Schreuder (1978) suggested that Germany is probably the country with the most extensive disclosure of financial information to employees. It is governed by the Works Constitution Act of 1972 (15.1.1972). S. 43 (2) of this Act (The Betriebsverfassungsgesetz) requires management to report to an employee meeting at least once a year on its personnel and social policies as well as on the economic situation of the firm and its future prospects. More detailed and more frequent information on the economic situation has to be given to the economic council of employees (the Wirtschaftsausschuss Sec. 110). In addition the Workers'



Council has to be informed of the company's investment and personnel plans and the training programmes under the detailed and specific provisions of sections 90, 92 and 97 of the law.

Another contrast may be drawn with the UK paradigm which, although similar to the Irish paradigm in its lack of legalism, is different in that there is no suggestion by the British government that disclosure of financial information to employees must be seen as an integral part of participation by employees. (This issue is dealt with in 3.4.2.). Quite the opposite is the case in the UK, where government spokesmen are vigorous in their condemnation of any move by the EC to introduce mandatory participation by employees through the Social Charter vehicle.

#### 3.4.2. The Community

In reviewing the impact of the community influence on the disclosure of financial information to employees, it is more difficult to delineate the boundaries between 'community' influence and 'market' influence than it is in the area of general financial reporting. For example, in the light of recent business scandals and business failures, the pressure from the Irish community as a whole for improvements in general financial disclosure and audit has been palpable, and had led

to the formation of the Financial Reporting Commission (see Report p 4). The same is not the case for advances in disclosure of financial information to employees.

This section reviews the extent to which community influences are detectable, and considers the influence of the 'business community'. However, it is acknowledged that in considering the influence of the business community, there are overlaps between the 'community' influence and that of the 'market'.

3.4.2.1. The community view of disclosure as part of participation

In reviewing the responses which the Department of Labour sought in collating comments for the 1980 and 1986 documents adverted to in 3.4.1., it becomes immediately obvious that there is, within the community that responded, agreement on one issue. In Ireland the development of disclosure of financial information to employees is seen as an integral element of Worker Participation. This is spelt out clearly in the Discussion Documents:

"There is a danger that disclosure arrangements could have a negative impact in the absence of agreed participation and in the absence of agreed training programmes." 1980 Document

"Disclosure of information to employees about the operation of the enterprise is an essential part of participation." 1986 Document

This is in contrast to the position in the US where disclosure of financial information to employees is seen as an integral part of the collective bargaining process, and to the position in the UK where the development of disclosure of financial information to employees occurred as a technique used by companies to bring about the active co-operation of employees referred to in 2.6.2.2.

It appears, from the literature that disclosure of financial information to Irish employees is viewed by the community as an important constituent part of worker participation and not as an independent objective. It is of interest to test the extent to which preparers of accounts agree with this view of disclosure to employees as part of worker participation, and it is referred to again in Chapter 5. However in this writer's view, disclosure as an integral part of participation is a very healthy framework for the development of useful and collaborative disclosure to employees and aligns with the justification developed in Chapter 2 for disclosing information to employees because it is their right as decision makers, property owners and risk-bearers. However, comments to government may not always reflect practice and may be more in the nature of pious aspiration. The link between worker

participation and disclosure of financial information to employees is formulated as a hypothesis in 3.6. and is examined further in Chapters 5 and 6.

#### 3.4.2.2. The secretive nature of the Irish Business Community

In the light of the apparently positive nature of the 'community' response to disclosure and participation adverted to in 3.4.2.1., it would seem surprising that community influences have not been exerted to force extensive disclosure of information to employees in Ireland. The extent of disclosure was unknown prior to this study, but observation would have indicated that disclosure is not extensive. The empirical study is designed to determine the precise extent of disclosure. It is suggested that a major factor which militates against the stated positive attitude of the community towards participation and disclosure is the secretive nature of the Irish business community.

Irish businesses have been slow to disclose information other than the absolute minimum required by statute. This may be due to the inherently conservative nature of the people. It has also been exacerbated by government fiscal and economic policy, which has encouraged foreign companies to invest in Irish subsidiaries by offering attractive tax packages for

manufacturing companies and for exporting companies. Such packages include, for example, zero corporation tax with full tax relief on distributions. The effect of these policies has been to create a situation where, through the use of exaggerated international transfer prices, Irish profits have, apparently, been boosted (Murphy, 1984 - see also Foley, 1987).

Additionally, the Irish Revenue Authorities do not subject such transactions to the same type of scrutiny as, for example the UK Inland Revenue do under the terms of the UK 1975 Finance Act. Obviously, widespread disclosure of these augmented profits, especially to employees, is resisted by management, and legislation requiring additional disclosure, such as, for example, the 1986 Companies (Amendment) Act introducing the EC Fourth Directive has led to a situation, described to the writer by many practising accountants in Ireland, where companies have changed their accounting year ends, have split their operations into several 'small' or 'medium' sized companies, or have used the 'unlimited liability' vehicle to avoid the disclosure provisions of the Act. In many (although not all) of these reported cases, the holding company is foreign. This supports the suggestion made to the writer by officers of the Irish Development Authority (IDA) that one of the attractions of Ireland as an investment base is the comparative paucity of disclosure requirements. It was additionally suggested by the IDA that this reluctance to disclose is more noticeable in the

more newly established enterprises than in longer established enterprises. The link between length of establishment and disclosure/non-disclosure pattern will be tested in Chapters 5 and 6 to determine whether the observation can be substantiated.

Much of the resistance to disclosure appears to emanate from foreign controlled managements and not from indigenous Irish management. This link between ownership structure and the disclosure of financial information to employees is formulated as a hypothesis in 3.6. and is examined in Chapters 5 and 6.

In summary, it may be seen that this issue of desire for secrecy by overseas investors is a local characteristic in the Irish paradigm which is unlikely to effect our fellow members of the EC, and should be appreciated as adding to the difference between the Irish and other paradigms of disclosure.

#### 3.4.2.3. The Impact of Ireland's non-involvement in the Second World War

Experience in other countries indicates that the community may influence the disclosure of financial information to employees in times of national emergency which threatens the community.

For example, the establishment of Joint Consultative Committees in the UK resulted from an agreement in 1942 between the Engineering and Allied Employers' National Federation and the engineering unions. Such committees greatly stimulated the practice of providing information to employees and their representatives on the detailed performance of companies. Hussey (1981) observed that such disclosure was sought by the community in return for the expected increases in productivity, although much of the information disclosed was more concerned with the day to day production activities rather than an overall picture of the financial achievements.

For Germany also, the requirements of the war effort and the necessity for improved co-operation to ensure the most effective use of scarce resources led to the establishment of disclosure practices.

Such disclosure during the war years was not necessary in Ireland, both due to the fact that Ireland was not involved in the war or in the war industry and to the fact that Ireland's economy was agriculture-based and did not involve large scale industrial employment.

Because of her neutrality, there was clearly a limit to the extent to which Ireland could rely on the goodwill of belligerents controlling the seas and shipping to permit the

import of wheat and maize and the export of cattle. The Emergency was, therefore a period in which Ireland was forced into self-sufficiency. Tillage expanded from 1.5m acres to 2.5m acres during the Emergency. Agriculture was largely of the subsistence type with almost 400,000 small holdings. Meenan (1970 pp 213 - 215) notes that employment in productive industry declined due to shortages of raw materials. The overall result was an increase in subsistence farming by small holders who were supported by family members in tilling the land. There was, therefore, little large scale employment in the manufacturing sector, and farms tended to employ family members. This situation clearly did not lead to demands from workers for financial information and/or participation in management. There were not, therefore, significant numbers of the industrial or agricultural communities creating a demand or need for information concerning the employing organisation.

This lack of a tradition of disclosure in times of national emergency may be described as a 'local characteristic' in the Irish paradigm of disclosure which adds to the difference of the Irish paradigm from those which have developed in other States. However, it is of interest for the empirical study to assess the extent to which employees' demands for disclosure have influenced the disclosure that takes place, and conversely, the extent to which lack of demand for disclosure has influenced non-disclosure. This issue will be referred to in Chapter 5.



### 3.4.3. The Market

There is no evidence of commercial demand for disclosure of financial information to employees in Ireland. Insofar as organizations such as the Federation of Irish Employers and the Confederation of Irish Industries have expressed any view, it has been the view that development of disclosure to employees should advance along a voluntary route and should not be statutorily mandated (see 3.4.4.4). The Irish Stock Exchange has not expressed any official view. Discussions which the writer has had with the General Manager of the Irish Stock Exchange indicate that the view would be one of passive support for such disclosure, provided that shareholders were entitled to receive any information disclosed to employees.

The associationism influence linked with the Market in Puxty's model is of interest in the light of the conclusion in 3.4.1.3. Apart from the associations referred to above, the associations which may be expected to impact on disclosure would be the associations of the preparers and of the workers. In relation to the association of the preparers it is of interest to note research which has been conducted in the UK, indicating two local characteristics in the UK paradigm: the view of the UK association that the shareholder should be awarded primacy as a

user, and that the association which might be expected to influence and characterize disclosure, the association of financial accountants, may not be the primary influencing association.

In its comments on the development of the fundamental conceptual framework of Financial Accounting of the ASB, the ICAEW, as the association for English and Welsh financial accountants, declared its support for an increased emphasis on the primacy of the shareholder as a user of financial statements (TR860). The Irish association took the opposite view and supported the primacy of the employee alongside the shareholder as users of financial statements.

Members of the company management team other than the financial accountant have been reported as taking over responsibility for the collation and presentation of financial information to employees in the UK. Gibson (1978) reports on a survey conducted by the CBI which indicated that in only 23% of the companies disclosing information which were surveyed was the Finance/Accounting Department responsible for this area. Parker (1977) raised the question:

"What role can and will accountants play in an area which one would assume as traditionally theirs, but which is currently the prerogative of other departments within most British companies?"

This is a local characteristic of the British paradigm which is of interest in examining the Irish paradigm, and prompts the question in the empirical study (see Chapter 5) designed to determine the extent to which Irish financial accountants perceive themselves as having a role to play.

Puxty et al. (1987) describe the UK as principally associationist in the context of general financial accounting regulation, arising from the UK profession's independence from state control and from its influence on regulation and legislation. However, while this classification may be extended to the development of a UK paradigm of disclosure of financial information to employees, it may not be the financial accountant whose representative bodies' interests are being advanced. This may be the case because the individual accountants are presenting either a neutral or negative attitude to the issue. This matter warrants examination in the case of the development of the Irish paradigm, and the attitude of the Irish financial accountant will be tested, as referred to in 3.4.1. The possibility of a different attitude of the Irish financial accountant to his UK counterpart is worth examining in the light of the submissions of the Institute of Chartered Accountants in Ireland to the Financial Reporting Commission and to the ASB, referred to above, which support the view of the employee as a primary user of financial information side by side

with the shareholder and the role of the financial accountant in serving the information needs of the employee. No such suggestion has emanated from the association of the UK financial accountant. The link between the attitude of the financial accountant and the disclosure of financial information to employees is formulated as a hypothesis in 3.6. and examined in Chapters 5 and 6.

The second association which is of interest in this context is that representing the interests of the employee. The extent of the influence of the Trade Union movement on legislation has already been referred to. The extent of the influence of the union on disclosure within individual enterprises is of interest, given the lack of legalism influence on the development of disclosure in Ireland. The link between the extent of unionization of an enterprise and the disclosure of financial information to employees is formulated as a hypothesis in 3.6. and examined in Chapters 5 and 6.

Pressure from the employees themselves within the Irish paradigm, given the prevailing influence of associationism, would be expected to have a significant relationship to disclosure/non-disclosure in their employing enterprise. The link between the extent to which employees demand information and the disclosure of financial information in their employing enterprises is formulated as a hypothesis in 3.6. and examined in Chapters 5 and 6.

#### 3.4.4. External influences

In the development of an Irish paradigm, the influence of

paradigms identified in 3.3.1., i.e. those of the UK, the USA France and Germany should be reviewed.

#### 3.4.4.1. British influence on the Irish paradigm

An important 'local characteristic' which has a bearing on Ireland's progress in developing practice and legislation governing the participation of employees and the disclosure of information to employees, is the still very strong influence of Britain on Ireland. Winning political sovereignty did not automatically ensure economic and legislative independence. Many of the traditions and values that now govern Irish political life were inculcated under the English dominance in the formative period of the modern state in the late nineteenth century. Irish people acquired democratic values and learned democratic ways at the same time as did the British, and largely in a British context. In these circumstances it was only to be expected that much of the political organization and many of the public services of the independent state that emerged in 1922, and subsequently in 1949 in the Irish Republic, resembled those of the United Kingdom in their form and in the way they worked. Much was simply taken over, as, for example,

the legislation, the central administrative and local government systems, or copied, as was the parliamentary system.

Penniman (1978 p 59) notes:

"The metamorphosis from Irish Free State to Republic, though it had great symbolic importance, involving as it did the substitution of the governor general personifying the British Crown, by an elected President of Ireland, made very little difference to the working arrangements of government and administration."

On the handover of Government in 1922, Fanning (1986 p 218) observes that there was immediate confirmation from the Provisional Government that existing legislation was to remain in place and that " .. all existing Departments will continue to perform their normal functions ..".

Neither did the civil war interfere with the smooth handover of British systems and British legislation to the new Government. The new Secretary of the Department of Finance is quoted in Fanning (1986 p 220) as having offered the opinion that the one beneficial effect of the civil war was the opportunity it gave senior civil servants to install the administrative machinery of an independent Ireland without the meddlesome interference of politicians.

The Irish economy is still linked to the British; and the process of developing Dublin-oriented rather than London-oriented financial, banking, insurance and commercial services has been a slow one, particularly for a country that had very little industrialization. The UK was and remains, Ireland's major market and chief single supplier. However, since its membership of the EC in 1973, exports to and imports from other European member states are lessening Ireland's dependence on the British market.

Because of the strong body of British law and administration adopted on the foundation of the State and because of the continuing strong economic links, British legislation has continued to exert an influence in the drafting of Irish commercial and employment legislation. For example, the Companies Act, 1963 is very comparable to the UK Companies Act of 1948. There are strong similarities between the UK Companies Act 1980 and the Irish Companies (Amendment) Act 1983 and between the UK Companies Act 1981 and the Irish Companies (Amendment) Act 1986. There are also evidences of Irish emulation of British legislation in the taxation system, although there are many distinctly Irish flavours to the Corporate and Capital Tax Systems. Cook (1986 pp 161 - 163)

observes that the Irish redundancy payments system has a close resemblance to the British scheme, and much of the Unfair Dismissals legislation has parallels in the British system.

In changing itself from an agriculturally based society to an industrially based society, Britain continued to be a dominant but not determining influence on Ireland's commercial legislation and practice. A shared language, media influence, a common labour market and often similar trade unions facilitated such influence, and indeed, it has proved an efficient method of deriving good legislation when it is possible to see the effects of a particular Act operating in a neighbouring island before enacting the comparable legislation here in Ireland. The UK has proved an effective testing ground for legislation, and problems which surface on the application of legislation in the UK can be observed and ironed out in the drafting of Irish legislation. Ireland, with its limited economic resources, can often avoid much of the expense of drafting and amending legislation when a comparable Act is available and has been tested, in the UK. The effect of this has been, of course, that Ireland has tended to be slow in bringing forward innovative legislation in areas where it is anticipated that the UK or the EC will give a lead, and this may include the area of Employee Participation and Disclosure of Financial Information to Employees.



This local characteristic has had the influence of diluting the Irish flavour of much of our commercial and labour legislation, but interestingly, it has not had such a diluting effect on the Employee Participation/Disclosure legislation which we currently have on our statute books. There is no parallel for either the Worker Participation Acts of 1977 or of 1988 in the UK. There is no equivalent commitment by Government in the UK to advance this type of legislation further as there is by Irish Government. There is no parallel commitment in the UK to regard disclosure of financial information to employees as an integral part of Worker Participation.

Thus, although the influence of UK legislation on Irish commercial legislation is generally clear, Irish legislation does not follow UK legislation slavishly, and in the area of participation and disclosure of information to employees to date there is little evidence of direct UK influence on the Irish paradigm. It may be concluded, therefore, that local characteristics have existed in the development of the Irish paradigm of disclosure of financial information to employees and should probably continue to be promoted.

Local characteristics of the UK paradigm which may be detected in the literature include the practice of pre-disclosure education (referred to as desirable in an Irish context, 3.4.1.)

and the increasing tendency for non-accountants to accept responsibility for collating the financial information to be disclosed to employees (referred to in 3.4.3.).

The mid-seventies literature in the UK refers to the need for pre-disclosure education, preferably in advance of disclosure. Jones (1975) referred to the futility of disclosure of financial information to employees in the absence of pre-disclosure education. Companies such as ICI and the National Westminster Bank are cited by Tinsley (1977) and Hopps (1976) respectively as examples of companies which have engaged in comprehensive training schemes including the use of video presentations and seminars to educate their employees in advance of the disclosure of financial information. Both of these issues are of interest within the Irish paradigm, and will be referred to in Chapters 5 and 6.

Additional local characteristics in the UK paradigm which are suggested are the variations in disclosure which appear to be associated with the size of the workforce (Hilton 1978), and with the skill of the workforce (Norkett 1976). Again, the link between both these issues and disclosure of financial information is hypothesized in 3.6. and will be examined in Chapters 5 and 6.

#### 3.4.4.2. Influence of the USA on the Irish paradigm

The USA has not had such strong historic links with Ireland as has the UK; and there are significant differences between the Irish accounting practices and those of the USA. However, much of the theoretical reasoning for our financial accounting practice has been developed in the US, and this fact along with the relative importance of the US as an investor in the Irish economy make a review of the paradigm of disclosure developed in the US interesting in a study of this nature.

In the US the conceptual problem of how best to impart knowledge to employees was discussed as early as 1921 arising from a publication by the Department of Labour in Canada. The first reference to employee reports was by Botsford (1923 pp 84-86), and the earliest recorded example of such a report was for employees of International Harvester Co. in 1936.

The influence of legalism on the US paradigm is clear. The right of trade unions to obtain financial information for collective bargaining has been inferred by the National Labor (sic.) Relations Board from the National Labor Relations Act (1935), the Labor-Management Relations Act (1947) and the Landrum-Griffith Act (1959). Gregory (1966 pp 223-231) writes

that this inference has been supported on the grounds that it is an unfair labour practice for an employer to refuse to bargain in good faith about wages, hours and other conditions of employment.

Although this approach of legalism has clearly operated in the US for some considerable time, it has not influenced the Irish paradigm. The Irish government prefers (as referred to in 3.4.1.2.) not to introduce mandatory legislation, and would favour self-regulation by the professional bodies (an associationist approach), with minimal legislation following the establishment of best practice. Thus the development of the US paradigm displays different 'local characteristics' to that of Ireland, and it can, therefore, be concluded that in the area of disclosure of financial information to employees, the US influence on the Irish paradigm has been minimal.

#### 3.4.4.3. The influence of the EC on the Irish paradigm

The influence of the EC on the Irish paradigm of disclosure is not yet apparent. Discussions which the writer has had with officials in the Participation Unit of the Department of Labour indicate that the official view of Government is that, while it is aware of developments in the EC, such discussion documents and policy statements as have emerged from the Department of labour, have emerged independently of the EC position.

However, Ireland has signed the Social Charter and The Maastricht Treaty and supports the notion of employee participation including disclosure of financial information to employees which is included in the Social Charter.

The approach of the EC is a legalistic one, and is heavily influenced by the German approach, which is to codify regulation in a detailed manner. Disclosure of information to employees is seen by the European Commission as part of the Social Charter. The Social Charter has been subject to much discussion in the media, in particular pertaining to the UK Government's opposition to some of its proposals.

The most recent action programme for the proposed Social Charter was presented by Commissioner Vasso Papandreou in December 1989. 45 initiatives are planned, but only 17 will be the subject of directives. The less binding "Recommendations" will be used for the proposals relating to social protection, child minding and minimum wage. The proposed inclusion of freedom of association and the right to collective bargaining and provisions relating to discrimination on grounds of race, colour or religion has been dropped. There will, however, be directives on the reorganisation of working hours and contracts

of employment, and legislation to ensure that the principles of worker information, consultation and participation are recognised throughout the Community.

The disclosure of information is viewed as an integral part of the participation of employees in the employing organisation. It is expected that employee participation and disclosure of information will be the subjects of two separate directives, and that these directives will be based on the Fifth Directive on Participation and the Vredeling Directive on Disclosure of Information to Employees, or some modification thereof. It is expected that any directive will include a clause permitting member states to give precedence to a locally developed system of disclosure where it is acceptable by all parties to the social contract. Therefore, there is potential for the EC to impose "European" (perhaps German or French) 'local characteristics on the Irish paradigm simply by virtue of the requirement for member states to enact the provisions of the directive. It is possible that the Irish Government's antipathy to the legalism approach of the EC may dilute its impact. Of interest here is the extent to which Irish companies are aware of the potential provisions of legislation which may emanate from the Vredeling Directive. This issue is taken up again in Chapter 5.

#### 3.4.4.4. Ireland's response to the 5th and Vredeling Directives.

In common with other EC member states, Ireland has, as yet, made no effort to amend its Companies legislation to incorporate any the the provisions of the 5th or Vredeling Directives on Company Law. There is an expectation that these Directives will be amended within the structure of the Social Charter, and Member States are awaiting the final draft.

An ad hoc working group was set up in Ireland in 1984 under the chairmanship of Mary Redmond (a leading Industrial Relations lawyer) to examine Ireland's response to the Vredeling and Fifth Directives on Employee Participation and Disclosure of Information to Employees respectively. The working group recommended that these directives should be proceeded with, but with a slightly new approach. It was proposed that the Directive be adopted as an instrument of social policy giving workers the right to information and participation, rather than a company law instrument imposing obligations on companies. The suggestion is that these directives should be carried as amendments to Labour Law rather than to Company Law.

There have been opposing viewpoints to these Directives. The Irish Congress of Trade Unions, in a submission (1984) to Dr. Redmond's committee, requested that the Irish Government should

press for the adoption of the original Vredeling and Fifth Directives. Congress supports the European Trades Union Body which argues that national legislative provisions are inadequate if a common market is to function properly and that regulations laid down at European level on procedures for information disclosure and consultation with workers would contribute towards the democratisation of social and economic life in the Community. The actual impact of trade unions in influencing disclosure to date in Ireland is of interest. The issue of trade union influence will be examined in the empirical study, and will be referred to again in Chapter 5.

The Confederation of Irish Industry (CII) (1984) believed that the proposals contained in the Vredeling and Fifth Directives could jeopardise the attractiveness of Ireland as a base for foreign industrial investment which would be inclined to go elsewhere, to countries outside the EC where such perceived constraints would not apply. The CII also objected on the grounds that the proposals could undermine the authority of local management which would disrupt industrial relations; that the administrative cost would prove prohibitive and that the risks of confidential information being disclosed by employees would be unacceptable.



The Federation of Irish Employers (formerly the Federated Union of Employers) (1984) also objected to the 5th and Vredeling Directives on the grounds that they threaten to infringe on management's right to make important decisions promptly, that it is not practicable to superimpose EC legislation on the widely varying frameworks of Company and Industrial Law which exist in the Community and that it would act as a deterrent to US, Japanese and other non-EC investment in Ireland.

The Department of Labour in its submission to the Working Group (1984), stated that the Minister considered that the sharing of information between management and workers and the development of participative structures within the workplace can only have a positive impact, especially in regard to the development of a healthy industrial relations environment. The Minister expressed the view that the communication of all relevant information, not directly threatening the commercial security of the enterprise, is a prerequisite for the development of trust between workers and employers.

The Department of Industry and Commerce (1984) expressed concern at the impact which the implementation of the Directives would have on future investment and employment creation in Ireland. There was a view that employees should not be treated more favourably than shareholders.

The authoritative Joint Oireachtas Committee on the Secondary Legislation of the European Communities declared, in September 1985, that it favoured legislation as a necessary means of effecting participation in Ireland. In its report on the Fifth Directive, it commented that while it would be preferable to have a mutually acceptable system of employee participation in the management of companies evolve through the purely voluntary efforts of both sides of industry; it was sceptical of the prospects of much being achieved in the absence of legislation. Moreover, it saw the best prospects of securing general acceptance of the concept of employee participation to lie in the adoption of uniform measures in the Community.

Response in Ireland to these proposals may be summarised as "mixed". With the exception of the Trade Unions and the Department of Labour, there appears to be unease with the highly prescriptive and codified nature of the directives, although there were no comments which indicate disagreement with the principles of disclosure and participation. The most recent response arising from discussions that the writer has had with officials of the Department of Labour indicate a "wait and see" approach to the proposed modifications which are currently emerging to both these directives. Ireland could be said to be at a cross-road in relation to action to be taken on the implementation of regulation covering employee participation

and the disclosure of financial information to employees. It is possible that we may be forced to adopt a legalistic approach. However, at the time of writing, the Institute of Chartered Accountants in Ireland has been asked by the Department of Labour to contribute to discussions on ways in which Ireland may put in place policies and practices in the area of participation. This invitation is based on the indication (referred to above) by the European Commission that the Directives will include a clause which permits member states to give precedence to their own developed paradigms. So, although the EC approach would force Ireland into a legalistic paradigm, current indications are that the more favoured associationistic paradigm (referred to in 3.4.1.2.5.) may prevail.

### 3.5. SUMMARY

This chapter, following on from the establishment of the Irish employee as a justified recipient of financial information about his employing enterprise, examined the development to date of the paradigm of disclosure to employees in Ireland.

In this study the sense in which the term 'paradigm' is used is the combination of patterns, practices, background to the development of disclosure to employees, given that such development is at a preparadigmatic stage.

The review of the Irish paradigm was conducted within the framework of influences applied by State, Community, Market and External Influences.

The nature of the Irish paradigm may be summarised, arising from the influences which are driving its development, as 'associationistic' with some 'legalistic' influences. The development of the paradigm appears to reflect the influence of the association of workers, i.e. the Trade Union movement and its political ally, the Labour party, and the association of financial accountants. The Institute of Chartered Accountants in Ireland has taken a positive stance in recognising the right of the employee to financial information and the responsibility of its members to provide it. Of interest, in the context of this study, is the establishment of the extent to which, in a disclosure environment which is voluntary and not mandatory, the influence of the financial accountant and of the worker impact on actual disclosure practice. In other words, the extent to which the 'associations' represent the views of their constituents, and the extent to which those constituents actually influence disclosure within individual enterprises. Of particular interest, given the need to limit the study within manageable proportions and the thrust of this dissertation as an accounting one, will be the influence of the financial accountant. These issues will be referred to in Chapter 5.

Legalistic influences come from the positive attitude of Government to the disclosure of financial information, and from general support for the programme to mandate such participation and disclosure in the state sector. However, such influence is diluted in the private sector, with government apparently reluctant to introduce legislation mandating such disclosure. Additionally, government's view that disclosure should be seen as an integral part of participation of the workers is of interest within the Irish paradigm.

Other paradigms were considered in the context of the influence which other states' paradigms of general accounting have had on Irish paradigms, to determine whether such influence extends to the paradigm of disclosure of financial information to employees.

Although the UK has developed a largely associationistic paradigm, there are differences of emphasis between Ireland's associationism and that of the UK. The main association representing the disclosers of financial information in Ireland, The Institute of Chartered Accountants in Ireland, has taken a more positive stance in recognising the right of the employee to financial information than has the sister-association in England and Wales. Local characteristics within the UK which are of interest to Ireland are the tendency for non-accountants to take the initiative in disclosing financial information to

employees, the need for pre-disclosure education and the impact on disclosure of the size of the workforce and the skill of the workforce.

The paradigms of the USA, and of the EC (including those of Germany and France), are largely legalistic, and, therefore, different to that of Ireland which, it is suggested, is associationistic with legalistic influences.

### 3.6. CONCLUSIONS

Employee Participation and Disclosure of Financial Information to Employees are at a very early stage of development in Ireland. Local characteristics pertinent to Ireland can be identified. Government has committed itself to the introduction of legislation and to support agencies to promote disclosure of information as an integral part of a package of participation and disclosure. On the other hand, Government is anxious to protect the perceived attractiveness of Ireland as an investment location for US, Japanese and Swiss multi-nationals. Government is more likely to favour the introduction of practices, regulations and guidelines from an agency such as the Institute of Chartered Accountants, which is self-regulating. Budgetary constraints reduce the likelihood of strong Government support for legislation in the immediate future, or for Government investment in education and in the promotion of disclosure and

participation practice. It is suggested that such development must come from the associations representing the disclosers and the disclosees.

Arising from the examination of the Irish paradigm described in this Chapter, the following emerge:

There is a need to establish the current practice in Irish enterprises regarding the disclosure of financial information to employees. This was referred to in 3.4.2.2.

There are local characteristics which are of interest within the Irish paradigm, but which do not fall within the scope of the objectives set out in 1.3.3. (see 3.6.1.)

There are local characteristics which are of interest in completing the picture of the Irish paradigm, although not linked directly with disclosure/non-disclosure patterns, and which warrant further testing. (See 3.6.2.)

There are local characteristics which are of interest within the Irish paradigm, and which it is hypothesized are linked with the disclosure/non-disclosure pattern within the Irish paradigm. (See 3.6.3.)

### 3.6.1. Local characteristics of interest

The following local characteristics which are present within the Irish paradigm were noted. Essentially these characteristics are matters of historical development which should be recorded and understood in any examination of the Irish paradigm of disclosure of financial information to employees. They are:

Because of the way in which the Irish party political process has developed, there has been a lack of a 'pendulum' effect (which could have resulted from a clear left - right political spectrum) on the development of disclosure of financial information to employees. Additionally, because of the mainly conservative nature of government since the inception of the State, there has been an emphasis on an evolutionary rather than revolutionary development of such disclosure. This was dealt with in 3.4.1.1.

Disclosure of financial information is generally not extensive. It would be expected, therefore, that disclosure of financial information to employees would follow the same pattern. This was referred to in 3.4.2.2. as the secretive nature of the Irish business community.



There has been in Ireland a lack of demand for disclosure of financial information to employees in times of national emergency. This issue was dealt with in 3.4.2.3.

Although Ireland has demonstrated a tendency to base legislation on a study of comparable legislation in the UK, this has not been a characteristic of the development of legislation relating to disclosure of financial information to employees, as described in 3.4.4.1.

The legalism approach adopted by the EC does not appear to align with the largely associationistic slant which is perceptible in the Irish paradigm of disclosure of financial information to employees. This issue was referred to in 3.4.4.4.

### 3.6.2. Local characteristics which require further examination

It was noted that the following characteristics of the Irish paradigm should be tested in the empirical study:

The need for pre-disclosure education (3.4.1.2.)

The responsibility for regulating and initiating disclosure of financial information to employees (3.4.1.3.)

The view of preparers on the government stance that disclosure should be an integral part of participation (3.4.2.1.)

The existence of a fear of leakage of secret information (3.4.2.2.)

The view of preparers about their role in the preparation of information to be disclosed to employees (3.4.3.)

The extent of awareness of proposed EC proposals for disclosure to employees. (3.4.4.3.)

### 3.6.3. Hypotheses on the linkage between characteristics and disclosure/non-disclosure patterns in Irish enterprises

Arising from the review of the Irish paradigm, the following local characteristics are identified as potentially influencing enterprises to disclose financial information to their employees. Hypotheses have been developed which will be tested to determine the linkage between these characteristics and the disclosure/non-disclosure patterns in Irish enterprises. Those hypotheses are:

That there is a significant relationship between the attitude of an enterprise's financial accountant (referred to in 3.4.1. and 3.4.3.) and the disclosure/non-disclosure pattern of financial information to employees by the enterprise.

That there is a significant relationship between the extent of unionization in an enterprise (referred to in 3.4.3.) and the disclosure/non-disclosure pattern of financial information to employees by that enterprise.

That there is a significant relationship between the ownership structure of an enterprise (referred to in 3.4.2.2.) and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

That there is a significant relationship between the extent of participation within an enterprise (referred to in 3.4.2.1.) and the disclosure/non disclosure pattern of financial information to employees by that enterprise.

That there is a significant relationship between the length of establishment of the enterprise (referred to in 3.4.2.2.) and the disclosure/non-disclosure pattern of financial information to employees by that enterprise.

That there is a significant relationship between the extent to which employees of an enterprise demand information (referred to in 3.4.2.3. and 3.4.3.) and the disclosure/non-disclosure pattern of financial information to employees by that enterprise.

That there is a significant relationship between the size of an enterprise's workforce (3.4.4.1.) and the disclosure/non-disclosure pattern of financial information to employees by that enterprise.

That there is a significant relationship between the skill of the enterprise's workforce (3.4.4.1.) and the disclosure/non-disclosure pattern of financial information to employees by that enterprise.

The issues referred to in 3.6.2. and 3.6.3. will be addressed in Chapters 5 and 6.

## CHAPTER FOUR

### A DESCRIPTION OF THE PROCESS OF COLLECTING DATA IN THE FIELD TO ACHIEVE THE OBJECTIVES OF THE STUDY

#### 4.1. INTRODUCTION

This chapter describes the data collection process undertaken to achieve the objectives of the study. The data collection methodologies and instruments used are justified and details are given regarding the steps taken to ensure the validity and reliability of the data collected.

#### 4.2. OBJECTIVES

The objectives of the data collection process are twofold.

The first objective is to collect data which will facilitate the completion of the picture of the Irish paradigm of disclosure of financial information to employees which was discussed in Chapter 3. In Chapter 3 it was suggested that in its development to date, the Irish paradigm of disclosure is largely associationistic with some legalistic influences, and it was hypothesized that there were a number of local Irish characteristics which influence disclosure. Because there are no data in the public domain on current disclosure, it is necessary for the completion of the picture, as indicated in 1.3.2. and 1.3.3. to determine the information described in 3.6.2..

The second objective, is to test the hypotheses referred to in 3.6.3. In order to conduct such tests it is necessary to collect information on the accountants' attitude, the ownership structure, the extent of unionization etc. This chapter describes the steps that were taken to collect this data. Chapter 5 describes the univariate analysis conducted on the data and Chapter 6 describes the multivariate analysis conducted in order to achieve the objectives stated in 1.3.3. and 1.3.4.

#### 4.3. OVERVIEW OF THE DATA COLLECTED

Data were collected from private and public enterprises in the Republic of Ireland employing more than 500 people (See 4.4.2.) to establish the following: (The references in parenthesis in this section refer to the question number on the mail questionnaire, Appendix F).

4.3.1. The existence of disclosure of financial information to Irish employees in the enterprises mentioned above. (3.3.)

4.3.2. Information on the characteristics which were identified in 3.6.2. which warranted further inspection to augment the picture of the Irish paradigm described in Chapter 3, as follows:

Pre-disclosure education (3.5.)

Responsibility for regulation and initiation (4.4.)

Disclosure as part of participation (4.1.6.)

Secretive nature of Irish business community (3.3.)

Role of the accountant in disclosure of information (4.3.)

Awareness of EC proposals (4.5., 4.6., 4.7.)

4.3.3. Information which will allow the hypotheses stated at 3.6.3. to be tested, as follows:

Link between worker participation and disclosure (3.1.)

Link between demand from employees and disclosure (3.3.,  
3.6.)

Link between the attitude of the financial accountant and  
disclosure (4.1.)

Link between unionization and disclosure (2.2.)

Link between ownership structure and disclosure (2.3.)

Link between size of workforce and disclosure (2.4.)

Link between length of establishment and disclosure (2.2.)

Link between the skill of workforce and disclosure (2.5.)

In relation to the influence of the financial accountant, several sub-factors are considered in the univariate analysis which are seen in association with the financial accountant's attitude. They are as follows:

Age, as accountants qualified more recently may have been exposed to a changing swing in education, particularly in the University sector, to incorporate 'employee reporting' in curricula, as suggested by Clarke (1990);

Gender may be a significant factor: research by Barrett and Granleese (1989) indicates that there may be differences in psychological profile between male and female chartered accountants;



Qualification, as indicated above, may be interesting, in that accountants with university degrees may have a different attitude to disclosure than those without;

Experience in accounting is also worth examining in order to determine whether experience measured in terms of years has any effect on the accountant's attitude to disclosure of financial information to employees;

Experience in industrial relations negotiation is also worthy of examination, particularly in these days of 'ability to pay negotiations' referred to in Chapter 2;

Knowledge of impending legislation on disclosure is of general interest in the context of the government position referred to in Chapter 3. That is, it would be of interest to detect any difference in attitude where the financial accountant is familiar with the terms of impending legislation and with the provision that member states must take into account practices already developed in enterprises in those states at the date of introduction of mandatory legislation.

Univariate analysis of the data collected is detailed in Chapter 5 with pertinent correlations and relationships being highlighted. Chapter 6 deals with multivariate analysis of the significant variables as identified in Chapter 5.

#### 4.4. A DESCRIPTION OF THE PROCESS OF COLLECTING DATA IN THE FIELD TO ACHIEVE THE OBJECTIVES OF THE STUDY.

##### 4.4.1. Overview of data collection process

In order to collect the pertinent data the following steps were undertaken:

4.4.1.1. The population frame of enterprises to be examined was established (See 4.4.2.).

4.4.1.2. Having considered alternative survey mechanisms, it was decided to use a mail questionnaire (See 4.4.3.)

4.4.1.3. A mail questionnaire was designed (See 4.4.4.) with special attention paid to:

Optimization of response rate (See 4.4.4.1.)

Question content (See 4.4.4.2.)

Structure of questions (See 4.4.4.3.)

Use of closed/open questions (See 4.4.4.4.)

Use of grid questions (See 4.4.4.5.)

Use of index (See 4.4.4.6)

The determination of attitude (4.4.4.7.)

4.4.1.4. The questionnaire was piloted (See 4.4.5.)

4.4.1.5. Second requests were despatched to non-respondents  
(See 4.4.6.)

4.4.1.6. Respondents who indicated disclosure, but who had not enclosed examples of material disclosed were contacted to establish disclosure (See 4.4.3.4.).

4.4.2. Establishment of population frame

This study is concerned with the disclosure of financial information in large employing enterprises in the Republic of Ireland. Such enterprises are those employing 500 persons or more. The cut-off point of 500 was selected to coincide with the level originally adverted to in EC draft legislation (The Vredeling Directive) requiring the disclosure of financial information to employees. "Employee", for the purposes of this study, is taken to mean all levels of permanent employees, including part-time workers and those on probationary contracts, but excluding directors, temporary and contract workers. (For other important definitions, see 1.7.)

In order to establish the population frame the following steps were taken:

4.4.2.1. The list published in Business and Finance in January 1988 formed the basis for the population frame. All enterprises reported as employing 500 or more people on January 1, 1988 were included in the frame.

4.4.2.2. Enterprises reported as employing 450 - 500 people were also considered. In relation to these enterprises, the personnel manager was contacted by telephone to verify the accuracy of the reported figures in Business and Finance. Only one such enterprise had in excess of 500 employees and was included in the frame.

4.4.2.3. In order to verify the exhaustiveness and accuracy of the Business and Finance list, several other potential sources of information were contacted. Details of these sources and their responses are given in Appendix C.

The Irish Productivity Centre and Eolas both supplied lists of enterprises employing 500 or more people. When an enterprise appeared on one list but not on another, the personnel manager was contacted by telephone to determine the level of staffing

at January 1 1988. Where the number of employees was in excess of 500 the enterprise was included in the frame, otherwise it was excluded.

4.4.2.4. A question was included in the questionnaire to determine the number of employees. (See 5.4.5.). Where the response was that there were less than 500 employees, the questionnaire was excluded from analysis and from the frame.

4.4.2.5. The total population, having exhausted all reasonable checks, was then finalised at 116. It was then decided that a complete census as defined by Moser and Kalton (1983 p 54) could be undertaken.

#### 4.4.3. An examination of alternative collection methods

Having established the population frame and having determined that a census or complete enumeration would be appropriate, it was then necessary to examine the most appropriate method of collecting the data for this study. Alternative methods of obtaining the data which were considered for this research were:

#### 4.4.3.1. Documentary sources

While there is some documentary information from surveys relating to disclosure of financial information to employees conducted in the United Kingdom (e.g. Norkett 1976 and Lyall 1982), no evidence has been found of a similar survey having been conducted in the Republic of Ireland, and no research has been conducted in the UK or US on the accountant's attitude to disclosure of financial information to employees.

There is presumably much documentary information about individual enterprises which could be used to supplement the information about those enterprises. However, there is a problem of gaining access to such information, as it was likely to have been collected for internal purposes; and not all enterprises would have uniform information.

#### 4.4.3.2. Telephone interviewing

This method was considered and regarded as a possible recourse in the event of persistent non-response, but not a suitable first line method. It was not considered suitable due to the sensitive nature of the subject matter. A questionnaire allows the respondent time to consider carefully his response and to answer anonymously.

#### 4.4.3.3. Observation

Observation is a classic method of scientific enquiry, being more traditionally associated with the natural sciences than with the social sciences. It would certainly be possible to observe the financial disclosure practices of accountants, and to observe their attitudes to such disclosure or non-disclosure as the case may be. As a systematic method of collecting data, however, it would involve many hours of attendance with individual accountants with all the attendant human behavioural problems associated with such observation. It was considered that these factors would make the study complex and make the data difficult to handle in a uniform way in the context of the scope of this study and of the resources available. It was, therefore, rejected as a first line method.

#### 4.4.3.4. Personal interview

In view of the sensitive nature of the subject matter, and because of the number of respondents involved, it was considered that interviewing as a means of collecting initial data was inefficient. However, accountants who indicated disclosure were interviewed where the exact nature of the disclosure was not clear from the responses. The purpose of these interviews was to obtain a more detailed description of

the disclosure to employees and of the pre-disclosure education structures within the enterprise, sufficient to allow classification of disclosure and pre-disclosure education within the continua described in Appendices H and I. In all instances sight was obtained of samples of the information disclosed to employees. This added richness to the information gathered concerning the quality of disclosure and aided the preparation of the disclosure continuum referred to in Chapter 5.

#### 4.4.3.5. Mail questionnaires

The advantages and disadvantages of mail questionnaires were considered and weighed as an appropriate vehicle for data collection for this study.

The major advantages considered were:

4.4.3.5.1. Cost. Mail questionnaires are less costly than interviews. In the words of Selltiz (1959 p 257): "... questionnaires can be sent through the post, interviewers cannot". A mail questionnaire ensures ease of coverage with a widely spread population throughout the Republic. The use of the mail system meant that the coverage did not have to be



restricted to an accessible catchment area. Any other form of coverage of the same area would have involved considerable cost.

4.4.3.5.2. The survey was completed more speedily than by using interviews.

4.4.3.5.3. The use of a mailed questionnaire eliminated the possibility of interview errors and bias.

4.4.3.5.4. Respondents had time to consider their answers carefully.

4.4.3.5.5. There is a possibility, given the sensitive nature of the subject matter that respondents may have been more willing to answer the more personal questions anonymously.

4.4.3.5.6. The problem of non-contact with the respondent was considered and reduced by checking names and addresses with Professional Registers and with current telephone directories. These were double checked with a data base held by the Industrial Liaison Unit of the Dublin City University.

The major disadvantages considered were:

4.4.3.5.7. Non-response. It is easier for a busy accountant to ignore a questionnaire than to refuse a face to face request to complete a questionnaire. This did not, however, present a big problem, and the response rate, at 74% (See 5.2), is regarded as satisfactory. The issue of non-response bias is dealt with in sec. 4.4.4.1.

4.4.3.5.8. The questions had to be simple and straightforward and capable of being understood with the help of brief printed instructions. This potential problem was carefully considered in designing the questions. It was, however borne in mind that the respondents were all professional people and had all been trained in the technical areas covered by the questionnaire.

4.4.3.5.9.. The answers in the questionnaire had to be accepted as final and honest. This problem was considered carefully in designing the questionnaire. There was, obviously, no opportunity to probe or to ask supplementary or corroboratory questions prompted by the responses. It was imperative, therefore to identify such supplementary questions at the questionnaire design and pilot study stages.

4.4.3.5.10. A mail questionnaire is inappropriate where spontaneous responses are required. However, this researcher is of the view that the type of information being elicited in

this study is of a type which requires careful, thoughtful consideration rather than spontaneous response, and this problem does not apply.

4.4.3.5.11. The researcher cannot be sure that the person to whom the questionnaire is addressed actually answers the questions. The covering letter and instructions had to, in so far as possible, guard against this problem and point out to the accountant that it was his attitude which was being tested. Although respondents were not asked to sign the questionnaire or to identify themselves, the questionnaire included an invitation to apply for a summary of the results. This necessitated a declaration of the respondent's name and address. It proved possible to check most of the questionnaires in this way. However, in two cases, the questionnaire was completed by persons other than the financial accountant. In these cases, the questionnaires were eliminated from the analysis, although not from the frame, i.e. they were regarded as non-respondents.

4.4.3.5.12. There is no opportunity to supplement the respondents' answers by observational data. It would be useful, for example, in a survey on this subject to see the type of data which is being distributed to employees, to observe the degree of prejudice being exhibited by the accountant, and to observe the response of the employee to the

material. In many cases a copy of material given to employees was returned with the completed questionnaire and other respondents were interviewed to determine the level of disclosure; but observed attitude would have been difficult to measure and compare and would have extended the scope of this study beyond the boundaries set out in Chapter 1.

On balance, it was decided that a mail questionnaire was the most appropriate to the subject under review. A copy of the questionnaire is given at Appendix F.

#### 4.4.4. Design of questionnaire

The factors considered in the design of the questionnaire included the optimization factor, the structuring, ordering and wording of the questions, the layout, printing and instructions to be included with the questionnaire along with the covering letters for original requests and reminders. Copies of the letters may be seen at Appendices G.1. and G.2.

##### 4.4.4.1. Optimization of response

One of the most important factors in designing a questionnaire is to design it so that a high response rate will be facilitated. The primary factor in optimising the response rate is the brevity, understandability and relevance of the

questionnaire (Moser & Kalton 1983 pp 262-265). The following sections describe the steps taken to ensure that, in designing the questionnaire, the response rate would be optimized.

#### 4.4.4.1.2. Ordering

In relation to the questions soliciting factual responses, the questions which were most straightforward to answer were included first in order to create the impression for the respondent that, having commenced to answer the questionnaire, it was easy to make rapid progress through the questionnaire.

The questions requiring his opinion of future developments which would be perceived as interesting to the respondent were included last in order to revive any flagging of interest in the respondent.

#### 4.4.4.1.3. Brevity

All possible questions were first included, and then questions which duplicated other questions, where they were not included to check validity, were eliminated. Additionally the questionnaire was considerably shortened to ensure that the average respondent could be told with reasonable accuracy that he should take no longer than 20 to 30 minutes to complete the questionnaire. For example, at the questionnaire design and

pilot study stages, (see 4.3.5.) it emerged that questions on the 5th Directive were eliciting the same responses as questions on the Vredeling Directive. The inclusion of questions on the 5th Directive, although of interest in the general area of participation is not directly related to disclosure, and its inclusion increased the complexity and length of the questionnaire. It was, therefore, decided to exclude the questions on the 5th Directive.

#### 4.4.4.1.4. Understandability

At the questionnaire design stage, the immediate understandability of each question was examined. Testers (see 4.4.5.) were asked to think aloud as they answered the questions, and to indicate their understanding of each question and to indicate their reasons for answering in a particular way. Where testers felt it necessary to seek an explanation of a question, the question was re-phrased or eliminated. Where the answers gave rise to further points, in some cases, additional questions were included, which were, in turn, subjected to pre-test.

At this stage, arising from the difficulty that testers had in answering some questions which had originally been included as closed questions, these questions were opened. For example questions 3.2., 3.4. and 3.5. were rephrased as open questions.

On final completion, the time taken was carefully checked and on the pilot study (see 4.4.5.) respondents were asked to indicate the time taken to complete the questionnaire.

#### 4.4.4.1.5. Feedback

In order to further increase the response rate, respondents were asked if they would be interested in receiving a copy of the summarised results. Copies of such results were sent to respondents with an invitation to offer further comment.

#### 4.4.4.1.6. Addressee

Rather than address the questionnaire to the "Chief Financial Accountant", efforts were made to identify the name of the Chief Financial Accountant, and to address the questionnaire and reminder to him personally. The Members' Handbooks of the Institute of Chartered Accountants in Ireland and of the Chartered Association of Certified Accountants were consulted. Where this did not prove fruitful the company was telephoned to discover the name. In some instances this request was refused, and the questionnaire was addressed to the "Chief Financial Accountant" in 7.75% of the despatches. (Although the number

of non-named respondents was small, there was a 20% higher non-response rate among this group than among the named respondents.)

In order to further increase the response rate, a stamped addressed envelope was included with the questionnaire. Research seems to favour this form rather than a franked return label (Scott, 1961 pp 143 - 205).

#### 4.4.4.1.7. Non response

Non-response was dealt with:

(a) by re-issued questionnaires with stamped addressed envelopes (The Multiple Mailing Method referred to by Wallace and Cooke (1990))

(b) by telephone call

A possible method which was considered was direct interview and/or telephone interview of the non-respondents. A sub-sampling for such follow up interviews was considered. The Hansen and Hurwitz (1946) basis for the optimum sub-sampling rate was considered. However, the problem of whether answers to questions collected in different ways can be regarded as comparable was taken into account. Hochstim's (1967) results



are fairly reassuring on this point, but it did not prove necessary to apply this method, as the response rate was high and remaining respondents were unable or unwilling to participate.

The response schedule is set out in Appendix D. The response rate on the first request was 45.69%. After sending the second request a further 25.86% responded and on telephone request a further 2.59% responded (Total 74%).

Of the non-respondents, (26%), 6% proved impossible to contact in spite of persistent efforts; 10% said that it was a policy never to complete questionnaires; 7% said they were too busy to complete the questionnaire, and 3% said the issue was too sensitive.

Of the 10% who cited company policy not to complete questionnaires, it is likely that their profile of disclosure/non disclosure would probably be represented by the respondents to the questionnaire; similarly with the individuals it proved impossible to contact and similarly with the non-respondents who indicated that they were too busy. However, it seems likely that those who felt that the issue of disclosure is sensitive represent enterprises which do not disclose financial information to their employees, and this factor must be borne in mind in the analysis which follows.

However, in order to ensure the content validity of the survey and to eliminate the possibility of categorization and non-response bias, content validity tests referred to by Grove and Savich (1979) were conducted.

#### 4.4.4.1.8. Content validity tests

Tests suggested by Oppenheim (1983 pp 265-269), Copeland et al. (1973), and Strawser et al. (1971) were conducted to consider the effect of any non-response bias.

Firstly, a visual comparison was made between respondents and non-respondents in terms of business sector, geographical location, reported numbers of employees and unionization. There was no obvious clustering of non-respondents in any geographic location, they were evenly distributed over the business sectors classified, and the incidence of unionization and the spread of workforce size was the same as that of respondents.

Secondly, statistical tests were performed to test the statistical significance of differences in responses between questionnaires received before the reminder and those received after the reminder. The rationale for this approach is that late respondents are a proxy for non-respondents.

For responses which were numerical, such as the question on the number of employees, the T-test for difference in means was used. (See Table 4.1.)

TABLE 4.1.

T-test for non-response bias in mail questionnaire

Description	Respondents to first request		Respondents to second request		Computed T-value	2-tail prob.
	X	N	X	N		
1.1. Age	43.585	53	42.762	21	-0.84	.614
1.4. Years in present job	10.762	53	9.514	21	-1.41	.191
1.5. Experience in accounting	17.868	53	15.912	21	1.876	.211
2.2. Years of establishment	32.58	53	32.16	21	.27	.724
2.4. No. of empees.	875	53	921	21	-.71	.602
2.5. Skill of empees.	41.98	53	41.33	21	1.29	.20
3.1. Participatory environment	4.55	53	4.14	21	-.07	.849
4.1. Attitude score	28.28	53	27.58	21	.62	.618

For responses requiring a yes/no response, such as the question on disclosure or not, the Standardized Proportion Difference test was used. (See Table 4.2.)

TABLE 4.2.

Standardized proportion test for non-response bias  
in mail questionnaire

Description	Respondents to first request		Respondents to second request		Standardized Proportion Difference	2-tail prob.
	P1	N	P1	N		
	(yes)		(yes)			
2.3. Foreign mangt.?	.2763	53	.281	21	1.47	.295
3.3. Disclose?	.4785	53	.5383	21	-1.23	.301

These results show that in none of the replies tested, was there a statistically significant difference at the 0.05 level between the replies received after the first mailing and those received after the reminder.

To the extent that these tests indicate, the results of the mail questionnaire would appear not to be materially biased because of non-response. The results can be generalized to the whole population which is the subject of the study.

#### 4.4.4.2. Question content

As a further step in optimizing the response rate, the questions asked were only those capable of a reasonably accurate answer. The pilot study (see 4.4.5.) endeavoured to ensure that where opinions were sought the respondent could reasonably be assumed to understand what was involved and to be able to give meaningful answers.

In drafting the questionnaire the writer was cognisant of the problem of "willingness" identified by Moser and Kalton, (1983 pp 310 - 327) by Payne (1951). It is possible that the area of disclosure of financial information to employees is perceived by the respondents as attracting opinions which are, in some way, more "respectable" than others. Care, therefore, was taken in designing the questionnaire to ensure that a degree of subtlety was applied. For example, questions which might have elicited a negative response were interspersed with less emotive questions and the scaling score was reversed at random. At pre-test stage, testers (see 4.4.5.) were asked to consider the "neutrality" of the questionnaire and instructions.

#### 4.4.4.3. Structure of questions

It was decided to incorporate a mix of techniques in designing the questionnaire. There are two distinct areas that are being probed. Firstly the aim of the questionnaire is to determine the profile of the respondent, the organisation for which he works, and the nature of current disclosure. This type of information was elicited by closed questions with pre-coded lists of responses, and by some open questions. Secondly the study attempted to determine the attitude of the respondents to the whole idea of disclosure of financial information to employees. This attitude was tested by use of a Likert Scale and by some open questions. (This is referred to in 4.4.4.7.)

#### 4.4.4.4. Closed Questions

The danger with closed questions is that the data obtained is not as rich as that to be obtained in an open or "free" question. This problem has been considered in relation to this study, but the writer is of the opinion that the following advantages outweigh the disadvantages:

4.4.4.4.1. Attractiveness to the respondent of having only to circle one number as against the requirement to consider each question from first principles and formulate an answer; and

4.4.4.4.2. Ease of subsequent coding and analysis. (Indeed, Oppenheim (1966 p 56) suggests that some of the some of the richness of the open question can be lost in later classification.)

It was, however, recognised that even though much of the richness of an open answer can be lost on application of a coding frame, it is essential to allow the respondent some opportunity to shake off the strait-jacket of the closed question construct and express his underlying philosophy on the disclosure of information to employees. It was originally decided to include one open question to invite the respondent to expand on his views on such disclosure. It proved difficult and time consuming to compose a coding frame for this question, and so a few of the comments were included by way of appendix to give a flavour of the replies. (See Appendix E). All questions included an "other" response with space allocated to allow the respondent to elaborate. Subsequent to the pilot study, it was decided to expand the number of open questions (See 4.4.4.5.).

#### 4.4.4.5. Grid

This method was tried in a number of the questions. It is an elaboration of the "inventory" type of question. It was used in the questionnaire to collect information quickly without having to ask a great number of questions.

The objective of including such questions was to elicit the following statistical information:

Overall frequency tabulation showing which is the preferred method for disclosing to the range of employees by stratum of appointment.

Detailed comparison of information given to, for example, middle management with that given to all employees.

Grouping of respondents by experience to show whether higher qualified accountants are more inclined to to all employees.

However, as a result of the pilot study (See 4.4.5.), it was decided to eliminate these grid questions as the number of possible permutations and combinations was such that doubt would have been cast on the validity of the responses. It was



decided to substitute open questions, and to consider an interview at a later stage where the response to the open question was insufficiently elaborative.

#### 4.4.4.6. Index

An index of qualification of the accountant was considered which could have been drawn up from the profile questions asked, by scoring his qualification, his total accounting experience and his experience in his present job and his experience with disclosure.

On analysis, this index proved difficult to construct and was rejected as its meaningfulness was doubtful. However, indices were constructed for the volume of disclosure of financial information to employees, and for a qualification scale of employees in the enterprises surveyed.

#### 4.4.4.7. The measurement of the attitude of the financial accountant

##### 4.4.4.7.1. Introduction

The attitude of the financial accountant in an employing enterprise was hypothesized in Chapter 3 as being a significant factor in the disclosure of financial information to employees.

The Board of Directors delegates to the financial accountant the authority for the external disclosure of financial information as the professional who is trained and competent to execute that function, and he is directed by legislation and by the professional guidelines and standards of his professional association.

The preparation and communication of financial information to external users is for all practical purposes the responsibility of the financial accountant. As discussed in Chapter 3, the association of the financial accountant has projected a positive attitude towards such disclosure on behalf of its members. This empirical study is designed to determine the extent to which that attitude reflects the attitude of the individual financial accountant delegated with the responsibility for external disclosure of financial information; and the extent to which such attitude, either positive or negative, influences the disclosure within the enterprise and thereby contributes to the development of the Irish paradigm of disclosure to employees.

The financial accountant in Ireland, unlike, for example, his counterpart in Mainland Europe, has the discretion to exercise considerable professional judgement in the interpretation and application of the concept of "true and fair view". Similarly

the association of accountants in Ireland exercises considerable power in the setting of standards of disclosure of financial information.

However, concern has been expressed in the UK about the ability of the financial accountant to cope with the demands of communicating financial data to employees. (See, for example, Gibson (1978) and Parker (1977)). Concern has similarly been expressed about the low profile of accountants in Ireland in contributing to pay negotiations which are 'ability to pay' driven. Discussions which the writer has had with officers of the Irish Congress of Trade Unions and with officers of SIPTU in Ireland and of the TGWU in the UK indicate that the accountant rarely becomes involved in employee negotiations, even when such negotiations involve an "ability to pay" debate. These negotiations and disclosures are, normally, conducted with Human Resource and Industrial Relations officers of the company, who, generally, have little or no training in Accountancy. Thus, although in the UK there is a suggestion that the accountant is being displaced by 'communications' experts in the disclosure of financial information to employees, there is no such suggestion evident in Irish literature. One of the questions in this questionnaire is directed at the issue of responsibility for disclosure in Ireland.

This element of the study is designed to determine the attitude of the financial accountant towards disclosure to employees and to test the hypothesis that there is a link between the accountant's attitude to disclosure and whether the enterprise discloses or not.

This section explores the definition of attitude in order to examine the constituent parts of the concept and the manner in which attitudes are acquired. The internal architecture of attitude is then considered in order to determine the attitude typing to which "attitude to disclosure to employees" belongs. There is then an examination of the problem of measuring attitudes and a discussion of the scaling method chosen for the study. The question of strength of attitude is then examined and the intensity dimension is examined. Having looked at the definitions relating to attitude, the issue of the link between attitude and behaviour is then discussed and finally, the possibility, having established the nature and intensity of attitude, of changing attitude, or increasing or decreasing intensity is considered.

#### 4.4.4.7.2. Definition of attitude

Attitude has been defined in many ways by social psychologists. Triandis (1971 p 15) suggests that an attitude is an idea "... charged with emotion which predisposes a class of actions to a particular class of social situations". Rokeach (1976 p 112) proposes that attitude may be described as a relatively enduring organization of beliefs around an object or situation predisposing one to respond in some preferential manner. However, there appears to be general agreement that a positive attitude towards an object is a "...mental readiness to feel, think and be inclined to behave towards that object in a positive manner" (Reich and Adcock 1976 p 28).

It is widely agreed (as summarized by Reich and Adcock (1976 pp 29 -30) that attitude has cognitive, affective, conative and behavioural components and several kinds of functions. An accountant's attitude towards disclosure of financial information to employees would consist of:

The accountant's feelings toward and evaluation of  
the issue of disclosure to employees,

His accumulation of knowledge of the issue,

His behavioural intentions towards disclosure, and

His actual observed behaviour towards disclosure.

Some psychologists (for example Osgood et al. 1957 p 48) stress the affective component: "Attitudes are predispositions to respond, but are distinguished from other states of readiness in that they predispose towards an evaluative response"; whereas others (for example, Smith et al. 1956 p 37) lay greater emphasis on the motivational-cognitive component: "...an attitude is a predisposition to experience, to be motivated by, and to act toward a class of objects in a predictable manner". Most authorities agree that an attitude is a learned pre-disposition to respond in a consistently favourable or unfavourable manner with respect to a given object. However, this may be an oversimplification as there are a number of complicating factors which have been identified by Fishbein and Ajzen (1975 pp 39 - 49). A major factor to be taken into account is the dissonance theory whereby a person will strive towards consistency within himself in terms of his stated attitudes and his behaviour, and it has been suggested that he is more likely to alter his attitude to fit his behaviour than vice versa. In order to minimise the dissonance effect, the questionnaire has been designed to seek a statement of the PERSONAL attitude of the respondent and of the

ENTERPRISE'S practice in relation to the object, without advertent to the input of the accountant in the application of policy, but rather to the hypothetical general issue of who should influence policy and practice.

#### 4.4.4.7.3. The internal architecture of attitude

Having considered the constituent components of the attitude that this study attempts to measure, it is necessary to examine the class of attitude to which the attitude to disclosure of financial information belongs. Of course, not all beliefs or attitudes are on the same level to an individual. An attitude to the right to life of every human being would probably be held universally as a core attitude, whereas an attitude to the survival of the lesser yellow spotted dung beetle would probably not be ranked as an important belief by most people. Attitudes towards the disclosure of financial information to employees could not be ranked amongst the central attitudes of mankind, but it is an issue about which most people could express an attitude either favourable or unfavourable, albeit not always very strongly. If a particular belief or attitude is regarded by an individual as central to his being it will be difficult to alter the attitude. According to Rokeach (1976 p 3) "... the more central the belief, the more it will resist change..... " and, if changed "... the more central the

belief changed, the more widespread the repercussions in the rest of the belief system." Rokeach suggests that beliefs or attitudes can be classified as Types A, B, C, D and E. Type A beliefs are those primitive beliefs about which there is 100 percent consensus. They are beliefs about the physical world, the social world and self, such as belief that a mountain is a mountain, that one's mother is one's mother and that one's name is X. It is hard to imagine any debate surrounding such issues, and equally it is hard to imagine how one could change someone's attitudes to these primitive beliefs. Clearly disclosure of financial information to employees could not be classified as a Class A attitude for the vast majority of people.

A Class B belief is one in which the individual again is unshakeable, but for which he does not require universal agreement. For example a child, thrown into the water at a young age, may hold a primitive belief that water is frightening and dangerous, even though all those around him have a very positive attitude to water. Again, for the MAJORITY of people, their attitude towards the disclosure of financial information to employees would not have the primitive character required for classification as a Class B belief.



A Class C belief is one which is not primitive in character, but is one which is acquired concerning those people or groups of people in society who are qualified to serve as authoritative reference points. For example, an accountant may accept completely the authority of the Institute of Chartered Accountants, but may reject the authority of, for example, the Pope to mould his attitudes. Examples of authority figures in whom an individual may have a Class C belief would include, for example, a parent, a teacher or a legislator.

Linked with Class C belief is Class D belief, which indicates that, having accepted the authority of an individual or group of individuals in whom a person has a Class C belief, then the person will generally accept the beliefs proposed by that individual or group of individuals. For example, if the accountant accepts the authority of the Institute of Chartered Accountants, he will accept the attitudes promulgated by the Institute, through, for example, the accounting standards.

Type E beliefs have been categorised by Rokeach (1975 p 11) as "Inconsequential beliefs", which represent more or less arbitrary matters of taste. If an individual believes that chocolates are delicious, he may not be swayed by authority, but it is certainly not a central belief, and has little impact on his existence.

This writer suggests that belief in or attitude to the disclosure of financial information to employees has all the characteristics of a Type D belief, as defined above, as it is not a central or primitive object, and it is an attitude that is usually learned from Authority figures in whom one has a Class C belief, such as employers, writers, and probably, most importantly for this study, University and professional accountancy lecturers. The survey data (See Chapter 5) indicate that the object is not one in which there is a high intensity attitude, and therefore, it is one which, according to Rokeach "... the less likely it is to resist change". The question of intensity is discussed in the next section.

#### 4.4.4.7.4. Intensity of attitude

The previous section considered the class of attitude to which attitudes to the disclosure of financial information to employees belongs. Within each class, however, there are varying degrees of intensity or strength of attitude. Even within a class E belief, intensity can vary. One can have an intense dislike or like for chocolate or one can feel completely neutral about chocolate. Similarly with attitudes towards disclosure, the intensity of attitude can vary. The class of attitude to which a particular attitude belongs can influence the likelihood of that attitude affecting an

individual's behaviour and the likelihood of that attitude being strengthened or weakened or reversed. Similarly with intensity of attitude, the stronger the intensity, the more difficult it is to effect change. Katz (1944 p 51) wrote:

".. the problem of the depth of opinion, or the intensity of belief or attitude, is perhaps one of the most basic questions in the measurement of public opinion."

Krech and Crutchfield (1948 p 251) shared Katz's view:

"The degree to which an attitude is important or central to the individual is one of the most critical attributes requiring measurement."

Rokeach (1976 p 13) agrees:

"..intensity becomes a more compelling criterion of importance as we move away from a consideration of the relative importance of beliefs between classes to a consideration of beliefs within each class."

The attitude to disclosure of financial information to employees is not a central or primitive attitude. The data collected (referred to in Chapter 5) indicate that the attitude of accountants to disclosure to employees is positive, but not intense. The indications are, that because of its class and intensity, the attitude under review is capable of being changed by those bodies/persons to whom accountants have a Class C attitude.

Because of the nature of financial accounting and of its teaching, it is highly possible for educators of accountants to strengthen the positive attitude of accountants to disclosure to employees, with a probable correlational increase in the extent of disclosure to employees in Ireland. (This issue is dealt with in Chapters 5 and 6)

It is contended, that because the attitude held by Financial Accountants in Ireland towards the disclosure of Financial Information to employees is a Type D attitude and of a low, but positive intensity, it is capable of being strengthened because of both its type and intensity. The grouping in society that can strengthen the attitude of Accountants to the issue of disclosure to employees is that group to which the financial accountant has a Class C attitude in professional matters, i.e. the "law", the teachers, trainers and educators of professional and student Accountants.

Having considered the issue of intensity, the next section discusses the possibility of measuring attitude and of describing the intensity of that attitude.

#### 4.4.4.7.5. The measurement of attitude

A number of aspects need to be considered in relation to the measurement of attitude. These include the issues of reliability, validity, the actual choice of scale and its components. A closer examination of these aspects now follows:

##### 4.4.4.7.5.1. Reliability and validity

Since attitude is not directly observable, it can only be measured indirectly. Because of the need for fine discriminating points along the attitude dimension, most attitude tests rely on verbal reports. The measurement technique chosen must give a "reliable" and a "valid" measure of attitude. Reliability refers to the extent to which the information is free of variable measurement error, such as temperature factors, respondent's mood, etc. In other words, if a measurement were taken of accountants' attitudes on a different occasion the results should be the same. Validity refers to the degree of relevance of the instrument; for example, if care were not taken, a respondent's responses may not be a good indication of his attitude towards the disclosure of financial information to employees, but rather of what he thinks is a socially acceptable answer.

Scaling has been chosen as the most appropriate method for measuring attitudes in this study, and the scale chosen is the Likert scale. There is considerable evidence that the Likert scale is highly reliable, yielding comparable results when administered on different occasions. Shaw and Wright (1967) and Robinson and Shaver (1969) have reported very high reliability coefficients.

#### 4.4.4.7.5.2. Choice of Scale

The scales considered for the measurement of the attitude of accountants included Thurstone's Scale (1929), Guttman's Scale (Suchman & Guttman 1947) and Likert's Scale (1932). Due to the amount of time consumed by Thurstone Scale and the difficulty of obtaining a suitable group of judges, this method was rejected. Guttman's Scale was similarly considered and rejected for the purposes of this analysis on the grounds that the rather laborious procedures involved would not necessarily, in the end, produce a usable scale. Oppenheim (1966) criticises Guttman's somewhat arbitrary standards such as the lower limit of 0.9 for coefficients of reproducibility. Guttman himself acknowledges that the main usefulness in his scale is when the researcher wishes to examine small shifts or

changes in attitudes. That is not the major thrust of this study, and therefore, the Likert scale was felt to be the most appropriate.

Likert's primary concern was with unidimensionality (making sure that all the items would measure the same thing.) He also wanted to eliminate the need for judges required by the Thurstone scale by getting the respondents in a trial sample to place themselves on an attitude continuum running from "strongly agree" to "strongly disagree", with an odd (usually three) number of positions mentioned between. These positions are given numerical weights for scoring purposes. He established that more complex scoring methods possessed no advantage.

The attitude score adopted is to allocate a high score of 5 to the most positive attitude in favour of disclosure to employees with a low of 1 to the most negative attitude. The statements have been phrased so as to eliminate any apparent bias on the side of the researcher, with approximately equal numbers of statements apparently in favour of disclosure and against disclosure. Additionally the scoring direction does not automatically run from a high on the left to a low on the right or vice versa, but is mixed. This is to counteract the "halo effect" identified by Oppenheim (1966). Where the respondent feels positively to the area he may rate each question

favourably without considering each item separately. This can be facilitated and is evidenced in what Oppenheim describes as the "response set" where the "good" end is identified as being to the left and the "bad" end is identified as being to the right (or vice versa), and the respondent, having decided that he is, say, favourably disposed to the object of the ratings, may run down the list of questions always ticking the items to the left or right without considering each separately.

#### 4.4.4.7.5.2.1. Number of points on the scale

Likert suggests an uneven number of points to allow the respondent to categorise himself on the positive or negative side of the attitude spectrum. Oppenheim suggests that respondents are often afraid of using the extreme categories. Therefore, the use of three points was considered too limiting with an expectation that the majority of responses would fall in the middle points. This writer has used a five point scale in order to allow a strongly held view to be expressed. The possibility of using seven points was considered, but in the light of Likert's finding that more than five points would lead to no better findings, it was decided to use five points. The word "strongly" was applied to the description of the extreme points to emphasise firmness rather than extremism.



The statements have been exposed to pre-test and pilot study (see 4.4.5.) and to the tests indicated below to ensure validity.

#### 4.4.4.7.5.2.3. Use of bi-polar scale

The measurement of the attitude under review requires a measurement procedure whereby the accountant assigns "disclosure to employees" to a position on a bipolar evaluation dimension. A bipolar scale, rather than an uni-polar scale is deemed essential by Oppenheim (1966) for a scale testing attitude when a Likert scale is used in order to allow the respondent the opportunity to adjudge himself as having a favourable or adverse attitude to the object, and so in this study the scale chosen is a five point scale ranging from "strongly agree" through "uncertain" to "strongly disagree". The attitude is assessed by setting an index over responses to a set of belief items which take the form of a number of psychological objects or statements.

4.4.4.7.5.3. General principles applied to psychological objects

The general principles applied in selecting the psychological objects to form the basis of the test in this study were those advocated by Robinson and Shaver (1969 p 347):

- a. Statements referring to the past were avoided
- b. No statements were included that are factual or capable of interpretation as factual.
- c. Statements capable of interpretation in more than one way, as determined in pre-test, were excluded.
- d. Irrelevant statements were avoided.
- e. Statements which were endorsed by everyone (or no one) were excluded.
- f. Statements were kept simple, clear and direct.
- g. Statements were made as short as possible.
- h. Each statement contains one complete thought. Statements deemed to encompass more than one were eliminated at the design stage.
- i. Universal statements were avoided.
- j. Complex and/or compound sentences were simplified or eliminated.
- k. Vocabulary was selected as appropriate for qualified accountants.

#### 4.4.4.7.5.4. Creation of the scale

The steps taken in creating the scale were:

a. The draft list of items was compiled, being statements of belief and not of intention.

b. Each item was examined to determine whether it indicated a favourable or unfavourable attitude towards disclosure of financial statements to employees. Where an item was ambiguous or appeared to indicate a neutral attitude it was eliminated. (This step is similar to that taken using the Thurstone method, although the use of judges is eliminated).

c. The items were then randomly phased to avoid the "serial effect" as a source of variation, i.e. some questions were phrased to elicit the "strongly disagree" response from a respondent with a positive attitude. This is to avoid the possibility of the respondent choosing, for example, the left hand column for all answers, having established a pattern and ticking mechanically in this column.

d. The list was then piloted (see 4.4.5.) with a score of from 1 to 5. Strong agreements with favourable items receiving 5 points and strong disagreements with those items receiving 1

point. Scoring was reversed for unfavourable items. Each respondent's preliminary score was obtained by totalling his scores.

e. An item analysis was then performed and only those items which met Likert's criterion of internal consistency were retained. The item score was computed and where there was not significant correlation with the attitude score it was eliminated from the scale.

f. Items were also eliminated where they had a high correlation with other items i.e. where there was a double counting of a particular factor.

g. The eight most discriminating items then formed the basis of the attitude scale and were administered to all respondents. The Likert scale, therefore, ensured that the possibility of the double counting of items as well as the possibility of the inclusion of items based on factors other than the attitude under consideration were eliminated.

#### 4.4.4.7.6. The link between attitude and behaviour

The basic purpose of this part of the empirical investigation is to test the hypothesis that there is a relationship between the attitude of the enterprise's financial accountant and the disclosure/non-disclosure pattern of financial information to employees in that enterprise. Of the two primary research methods identified by Cronbach (1957 pp 671-684) this study uses the Correlational Method rather than the Experimental method. The most characteristic feature of the Correlational Method is its reliance on existing variation. To use the Experimental Method, it would be necessary to measure the accountants' attitudes and behaviour, then to manipulate the attitude of the accountants in some way, and then finally to measure again the attitude and behaviour. In this study, such a longitudinal approach has not been used, and therefore an index of the relationship between the measured attitude of the accountant and behaviour towards disclosure to employees has been obtained. Clearly a causal effect of attitude on disclosure could not be inferred since an observed relationship between these variables could also be the result of behaviour causing the attitude, or it could also be the function of a third variable such as political views. The results of the measurement are referred to in Chapter 5.

#### 4.4.5. Pilot study

Before piloting the questionnaire, the writer consulted a number of accountants and experts (the "testers") on the disclosure of financial information to employees. Because there is little or no research already available in this area in Ireland, and because the major variables influencing disclosure have not been authoritatively identified, interviews were conducted with individuals having relevant experience in the area. These individuals were Roger Hussey, academic, from Bristol Polytechnic, Geoffrey Selwyn finance director of British Land PLC, Declan Bourke Technical Director of the Institute of Chartered Accountants, Dermot Boucher of the Irish Productivity Centre, Anthony Walsh, Professor of Accounting and John Hurley, Professor of Organizational Psychology of Dublin City University. These discussions, combined with a review of the pertinent literature, resulted in the establishment of the broad skeleton of the questionnaire to be piloted.

##### 4.4.5.1. Pilot study methodology

Random number tables were used to select 30 names from the list of enterprises to be surveyed. The questionnaires were distributed with an introductory letter and a stamped addressed envelope. The format of the questionnaire included a loose

leafed page printed on yellow, summarizing the structure of the questionnaire and pertinent definitions. The first part of the questionnaire itself was printed on white with the attitude questions printed on yellow. This was to:

4.4.5.1.1. facilitate the respondent who did not disclose any information to employees and who was told to move to Section 4 (yellow pages);

4.4.5.1.2. heighten the awareness of a change in the emphasis of the questions, from factual questions to attitude questions;

4.4.5.1.3. break the length of the questionnaire;

4.4.5.1.4. re-focus the attention of the respondent whose attention might wander and

4.4.5.1.5. encourage a "sunny" attitude towards the questionnaire, as suggested BBC4 (1986).

#### 4.4.5.2. Response Rate to pilot study

The initial response rate was 14 (47%). A second questionnaire was dispatched with a second stamped addressed envelope and a covering letter. The total response rate following the reminder was 22 (73%). No further attempt was made to pursue the non-respondents.

#### 4.4.5.3. Results of pilot study

Respondents had little difficulty in answering the pilot questionnaire. Some minor amendments were made to the layout, for example the "Management Accountant" was added to the list of possible leaders in the area of disclosure to employees.

In order to determine the degree of skill of the workforce in the participating organizations, respondents had been asked to give precise analyses of the percentage of the workforce under the headings, Professional/graduate; Skilled; Semi-skilled and Unskilled. The non-response rate to this question was high (45%), and so it was amended in the main survey to a grid question analysing the percentage of the workforce in the ranges 0 - 25%, 26 - 50%, 51 - 75% and 76 - 100%. As a result of this modification, there were no respondents who skipped this question in the main survey.



Arising from the pilot study, it proved possible to close open questions on the participation schemes in operation in the enterprise, the reasons for disclosure, and the reasons for non-disclosure.

There were ten questions which were included in the attitude scoring, other questions included in the table were designed to test the inherent conservatism of the respondents and to seek their attitudes to refinements of questions included in the score grid. A correlation tabulation was performed on the responses to the questions. It was found that the responses to question 22 have a high correlation (.762) to the responses to questions 24 and 25, whereas all other questions appeared reasonably independent. Question 22 was therefore, withdrawn from the attitude scoring in the main survey.

#### 4.4.6. Second requests

Following despatch of the main questionnaire, where the questionnaire failed to elicit a response, a second request with stamped addressed envelope and covering letter (see Appendix G.2.) were sent. Subsequent failure to respond was followed up by a telephone call. The results of the requests may be seen on the response schedule at Appendix D.

#### 4.5. SUMMARY

This chapter stated the objectives of the empirical study as the collection of data in order to allow the ascertainment of the patterns of current disclosure of financial information to employees by major enterprises in the Republic of Ireland, and an exploration of the hypotheses stated in Chapter 3 ( 3.7.)

The process of collecting the data, including the attitudinal data, has been described. Tests conducted to ensure the reliability and validity of the data have also been described.

This chapter defined attitude and the class and intensity to which the attitude to the disclosure of information to employees could be ascribed. It is suggested that this attitude is not a primitive attitude and the empirical work described in Chapter Five indicates that it is of low intensity, although positive. Therefore, it is suggested that it is an attitude which is not resistant to change and since it is a class D attitude, it is capable of being changed by those authoritative persons who formulate and mould the accountant's attitudes pertaining to accounting matters.

The following chapter examines the data collected, describes the extent of disclosure of financial information to employees in Ireland and explores the significance of surrounding factors, described in 3.6.

## CHAPTER FIVE

### RESULTS OF DATA ANALYSIS

#### 5.1. INTRODUCTION

This chapter describes the univariate analysis that was conducted on the data from the returned mail questionnaires (see Chapter 4). The analysis conducted included:

Cross-tabulation,

Chi-square tests, which test for significant differences in frequencies across categories, and

Analysis of variance which tests for significant differences in mean across categories.

The purpose of this analysis was firstly, as stated in 1.3.3. and in 3.6. to establish the current practice in major Irish enterprises regarding the disclosure of financial information to employees; and secondly, as stated in 1.3.4. and 3.6., to

isolate the variables which are significant in explaining the disclosure/ non-disclosure patterns in Irish enterprises. The variables so isolated will be included in model-building in Chapter 6.

In designing the questionnaire a question was asked to assess whether or not financial information is disclosed to employees (Q. 3.3. - Appendix F)). Additionally a question was included (Q.3.4.) in an attempt to assess the extent of disclosure of information to employees. However, on analysis, it became clear that due to the early stage and voluntary nature of disclosure of financial information to employees in Ireland, it would not be possible to rank disclosure by quality due to the widely disparate disclosure mechanisms and formats that are being used. Additionally, it was not possible to grade disclosure by reference to satisfaction of employees' needs, since research has yet to be conducted to establish the precise nature of Irish employees' user needs.

This chapter describes the steps taken to examine the link between local characteristics and the disclosure/non-disclosure pattern. No attempt was made to link the characteristics listed to the 'quality' or 'satisfaction achievement' of the financial information disclosed to Irish employees. However, in order to give some feel for the information disclosure within the Irish paradigm, a continuum was constructed to give, by

way of peripheral information, a classification of the quantity of information disclosed and of the extent to which pre-disclosure education exists. In the analysis described in this chapter, the main focus of interest is the acceptance or rejection of the hypotheses relating to disclosure/non-disclosure, and all tests of significance are performed on disclosure/non-disclosure, but reference will be made to what is called 'disclosure score', which was computed as follows:

The respondents were asked to explain what information they disclosed, and a continuum of disclosure was devised to grade the information disclosed to employees.

The continuum was devised from the responses elicited, from the copies of material returned with the questionnaires and from discussions with respondents who had indicated disclosure, but who had not appended examples of such disclosure with returned questionnaires (See 4.4.3.4.).

This continuum ranged from no disclosure to disclosure of detailed weekly and cumulative divisional and group financial information. A score was attributed to the points on the continuum (Appendix H) and it was aggregated with a similar score attribution to a continuum of pre-disclosure education (Appendix I) which is regarded as an integral part of

disclosure policy (see Chapter 3). The scoring which resulted gives ordinal amplification of the extent of disclosure operated by respondents and gives a measure, albeit crude, of the quantity of information disclosed by enterprises to employees.

It is accepted that this does not give an interval scale of value. However, even though it is uncertain how much better a disclosure score of 5 is than a score of 4, or if the difference between 5 and 4 is the same as the difference between 10 and 9, it is probable that a score of 5 is better than a score of 4 and any score less than 4; and that it is not as good as a score of 6 or upwards.

Thus, in relation to the hypotheses stated in Chapter 3, the variables are linked with disclosure/non-disclosure and the 'disclosure score' is referred to by way of secondary information which will help to complete the picture of the Irish paradigm, and which may indicate issues for further research.

The remainder of this chapter is organized as follows:

Section 5.2. details the response rate to the questionnaire,  
Section 5.3. gives the results of the analysis of the profile  
of the respondents:

- 5.3.1. Age and gender
- 5.3.2. Qualification and experience
- 5.3.3. Experience with negotiations

Section 5.4. gives details of the analysis of the information about the enterprises represented in the study:

- 5.4.1. Business sector
- 5.4.2. Unionization
- 5.4.3. Length of establishment
- 5.4.4. Extent of foreign influence
- 5.4.5. Size of workforce
- 5.4.6. Skill of workforce

Section 5.5. analyses the current disclosure practice:

- 5.5.1. Employee participation schemes
- 5.5.2. Disclosure to employees
- 5.5.3. Reasons for disclosure/non-disclosure

Section 5.6. analyses the accountants' attitude:

- 5.6.1. An overview
- 5.6.2. The effect on disclosure/non-disclosure
- 5.6.3. Attitude to responsibility
- 5.6.4. Attitude to regulation of disclosure
- 5.6.5. Familiarity with EC proposals



5.6.6. Effect of age on attitude

5.6.7. Effect of qualification and experience on  
attitude

Section 5.7. gives a summary of the main findings, and links the findings to the objectives stated in 1.3.3. and amplified in 3.6.2. and 3.6.3.

## 5.2. RESPONSES TO QUESTIONNAIRE

The questionnaire which was described in Chapter 4 (and is shown in Appendix F) was sent to the Chief Financial Accountants of the companies in Ireland employing 500 or more full time permanent employees.

116 questionnaires were despatched and 86 responses were received. 13 of the companies surveyed were immediately eliminated from the analysis and from the frame as the number of employees was below 500. A further 3 questionnaires were eliminated from the analysis (although not from the frame), as the financial accountants had been unable to complete the questionnaires due to extended sick leave or absence on a business trip and they had been completed by other members of the staff. Therefore from a maximum possible population frame of 103, 74 valid questionnaires (72%) formed the basis for the following analysis.

An analysis of the distribution and response timetable is included in Appendix D. All respondents answered all questions, i.e. there were no missing values from the data. DESCRIBE and STEM AND LEAF tests were conducted on the data to detect any values out of range and/or any unusual patterns, and none was present.

### 5.3. PROFILE OF RESPONDENTS

#### 5.3.1. Age and gender

Information concerning the age and gender of respondents was sought (see 4.3.3.) The questionnaires were directed at the chief financial accountants in the major employing firms in the country. 5.5% of the respondents fell within in the 20 - 30 age range, 38% in the 31 - 40 range, 42.5% in the 41 - 50 range and 14% in the 61 - 65 range. No respondents were aged over 65. (See Table 5.1.)

Only 3% of the respondents were women, which made meaningful comparisons of women's and men's responses (as suggested in 4.3.3.) impossible. However, it is worth noting, in passing, that the two women included in the survey had very positive

attitudes to the issue of disclosure of information to employees, and had considerable experience with pay negotiations.

#### 5.3.2. Qualification and experience

Information concerning qualification and experience was sought (see 4.3.3.). The vast majority (See Table 5.1.) of the respondents were professionally qualified, some with degrees as well. 7% were partly qualified, 1% had a degree (relevant) only, 3% had undergraduate and masters degrees only, 89% were professionally qualified of whom 25% had degrees.

Respondents had considerable experience with accounting, although relatively few respondents have been in their present job for periods in excess of ten years, as can be seen from Figure 5.1.

This indicates either progression upwards within the same company, or movement to another enterprise.

# EXPERIENCE WITH ACCOUNTING

## NUMBER OF YEARS IN PRESENT JOB

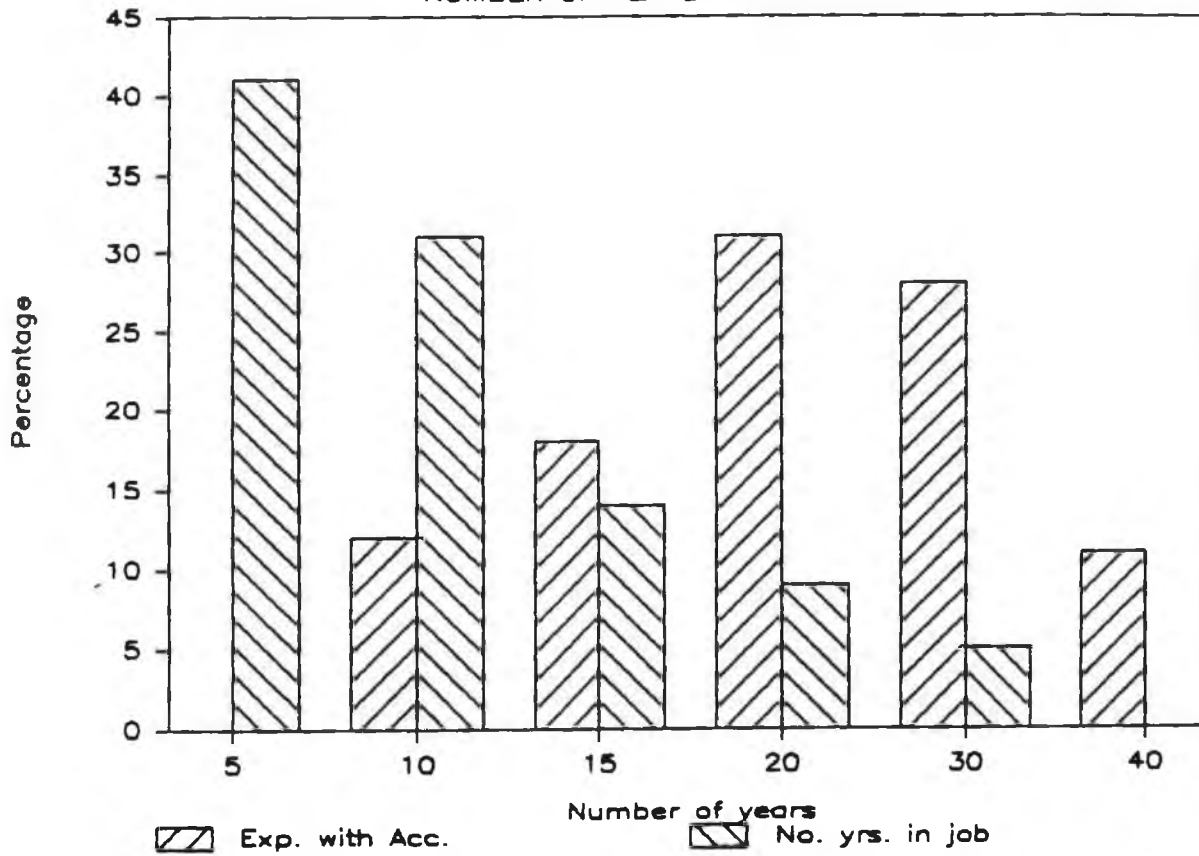


Figure 5.1.

### 5.3.3. Experience with negotiations

To determine the extent to which respondents have had an input, over their careers, to formal negotiations with employees (see 4.3.3.), they were asked to indicate such experience. In general, it appears that the financial accountant, in the large employing companies, has little or no input to these negotiations. This indicates a slowness by accountants to engage in an area of potential contribution by them in the efficient running of their companies; particularly in these days of so called "ability to pay" negotiations. It would seem that the accountant would have a major contribution in establishing "ability to pay". However, 5% said that they had had extensive experience with negotiations, 14% had considerable experience, 24% had moderate experience, 32% had minimal experience and 25% had no experience with negotiations. (See Table 5.1.)

This result was corroborated by Trade Union negotiators in the Transport and General Workers Union in the UK and SIPTU in the Republic of Ireland, who indicated the difficulty experienced in obtaining an explanation of figures presented to negotiators as part of the wage negotiation process. Very often negotiations are conducted with Industrial Relations and/or Human Resource managers and the accountant is rarely, if ever, a party to negotiations, even those based on financial results

or information. Trade Union negotiators felt that their own knowledge of the bases and interpretation of figures was superior to that of the managers with whom they were negotiating; and yet the accountant was, typically not called upon to contribute to discussions.

TABLE 5.1.  
QUALIFICATION AND EXPERIENCE OF RESPONDENTS

<u>Experience with accounting</u>			<u>Number of years in present job</u>		
	<u>No.</u>	<u>%</u>		<u>No.</u>	<u>%</u>
0 - 5 years	0	0%	0 - 5 years	30	41%
6 - 10 years	9	12%	6 - 10 years	23	31%
11- 15 years	13	18%	11 - 15 years	10	14%
16- 20 years	23	31%	16 - 20 years	7	9%
21- 30 years	21	28%	21 - 30 years	4	5%
> 30 years	<u>8</u>	<u>11%</u>	> 30 years	<u>0</u>	<u>0%</u>
	<u>74</u>	<u>100%</u>		<u>74</u>	<u>100%</u>

over

TABLE 5.1. (cont.)

<u>Qualification</u>			<u>Age</u>		<u>Experience with negotiations</u>			
	No.	%	Yrs	No.	%	Extent	No.	%
Prof. (no deg)	47	64	<20	0	0	Extensive	3	5
Prof. (deg.)	19	25	21-30	4	5	Considerable	10	14
Prof. (postgrad)	0	0	31-40	28	38	Moderate	18	24
Deg only	1	1	41-50	32	43	Minimal	24	32
Postgrad	2	3	61-65	10	14	None	19	25
Part qual.	5	7		—	—		—	—
	<u>74</u>	<u>100</u>		<u>74</u>	<u>100</u>		<u>74</u>	<u>100</u>

#### 5.4. PROFILE OF THE ENTERPRISES REPRESENTED

##### 5.4.1. Business sector

Respondents were asked to indicate the business sector to which their organisation belongs. The list was taken from the Central Statistics Office classification, and the responses are shown in Table 5.2.

TABLE 5.2.

## CLASSIFICATION OF RESPONDENT ENTERPRISES

Agriculture and forestry	11%
Mining and quarrying	1%
Food drink and tobacco	19%
Retail	7%
Petroleum and coal	1%
Chemicals	5%
Metal manufacturing	1%
Mechanical engineering	1%
Instrument engineering	5%
Vehicles	1%
Textiles	4%
Cement	1%
Paper, printing and publishing	4%
Other manufacturing	8%
Utilities	3%
Transport and communication	8%
Banking, insurance and financial services	12%
Professional and Scientific Services	4%
Distributive trades	1%
Miscellaneous services	3%

Table 5.2. indicates the percentage of the total responses represented by each sector. It has not been weighted for the number of employees covered by each questionnaire. It can be seen that the sectors which are represented range from those with a high proportion of unskilled workers, such as Retail and Food production industries to those with a high proportion of



skilled workers such as Banking, Insurance and financial services. The survey, therefore, covers a wide spread of Irish industry and commerce.

#### 5.4.2. Unionization

Respondents were asked to indicate whether their enterprises were unionized, non-unionized or partly unionized (see 4.3.3.). This question was asked in order to determine any difference between practice in companies which were unionized and those which were not in order to detect the significance of the associationist influence of the association of employees referred to in sec. 3.5. However, only 4% of the respondents reported that their enterprises were non-unionized, 85% being unionized and 11% being partly unionized (see Table 5.3.), which made further analysis or cross tabulation meaningless.

TABLE 5.3.

EXTENT OF UNIONIZATION

	No.	%
Non-unionized	3	4
Partly unionized	8	11
Unionized	<u>63</u>	<u>85</u>
	<u>74</u>	<u>100</u>

5.4.3. Length of establishment

5.4.3.1. In order to determine if newly established companies had a more positive approach to the issue of disclosure of information to employees (see 4.3.3.), respondents were asked to indicate the length of establishment of their enterprises. It appears that the majority of enterprises employing more than five hundred persons in Ireland have existed for more than thirty years. (See Table 5.4. and Figure 5.2.)

## LENGTH OF ESTABLISHMENT

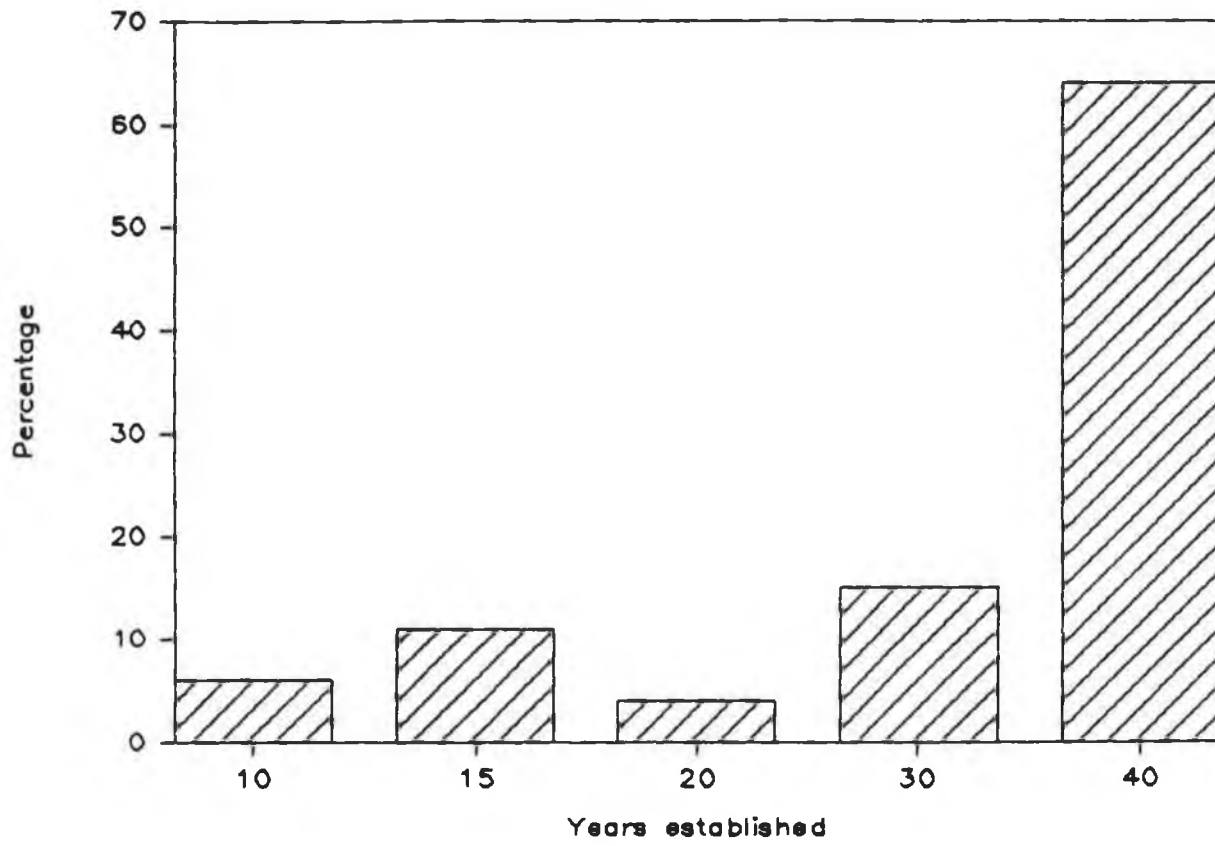


Figure 5.2.

TABLE 5.4.

LENGTH OF ESTABLISHMENT		
	No.	%
< 10 years established	5	6%
10 - 15 years established	8	11%
16 - 20 years established	3	4%
21 - 30 years established	11	15%
> 30 years established	<u>47</u>	<u>64%</u>
	<u>74</u>	<u>100%</u>

5.4.3.2. Analysis of relationship between disclosure and length of establishment of the enterprise.

The possible correlation between the length of establishment of the enterprise and the disclosure/non-disclosure of the enterprise was examined. However, it can be seen from Figure 5.3. that although the newly established firms disclose more frequently than average (overall, 50% of the enterprises and 50% do not disclose, see 5.5.), there is very little difference between them and the oldest established firms. The firms that have been in existence for 10 - 15 years are notable for their non-disclosure.

RELATIONSHIP BETWEEN DISCLOSURE  
AND  
LENGTH OF ESTABLISHMENT

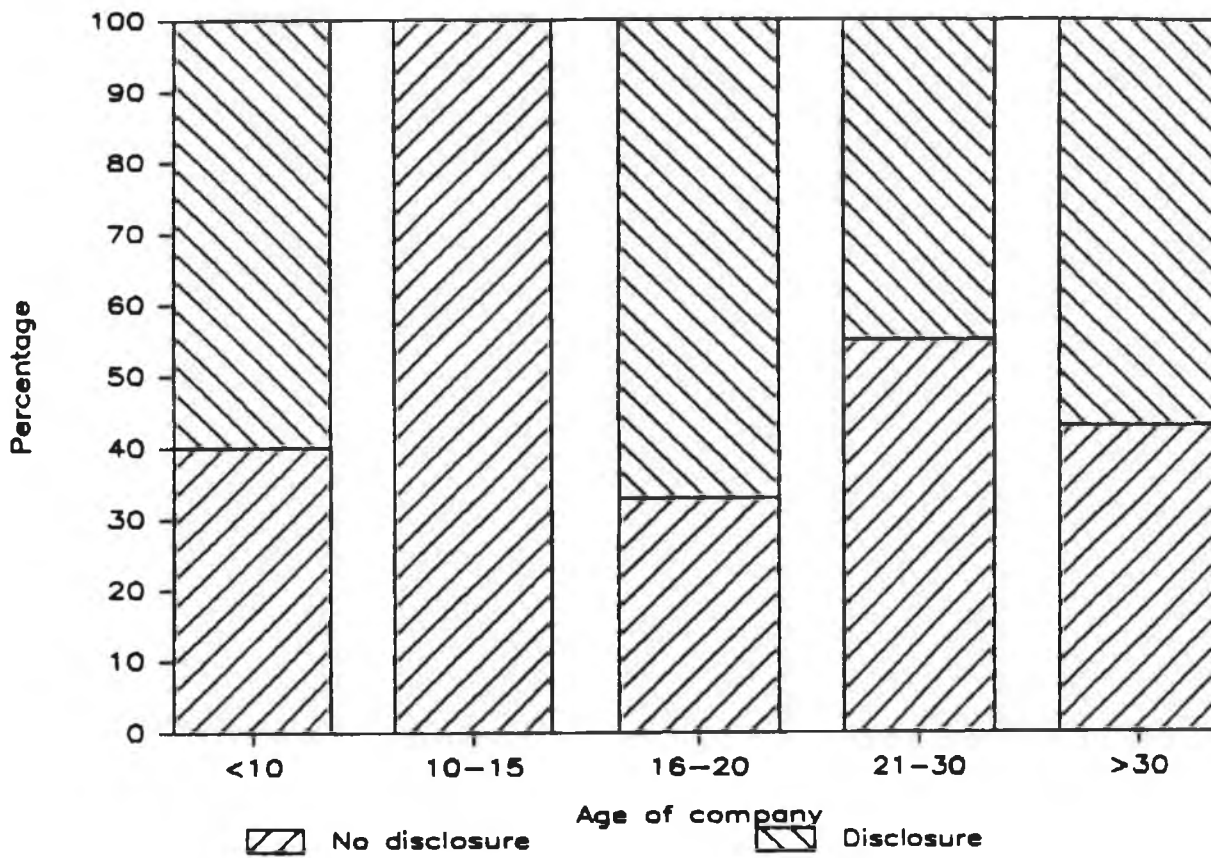


Figure 5.3.

The significance of differences in the patterns of disclosure/non-disclosure by length of establishment was tested (see Table 5.5.). The test does not indicate a significant difference in disclosure/non-disclosure between long established and newly established enterprises at the 90% confidence level. (Because of the low cell counts, enterprises were defined as long established if they have been established for more than 20 years). The confidence level was set at 90% because the univariate analysis is used as a screening process to determine the significant variables for inclusion in the model building in Chapter 6. However, length of establishment will not be included in the model building.

As referred to in 5.1. the 'disclosure scores' were also examined, and are included, for interest, in Table 5.5. When correlated with length of establishment, with the exception of the 10 - 15 year old group, the disclosure scores indicate an even spread of high and low scorers across the ranges of length of establishment.

TABLE 5.5.

RELATIONSHIP BETWEEN DISCLOSE/NON-DISCLOSE AND LENGTH  
OF ESTABLISHMENT

---

Length of establishment  years	Disclosure score	Disclose?	
		no. of resp.	No  Yes
< 10	4.8	5	40% 60%
10 - 15	0	6	100% 0%
16 - 20	4.0	3	67% 33%
21 - 30	3.9	11	55% 45%
> 30	4.43	47	43% 57%

A one way analysis of variance test on the difference in the pattern of disclosure between newly established and established enterprises, using the coding in the questionnaire, i.e. disclosure = 2 and non-disclosure = 1, shows :

	MEAN	ST.DEV.
Newly established	1.600	.548
Established	1.493	.504

T = 0.43, p = 0.69

#### 5.4.4. Extent of foreign influence

5.4.4.1. It was hypothesized in Chapter 3 (3.6.3.) that ownership structure bears a significant relationship to disclosure/non - disclosure of financial information to employees. Analysis showed that the enterprises considered in this study are mainly controlled by Irish holding companies.

47% have an Irish holding company; 28% have a foreign holding company, and 25% were enterprises without holding companies.

(See Table 5.6.)

CONTROL STRUCTURE WITHIN IRISH ENTERPRISES		
	No.	%
Irish holding company	35	47
Foreign holding company	21	28
No holding company	<u>18</u>	<u>25</u>
	<u>74</u>	<u>100</u>

#### 5.4.4.2. Analysis of relationship between disclosure and ownership structure

The possibility that companies with foreign ownership have a different record for disclosure of financial information to employees than their domestic counterparts was examined. Again, bearing in mind that overall, 50% of companies employing more than 500 employees disclose information (see 5.5.), it is interesting to note that there is a difference between foreign ownership influence and domestic influence. The companies with foreign ownership are less likely to disclose than companies with Irish ownership, as can be seen from Figure 5.3.1.



# DISCLOSURE BY SUBSIDIARY COMPANIES

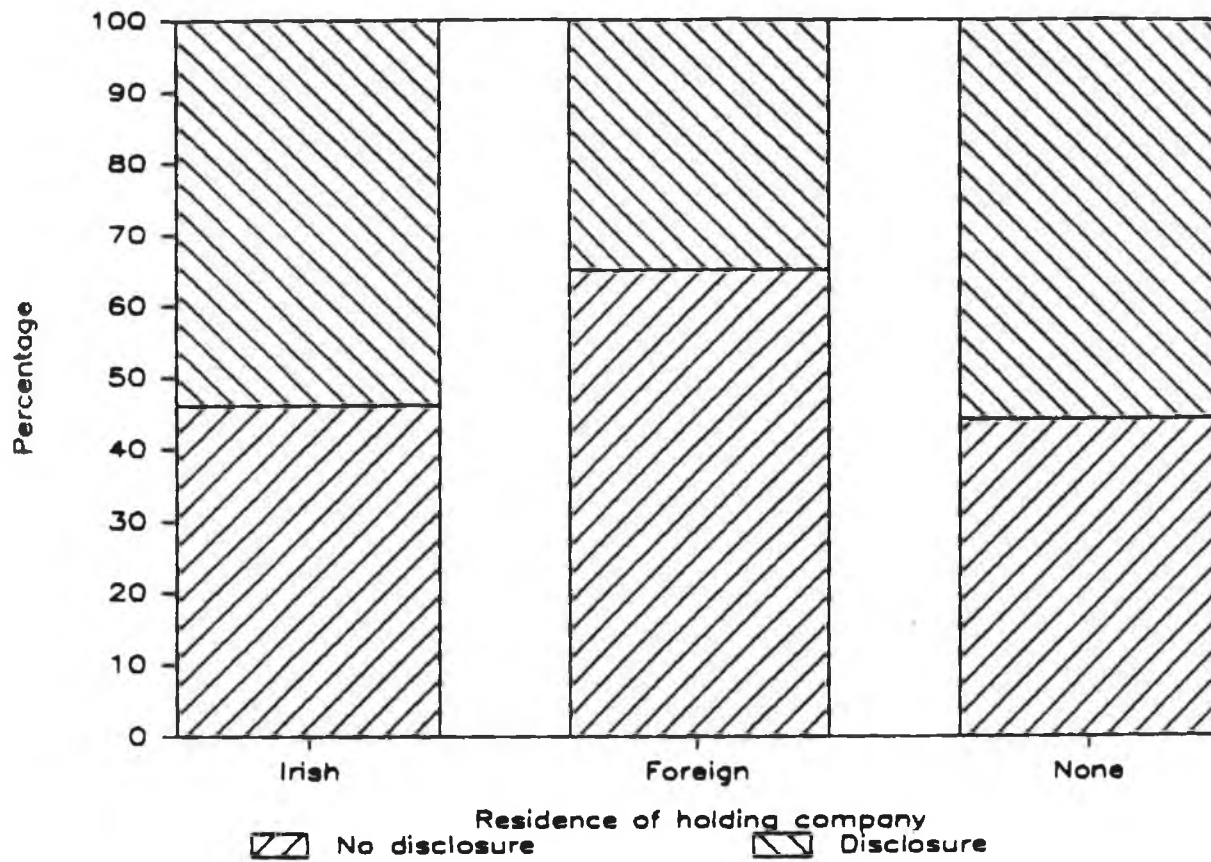


Figure 5.3.1.

This may be attributed to the use of Ireland by foreign companies to maximise tax advantages by using transfer pricing and short stay operations here. A possible reason could be the an outward flow of information which they would be reluctant to disclose to local employees either due to the lack of commitment to the workforce or due to the distorted nature of the accounting figures based on international transfer pricing. Discussions which the writer has had with accountants in the Republic of Ireland have confirmed reports of unseemly haste by foreign parents in taking steps to avoid the disclosure requirements of the Companies (Amendment) Act 1986. Far from contributing to improving standards in disclosure, it is clear from these discussions that companies with foreign parents are actively attempting to retard disclosure standards.

The significance of differences in the patterns of disclosure/non-disclosure between Irish and foreign controlled enterprises was tested using one way analysis of variance (see Table 5.7.). The test indicates a significant difference between Irish controlled and foreign controlled enterprises at the 90% confidence level. Ownership structure will be included in the model building in Chapter 6.

In examining the 'disclosure score', it may be seen from Table 5.7. that Irish controlled companies have an even spread in disclosure score indicating inclusion of high scorers and low

scorers. However, the foreign owned enterprises have a very low average disclosure score; indicating that even when they do disclose, they tend to disclose little information.

TABLE 5.7.

FOREIGN OWNERSHIP AND DISCLOSE/NON-DISCLOSE

Holding company	Average disclosure score	Disclose?	
		No	Yes
Irish	4.37	46%	54%
Foreign	2.50	65%	35%
No holding company	4.56	44%	56%

In order to test for the significance of the foreign/Irish control factor, "Irish" and "No holding company" were combined: A one way analysis of variance test on the difference in the pattern of disclosure between 'foreign' and 'Irish' enterprises, using the coding in the questionnaire, i.e. disclosure = 2 and non-disclosure = 1, shows:

	MEAN	ST. DEV.
Foreign ownership	1.250	.489
Irish ownership	1.647	.503

T = 2.001, p = 0.05

#### 5.4.5. Size of workforce

5.4.5.1. Respondents were asked to indicate the number of employees in their enterprises. (This was referred to in 4.4.2.4.). Questionnaires were withdrawn from analysis where the number of employees was below 500. The majority of enterprises included in the analysis employed between 500 and 1000, see Figure 5.4. and Table 5.8.

TABLE 5.8.

NUMBER OF EMPLOYEES IN ENTERPRISES

No. employees	No. enterp.	%
500 - 1,000	45	61%
1,001 - 1,500	8	11%
1,501 - 2,000	6	8%
2,001 - 2,500	4	5%
> 2,500	<u>11</u>	<u>15%</u>
	<u>74</u>	<u>100%</u>

S I Z E   O F   W O R K F O R C E

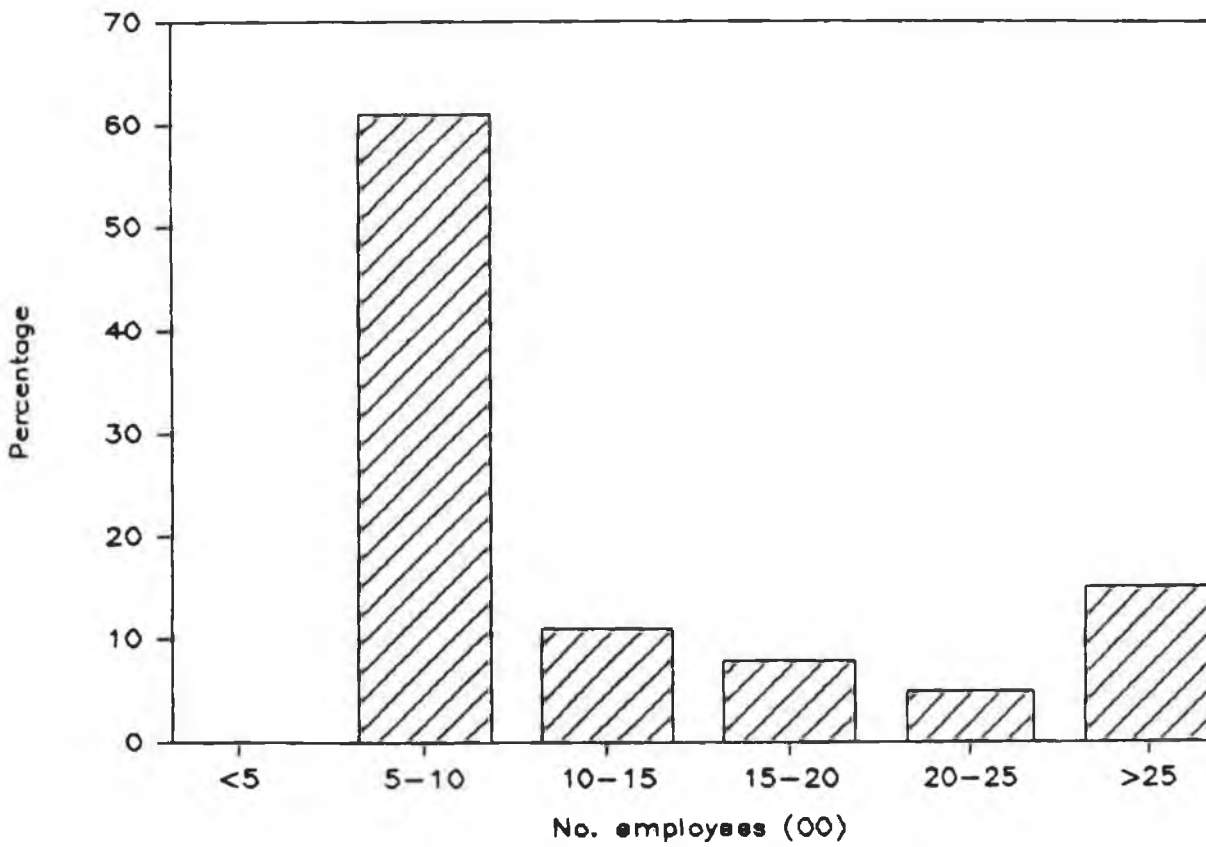


Figure 5.4.

#### 5.4.5.2. Analysis of relationship between disclosure and size of workforce

In addition to seeking confirmation of the number of employees, this question was asked in order to consider any significant relationship between the size of the workforce and the disclosure/non-disclosure patterns (see 3.6.3.). The relationship between disclosure and size of the workforce was examined. Although the linear correlation is weak (0.345), it is interesting to note (Figure 5.5.) the very high proportion of the companies employing more than 2,500 employees that disclose information to their employees.

The significance of differences in the pattern of disclosure/non-disclosure by size of workforce was tested (see Table 5.9.). The test does not indicate a significant difference in disclosure/non-disclosure pattern between enterprises with different sizes of workforce at the 90% confidence level. Size of workforce will not be included in the model building in Chapter 6.

Of interest is the 'disclosure score', and when the average disclosure score is examined, it appears that the companies with 1,500 - 2,000 employees have the highest score, with companies employing 2,001 - 2,500 having the lowest score.

RELATIONSHIP BETWEEN DISCLOSURE  
AND  
SIZE OF WORKFORCE

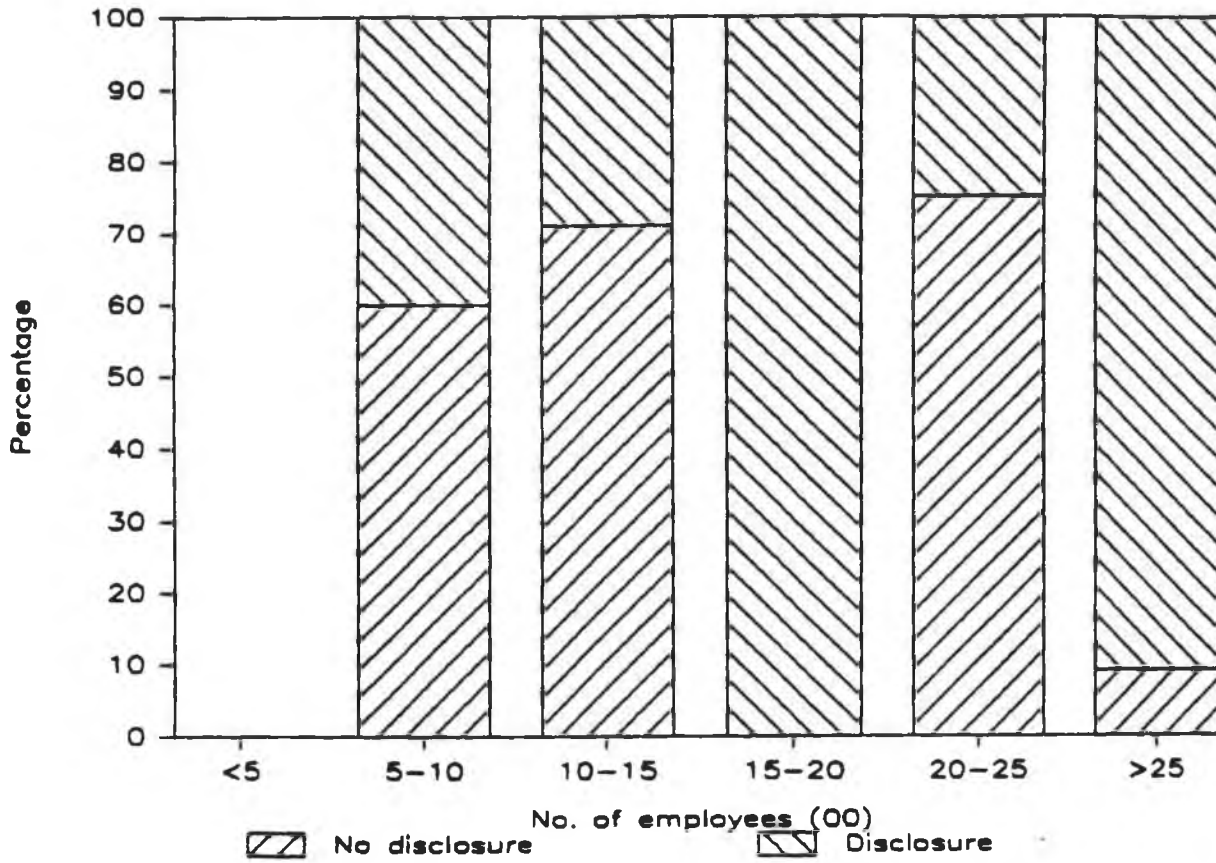


Figure 5.5.

TABLE 5.9.

RELATIONSHIP BETWEEN DISCLOSURE AND SIZE OF WORKFORCE

Number of employees	Disclosure score	Disclose?	
		No	Yes
500 - 1,000	2.84	60%	40%
1,001 - 1,500	2.25	71%	29%
1,500 - 2,000	8.83	-	100%
2,001 - 2,500	0.50	75%	25%
> 2,500	7.82	9%	91%

A one way analysis of variance test shows that there is a significant difference in disclosure/non-disclosure pattern between enterprises employing in excess of 2,500 persons and those employing between 1,500 and 2,000 and the other enterprises. However since the cell count in both categories is very low, the significance is not reliable. Grouping these categories indicates that the difference in disclosure/non-disclosure pattern between grouped categories is not significant at the 90% confidence level.

## 5.4.6. Skill of workforce

5.4.6.1. In order to determine the degree of skill of the workforce in the participating enterprises (see 4.3.3.), a grid question was posed analysing the percentage of the workforce in the ranges 0, 1 - 25%, 26% - 50%, 51% - 75% and 76% - 100%; by Professional/Graduate; Skilled; Semi-skilled and Unskilled (see Q. 2.5. Appendix F). In the pilot study, respondents were asked to give precise analyses of the workforce under this heading, but the non-response rate to this question was high, so the question was changed to the grid



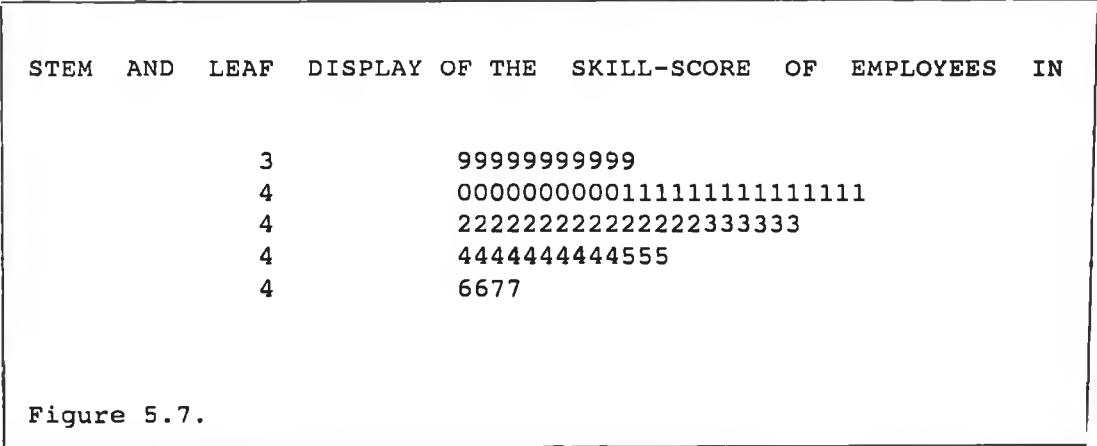
format detailed above and, arising from this modification, there were no respondents who avoided this question in the main survey. So, although the degree of accuracy was not as high as would have been obtained from precise employee grade statistics, it was possible to devise an ordinal scale which was useful for analysis of the relationship between disclosure/non-disclosure patterns and the skill of the workforce. The score shown in Figure 5.6. was attributed to the grid responses.

SKILL	PERCENTAGE OF WORKFORCE				
	0	1 - 25%	26 - 50%	51 - 75%	76 - 100%
Professional/ graduates	16	17	18	19	20
Skilled	11	12	13	14	15
Semi-skilled	10	9	8	7	6
Unskilled	5	4	3	2	1

Figure 5.6.

This resulted in a maximum score of 47 and a minimum score of 37. A score of 42 would result, for example, from a respondent with 25% of the workforce in each of the categories. While this is not a precise reflection of the skills of the employees and does not result in an interval scale, it does produce an ordinal scale which shows an approximate rating of the skill of

the workforces of the enterprises which have been the subject of the study. The scores achieved on the scale resulting from the above scoring showed 50% of the respondent enterprises below the mid-point with 21% at the mid-point and 29% above the mid-point. This is reasonable given the high preponderance of companies in the manufacturing industries represented in the study. A stem and leaf display of the results is shown in Figure 5.7. It can be seen that the most common scores are 41 and 42. There are no missing values and no outliers, which indicates that there is no need to consider separately the responses from any of the respondents or to eliminate any responses.



#### 5.4.6.2. Analysis of relationship between disclosure and skill of workforce

It can be seen from Figure 5.8. that at the lower end of the scale, where qualification is low, there is approximately the mean spread of disclosers and non-disclosers. In the middle of the range there is a high proportion of non-disclosers, but as the work force becomes more skilled, the rate of disclosure increases. A one way analysis of variance test shows that the difference in disclosure/non- disclosure pattern between enterprises with skilled workforces and enterprises with unskilled workforces is significant at the 90% confidence level (see Table 5.10). Skill of the workforce will be included in the model building in Chapter 6.

Again, by way of interest, the 'disclosure score' has been included in Table 5.10. It may be observed that enterprises employing the workforce with the highest skill show the highest disclosure score.

# RELATIONSHIP DISCLOSURE/SKILL OF WORKER

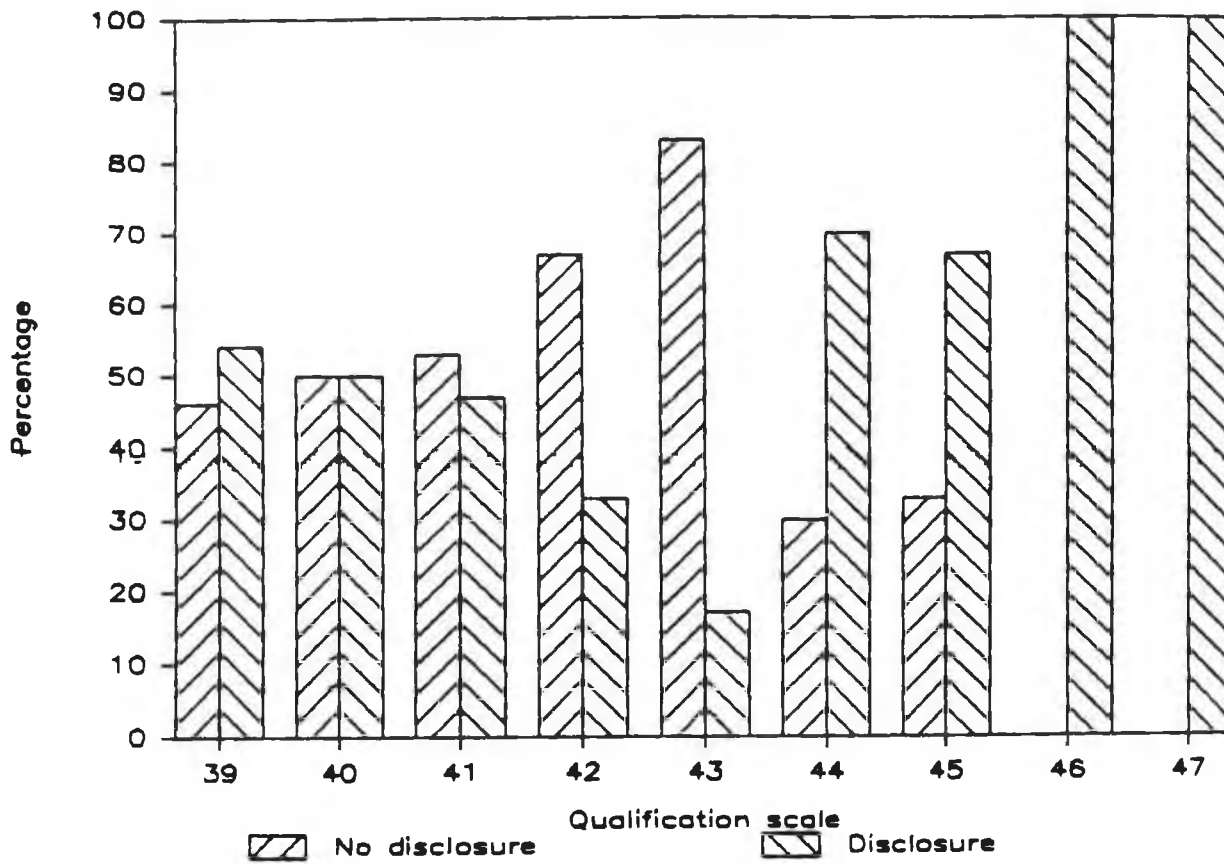


Figure 5.8.

TABLE 5.10

RELATIONSHIP BETWEEN DISCLOSURE AND SKILL OF THE WORKFORCE

Qualification Scale	Average disclosure score	Disclose?	
		No	Yes
39	5.27	46%	54%
40	2.90	50%	50%
41	2.93	53%	47%
42	2.27	67%	33%
43	1.83	83%	17%
44	6.10	30%	70%
45	5.33	33%	67%
46	6.00	0	100%
47	11.00	0	100%

In order to test the significance of the skill of the workforce as a significant explanatory element for inclusion in the model, the skill scale was divided into "skilled" (score of 43 and above) and "unskilled" (score of 42 and below) and a one way analysis of variance test was conducted.

	MEAN	ST. DEV.
Skilled	1.765	.498
Unskilled	1.421	.437

T = -2.75, p = 0.010: therefore, the issue of skill of the workforce is significant, and should be included in the model.

## 5.5. CURRENT DISCLOSURE PRACTICE

In order to determine the existence of disclosure of financial information to employees (see 4.3.1.), respondents were asked to indicate whether or not they disclosed financial information to their employees. They were also asked if they had any pre-disclosure education of employees. 50% disclosed information and 50% did not. In relation to pre-disclosure

education, 76% of respondents said they had none, 13% said there were courses available to all employees, 6% had courses for senior management only and 5% said they designed the information disclosed in such a careful way that it obviated the need for pre-disclosure education. (See Appendix N for a summary of disclosure.)

#### 5.5.1. Employee participation schemes

Respondents were asked to indicate the practice of the organisation for which they worked in relation to general areas of employee participation in order to test the hypothesis on participation (see 3.6.3. and 4.3.3.), that there is a significant link between worker participation in an enterprise and the disclosure/non-disclosure pattern in that enterprise.

5.5.1.1. In order to determine the general philosophy of participation existing in the organisation, the respondent was asked to indicate which of a range of employee participation schemes are operational in the organisation. He was then asked to indicate the group/groups of employees to which the scheme/s is/are available. 54% responded that there are no participation schemes available, with only 23% offering the government promoted employee share participation scheme. Figure 5.9. shows the analysis of the type of participation schemes reported. The percentage of each which is available to all

employees or management only is shown in Table 5.11. (The total is more than 100% as some companies offered more than one type of scheme).

TABLE 5.11.

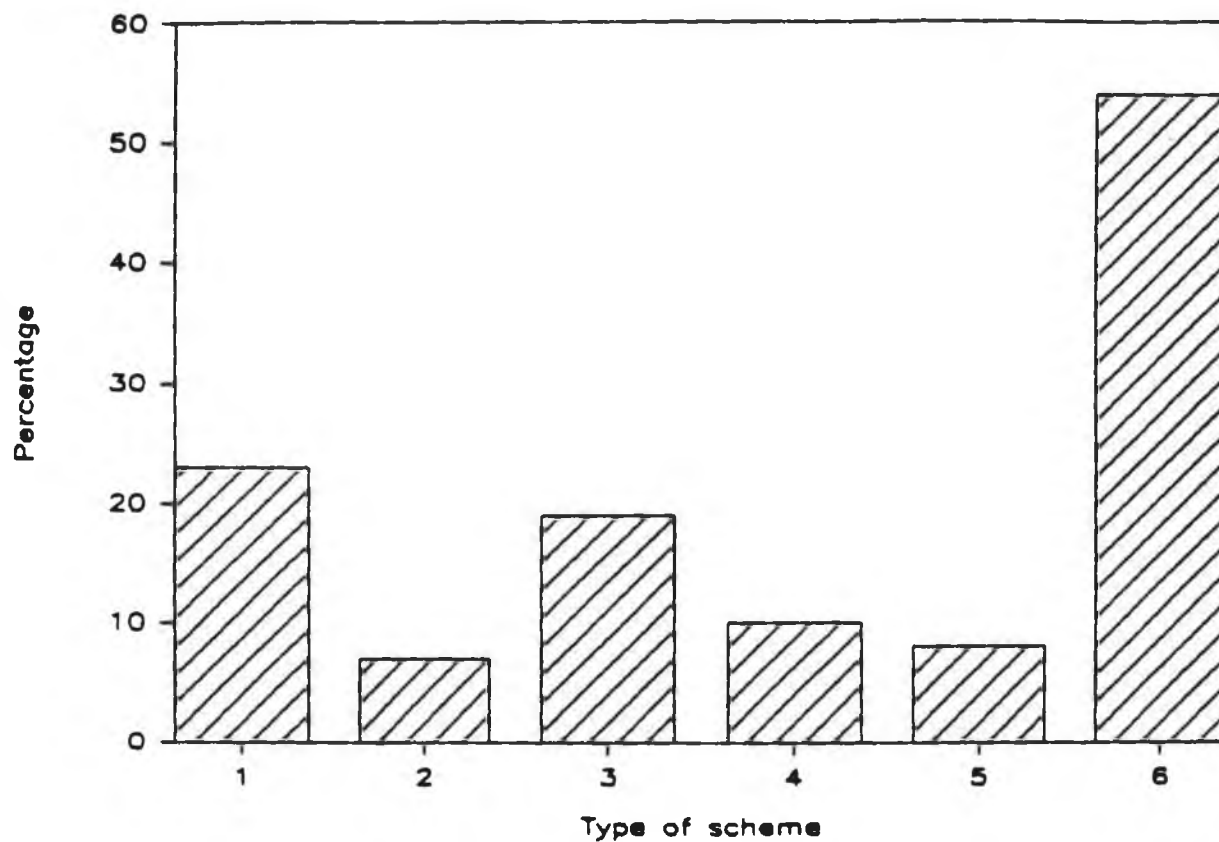
EMPLOYEE PARTICIPATION SCHEMES

TYPE OF SCHEME	RESPONDENTS OPERATING SCHEME		AVAILABLE TO:	
	No.	%	All Employees	Senior Mgt.
Approved share participation	17	23	100%	-
Non-approved share participation	5	7	-	100%
Share option	14	19	43%	57%
Employee participation on Board	7	10	100%	-
Sub-Board consultative Board	6	8	100%	-
None	40	54		

\*

\* A number of companies operate two or more of the above schemes. The total is, therefore, in excess of 100%.

## EMPLOYEE PARTICIPATION SCHEMES



### Type of scheme - key

- 1 = Approved share participation scheme
- 2 = Non- approved share participation scheme
- 3 = Share option scheme
- 4 = Employee participation on the Board
- 5 = Sub-Board consultation
- 6 = No participation scheme

Figure 5.9.



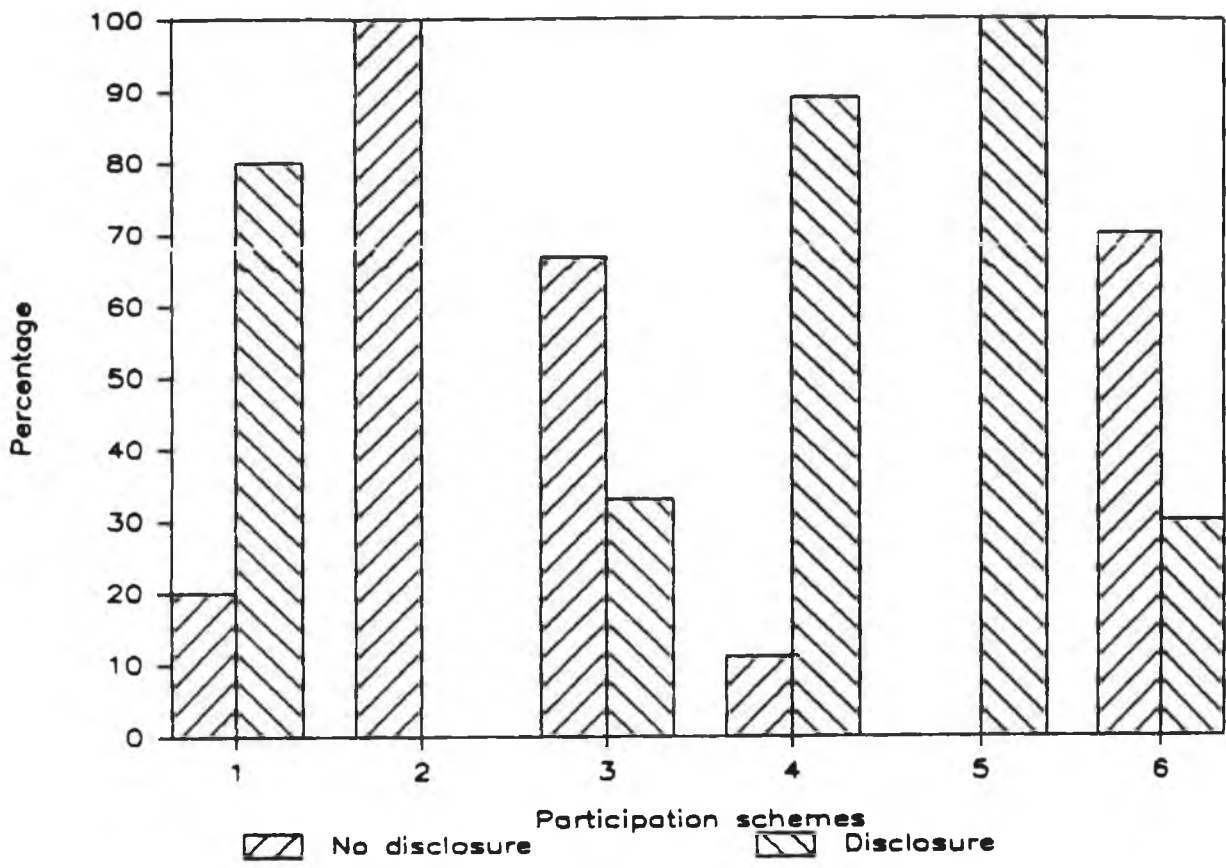
#### 5.5.1.2. Disclosure linked with participation schemes

In order to determine the participation context in which disclosure of information is taking place, a cross-tabulation between participation schemes and disclosure of information was conducted. As might be expected, those companies with no participation schemes disclosed financial information to employees less frequently than those with participation schemes. However, there is some discrepancy among companies with schemes. Those with tax approved schemes, participation on the Board or involvement in decision making disclose more often than those with share option schemes and those with non-approved participation schemes. (Figure 5.10).

A one way analysis of variance test shows that the difference in disclosure/non-disclosure patterns between enterprises with participatory environments and enterprises with non-participatory environments is significant at the 90% confidence level (see Table 5.12.). 'Worker participation' will be included in the model building in Chapter 6.

Of secondary interest is the issue of the 'disclosure score' which is included in Table 5.12. It may be observed that there

# RELATIONSHIP DISCLOSURE/PARTICIPATION



Type of scheme - key

- 1 = Approved share participation scheme
- 2 = Non-approved share participation scheme
- 3 = Share option scheme
- 4 = Employee participation on the Board
- 5 = Sub-Board consultation
- 6 = No participation scheme

Figure 5.10.

is a consistency between disclosure quantity and the operation of plant-wide participation schemes. The enterprises with the highest disclosure scores are those operating tax approved share participation schemes and those with the lowest disclosure scores are those offering no schemes for employees to participate in decision making or in profit.

TABLE 5.12

DISCLOSURE/NON-DISCLOSURE AND PARTICIPATION

Participation schemes	Average disclosure score	Disclose?	
		No	Yes
Tax approved	15.00	20%	80%
Non-approved	5.00	100%	0
Share option	3.67	67%	33%
Board participation	8.22	11%	89%
Involvement in decision making	11.50	0	100%
None	1.95	70%	30%

To test for significance, "Tax approved", "Board Participation" "Share option - all employees" and "Involvement in decision making" were grouped as 'participatory' and "Non-approved", "Share option - senior management" and "None" were grouped as 'non-participatory', and a one way analysis of variance test showed:

	MEAN	ST. DEV.
Participatory	1.846	.368
Non-participatory	1.319	.471

T= 5.29; p = 0.001

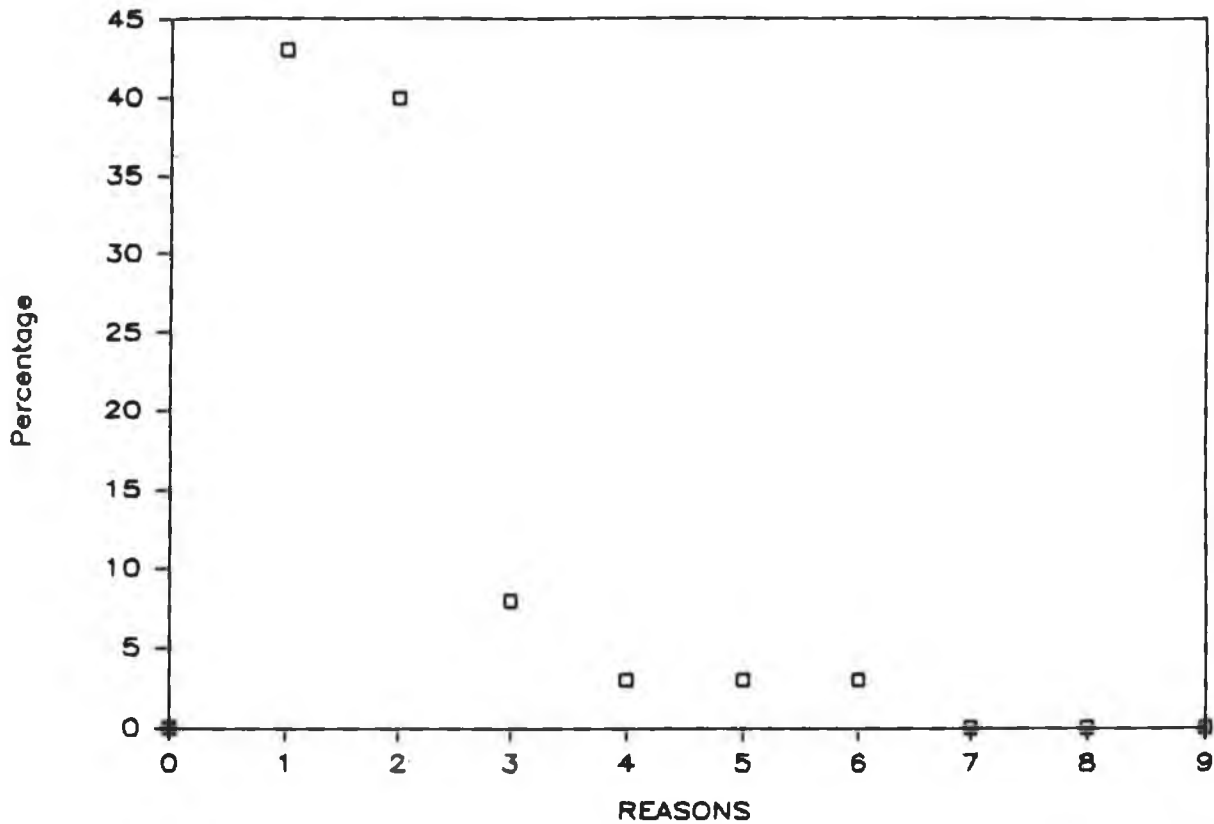
## 5.5.2. Disclosure to employees

### 5.5.2.1. Reasons for disclosure/non-disclosure

When asked why they did not disclose information to employees, the lack of legal requirement and the possibility of leakage of confidential information were most commonly cited as the reasons, (see Figure 5.11 and Table 5.13). Of the respondents who cited 'possible leakage of confidential information', all represented enterprises with foreign control. This appears to validate the characteristic referred to in 4.3.2. of a fear of leakage of confidential or 'secret' information.

By way of interest, Table 5.13. also shows the average attitude score (see 5.6.1.) of those respondents citing each reason for non-disclosure. Of the reasons cited, there was a tendency for "Effect on pay negotiations" and "Possible misinterpretation" to be cited most often by accountants with a negative or neutral attitude to the whole issue of disclosure and "No legal requirement" and "Insufficient Demand" to be cited by those with a positive attitude. This is as would be expected, and validates the internal consistency of the responses. (Full analysis of the accountant's attitude is in 5.6.)

# REASONS CITED FOR NON-DISCLOSURE

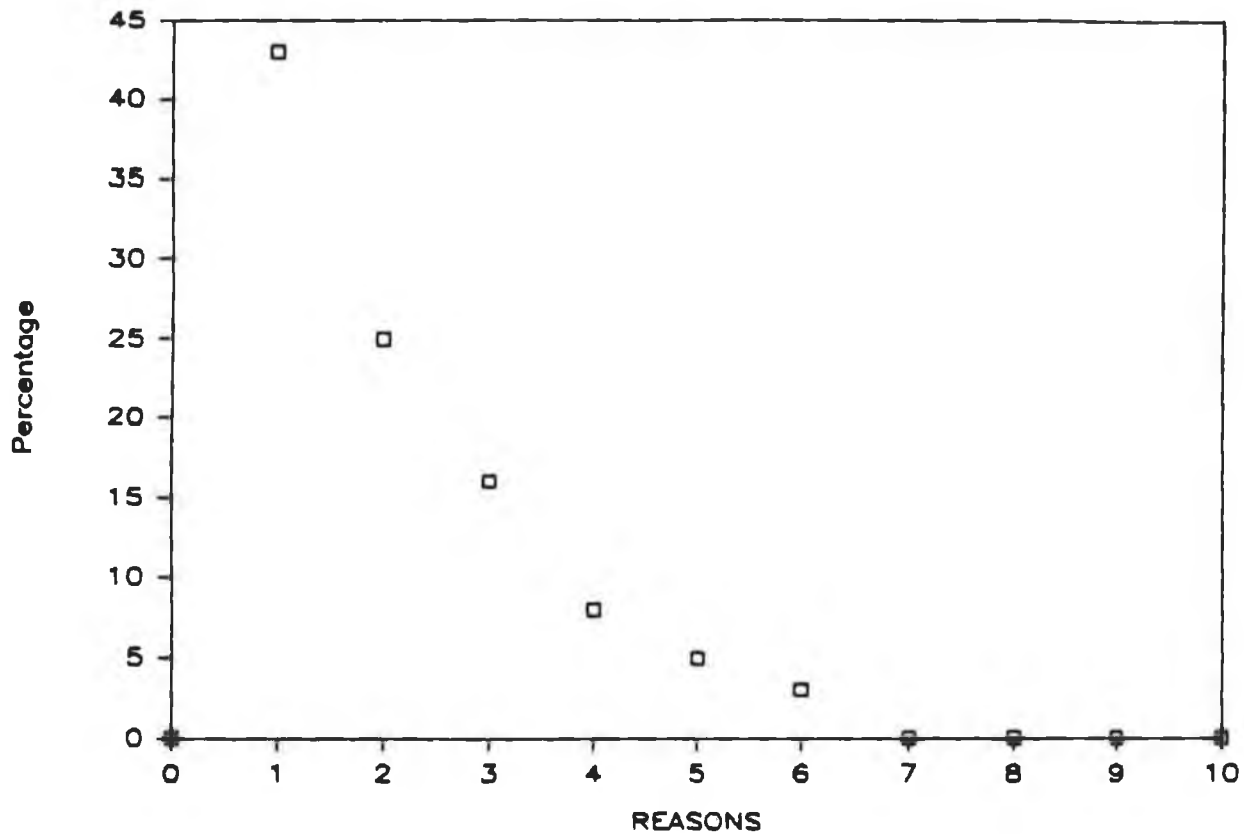


Reason key:

- 1 = No legal requirement
- 2 = Possible leak of confidential information
- 3 = Insufficient demand from employees
- 4 = Effect on pay negotiations
- 5 = Possible misinterpretation
- 6 = Never considered it
- 7 = Cost would outweigh benefit
- 8 = It has been tried and failed
- 9 = Other

Figure 5.11.

## REASONS CITED FOR DISCLOSURE



Reasons key:

- 1 = To improve a sense of team spirit
- 2 = Employees have a right
- 3 = To improve industrial relations
- 4 = To develop an understanding of the company's position
- 5 = To improve productivity
- 6 = To re-enforce management's view
- 7 = Required to do so by overseas parent
- 8 = To pre-empt a legally imposed system
- 9 = To dispel rumours
- 10 = Pressure from employees

Figure 5.12.

TABLE 5.13.

REASON CITED FOR NON-DISCLOSURE	Respondents not disclosing		AV. ATT. SCORE
	No.	%	
No legal requirement	16	43%	25.76
Possible leak of confidential information	15	40%	27.60
Insufficient demand from employees	3	8%	25.00
Effect on pay negotiations	1	3%	24.00
Possible misinterpretation	1	3%	24.00
Never considered it	1	3%	18.00
Cost would outweigh benefit		0%	
It has been tried and failed		0%	
Other	—	0%	
	<u>37</u>	<u>100%</u>	

Those who disclose financial information to employees say they do so mainly to improve a sense of team spirit, (Figure 5.12 and Table 5.14) with one quarter stating that the employees have a right to receive the information; additionally, 8.5% stated that they disclosed information to develop an understanding of the company's financial position among the workforce, although they did not say why they felt it desirable to develop this understanding, or what the expected outcome of such development would be.

Again, by way of interest, the average attitude score of accountants citing the various reasons is also given in Table 5.14. While it can be seen that these attitude scores are all positive, those who disclose to further the interests of the company rather than the interests of the employee have a lower score. This validates the internal consistency of the responses.

Of interest here is the hypotheses stated at 3.6.3. that there is a significant relationship between the extent to which employees of an enterprise demand information and the disclosure/non-disclosure pattern of financial information to employees by that enterprise. The role of the employee in both the case of disclosing companies and the case of the non-disclosing companies is seen as passive. Only 8% of the non-disclosing enterprises fail to disclose because of lack of pressure from the employees, and none of the disclosing managements do so because of demand from the employees. The hypothesis that pressure from employees is linked to disclose/non-disclose patterns must be rejected.



TABLE 5.14.  
REASONS CITED FOR DISCLOSURE

	Respondents disclosing No. %	Av. At Score
To improve a sense of team spirit	16 43%	30.25
Employees have a right	9 25%	33.40
To improve industrial relations	6 16%	29.80
To develop an understanding of the company's position	3 8%	32.30
To improve productivity	2 5%	29.50
To help re-enforce management's view	1 3%	29.00
Required to do so by an overseas parent	0 0%	
To pre-empt a legally imposed system	0 0%	
To dispel rumours	0 0%	
Pressure from employees	<u>0 0%</u>	
	<u>37 100%</u>	

#### 5.6. THE ATTITUDE OF THE ACCOUNTANT

##### 5.6.1. An overview

It was hypothesized (3.6.3.) that there is a significant relationship between the attitude of an enterprise's financial accountant and the disclosure/non-disclosure pattern of financial information to employees by the enterprise. In measuring the attitude of the financial accountant, the attitude score is accumulated by aggregating the score for each of the attitude questions (see Table 5.15). The more positive the attitude, the higher the score. Each question has a maximum of 5 points and a minimum of 1 point. As there were eight valid questions, the possible maximum score was 40 with a minimum of 8; the "neutral" score being 24.

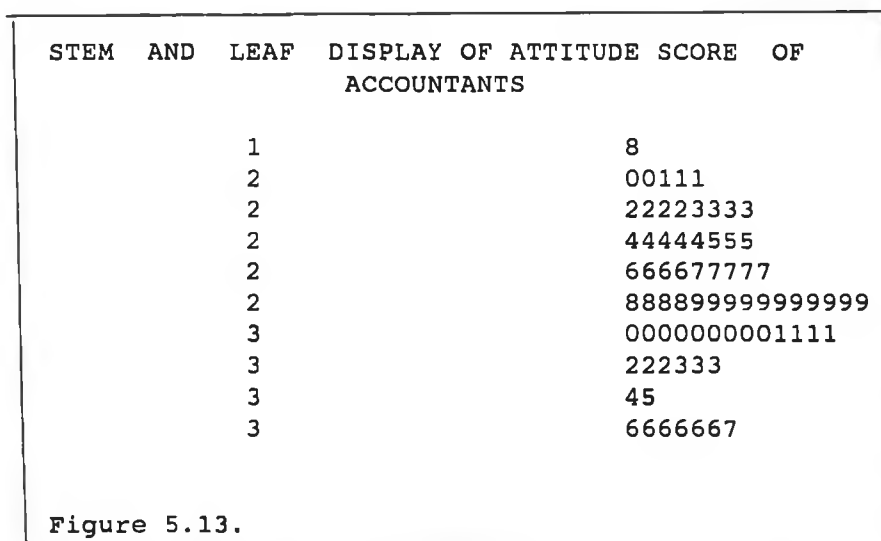
TABLE 5.15.

## SUMMARY OF ATTITUDE QUESTIONS

QUESTION	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE	TOT.
1. The accountant should limit himself to reporting to shareholders. (1)	10%	23%	7%	40%	20%	100
2. Employees have a social right to financial information (2)	22%	54%	11%	13%	0%	100
3. Employees are not interested (4)	3%	35%	20%	38%	4%	100
4. Employees need financial information (5)	11%	54%	19%	16%	0%	100
5. Employees do not understand financial information (7)	8%	51%	10%	31%	0%	100
6. Companies cannot afford the cost (13)	0%	7%	18%	58%	17%	100
7. Business would be healthier if employees were informed (14)	16%	50%	23%	10%	1%	100
8. With unemployment, no need to disclose (15)	0%	3%	12%	69%	16%	100

(For full question see questionnaire (Appendix F) - Figures in parenthesis refer to question 4.1.)

The result of the attitude score is indicated in Figure 5.13. It can be seen that the range of the data is from 18 to 37; there are no gaps, only one stem without observations and there are no outliers. The most common observation is 29, which could be described as reasonably positive on a continuum of attitude. The mean score was 28.06 (median 28.07). The mean score of those who were favourable i.e. above the neutral score was 30.2, which indicates that the accountants who are favourable could be classified on a uni-polar scale as moderately so.



While the results show that accountants could not be described as holding intensely positive attitudes to disclosure to employees, fewer than one in five of the respondents (18.9%) were below the neutral score of 24 (i.e. having an unfavourable attitude), 6.7% were at the neutral score (i.e.

having no strong feelings one way or the other to the issue), and an overwhelming 74.4% were favourable to the issue of disclosure to employees.

#### 5.6.2. Effect of attitude on disclosure practice

It was hypothesized in 3.6.3. that there is a significant relationship between the attitude of the financial accountant and disclosure/non-disclosure pattern. A one way analysis of variance test shows that the difference in disclosure/non-disclosure patterns between enterprises with accountants with a positive attitude and enterprises with accountants not having a positive attitude is significant at the 90% confidence level (see Table 5.16). The attitude of the accountant will be included in the model building in Chapter 6.

By way of interest, again, the 'disclosure score' was considered in conjunction with the attitude. It was found that there was a high correlation (.70) between the attitude of the accountant and the degree of disclosure i.e. the more positive the accountant, the higher the score. It would seem, therefore, that an increase in the attitude of the accountant would probably be associated with an increased practice of disclosure (see Figure 5.14.)

# DISCLOSURE : ATTITUDE

## SCATTERPLOT

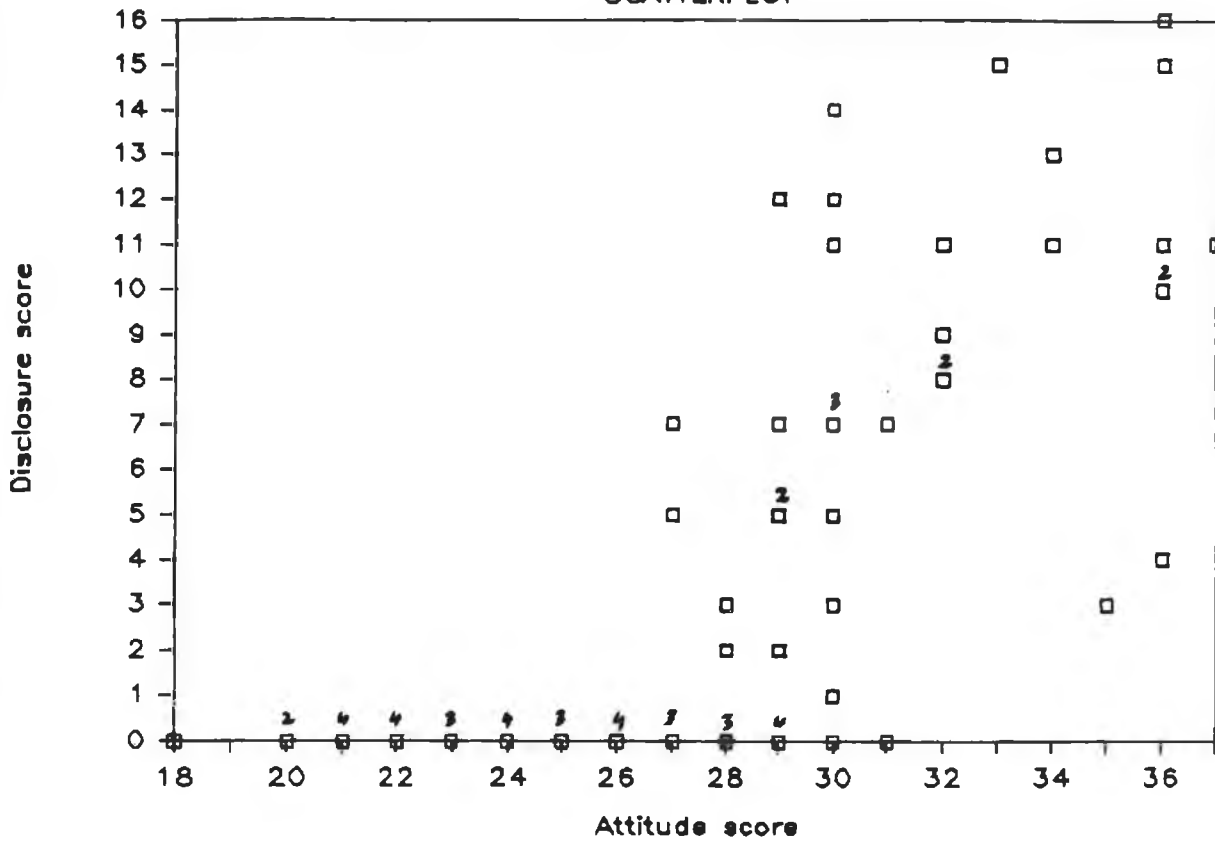


Figure 5.14.

TABLE 5.16.

RELATIONSHIP BETWEEN DISCLOSURE AND ATTITUDE

ATTITUDE: DISCLOSE:	Positive	Neutral	Negative
Yes	35	1	1
No	20	4	13
MEAN	1.636	1.200	1.070
ST.DEV.	.489	.501	.486
T = 5.89, p = .0001.			

5.6.3. Attitude to responsibility for introduction

5.6.3.1. Expectation of introduction of general disclosure

Respondents were asked when they felt disclosure to employees would become general practice. A very large majority felt that it will become practice within the next ten years, (Figure 5.15 and Table 5.17).

# EXPECTED INTRODUCTION OF DISCLOSURE

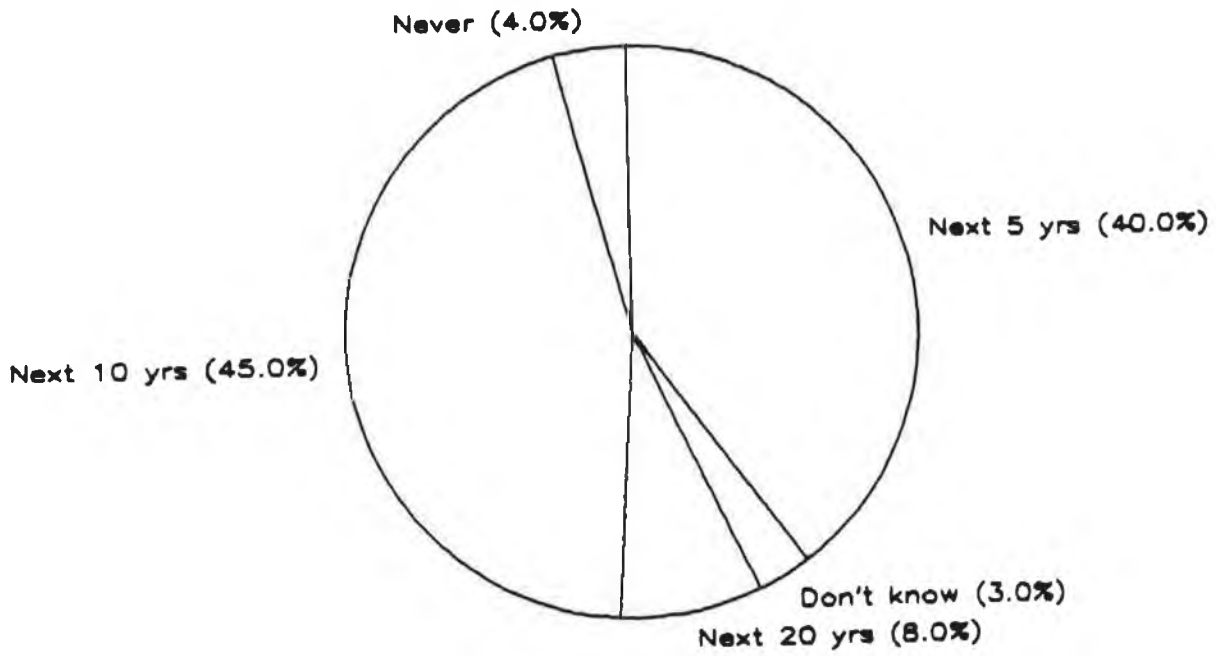


Figure 5.15.

TABLE 5.17.

RESPONSE TO QUESTION ON THE EXPECTED TIME FRAME FOR  
INTRODUCTION OF DISCLOSURE AS GENERAL PRACTICE

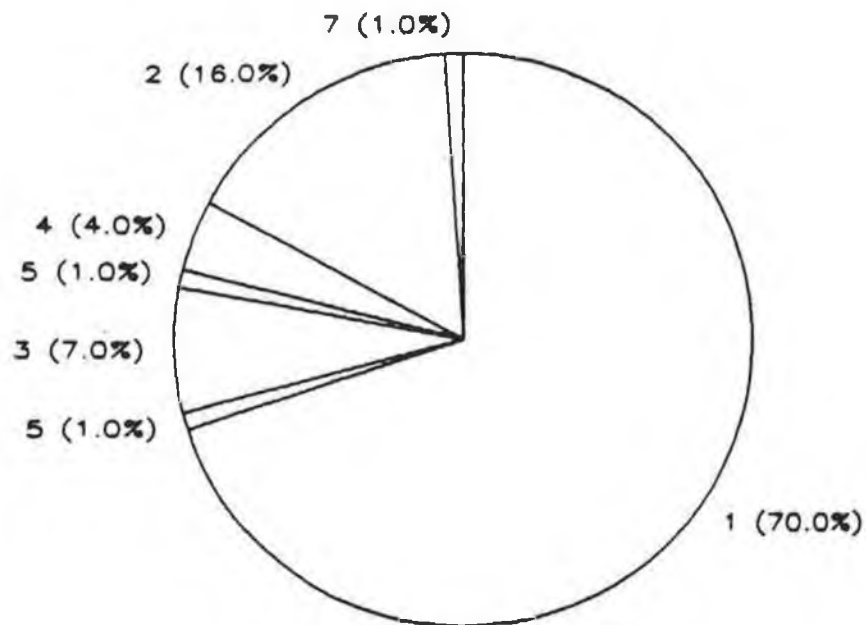
GENERAL PRACTICE:	No.	%
Next five years	30	40
Next ten years	33	45
Next twenty years	6	8
Never	3	4
Don't know	<u>2</u>	<u>3</u>
	<u>74</u>	<u>100</u>

5.6.3.2. Responsibility within the enterprise

The respondent was asked a question concerning his own role (see 4.3.3.). When asked which officer of the organisation ought to be responsible for communicating data to employees, the majority of respondents felt that disclosure to employees should be the responsibility of a committee of managers which would include the financial accountant. A relatively small percentage (see Figure 5.16. and Table 5.18) of the respondents saw themselves as solely responsible for this reporting function.



## RESPONSIBILITY FOR DISCLOSURE



### Key

- 1 = A committee of managers
- 2 = The financial accountant
- 3 = The personnel manager
- 4 = The communications manager
- 5 = Divisional managers
- 6 = The management accountant
- 7 = No information should be given

Figure 5.16.

TABLE 5.18

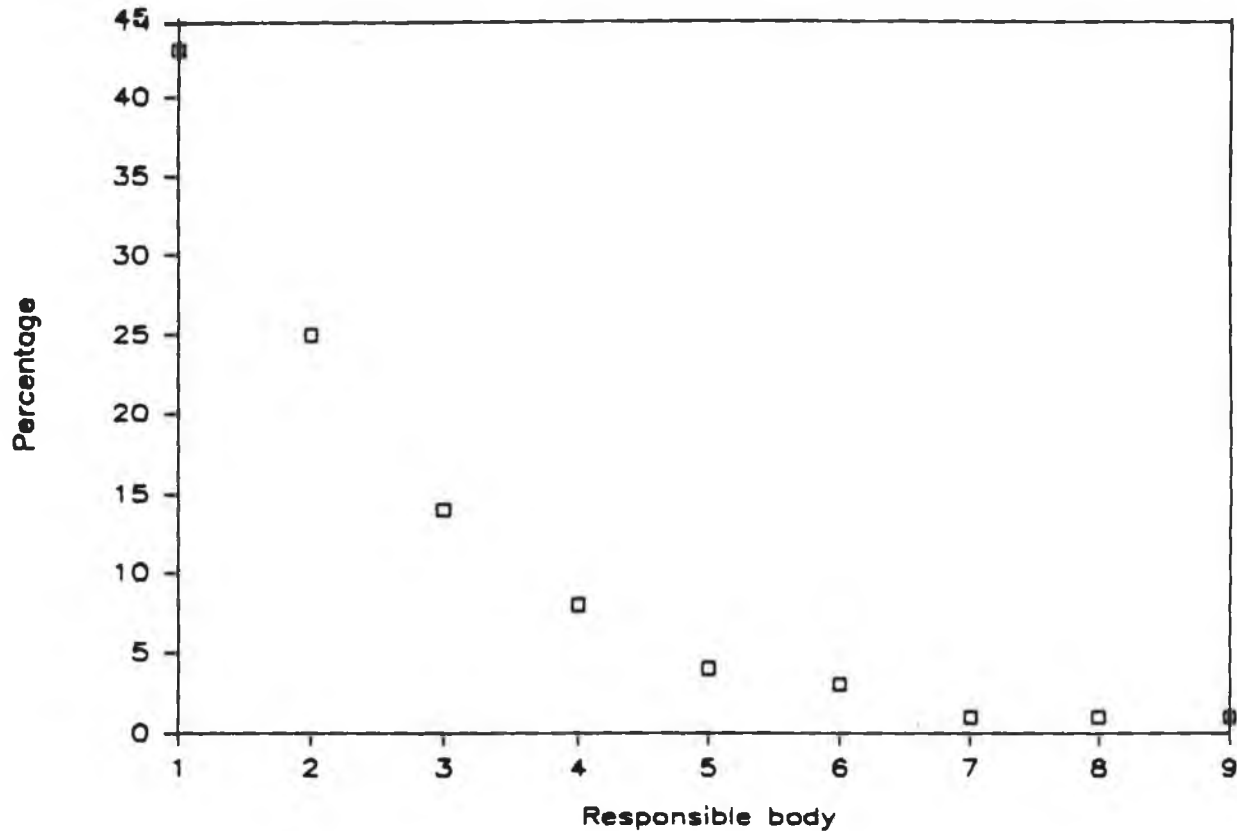
## RESPONSE TO QUESTION ON WHO SHOULD BE RESPONSIBLE FOR DISCLOSURE?

Who should be responsible?	No.	%
A committee of managers	51	70
The financial accountant	12	16
The personnel manager	5	7
The communications manager	3	4
Divisional managers	1	1
The management accountant	1	1
No information should be given by anyone	<u>1</u>	<u>1</u>
	<u>74</u>	<u>100</u>

## 5.6.4. External regulation of disclosure

The question of which body ought to be responsible for initiating the practice by all enterprises of disclosure of financial information to employees (referred to in 4.3.2.) was one on which there was not agreement. Again, the majority of the accountants recognised that it is unrealistic to expect the employees to initiate a practice of disclosure of financial information in the current environment of misunderstanding and complexity that surrounds financial accounts. A large number of the respondents (see Figure 5.17. and Table 5.19) felt that individual managements should initiate the disclosure to employees. Very few felt that it should be his job; re-enforcing again the accountants' lack of perception of the

## RESPONSIBILITY FOR INITIATION



Body key:

- 1 = Individual Boards of Directors
- 2 = The Irish Government
- 3 = The Professional bodies
- 4 = The European Community
- 5 = Employees/their representatives
- 6 = Individual company accountants
- 7 = Individual management accountants
- 8 = Don't know
- 9 = No information should ever be given

Figure 5.17.

need for him to take responsibility for the design of communications media and formats. Local legislation was seen by only 25% of respondents as the way forward, while some felt that legislation should come from the EC. Again, this emphasises the feeling of accountants that the responsibility for progress in this area, in which the accountant would be presumed to be the leading expert, should not be laid at his door. He appears willing to take direction, but reluctant to direct. Additionally it confirms the suggestion that the Irish paradigm is not seen by the majority as progressing under a legalism influence.

TABLE 5.19

RESPONSE TO QUESTION ON WHO SHOULD BE RESPONSIBLE FOR INITIATING DISCLOSURE

Initiation of disclosure?	No.	%
Individual Boards of Directors	32	43
The Irish Government	18	25
The Professional bodies	10	14
The European Community	6	8
Employees/their representatives	3	4
Individual company accountants	2	3
Individual management accountants	1	1
Don't know	1	1
No information should ever be given	<u>1</u>	<u>1</u>
	<u>74</u>	<u>100</u>

Additionally respondents were asked a question concerning the future role of the Professional Accountancy Bodies in seeking regulation for financial information to be disclosed to employees. (See 4.3.3.) The most striking aspect of the response to this question was the percentage of accountants who declared themselves "Uncertain" about this issue (22%). This probably indicates a general lack of interface between the bodies and members, and a general lack of understanding of the function of the professional bodies (other than to "collect large subscriptions annually from members"). 4% expressed themselves strongly in favour of positive action by the Professional bodies, with 25% in favour; while 34% disagreed with such action and 15% strongly disagreed.

This response is of interest in the context of the stand which the main body (the ICAI) of accountants is taking in an associationistic role in supporting the disclosure of financial information to employees. The results of the survey show that the association is reflecting the positive attitude of its members. This lack of enthusiasm by members to the association taking positive action does not invalidate the description of the Irish paradigm in Chapter 3 as largely associationistic.

#### 5.6.5. Familiarity with EC proposals

Respondents were asked to indicate the extent to which they were familiar with the Vredeling Directive on Company Law (see 4.3.2.). Less than one third of the respondents were familiar with this directive (see Figure 5.18.), and when asked why they were not familiar with it, the majority indicated that this was due to lack of publicity. This Directive did receive considerable publicity when it was first issued, although it has not featured in recent technical publications. Over one third indicated that they make it a practice to familiarise themselves with Directives when they are introduced onto the National statute books. This gives some evidence of the accountant's tendency to blinker himself from change until such change is actually forced onto his horizon by regulation. Of those who were familiar with the Directive, over one half felt it would have a moderate impact on their organisations when it is enacted.

VREDELING DIRECTIVE  
RESPONSE TO QUESTION ON FAMILIARITY WITH VREDELING

	%
Unaware of its existence	35
Aware, but unsure of content	34
Familiar with general terms	30
Fully conversant with terms	1

OF THOSE WHO WERE NOT FAMILIAR WITH DIRECTIVE

Not familiar because:

It has not been publicised	52%
Only familiarise with directives when they become law	34%
It will never be enacted	4%
Not relevant to work	10%
No interest	0%

OF THOSE WHO WERE FAMILIAR WITH DIRECTIVE

What impact will it have on your organisation?

Major	8%
Considerable	8%
Moderate	67%
Minor	13%
None	4%
Don't know	0%

Figure 5.18.

## 5.7. MAIN CONCLUSIONS

The main conclusions are summarized under the headings described in 4.3., as follows:

5.7.1. The existence of the disclosure of financial information to employees in Ireland:

5.7.1.1. One half of enterprises disclose financial information to their employees. (5.5.) It is of interest to note that the volume of disclosure is patchy and mixed and may best be described as 'not extensive'.

5.7.1.2. Less than one quarter of enterprises offer approved share participation schemes. Less than one fifth have a share option scheme, and of those that do, less than one half offer the option scheme to all employees. (5.5.1.)

5.7.2. Completion of the picture of the Irish paradigm

5.7.2.1. There is little evidence of pre-disclosure education in the enterprises surveyed. (5.5.)



5.7.2.2. The majority of respondents feel that disclosure should not be mandated by Government or by the EC, but should be initiated by individual enterprises. Respondents were uncertain about the role of the association of preparers. (i.e. the ICAI), (5.6.4.).

5.7.2.3. There is some evidence of the secretive nature of the Irish community referred to in Chapter 3. This is evidenced by the citation of 'fear of leakage of confidential information' as a reason for non-disclosure by 40% of the non-disclosers. This fear is associated with foreign control.

(5.5.2.1.)

5.7.2.4. The role of the accountant in disclosing financial information to employees within the Irish paradigm was considered. It appears that the accountant would prefer to act as a member of a team in this task than to accept sole responsibility. (5.6.3.2.)

5.7.2.5. Less than one third of respondents declared themselves familiar with the proposals of the Vredeling Directive on disclosure. Respondents indicated that they were waiting until the legislation had actually been enacted before familiarizing themselves with its terms. (5.6.5.)

5.7.3. Examination of the hypotheses set out in 4.3.3.

Four of the characteristics identified in 3.6.3. proved significant in explaining patterns of disclosure/non-disclosure of financial information to employees within the Irish paradigm. These variables were:

5.7.3.1. Ownership structure (5.4.4.)

5.7.3.2. Worker participation (5.5.1.2.)

5.7.3.3. Attitude of the financial accountant (5.6.2.)

5.7.3.4. The skill of the workforce (5.4.6.2.)

The four remaining characteristics identified in 3.6.3. did not prove significant in explaining disclosure/non-disclosure of financial information to employees within the Irish paradigm. These variables were:

- 5.7.3.6. Demand for information from employees (5.5.2.1. and 5.6.4.)
- 5.7.3.7. Unionization (5.4.2.)
- 5.7.3.8. The size of the workforce (5.4.5.)
- 5.7.3.9. The length of establishment of the enterprise (5.4.3.)

The four significant characteristics will be included in model building in Chapter 6.

Some further tests and analyses to confirm the internal consistency of the responses, to explore the responses to attitude questions and to examine views on future developments were conducted. They are described in the Appendix to this chapter (Appendix 5.1.).

## APPENDIX 5.1.

This appendix gives:

- \* some further detail concerning the responses to the attitude questions (A5.1.),
- \* the responses to some questions asked to check the internal validity of the responses (A5.2.) and
- \* the findings regarding views about future developments (A5.3.).

### A5.1. RESPONSES TO ATTITUDE QUESTIONS

Table 5.15. shows an analysis of the responses given to the questions making up the attitude score. It can be seen (Q.1) that less than one third of the respondents felt that the financial accountant should limit himself to the traditional role of the accountant - that of reporting to the shareholders. Sixty percent felt that the financial accountant's role should

not be limited. Given the attitude class to which this attitude belongs, this is of interest to the educators of to-morrow's accountant.

There was a very strong body of opinion that the employees have a social right to receive financial information concerning the enterprise in which they are employed. (Q.2). More than three quarters of the respondents agreed with this proposition. This lends support to the proposal in Chapter 2 that the employee is a decision maker with a justified right to the financial information of his employing enterprise.

There was an even spread of attitude towards the issue of employees' interest in financial information (Q.3). It is interesting to note that one in five were unsure whether employees were interested or not, indicating a lack of thought on the part of financial accountants on this communications aspect of their work.

The answers to Q. 4 indicate that two out of every three financial accountants feel that employees need financial information concerning the employing organisation if they are to make valid employment decisions. Only 16% felt that employees did not need such information. It can be seen that although financial accountants feel that employees have a right to such information and actually need such information, they

are also unconvinced about the employees' interest in the information. This writer would suggest that this phenomenon is an acknowledgement of a defect in the manner in which information is presented by the financial accountant rather than an inherent defect in the employees themselves. This is borne out by the responses to questions concerning the future use of varying information and expansions in communications media (referred to in A5.3.).

It is also further confirmed in the acknowledgement in Q.5. that employees would not understand financial information. Almost sixty percent of respondents felt this to be the case. Although this is generally taken to be a reason for NOT disclosing information to employees, the other side of the "employee understanding" coin is that if employees do not understand the information prepared and presented by the financial accountant; far from being conclusive proof that financial information should not be disclosed to employees, it is a reasonable ground to suggest that the financial accountant is failing in one of the most important aspects of his role - that of communicating understandable and relevant information to users of his financial statements, and that the financial accountant should consider the design of information and the media used in the communication of information to the users. It is interesting to note that there is linear correlation (correlation co-efficient 0.798) between attitude to the

employees ability to understand and the disclosure score. The higher the disclosure score the more likely the accountant is to feel that the employees will understand financial information.

Always cost conscious, it would be expected that the financial accountant would consider the cost benefit analysis to the enterprise of disclosure of financial information to employees. However, having considered the cost of such disclosure, 75% of the respondents felt that in this instance, companies could afford the cost of such disclosure. 7% felt that companies could not afford such cost and 18% were uncertain. Of these last two categories, 98% work with companies which do not disclose information to employees. On analysis, those accountants who work with companies which already disclose information to the employees were more strongly in agreement that cost is not an issue, and were less uncertain on the issue.

In relation to the effect on organisations of disclosure to employees, respondents were asked if they thought businesses would be healthier if there were a practice of disclosure. Only 11% thought businesses would not be healthier, with 23% uncertain. Two out of every three were of the opinion that disclosure would have a good impact on the health of the business. However, on further analysis, there was found to be

a positive correlation (correlation co-efficient .607), between a positive attitude to this premise and an existing practice of disclosure. All respondents who disagreed or disagreed strongly with the linkage between disclosure and health are working with organisations which do not disclose. 86% of those accountants in disclosing companies either agreed or agreed strongly, with 14% being uncertain.

It has been suggested that in the current environment of unemployment and scarcity of jobs, that employers need not invest as much thought and effort into the area of good employee communications. However the respondents to this study were very emphatic that even though many of the employment cards are in the hands of management, the unemployment environment should not be an issue in the development of disclosure practices. (Q.8)

The mean score of those holding a degree as well as a professional qualification was 29.1 compared with a mean score of 27.96 for those without a degree. However the difference is not significant, as may be seen from Table A5.1.



Table A5.1.

ONE WAY ANALYSIS OF VARIANCE: ACCOUNTANTS' EDUCATION  
AND ATTITUDE

	MEAN ATT.	ST. DEV.
	SCORE	
Accountants with University education	29.13	4.76
Accountants without University education	27.96	4.37

Analysis of variance, 1 degree freedom,  $p = .861$ . Therefore, the difference in attitude between those accountants with university education and those without is not significant.

## A5.2. ADDITIONAL QUESTIONS TO CHECK INTERNAL VALIDITY

### A5.2.1. Effect of thoughtful consideration on attitude

A further examination of the accountants' attitudes was conducted to determine if a negative attitude arises from a "first response" mechanism or from a detailed consideration of the issues and implications; similarly to determine the context of a positive response. Respondents were asked to agree strongly, agree, disagree strongly, disagree or state uncertainty with the statement "The disclosure of information to employees is a subject to which I have not given much thought". The responses to this question were cross tabulated with the attitude scale scores. There is a correlation co-efficient of .560, indicating a positive correlation between the degree of thought given to the issue and the positive nature of their attitudes. A chi square test was conducted to test the difference in attitude between those accountants who had given thought to the issue of disclosure and those who had not. Those respondents who strongly agree that they have not given much thought to the issue had negative attitudes and those who strongly disagree had positive attitudes. Table A5.2. summarises the attitude score to "negative", "neutral" and "positive". Due to the low count in some cells, the categories "Little" and "None" were combined; likewise the categories "Considerable" and "Extensive". It may be seen that

attitude differs significantly from the expected count, indicating that those who have given little thought to the subject are more negative than expected, and those who have given a lot of consideration to the subject are more positive than expected.

TABLE A5.2.

CHI SQUARE: EXTENT OF CONSIDERATION AND ATTITUDE

EXTENT OF CAREFUL CONSIDERATION

	None and Little	Moderate	Coñsiderable and Extensive
ATTITUDE			
Negative	9 (3.9)	1 (.41)	5 (10.68)
Neutral	2 (1.3)	1 (.14)	2 (3.56)
Positive	8 (13.79)	0 (.45)	45 (37.75)

(Figures in parenthesis represent the expected count for each value)

Chi-square value = 22.29, 4 degrees freedom,  $p = < .001$

There is, therefore, statistical evidence that the attitude of the accountant will increase with the degree of thought given to the topic of disclosure of financial information to employees, and that the increase is significant.

#### A5.2.2. Effect of innate conservatism on attitude

In order to determine the general context in which respondents felt positive or negative to the issue of disclosure to employees, they were asked to respond to a question to determine their attitude towards change and development in financial accounting in general. The question concerned the major development in the regulatory framework of financial accounting, viz. the issue of Statements of Standard Accounting Practice (SSAPs), now Financial Reporting Statements (FRSs). If disclosure to employees is viewed negatively by accountants who have a positive attitude to other major change and development in financial accounting, then further investigation would prove necessary, and the future development of disclosure might be at risk. If, on the other hand, a negative attitude to disclosure to employees exists in some accountants in tandem with a negative attitude to all change, such conservatism should not prove an insurmountable barrier to the gradual introduction of disclosure. As it becomes acceptable practice, accountants who currently declare themselves to have a negative attitude may find their attitudes changing with the increasing acceptability and application of the practice of disclosure. Accountants who have a more positive reason for disliking disclosure would be less likely to experience such a change of attitude.

However, an examination of the average attitude score showed a linear relationship between attitude to disclosure to employees and attitude to other developments in accounting practice. (Table A5.3.). A chi square test was conducted on the detailed scores, but although it did show a significant relationship the result was not reliable as there were in excess of 20% of the cells with very low expected frequencies. However, an examination of the average scores indicates a clear relationship.

A cross check with disclosure score indicated an increasing disclosure score in conjunction with positive feelings about changes promulgated by the SSAPs. The accountants who agreed most strongly with the need to keep up to date with SSAPs disclosed most information. (Table A5.3)

While this question on SSAPs is thought to be a reasonable test of the conservatism of respondents, it is accepted that it is not a flawless question to serve this purpose. It may be, for example, that respondents cannot keep up to date with the SSAPs because they have difficulty in agreeing with their conceptual bases.

TABLE A5.3.

RELATIONSHIP BETWEEN ATTITUDE TO DISCLOSURE AND DEVELOPMENT OF  
FINANCIAL ACCOUNTING

Response to question:

"It is impossible

keep up to date with SSAPs"	Strongly agree	Agree	Uncertain	Dis- agree	Strongly disagree
--------------------------------	-------------------	-------	-----------	---------------	----------------------

Average att. score	26	27	30	30	31
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Average disclosure score	2.85	2.72	4.67	4.55	6.13
-----------------------------	------	------	------	------	------

Another question was, therefore, added to the questionnaire to parallel this check. Accountants were asked whether they could visualise the use of video presentation of information which is currently only promulgated in the written form (see A5.3.). Again, there was a correlation between those who thought that video presentations would be introduced and those who had a favourable attitude to disclosure to employees.

A5.2.3. Subsidiary effects on attitude

A number of factors were considered in conjunction with attitude, as detailed in 4.3.3., i.e. the age of the accountant, the qualification and experience of the accountant.

The gender of the accountant was eliminated from the consideration due to the small number of women respondents. These did not prove significant in their relationships to the accountant's attitude.

The accountants' ages were cross tabulated with attitude. (See Table A5.4.) There is a distinct tendency for attitude to improve with age, levelling out at the age of 50. The average scores for respondents analysed by age is seen in Figure A5.1 and Table A5.4. One-way analysis of variance test was conducted on these mean scores to determine the significance of the difference between the scores of the various age groups. It may be seen from Table A5.5. that the difference in the attitude score is statistically significant, at a 90% confidence level.

TABLE A5.4.

ACCOUNTANTS' AGE AND ATTITUDE

Age	Att. Score
20 - 30 years	25.5
31 - 40 years	26.7
41 - 50 years	29.5
51 - 60 years	28.9

TABLE A5.5.

ONE WAY ANALYSIS OF VARIANCE: ACCOUNTANTS' AGE AND ATTITUDE

SOURCE	DEGREES OF FREEDOM	SUM OF SQUARES	MEAN SQUARES	F-RATIO
Factor	3	144.6	48.2	2.48
Error	70	1358.1	19.4	

LEVEL	MEAN	ST.DEV.
20 - 30 yrs	25.50	5.066
31 - 40 yrs	26.76	4.155
41 - 50 yrs	29.55	4.471
51 - 60 yrs	28.30	4.692

P= 0.1: therefore the difference in attitude score between the age range groupings is statistically significant.



# EFFECT OF AGE ON ATTITUDE

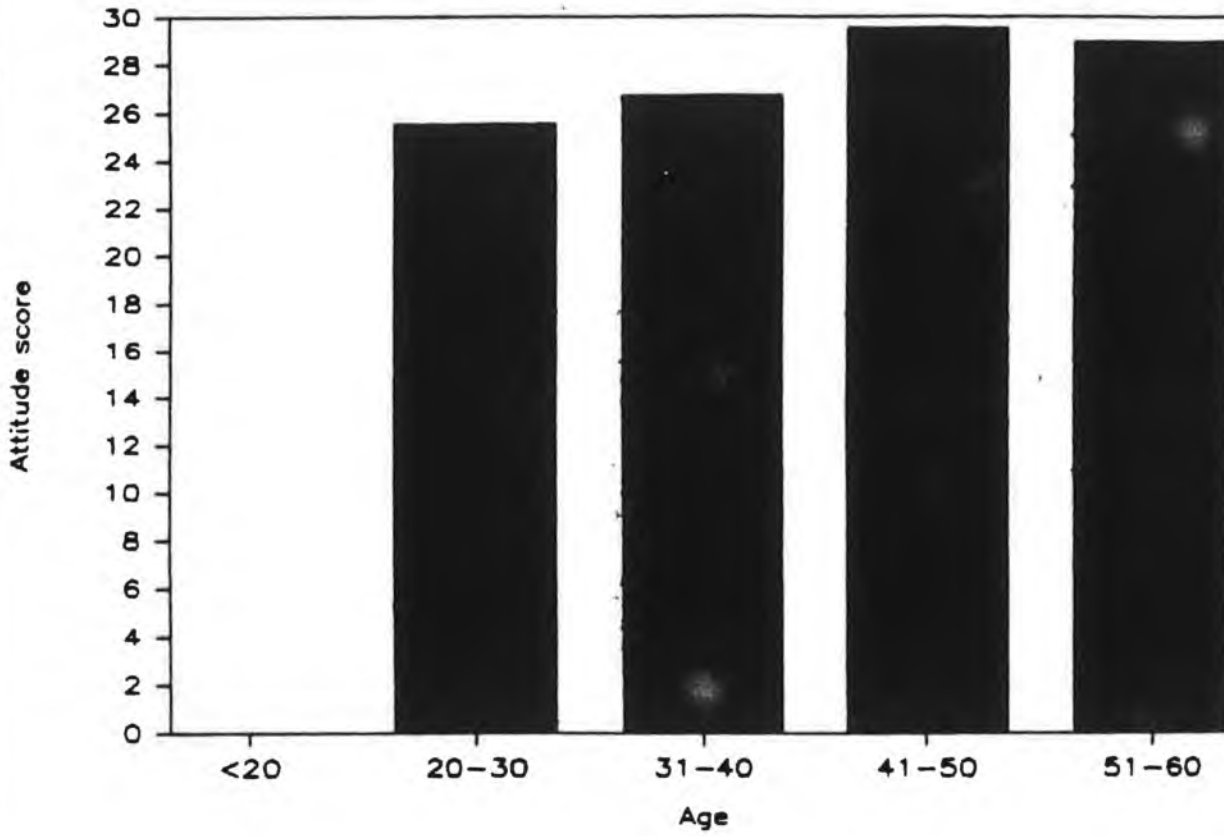


Figure A5.1.

#### 5.6.7. Effect of experience and qualification

A similar analysis was conducted to consider the possibility of a relationship between qualification, experience with negotiations and/or experience with accounting on attitude. However, no correlation between any of these factors and attitude was detected.

### A5.3. FUTURE DEVELOPMENTS

In order to assist in making recommendations for future development and to help highlight possible areas for further research, respondents were asked some questions to elicit their view on the future development of disclosure of financial information to employees:

#### A5.3.1. Developments in communication media

In order to determine accountants' attitudes to future developments in the media of communication of financial information, a question was posed concerning the future use of video presentations to supplement the written financial report. A high proportion of respondents was uncertain about this issue. Clearly the use of such a medium is a possibility they

have never considered, and to which they had not been exposed during their period of training and education. However, 5% strongly agreed that video presentations would commonly be used, 50% agreed, with 26% uncertain and 15% disagreeing - 4% disagreed strongly. So, although there is some uncertainty, 55% of financial accountants were willing to acknowledge that such a major development is on the horizon. Again, this is of interest to educators and trainers of to-morrow's accountants. The accountants appear to have a positive attitude and, in the main, are willing to acknowledge the probability of huge changes in financial reporting practice, and yet there is little movement in the programmes of education and training to prepare them for the communications theory and practice they will need. This issue will be considered in Chapter 7.

#### A5.3.2. Tiering of disclosure by skill

When asked if all employees should be given the same level of information, there was an even distribution of response, with slightly larger proportion agreeing with the proposition. There were few who felt strongly about this issue, and on analysis, those accountants who have experience of disclosure felt slightly less strongly than those without. There is, therefore, considerable disagreement on this issue of differentiated information. On further analysis it was found that accountants in companies with a high level of unskilled

labour feel that the same information should be given to all employees, while accountants in companies with higher levels of employee skill were more strongly in favour of giving different information to various levels of employee.

#### A5.3.3. Tiering of media by skill

Respondents were also asked their view on whether the media used should vary with the different levels of employee skill; for example, if full blown accounts would be suitable for one group and a video presentation or tabloid format magazine suitable for another. There was strong support for this proposition with 73% expressing themselves in favour. However, on analysis, it can be seen in Table A5.6. that the feeling was not so strong among those who already disclose information to employees and that the difference between the disclosers and non-disclosers is significant. Because of the low count in some cells, the categories "Strongly agree" and "Agree" have been combined; likewise the categories "Strongly disagree" and "Disagree".

This indicates that experience with disclosure leads accountants to moderate their attitude towards the ability of employees at all levels to deal with information presented in the same format.

TABLE A5.6.

ANALYSIS OF ATTITUDE TOWARDS VARIATION OF MEDIA

THE MEDIA SHOULD VARY:	Agree	Uncertain	Disagree
DISCLOSE?			
No	32 (27.0)	0 (2.5)	5 (7.5)
Yes	22 (27.0)	5 (2.5)	10 (7.5)

(The figures in parenthesis are the expected counts for each value)

Chi-square value = 8.519 with 2 degrees freedom,  $p = .025$   
Therefore there is a significant difference.

## CHAPTER SIX

### FURTHER ANALYSIS AND INTERPRETATION

#### 6.1. INTRODUCTION

Chapter 3 of this study identified a number of variables which it was hypothesized bore a significant relationship to the disclosure/non-disclosure pattern of financial information to employees within the Irish paradigm. Chapter 5 described the univariate analysis which was conducted to test those hypotheses. The variables which emerged as significant were identified in 5.7.3. and this Chapter will describe the multi-variate analysis conducted to construct a model from those significant variables to explain the disclosure/non-disclosure pattern in Irish enterprises of financial information to employees. Variables which proved not to be significant, identified in 5.7.3., will not be included in this analysis.

Having examined the relationship between the dependent variable (disclosure or non-disclosure) and the separate independent variables, the combined predictors will be examined to test for significance in explaining the disclosure pattern in Irish enterprises. The dependent variable is a limited dependent variable, i.e., either 'yes' or 'no', with no range of values in between.

The purpose of the further analysis detailed in this Chapter is to examine, using multiple regression analysis, whether and to what extent, any of the exogenous variables (worker participation in the enterprise, the attitude of the financial accountant, the skill of the workforce and the ownership structure) identified in 5.7.3. has a significant effect in its own right on the endogenous variable (disclosure or non-disclosure) and to draw conclusions concerning recommendations which could be made to influence the significant independent variables, thereby contributing to the development of disclosure by Irish enterprises of financial information to employees.

If it proves possible to identify the variables which are significant in influencing the disclosure practice of Irish enterprises at a time when disclosure is voluntary and not mandated by legislation, it would be possible to suggest steps which may be taken to stimulate voluntary disclosure in Ireland

to encourage the disclosure which was justified in Chapter 2 in a manner which is formulated by voluntary practice and moulded to suit the Irish enterprise before such practice is mandated by legislation designed in mainland Europe.

## 6.2. METHODOLOGY EMPLOYED

### 6.2.1. Multiple Regression

In order to construct the model which will assist in an understanding of the variables which influence some enterprises in Ireland to disclose while others do not, regression analysis was used. Regression analysis is concerned with the investigation of the relationship between variables in the presence of random error. Multiple regression analysis seeks to explain variation in one variable (the dependent variable) in terms of a linear function of a set of other variables (the independent variables). Normally only a proportion of the variation can be explained by the model. The unexplained variation is usually referred to as the error term. The analysis aims to maximise the variation explained and so to reduce the error term. The general form of the model is expressed as follows:



$$y = a + a_1 x_1 + a_2 x_2 + \dots + a_k x_k + e$$

where:  $y$  = the dependent variable,  
 $x$  = the independent variables,  
 $a$  = the regression co-efficients,  
 $k$  = the number of independent variables, and  
 $e$  = the random error term

(For a more detailed general explanation of multiple regression, see Neter, Wasserman and Kutner (1985) and Draper and Smith (1981)).

A multiple linear regression was run, using Ordinary Least Squares model on the dependant variable (does the enterprise disclose or not) with the following independent variables which were identified in 5.7.3. as significant in the univariate analysis.

The attitude of the accountant (Atscore)

The control of the enterprise, whether foreign or Irish  
(Control)

The skill of the workforce (Skill)

The participatory environment of the enterprise (Partenv)

### 6.2.2. Stepwise Selection

In order to determine the optimal combination of independent variables for the model, "stepwise selection" was used. Under this method, the first independent variable considered for entry into the equation is the one with the largest positive or negative correlation with the dependent variable. An independent variable is entered only if the hypothesis that the variation in the dependent variable being explained by the independent variable is caused by chance can be rejected at 0.05 significance level. As each variable is added, the existing variables are re-assessed to ensure their continuing validity.

Because the dependent variable is a limited dependent variable, i.e. a qualitative, non-series variable with responses limited to "yes" and "no", dummy variables of 0 representing 'no disclosure' and 1 representing 'disclosure' were used. An OLS estimator was then applied to the data.

In order to maximise the reliability of the results of the regression analysis, Logit and Probit models were also used to analyse the data.

Regression analysis was used to identify the model which best explains the dependent variable (disclosure/non-disclosure) in terms of the independent variables listed in 6.2.1. Regression multiplies each of the independent variables by a co-efficient and adds the results together; each co-efficient measures the contribution of its variable to the overall forecast.

#### 6.2.2. Criteria for choosing models used

The Ordinary Least Squares (OLS) model was first applied to the data. Least squares has been described by experimenters such as Mosteller et al. (1981 pp 150-152) as corresponding to the layman's 'freehand' attempts to fit a line to a scatter of data. Least squares calculates the best fitting line as the line for which the sum of the squares of deviations of the predicted values from the observed values is a minimum. Kennedy (1985 p 96) suggests that this method is widely used because of its ability to maximise the R squared. Because the OLS estimator minimizes the sum of the squared residuals (or 'unexplained' variations), it maximises R squared. R squared represents the proportion of the variation in the dependent variable 'explained' by the independent variables, and is known as the co-efficient of determination.

There is no generally accepted answer to the question of what is a high R squared. However Ames and Reiter (1961) indicate that in dealing with time-series data, very high R squareds are not unusual. This data is not, of course, time series, and Maddala (1988) reports that the use of dummy variables of 0 and 1 result in low R squares. A 'low' R squared, will therefore not be surprising in this analysis.

In examining the combination of independent variables, it would be possible to increase the R squared statistic simply by adding further variables, and the converse effect is, of course, to apparently decrease the R squared statistic simply by removing independent variables from the analysis. Correcting the R squared statistic for degrees of freedom solves this problem. The R squared statistic adjusted to account for the loss in degrees of freedom due to the addition of more explanatory variables, or the 'adjusted R squared' ( $\bar{R}^2$ ) is therefore used in this analysis to determine the significance of the inclusion or exclusion of variables.

#### 6.2.4. Limited dependent variables

The dependent variable in this analysis is in the form of a dichotomous limited dependent variable, which is necessary because of the qualitative nature of the variable. The dependent variable has been set up, as indicated by Maddala, as 0 1 dummy variable and regressed on the independent variables. However, as can be seen in Figure 6.1., the use of the dummy variable can give rise to having estimated probabilities outside the 0 - 1 range. This could be avoided by converting estimated probabilities lying outside the 0 - 1 range to either 0 or 1 as appropriate using the linear probability model. However Kennedy (1985) suggests that this can lead to inaccuracies because outcomes are sometimes predicted with certainty when it is quite possible that they may not occur. (This is supported by the work of Cragg and Uhler (1970 pp 386 - 406) and McFadden (1974 pp 303 - 325), whose work suggests that the logit and probit give very good results and that both are better than the linear probability model.)

The alternative is to use a model which will squeeze the estimated probabilities inside the 0 - 1 interval without actually creating probability estimates of 0 or 1, as indicated by the broken line on Figure 6.1. Two models have been utilised in this study to supplement the OLS model, the probit model which uses the cumulative normal function and the logit

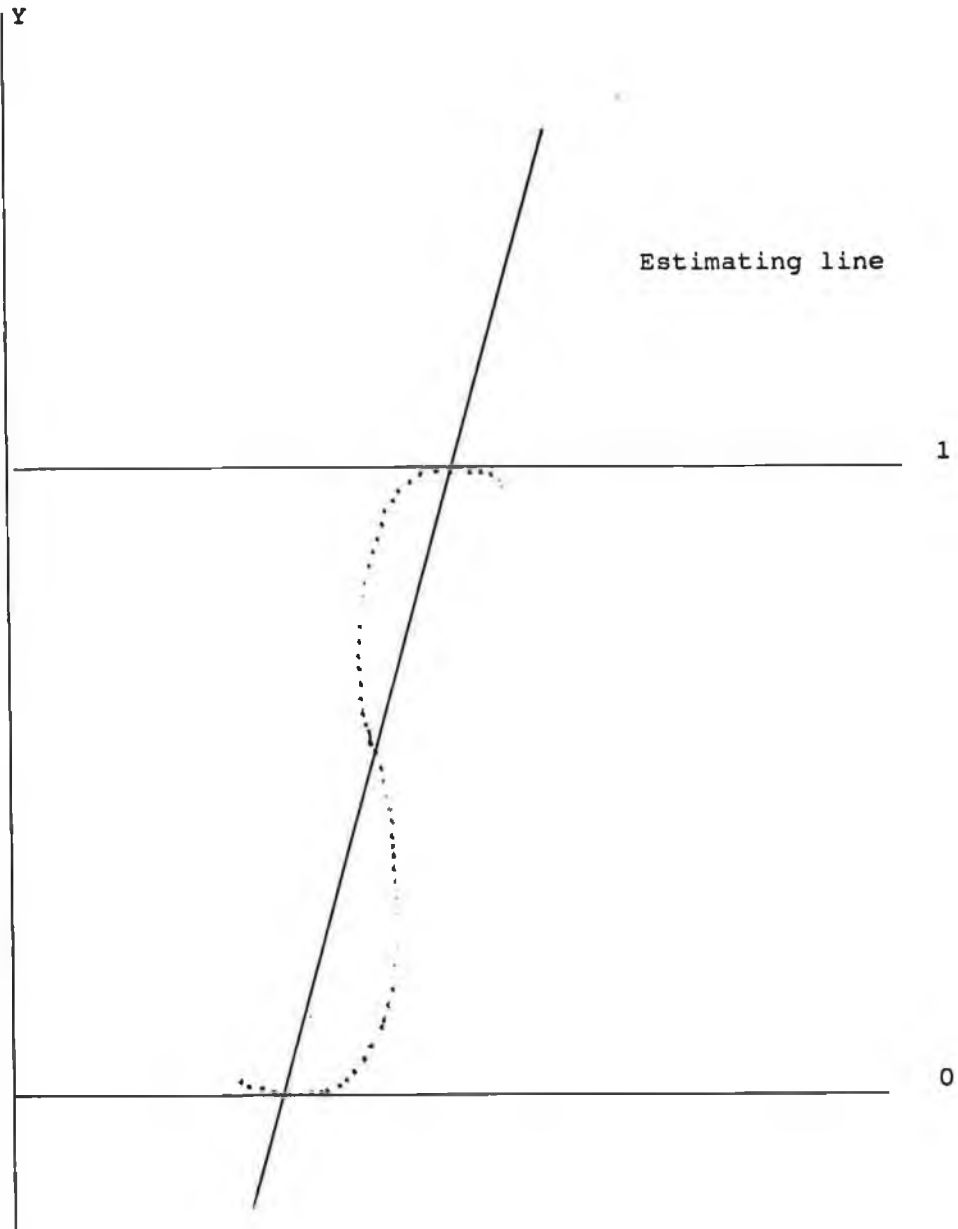


Figure 6.1. The linear probability model

model which uses the logistic function. Both models have been estimated via a maximum likelihood technique. This technique is undertaken by interpreting a linear function of the independent variables as an index (called the 'disclosure potential'). If this 'disclosure potential' index for an enterprise exceeds that enterprise's critical value of this index, that enterprise will disclose. Some individual enterprises need little encouragement to disclose so they will have low critical values; others disclose only under extremely favourable circumstances and so have high critical values. In the probit model these critical values are assumed to be distributed normally among the enterprises studied. The likelihood of each enterprise to disclose is computed and then the likelihood function for the entire sample is formed by multiplying together all the expressions for the likelihoods for the enterprises. (For a more detailed general explanation of the probit model, see Finney (1971)).

In the logit model, the individual enterprise critical values are distributed as a hyperbolic-secant-square distribution, the cumulative distribution of which is the logistic function. (For a more detailed general explanation of the logit model, see McCullagh and Nelder (1988)).

### 6.3. ANALYSIS OF R SQUARED AND ADJUSTED R SQUARED

The dependent variable was firstly regressed with the independent variables which emerged from the previous analysis as important in the Irish paradigm (5.7.3.) i.e. atscore, control, partenv and skill.

As can be seen from Table 6.1., the resultant R squared is .51 with an adjusted R squared of .49. This means that 49% of the propensity to disclose can be attributed to those variables. This, in the light of an expected low R squared for limited dependent variables, can be regarded as high. Indeed, the relationship may be regarded as very high, in the light of Triandis' (1971) conclusion that "... in most psychological studies, correlations of .30 are rather typical". The independent variables with significant T-statistic results may be seen as "Atscore" and "Partenv".

In order to test the reliability of the R squared statistic, logit and probit models were run on the data. In order to ensure a satisfactory R squared result, the problem of the explained variable  $y$  taking only two values needs to be dealt with. The predicted values  $\hat{y}$  are probabilities and the actual values of  $y$  are either 0 or 1. Logit and Probit models deal with qualitative data reflecting a choice between one



alternative and another. In the case of this study, the choice is 'disclosure' or 'non-disclosure'. The logit and probit models quantify the relationship of the probability to the characteristics. A probability is a number between zero and one, so the specification needs to embody this restriction. The logit model does this by using the functional form,

$$\text{Prob}[y = 0] = 1/(1 + \exp(b_0 + b_1x_1 + b_2x_2 + \dots))$$

The probit model uses the functional form,

$$\text{Prob}[y = 0] = 1 - P(b_0 + b_1x_1 + b_2x_2 + \dots)$$

Where  $P(X)$  is the cumulative normal distribution, that is,  $P(X)$  is the probability that a random variable with a normal distribution, zero mean, and unit variance does not exceed  $X$ .

As may be seen from Table 6.1., the logit and probit models use the maximum likelihood method for the estimation of the parameters in the multiple linear regression model, giving a result as 'log likelihood' and not as R squared. In order to consider the results of these models in conjunction with the least squares method, which produces an R squared statistic, it is necessary to convert the 'log likelihood' result into an R-squared result.

TABLE 6.1.

DEPENDENT VARIABLE DISCLOSE, INDEPENDENT VARIABLES: ATSCORE,  
CONTROL PARTENV AND SKILL

	COEFF	T-STAT	2-TAIL SIG
LS			
Atscore	.07	6.87	.000
Control	.03	.66	.509
Partenv	-.64	-2.93	.005
Skill	.02	.84	.405
R-squared	= .51		
Adjusted r-squared	= .49		
F-statistic	= 19.29	p= .002	
LOGIT			
Atscore	.65	3.92	.000
Control	.15	.35	.724
Partenv	-.70	-2.67	.010
Skill	.19	.88	.382
Log likelihood	= -23.38		
R-squared conversions Count R-squared .85, Squared correlation: .76, McFaddens R-squared: .47.			
PROBIT			
Atscore	.38	4.17	.000
Control	.10	.42	.677
Partenv	-.41	-2.76	.008
Skill	.11	.86	.395
Log likelihood	= -23.17		
R-squared conversions Count R-squared: .83, Squared correlation: .76, McFaddens R-squared: .48			

There are several R squared-type measures that have been suggested for models with qualitative dependent variables. For the purposes of this study, three measures based on the likelihood ratios were applied.

### 6.3.1. Count R squared

This method, suggested by Maddala (1988), is based on the assumption that R squared can be thought of in terms of the proportion of correct predictions resulting from the model. Since in this case, the dependent variable is a 0 or 1 variable  $y_i$  is computed and the  $i$ th observation is classified as belonging to group 1 if  $y_i > 0.5$  and classified as belonging to group 2 if  $y_i < 0.5$ . The number of correct predictions can then be counted. The predicted variable  $\hat{y}_i$ , which is a zero-one variable can be defined such that:

$$y_i^* = \begin{cases} 1 & \text{if } \hat{y}_i > 0.5 \\ 0 & \text{if } \hat{y}_i < 0.5 \end{cases}$$

Count R squared can then be defined as:

$$\text{Count } R^2 = \frac{\text{number of correct predictions}}{\text{total number of observations}}$$

This is a useful measure and Maddala (1988) suggests that it is worth reporting in all problems.

Essentially this measure is based on an examination of the predicted explanatory variables and a comparison of the prediction with the actual independent variable. Logit and probit compute, for each respondent in the survey, based on the combination of the explanatory variables, whether the enterprise is likely to disclose or not. For each enterprise, the model will produce a result somewhere between 0 and 1. It is assumed that if the result for a particular enterprise is less than .5, then the prediction is that it does not disclose, if the result is more than .5, the prediction is that it does disclose. For each observation the predicted result is compared with the actual result (which will be either 0 if the enterprise does not disclose, or 1 if it does disclose), and the number of correct observations is counted. The correct number is expressed as a fraction of the total number of observations, resulting in a Count R squared.

#### 6.3.2. Squared Correlation

R squared may also be taken to equal the square correlation of a simple coefficient ( $R_i$ ) between between  $y_i$  and  $\hat{y}_i$ .

### 6.3.3. McFaddens R squared

McFadden (1974) defines R squared as:

$$\text{McFaddens } R^2 = 1 - \frac{\log L_{ur}}{\log L_r}$$

where  $L_{ur}$  is the maximum of the likelihood function when maximized with respect to all the parameters; and where  $L_r$  is the maximum when maximized with the restriction  $B_i = 0$  for  $i = 1, 2, \dots, k$ . This measure examines the likelihood of the constant alone predicting the dependent variable and compares it with the likelihood when the explanatory variables are included.

Each of these conversion methods was used for each step and the results will be considered in the next section.

## 6.4. RESULTS OF REGRESSION

### 6.4.1. Determination of independent variable with highest explanatory power

As may be seen on Table 6.1., when the dependent variable is regressed on the independent variables: Atscore, Control, Partenv and Skill, the R squared is 0.51 with an adjusted R squared of 0.49. This R squared is quite high for a limited dependent variable. Examination of the t-statistic indicates that the individually significant independent variables, that is, those with a result in excess of 2.0, are Atscore (the attitude of the accountant) and Partenv (the participatory environment of the enterprise). A negative t-statistic appears for Partenv. This is because the scoring ranged from 1 to 6, with 6 being the least participatory and 1 the most participatory.

The use of logit and probit results in Log likelihood of -23.22 and -22.96 respectively. The logit and probit models confirm a t-statistic in excess of 2.0 for Atscore and Partenv.

The clear significance of Atscore and Partenv leads to the next step which is an examination of the regression of disclosure/non-disclosure with those two variables.

#### 6.4.2. Examination of the model using Atscore and Partenv

It may be seen from Table 6.2. that the regression of Atscore and Partenv against the dependent variable results in an R-squared of .51 (adjusted: .50), with increased or similar t-statistics in all cases. Converting the log likelihood for both logit and probit results in a Count R-squared of .89 with a Squared Correlation of .76 and McFaddens R-squared of .50. This combination of variables may be seen as significant and gives the best result using least squares, logit and probit.

TABLE 6.2.

DEPENDENT VARIABLE: DISCLOSE, INDEPENDENT VARIABLES: ATSCORE AND PARTENV

	COEFF	T-STAT	2-TAIL SIG
LS			
Atscore	.07	7.15	.000
Partenv	-.06	-2.82	.000
R-squared	= .51		
Adjusted R-squared	= .50		
F-statistic	= 36.75		p= .0005

LOGIT

Atscore	.65	4.00	.000
Partenv	-.65	-2.61	.000

Log likelihood = -23.87

R-squared conversions Count R-squared .89, Squared Correlation: .76, McFaddens R-squared: .50

PROBIT

Atscore	.38	4.28	.000
Partenv	-.38	-2.74	.008

Log likelihood = -23.66

R-squared conversions Count R-squared: .89, Squared Correlation: .76, McFaddens R-squared: .50



In order to consider the R squared for all three models, the R squared values referred to in 6.3. were computed. These can also be seen in Table 6.2. and in other tables.

Using Count R squared a result of .89 for logit and .89 for probit can be observed. These results are not directly comparable with the R squared of .51, as Count R squared is not as discriminating. For example a predicted value of .50 is taken to mean "disclose" while a predicted value of .44 is taken to mean "not disclose"; and a result of .99 is taken as the same result as .51. Nevertheless, it is a useful statistic as interest is mainly directed on the dichotomous result, and not on the position of the respondent on a graduating scale of disclosure. Therefore the result may be interpreted as good. It can be taken to indicate that the model with the independent variables Atscore and Partenv is 89% likely successfully to predict disclosure or non-disclosure.

The results of the Squared Correlation are equally satisfactory, with a result of .76 and .76 for logit and probit models respectively. Again, it can be seen that the use of logit and probit are yielding higher R- squared, and appear to be consistent with each other.

The results of McFadden's R squared are interesting for their confirmation of the relative increase in the R-squared result, to .50.

6.4.3. Although the model with Partenv and Atscore appears to be the model which best explains the dependent variable (disclosure or non-disclosure), in order to confirm that the inclusion of other variables will not improve the results, the other variables were included in the model to examine the results. The section which follows describes the steps which were taken to eliminate the possibility that the other variables which were significant in the univariate analysis should be included in the multivariate model.

6.4.3.1. Examination of model with "Atscore" as independent variable

As may be seen from Table 6.3., the attitude of the accountant (Atscore) produces a t-statistic of 7.15 using least square (LS). However, the adjusted R squared is .45, which is lower than the R-squared of .50 shown in Table 6.2. Logit and probit show the log likelihood as -28.66 and -28.72 respectively with the R squared conversions of these results of .87, .75 and .47. It is clear, therefore that this independent variable is an important element in the model, but not as important as the

combination of Atscore and Partenv. Its importance can be tested by removing "Atscore" from the model shown in Table 6.1.. The effect of this removal is seen in Table 6.4. Using LS, the R-squared declines to 0.19, and the adjusted R-squared is 0.15. "Partenv" remains as a significant element in the model, with a t-Statistic of -3.6. Logit and Probit confirm this result with t-statistics of -3.23 and -3.40 respectively.

#### 6.4.3.2. Inclusion of "Skill" in the model

The results of the regression including Skill as an independent variable may be seen in Table 6.5. There no change in the adjusted R-squared. There is a slight disimporvement in the Count R-squared results for Logit and Probit, and in McFaddens R-squared, but otherwise the inclusion of Skill in the model has no effect.

TABLE 6.3.

DEPENDENT VARIABLE DISCLOSE: INDEPENDENT VARIABLE ATSCORE

	COEFF	T-STAT	2-TAIL SIG.
LS			
Atscore	.08	7.15	.000

R-squared = .46  
 Adjusted R-squared = .45  
 F-statistic = 59.69 p= .0005

LOGIT

Atscore	.58	4.0	.000
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Log likelihood = -28.66

R-squared conversions : Count R-squared: .87, Squared  
 Correlation .74, McFaddens R-squared: .47

PROBIT

Atscore	.32	4.72	.000
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Log likelihood = -28.715  
 R-squared conversions Count R-squared: .87, Squared  
 Correlation: .75, McFaddens R-squared: .47

TABLE 6.4.

DEPENDENT VARIABLE DISCLOSE: INDEPENDENT VARIABLES: CONTROL, SKILL AND PARTENV

	COEFF	T-STAT	2-TAIL SIG.
LS			
Control	.03	.44	.67
Skill	.04	1.6	.115
Partenv	-.10	-3.6	.001
R-squared	.19		
Adjusted R-squared	.15		
F-statistic	5.32	p=	.1465

LOGIT

Partenv	-.47	- 3.23	.002
Skill	.21	1.59	.116
Control	.12	.40	.686

Log likelihood = -43.11  
 R-squared conversion:Count R-squared: .44, Squared correlation:  
 .39, McFaddens R-squared:.12

PROBIT

Partenv	-.28	-3.40	.001
Skill	.13	1.59	.116
Control	.07	.35	.727

Log likelihood = -43.17  
 R-squared conversion:Count R-squared:.43, Squared correlation:  
 .39, McFaddens R-squared: .11

TABLE 6.5.

DEPENDENT VARIABLE: DISCLOSE, INDEPENDENT VARIABLES: ATSCORE, PARTENV AND SKILL

	COEFF	T-STAT	2-TAIL SIG
<b>LS</b>			
Atscore	.07	6.88	.000
Partenv	-.06	-2.87	.006
Skill	.017	.83	.410
R-squared	= .52		
Adjusted R-squared	= .50		
F-statistic	= 24.62	p=	.001
<b>LOGIT</b>			
Atscore	.65	3.92	.000
Partenv	-.68	-2.67	.010
Skill	.20	.90	.370
Log likelihood	= -23.45		
R-squared conversions Count R-squared: .87, Squared correlation .76. McFaddens R-squared: .47			
<b>PROBIT</b>			
Atscore	.38	4.17	.000
Partenv	-.39	-2.77	.007
Skill	.11	.88	.384
Log likelihood	= -23.26		
R-squared conversions Count R-squared: .87, Squared correlation: .76, McFaddens R-squared: .48			

6.4.3.3. Inclusion of "Control" in the model

Including Control in the model, similarly, has little effect on the results of the regression as may be seen in Table 6.6.

TABLE 6.6

DEPENDENT VARIABLE DISCLOSE, INDEPENDENT VARIABLES: ATSCORE, CONTROL AND PARTENV

	COEFF	T-STAT	2-TAIL SIG
<b>LS</b>			
Atscore	.07	7.13	.000
Control	.03	.65	.519
Partenv	-.06	-2.88	.005
R-squared	= .51		
Adjusted R-squared	= .49		
F-statistic	= 24.43		p= .0005
<b>LOGIT</b>			
Atscore	.65	3.99	.000
Control	.17	.41	.683
Partenv	-.67	-2.61	.010
Log likelihood	= -23.79		
R-squared conversions Count R-squared: .89, Squared correlation .76, McFaddens R-squared:.47			
<b>PROBIT</b>			
Atscore	.38	4.27	.000
Control	.11	.46	.647
Partenv	-.39	-2.73	.008
Log likelihood	= -23.55		
R-squared conversions Count R-squared: .89, Squared correlation: .76, McFaddens R-squared: .47			

#### 6.4.3.4. Other combinations

All other combinations of independent variables were examined, but the result was either a disimprovement in the resulting model, or no improvement to the model constructed from the variables Atscore and Partenv. It may be concluded that the independent variables, control, and skill do not contribute significantly to prediction in the model.

Using the model, a final check to ensure the validity of the univariate tests of significance as a screening for variables for model building was undertaken. Each of the four variables (and combinations thereof) referred to in 5.7.3.6. - 5.7.3.9. were also examined. None of these variables (or combinations thereof) was significant in the model or improved the adjusted R squared.



#### 6.4.4. The internal validity of the model

In Chapter 5, resulting from univariate analysis, 4 characteristics emerged as significant in explaining disclosure/non-disclosure. The model which has been described in this chapter includes two factors as significant in combination in explaining disclosure/non-disclosure. The model is described in 6.4.2. and relevant statistics for the model are given in Table 6.2.

6.4.5.1. The first factor which has emerged as significant is that of the existence of a participatory environment in the disclosing enterprise. This result is consistent with the description of the Irish paradigm described in Chapter 3 (3.4.2.1.), which referred to the 'local' characteristic of regarding disclosure as an integral part of participation by workers in their employing enterprise within the Irish paradigm. This was evidenced by Government policy, by local legislation (i.e. the Worker Participation Acts) and by community responses. Additionally, this factor was substantiated by the respondents to this survey. In other words, where the enterprise has adopted a policy of allowing employees to participate in the enterprise through share participation, board membership and/or other sub-board consultation, it is likely that that enterprise has a policy

of disclosure of financial information to employees. The relationship appears as negative (Table 6.2.) due to the scoring frame used, which ranged from 1 - 6, with 6 being least participatory and 1 being most participatory.

6.4.5.2. The second factor which has emerged as significant is the attitude of the financial accountant. This supports the associationistic influence within the Irish paradigm suggested in Chapter 3. It was suggested that, unlike our mainland European fellow-members of the EC, the development of the Irish paradigm of disclosure to employees would be less influenced by the 'State' and more influenced by the 'Association' of financial accountants. This model shows that the association of the financial accountant, the Institute of Chartered Accountants in Ireland, has accurately reflected the positive attitude to disclosure to employees of its members. Financial accountants are positive to the disclosure of financial information to employees and there is a positive relationship between the attitude of the accountant and the disclosure of information. The accountants' attitudes, however are not intense, and that is consistent with this hypothesis, as the levels of disclosure, as indicated in Chapter 4, are not high. Based on this model, however, it would seem that an increase in the intensity of the attitude of the accountant would result in an increase in the levels of disclosure. The relationship in

Table 6.2. appears as positive in this case as the score is structured so that the higher the attitude score, the more positive the attitude.

#### 6.5. ASSUMPTIONS UNDERLYING MULTIPLE REGRESSION.

6.5.1. The principal assumptions of Multiple Regression analysis may be summarized as:

6.5.1.1. The values of the dependent variable are normally distributed;

6.5.1.2. The observed values of the independent variables are measured without error;

6.5.1.3. The relationships between the dependent variable and each of the independent variables are linear;

6.5.1.4. The variance in the dependent variable is constant for all values of the independent variables;

6.5.1.5. The error terms are independent;

6.5.1.6. Important variables appear explicitly in the function, and

6.5.1.7. The independent variables do not show very high linear correlation.

6.5.2. The tests conducted to ensure that the above assumptions were not violated were as follows:

6.5.2.1. The dependent variable in this case is a limited dependent variable, and, as indicated by McFadden (1974), testing is not required for violation in this case as it is not possible for dummy variables to violate this assumption.

6.5.2.2. Koutsoyiannis (1977 p 179) suggests that the validity of the measurement assumption cannot be measured directly. As every effort was made to avoid any errors of measurement in the choice and execution of data collection methodologies, it is reasonable to assume that there is no gross violation of this assumption.

6.5.2.3. As recommended by the Draper and Smith (1981 pp 141 - 162), the validity of these assumptions was examined by plotting standardised residuals, against predicted values of the dependent variable. These plots may be seen in Appendix K. A random distribution of residuals along the dummy

variables indicates that these assumptions are met. Plots indicate that the residuals are distributed on what approximates to a random basis in all cases of the model.

6.5.2.7. As the model was constructed using the stepwise method, multicollinearity (i.e. high correlation between the independent variables in the model) did not occur. This is because at each step in the model building, the tolerance of each independent variable that was in the equation or was being considered for entry into the equation was examined. The tolerance is the proportion of variance in an independent variable not explained by other independent variables in the equation. A new variable was not entered if its own tolerance or the resulting tolerance of a variable already in the equation (which could be altered by the entry of a new variable) was less than .05.

## 6.6. TESTING THE SIGNIFICANCE OF THE MODEL

The statistical significance of the model has been tested. The overall significance of the model was tested using the F-test to ascertain if the relationships proposed by the model were significant or could have been met by chance. As may be seen

the probability associated with the F statistic is .0005 (See Table 6.2.). This clearly establishes the significance of the model.

It is, of course, possible that the overall model is statistically significant but that the individual independent variables within the model are not. However, as the construction of this model has been effected using stepwise selection, this situation could not arise.

#### 6.7. SUMMARY OF MULTIVARIATE ANALYSIS

Arising from the multi-variate analysis which has been described in this chapter and from the univariate analysis undertaken in Chapter 5, the following summarises the hypotheses which have been accepted and those which have been rejected:

##### 6.7.1. Hypotheses accepted:

6.7.1.1. There is a significant relationship between the attitude of the enterprise's financial accountant, and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.1.2. There is a significant relationship between the extent of the existence of participation in an enterprise and the disclosure/non disclosure pattern of financial information to employees in that enterprise.

6.7.2. Hypotheses rejected:

6.7.2.1. There is a significant relationship between the ownership structure of an enterprise and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.2. There is a significant relationship between the skill of the workforce in an enterprise and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.3. There is a significant relationship between the age of the enterprise's financial accountant and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.4. That there is a significant relationship between the

extent of unionization in an enterprise and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.5. That there is a significant relationship between the length of establishment of the enterprise and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.6. That there is a significant relationship between the extent to which employees of an enterprise demand information and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

6.7.2.7. That there is a significant relationship between the size of an enterprise's workforce and the disclosure/non-disclosure pattern of financial information to employees in that enterprise.

#### 6.8. INTERPRETATION OF THE RESULTS OF THE MODEL BUILDING

The interpretation of the results of the model building, together with conclusions from this study and proposals for further research will be considered in Chapter 7.



## 6.9. SUMMARY

This chapter follows from the process of screening variables described in Chapter 5. Variables which emerged as significant in Chapter 5 have been included in a model building process which has been described in this chapter.

Using disclosure/non-disclosure of financial information to employees as the limited dependent variable, a model was constructed to explain the disclosure/non-disclosure patterns in Irish enterprises. Variables which emerged as significant in Chapter 5 were the skill of the workforce, the attitude of the enterprise's financial accountant, the participatory environment and control. The model building described in this chapter indicates that the variables which, in combination, are significant in explaining disclosure patterns are the attitude of the enterprise's financial accountant and the existence of a participatory environment.

Because the dependent variable is a limited dependent variable, logit and probit were also used to build the model. The chapter described the final model using least squares, logit and probit.

## CHAPTER SEVEN

### SUMMARY AND CONCLUSIONS

#### 7.1. INTRODUCTION

The purpose of this chapter is to review the manner in which the objectives stipulated in Chapter 1 have been achieved (7.2.), to summarize the findings of the study (7.3.), to draw conclusions from the study (7.4.) and to indicate areas of further research (7.5).

#### 7.2. ACHIEVEMENT OF OBJECTIVES

7.2.1. The objectives of this study were stated in Chapter 1 (1.3.) as being:

To establish a justification for regarding the Irish employee as a legitimate user of financial information concerning his employing enterprise within the decision usefulness approach;

To identify the major local characteristics of the Irish paradigm of disclosure of financial information to employees insofar as it has developed to date.

To establish the current practice in major Irish enterprises regarding the disclosure of financial information to their employees.

To explain the pattern of disclosure/non-disclosure of financial information to employees by Irish enterprises, in terms of the local characteristics which are identified.

7.2.2. The mechanism engaged whereby the above objectives were achieved may be summarized as follows:

The principal elements of the decision making process entered into by the employees were examined and analysed in Chapter 2, in order to assess the extent to which the employee, as a decision maker, can be regarded as a user of financial information and to assess the extent to which the profile of the employee as a decision maker matches the profile of the shareholder as a decision maker.

The development of the Irish paradigm of disclosure was examined. Using Puxty et al.'s framework for influences on general financial reporting regulation, modified to include

the facet of External Influence, the local characteristics of the Irish paradigm were identified, and hypotheses concerning the disclosure/non-disclosure patterns of Irish enterprises were proposed.

In order to establish the extent of disclosure and to test the hypotheses, data were collected from all enterprises in Ireland employing 500 persons or more. The data collection process was explained in Chapter 4. Mail questionnaires were sent to financial accountants in all enterprises identified as falling within the population frame.

Chapter 5 described the results of the data collection, and detailed the extent of disclosure of financial information to employees in Irish enterprises. Additionally the process whereby variables were tested for significance in their relationship to the disclosure/non-disclosure pattern was described. Those variables which proved to be significant were included in a multi-variate model constructed to explain the disclosure/non-disclosure pattern of financial information to employees in Ireland, which was described in Chapter 6.

### 7.3. SUMMARY OF FINDINGS

The findings of this study may be summarized as follows:

7.3.1. The Irish employee, because of the nature of the decision making in which he engages, may justifiably be regarded as a user of financial statements of his employing enterprise. The construct of the main decisions taken by the employee as a decision maker within the Decision Usefulness approach comprised: the employee as risk bearer, the employee as a recipient of income, the employee as property owner and the employee as stakeholder. Under each of these headings it was shown that the employee has critical decisions to make which necessitate access to financial information concerning his employing enterprise in order to optimize his decisions. Additionally the nature of the decisions was compared with the nature of comparable decisions made by the shareholder. It was shown that the profile of the employee as a decision maker matches the profile of the shareholder as a decision maker, and it was proposed that if the shareholder is entitled to receive financial information because of his role as a decision maker, then the employee is also so entitled.

7.3.2. The Irish paradigm of disclosure was described. The background to the development of the paradigm was sketched. The historical background to the development of the Irish paradigm, in particular the lack of 'pendulum' effect on legislation was noted. Also, reference was made to the lack of tradition of disclosure in times of national emergency, and to the tendency for Irish legislation to adopt and adapt other models (although

this feature is not apparent in the development to date of legislation relating to disclosure to and participation by employees). Additionally the traditionally conservative complexion of Irish government and the secretive nature of the Irish business community indicate that progress is likely to be slow in Ireland and will probably be evolutionary rather than revolutionary.

It was concluded that the Irish paradigm of disclosure to employees (as defined in 3.2.), can be described as having mainly associationistic influences with some legalistic influences. The development of the Irish paradigm reflects the influence of two associations: the association of workers and the association of preparers.

7.3.2.1. In the case of the association of workers, i.e. the Trade Union movement and its political ally the Labour party, it was suggested that much of the development of the Irish paradigm reflects the influence of the Labour party during periods when it shared power. The associationistic influence on disclosure of the Trade Union movement can only be detected in its efforts to open up the issue for discussion and in practical ways be seeking representation on such bodies as the Accountancy Award Scheme, but not in any systematic way.

Additionally, there is no evidence of pressure from the workers influencing the disclosure patterns in the Irish enterprises surveyed.

The influence on legalism of the Trade Union movement is evidenced by the Worker Participation (State Enterprises) legislation referred to in Chapter 3. However, within the Irish paradigm, the legalistic influence has been evident in semi-state and state bodies, but not at all in private enterprises. Government is reluctant to mandate disclosure for private enterprises (as referred to in 3.4.1.3.), and in the current climate of privatization, it seems likely that such legalism influence as there is may very well decline as enterprises which currently come under the legislation are privatized, and thereby removed from the net of Worker Participation (State Enterprises) legislation.

Although it is difficult to predict the results of the Social Charter, it seems likely that the Irish government will favour minimal legislation which will take into account such voluntary practices as may have developed. There may be some considerable time lag, however, before this issue is even considered by the Irish legislature, as Ireland is not noted for its speedy enactment of EC Directives. This study has found that, although there is a high level of unionization within the

enterprises covered by the study, the impact of pressure from the employees on disclosure/non-disclosure patterns has been slight.

Two possible explanations for this lack of pressure from the employees for financial information either directly or indirectly through their unions are suggested: firstly, it is suggested that employees have difficulty in understanding the financial information which is given to them. In Ireland, there is little effort to produce employee specific information, and there is very little pre-disclosure education of employees in accounts interpretation (see 7.3.3.) . Additionally, the published financial accounts are usually presented each year in a dull and uninspired manner. The financial statements are often printed on dull matt-finish grey paper in stark contrast to the high-gloss, coloured pages with pictures and diagrams which precede them. They are formatted in closely packed columns of figures accompanied by "explanatory" notes which are themselves closely printed and expressed, virtually throughout, in language which would require a technically up-to-date accountant to understand. Financial statements are very often issued many months after the last day of the period under review, and are prepared to comply with the minimum disclosure requirements of the Companies Acts. It is hardly surprising, therefore, that employees do not exert pressure on the financial accountant for



financial information to be disclosed to them, when the financial statements they would receive would be out of date, highly complex and couched in technical language and may not address all the issues pertinent to their decision making.

Secondly, it is may be that employees (and indeed, not only employees), in the current environment of business scandal, mistrust the financial information. These two points open up areas for further research which are referred to in 7.5.

7.3.2.2. In the case of the association of preparers it has been established that the main association of financial accountants in Ireland, the ICAI, supports the view of the employee as a joint primary user of financial information concerning his employing enterprise, although it has taken no steps in issuing guidance on the information to be disclosed or the manner in which it should or could be disclosed. This study has established that the preparer is also positive in his attitude, although not intensely so, and that he has taken some steps in disclosing financial information to employees. Among the significant factors explaining the disclosure/non-disclosure pattern (referred to in 7.3.4. below) is the attitude of the preparer. A strengthening of the attitude of the accountant is associated with greater disclosure. It may be concluded, therefore, that an increase in the attitude of the

accountant is likely to contribute to the development of disclosure within the Irish paradigm. This is referred to in sec. 7.4.

7.3.3. In the major Irish employing enterprises which were the subject of this study, there is already a degree of disclosure of financial information to employees. 50% of the enterprises employing 500 persons or more disclose some form of financial information to their employees, even though they are not required to do so by law. Within that 50%, the extent of disclosure is mixed, and it is rarely accompanied by pre-disclosure education. A small number of companies disclose extensive information and such disclosure is usually accompanied by pre-disclosure education. However, in the main, the extent of disclosure is narrow, and the media used are unimaginative.

This indicates the beginning of an interest in such disclosure by Irish managements, but it is interesting to note the low scores achieved on the scale of information disclosed which would lead one to believe that although there is not substantial opposition to disclosure to employees, there are certainly few signs of extensive disclosure to employees, and few signs of innovative experiments in disclosure mechanisms and formats.

7.3.4. Following the univariate and multivariate analyses of the data collected, referred to in Chapters 5 and 6, it may be concluded from this study that there is a significant relationship between the attitude of the enterprise's financial accountant and the disclosure/non-disclosure pattern of financial information to employees in that enterprise. Additionally, there is a significant relationship between the extent of the existence of participation in an enterprise and the disclosure/non-disclosure pattern of financial information to employees in that enterprise. Further expansion of disclosure to employees, it may be concluded, would probably result from an enhancement both of worker participation within an enterprise and of the attitude of the financial accountant.

#### 7.4. RECOMMENDATIONS ARISING FROM THIS STUDY

The recommendations arising from this study may be summarized as follows:

##### 7.4.1. Recognition of the employee as a user entitled to financial statements

It has been suggested in this dissertation that the legal presumption that the shareholder is the only user to whom the

financial statements are directed is inappropriate and outdated. This legal presumption is evidenced in the provisions of the Companies Acts which indicate that:

- the financial statements are designed to give a true and fair view to the shareholders (S. 148 CA 1963),
- the books of account should be open to inspection by the shareholders (Table A, S.127 CA 1963),
- the shareholders are entitled to attend the general meetings of the company (Table A, SS. 133-136 CA 1963), and
- the auditor is required to report to the shareholders (S163 CA 1963, 2.S.193, CA 1990).

Additionally, there is an emerging notion that the financial statements should be directed to the shareholders as primary users because of the decisions they have to make, and then to the employees as secondary users. This emerging suggestion is apparent in the Statement of Principles of the ASB and is reflected in the Report of the Financial Reporting Commission (1992 p 13). The case made in this study is for Irish

employees as recipients of the financial statements of their employing enterprise based on their position as decision makers.

It is recommended that, both in legislation and in accounting regulation, the right of the employee as a decision maker to receive financial information about his employing enterprise be recognised. This point is discussed in Sec. 7.5.

#### 7.4.2. Enhancement of the participatory environment

In the light of the significant relationship between disclosure and a philosophy within an enterprise of employee participation in decision making and in a consultative process through which the knowledge and insights of the workforce can find expression and application, it is recommended that disclosure within the Irish paradigm should not be regarded as an accounting end in itself, but that it should be seen as an integral part of a positive participation environment. If disclosure is to satisfy the decision usefulness function for employees, this study suggests that it should not be applied in isolation. It is recommended that in contributing to the decision needs of the employee, the preparer of financial information should seek to ensure that such information is disclosed within such a participatory environment. This, of course, is not the sole responsibility of the financial accountant and may, indeed,

require statutory support - for example, an amendment to the Employee Participation Taxation legislation. However, as a member of a management team, the accountant of the future could play an important role in the creation of such a participatory environment within Irish enterprises.

#### 7.4.3. Strengthening of the accountant's attitude

Arising from the findings of this study that the employee is a justified recipient of financial information and that the attitude of the financial accountant in an enterprise bears a significant relationship to the disclosure of financial information to employees, it is recommended that the accountant's attitude should be strengthened, by allowing him access to the training, and information which would expose him to the issue of the employee as a user of financial statements. A strengthening of his attitude would probably result in an increase in such disclosure, thereby contributing to the decision-usefulness function of financial reports by extending their usefulness to the employee group.

The financial accountant is in favour of disclosure to employees, and acknowledges the arguments in favour of their rights. Although the accountants are positive in their attitude, they do not display a very positive attitude. The more positive the attitude, the greater the likelihood of

disclosure in the enterprise. This lack of intensity may be reflected in the apparent lack of imagination and energy applied to the accounting information currently disclosed to employees. The accountant feels reluctant to take the lead in an area which would traditionally be his domain. This conclusion is evidenced by the following:

7.4.3.1. A majority of those accountants who do not currently disclose information to employees indicated that they do not do so because the law does not require it. In other words, they are waiting for the legislators and standard setters to tell them how and what to disclose, rather than devising a means of disclosure which is best suited for their workforce based on their professional judgement and experience with that workforce.

7.4.3.2. A large majority of respondents felt that patterns of disclosure should be initiated by a committee within the company. So, although this is an area which would appear to be obviously in the realm of the accountant's function, the accountant is reticent and unwilling to project himself as the professional with the expertise and knowledge to lead the enterprise in this area.

7.4.3.3. A majority of respondents were unfamiliar with the Vredeling Directive. The reason cited was that the accountants do not familiarise themselves with draft legislation until it becomes law. Again, this reticence indicates that the accountant will be happy to comply with the law when it is enacted but is not prepared to enter into any debate or consideration of the proposals at the discussion stage.

7.4.3.4. This is reinforced by the fact that there was little evidence of resistance to the SSAPs. Accountants surveyed were happy to accept the SSAPs once they are told that it is finalised. However at the Exposure Draft stage, Irish Accountants very rarely become involved in the decision making or debate that surrounds the drafting of the standard.

7.4.3.5. Amongst those accountants who do disclose information to employees, there was little evidence of imagination or innovation in the disclosure of information. Much of it was a simplified version of information prepared on traditional lines for the shareholders. This was clear from the employee reports and communication documents returned with the questionnaires and from the reports made available to the writer at interview.



This writer suggests that the main reason which may be concluded from this study for this lack of enthusiasm in initiating and developing disclosure to employees lays in the manner in which the financial accountant is educated and trained. He is now trained to study the law and regulations of accounting with very little critical analysis of the underpinning concepts. This, of course, is exacerbated by the lack of a conceptual framework for the Profession, and by the increasing load of law and regulations. The accountant applies the law to situations as he finds them. The law and regulations tell him that the users of financial reports are the shareholders; the law and regulations dictate the format of the financial accounts. He complies with the law and regulations. When the law and regulations change, he complies with the new law and regulations, but does not contribute to the development of such law and regulation.

This phenomenon is illustrated by the reluctance of accountants to contribute to the standard setting process. This fact has become clear to the writer in her capacity as chairman of the Institute of Chartered Accountant's Accounting Review Committee (which is the committee to which the Council of the Institute delegates the responsibility for the promulgation of Accounting Standards in the Republic of Ireland). Although approximately

6,000 copies of each Exposure Draft are distributed to qualified accountants for their comments and contributions, typically less than five replies are received.

The attitude type to which the attitude to disclosure of financial information to employees belongs (see Chapter 4), and the lack of intensity of attitude determined by this study, indicate that the attitude of the accountant is positive and would be subject to the influence of authoritative figures, such as educators and trainers of the accountants. The indications of this study are that the accountants show evidence of having been educated and trained in a manner which lays more emphasis on the learning and assimilation of a considerable mountain of legislation and accounting regulation, than on the philosophies and ideas which underpin the development of accounting and which ought to be rigorously examined in assessing future developments in accounting. The respondents to the study appear happy to accept changing legislation and regulation, but unable to contemplate their potential role in innovating developments in accounting practice.

These findings are borne out by recent suggestions by writers such as Zeff (1989) who suggests that the huge number of accounting regulations and legal pronouncements on accounting issues is leading to a situation where the sheer volume of

pronouncements, and the desire by educators to cover the detailed requirements of the pronouncements, to the detriment of an academic consideration of the issues and conceptual underpinning involved are damaging accounting education:

"An implication for UK accounting educators is that the steady growth in the number of detailed and highly specific accounting pronouncements, together with an apparent movement by the UK profession to strengthen the system of securing compliance by companies and auditors, could well lead to a similar outcome to what has occurred in the USA. Textbooks and other teaching materials could begin to resemble codifications of recommended practice, and accounting education programs in tertiary institutions could become exercises in indoctrination."

The possibility of the detrimental effect of accounting regulation on accounting standards was predicted almost forty years ago by Baxter (1953):

"The recommendations .. are likely to weaken the training of accountants; the conversion of the subject into cut-and-dried rules, approved by authority and not to be lightly questioned, threatens to reduce the value of accounting as a subject of higher education almost to nil."

Indeed the passage of time resulted in very little change in Baxter's view, appealing in 1982, for a return to a broadminded more flexible view of accounting judgements and away from the present prescriptive approach of accounting standards from which "...any deviation is .. bad".

Zeff also points to a trend in the USA, which he warns is detectable in the UK (and presumably could be equally detectable in Ireland) for the University courses in accounting to be influenced by the maximization of exemptions available from Professional examinations, which tend to be based on a mechanical study of regulations:

"Accounting faculty members have succumbed to .. pressures from Institute examiners on one hand and from students on the other. Faculty members who stray too far from the kind of instruction that students feel they need to pass the (professional) examinations come under pressure to emphasize mainstream accounting knowledge. Commercial publishers, who are the potential agents of change are fearful to innovate. As a result, financial accounting is taught as if it were in a strait-jacket. Students are indoctrinated in the rules of extant practice and are seldom exposed to the historical background or institutional framework that has shaped current practice."

If this is the case in Ireland, then there is small wonder that the financial accountants, whose own attitudes are influenced by their educators (as discussed in Chapter 4), find it difficult to adopt an innovative approach to the development of financial disclosure, when their educators do little to introduce them to ideas of social responsibility accounting, disclosure to employees and disclosure design, but spend time force-feeding students with a diet of statute and regulation.

It may be concluded, then, that the accountant's attitude can influence the extent of disclosure in Irish enterprises. The accountant's attitude is positive at present, but not intense. It would be possible for educators and trainers of accountants to strengthen the intensity of the accountant's attitude if they were to de-emphasise the teaching of regulation and re-emphasise the teaching of philosophies, concepts, historical development and communication devices.

Student accountants would then be exposed, at an early stage in their education, to issues such as the employee as a decision maker, the information needs of employees, the power attaching to such information, the social and economic consequences of such empowerment and pre-disclosure education of employees.

Within the development of the Irish paradigm, as discussed in Chapters 4 and 5, it will be important for the financial accountant to play a role in the development of disclosure of useful financial information to employees as an integral part of a participation policy. The financial accountant is the professional whose training should equip him with the skills necessary for such a contribution.

An accountant with a positive attitude to disclosure of financial information to employees has the capacity to increase the likelihood of disclosure to employees. The educators of those financial accountants have the capacity to increase the intensity of an already positive attitude by increasing the amount of exposure to disclosure to employees at University, at education courses and at CPE courses. It is recommended, arising from this study, that the education of accountants, both pre- and post-qualification, should be expanded to incorporate exposure to ideas and techniques of disclosure and to the creation and stimulation of a participatory environment in the work place, with particular reference to the contribution that can be made by the accountant. A number of such issues are suggested in Appendix M.

#### 7.5. SUGGESTIONS FOR FURTHER RESEARCH

Arising from this study, which has established the right of the employee, as a decision maker, to financial information and has identified the role of the accountant in such disclosure, and the importance of modifications to the training and education of accountants to prepare them for the task of relevant disclosure, the following areas may be identified as future research projects:

7.5.1. Establishment of the information needs of employees in Ireland,

7.5.2. Establishment of the extent to which such information needs are being met by current disclosure,

7.5.3. The role of independent educators in pre-disclosure education,

7.5.4. Appraisal of the quality and relevance of current disclosure and disclosure media to employees,

7.5.5. Means of stimulating the participatory environment in Irish enterprises,

7.5.6. Co-operative studies by communicators, human resource managers and accountants into imaginative disclosure media,

7.5.7. A examination of the impact of foreign control on the disclosure of financial information to employees and

7.5.8. A testing of the extent to which employees trust information provided to them by management; and the role of the independent financial adviser.

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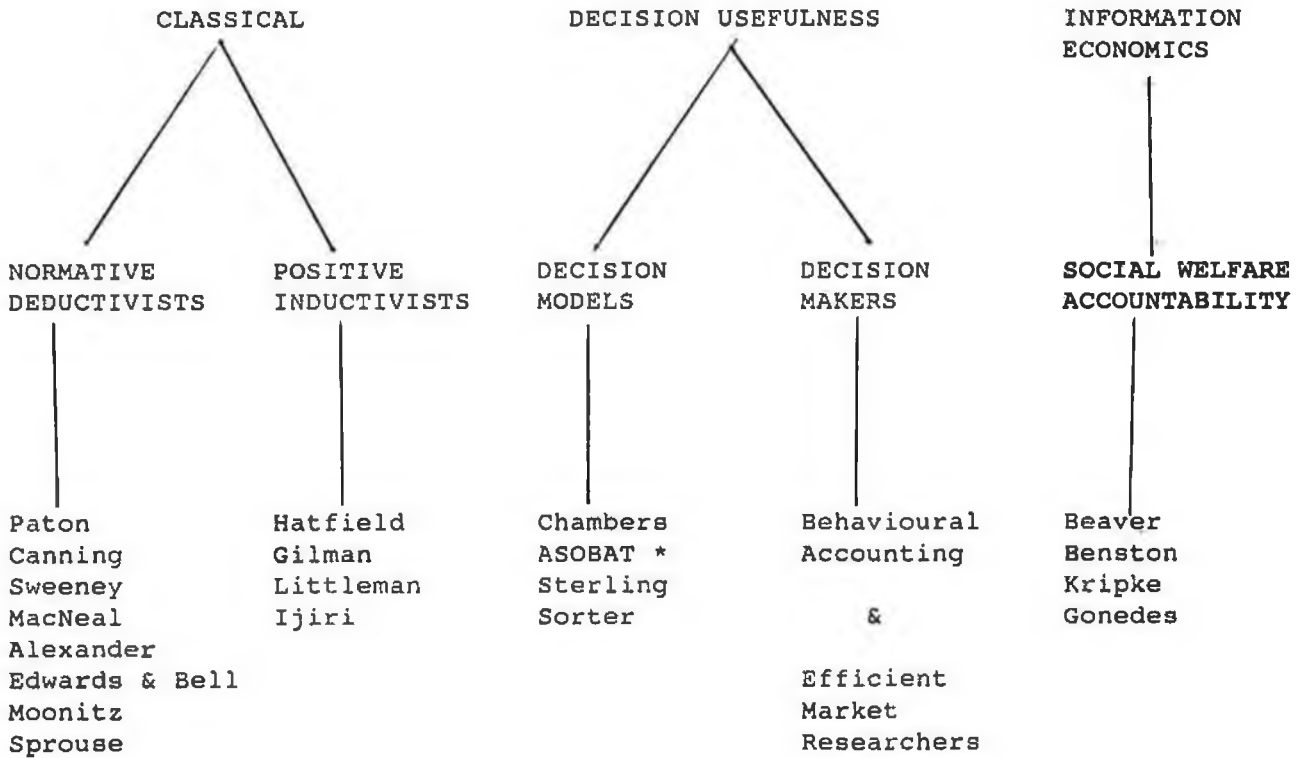
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APPENDIX A

DOMINANT APPROACHES TO ACCOUNTING THEORY



\* A Statement of Basic Accounting Theory, American Accounting Association, 1966

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APPENDIX B

USERS OF FINANCIAL STATEMENTS IDENTIFIED BY PREVIOUS RESEARCH

B.1. SFAC1

Suppliers of capital and their representatives or advisers

Owners  
Lenders  
Potential investors  
Creditors  
Financial analysts and advisers  
Brokers  
Underwriters  
Stock Exchanges

Suppliers of Labour and their representatives or advisers

Employees  
Labour Unions

Business Contacts

Suppliers  
Customers  
Trade Associations

Government Agencies

Taxing authorities  
Regulatory authorities  
Legislators

Others

Lawyers  
Economists  
Financial press and reporting agencies

B.2. SFAC4

Resource providers and their representatives or advisers

Members  
Contributors  
Grantors  
Taxpayers  
Lenders  
Suppliers  
Creditors  
Employees  
Financial analysts and advisers  
Brokers  
Underwriters  
Trade Associations  
Labour Unions

Constituents

Service beneficiaries

Governing and oversight bodies

Directors and trustees  
Regulatory authorities  
Legislators

Others

Taxing authorities  
Lawyers  
Economists  
Financial press and reporting agencies  
Researchers  
Teachers and students

### B.3. THE CORPORATE REPORT

Equity investor group  
Loan creditor group  
Employee group  
Analyst - Adviser group  
Business contact Group  
Government  
Public

### B.4. THE SANDILANDS REPORT

Shareholders  
Investment analysts  
The city (Stock Exchange etc.,)  
Creditors and lenders  
Other companies  
Employees  
The government and official bodies  
The general public

### B.5. THE STAMP REPORT

Shareholders  
Creditors, long and short-term  
Analysts and Advisers  
Employees  
Non-executive directors  
Customers  
Suppliers  
Industry groups  
Labour unions  
Government departments and ministers  
Public  
Regulatory agencies  
Other companies  
Standard setters  
Academic researchers

### B.6. THE SOLOMONS REPORT

Present and potential investors  
Present and potential creditors (including suppliers)  
Present and potential employees, and those who may act for them in bargaining situations  
Present and potential customers who are or may be tied to an enterprise by long-term supply contracts.

### B.7. MAKING CORPORATE REPORTS VALUABLE

The equity investor group  
The loan creditor group  
The employee group  
The business contact group

APPENDIX C

IDA: "The IDA use the list published by BUSINESS AND FINANCE each year for their purposes." (R. Sexton)

Dun & Bradstreet "Dun and Bradstreet could search this information, but the cost would be approx. £450. This information is obtained for Business and Finance and Aspect magazines. It could be extracted from those journals." (Bill Moss)

Commission of the European Community "We do not keep information on organisations in Ireland." (L. Fagan).

Commerce Library No response

OECD "We do not maintain any lists of organisations in any of our member countries, let alone the Republic of Ireland." (John P. Martin)

Central Statistics Office "We do not keep statistics on that kind of information" (A spokesman)

Irish Productivity Centre A list of companies employing 1000 + people and a second list of companies employing 500 - 1000 people was supplied.

IIRS A list of companies employing 500 or more people was supplied.

APPENDIX D

RESPONSE SCHEDULE

DATE	DETAIL	1ST REQ. RESP. RECVD.	2ND REQ. RESP. RECVD.	TEL. RESP. RECVD.	REF.
16.5.88	Questionnaires sent				
17.5.88					
18.5.88		1			
19.5.88		6			
20.5.88		6			
23.5.88		3			
2E.5.88		6			
25.5.88		4			
26.5.88		5			
27.5.88		3			
30.5.88		1			
31.5.88		2			
1.6.88		4			
2.6.88		3			
3.6.88		2			
7.6.88		1			
8.6.88		1			
9.6.88		2			
10.6.88		1			
13.6.88		0			
14.6.88		0			
15.6.88		0			
16.6.88	Second req. sent	2			
17.6.88					
20.6.88			1		
21.6.88			3		
22.6.88			4		
23.6.88			3		
24.6.88			5		
27.6.88			4		
28.6.88			4		
29.8.88			2		
30.6.88			1		
1.7.88			1		
4.7.88	Telephone request		1		30
6.7.88			1		
				3	
TOTAL RESPONSES		53	30	3	30*
% OF QUESTIONNAIRES SENT		45.69 398.	25.86	2.59	

\* On telephone request, it proved impossible to obtain a response from the final thirty respondents. The reasons cited were:

"Never complete questionnaires"	11
"Too busy"	9
"Issue is too sensitive"	3

The remaining seven proved impossible to contact in spite of persistent efforts.

Overall, there was a response rate of 75%. When the invalid questionnaires were removed, the response rate was 72%. This was considered satisfactory, and a sound basis for analysis.

## APPENDIX E

### COMMENTS OF RESPONDENTS ON THE ISSUE OF DISCLOSURE TO EMPLOYEES

1. "Financial information on its own is rather boring to staff. It should be part of a general communications programme which covers the commercial realities and provides a context for the financial information."

2. "Employee Reports should be part of an integrated information flow. Forecasts for future performance, capital expenditure plans, re-investment profile, government taxation and market analysis should be distributed."

3. "In the case of Ireland, in particular, many multinational companies maximise the tax advantage of locating here by means of transfer pricing - the disclosure of financial statements relating to such companies would give a very misleading picture to employees and unions. What should be disclosed is the performance of comparative business units in terms of labour efficiency, material utilisation and other parameters."

4. "Financial information should be presented to employees ONLY at EXPLANATORY workshop sessions.

Otherwise there is a danger that figures will be misinterpreted or that the report will only be partly reviewed. It is also important that any questions that employees may have be covered at this."

5. "Information should cover more than financial results. Among other things, it should cover: Competitors, Products, Unions, Quality and Safety, and General Policies."

6. "In addition to the historic information disclosed employees should be aware of company policy and future company prospects."

7. "The company is committed to keeping the employees as fully informed as possible. It nevertheless tends to delay the AGM and publication of results until pay negotiations are completed. We still, therefore, need to make more progress in this area."

8. "Where competitor numbers are small, disclosure of information may effect your ability to compete. Small service sectors and specific manufacturers should be exempted."

9. "I consider it an essential function of good management that employees be given a reasonable disclosure of the financial information on the company. They are stakeholders in the



business just as shareholders are. Personally, I have observed that in many companies where fairly comprehensive information is given to employees on the fortunes of the business a more cohesive and less adversarial spirit develops in the organisation."

10. "Disclosure of financial information is comparable with disclosure of any other base of information in my opinion - if it leads to mis-interpretation of its true position it's bad, whereas if it assists a better understanding of the true position it's good. I would be inclined to go on the basis that discretion and understanding of the recipient would be a major deciding factor and as such it would be dangerous to generalise."

11. "Once employees are given information this information becomes public knowledge. This may not be in the best interests of the company and consequently of its employees. I think employees should be given the maximum information - in so far as this information could effect their lives and careers - but not to a level where the company could suffer at the hands of competitors."

12. "Disclosure of financial information to employees is a very sensitive issue and needs to be handled with extreme care. The amount of disclosure which is in the best interests of the employees and the company will vary from company to company, with different levels of employees within companies and from time to time."

13. "The main problem is lack of trust. To communicate successfully with employees, confidence and trust are the essential ingredients. Therefore, it must be a skillful communications exercise so as to discount any fears that information is used for a subtle purpose."

14. "Companies might consider employing or appointing worker Directors as part of the information to employees process. There is also a need for companies to educate their employees to appreciate the circumstances of their business, both financial and other, and how this effects the employees."

15. "We have given very detailed information to our employees for over 10 years and have only positive views on the matter."

APPENDIX F

QUESTIONNAIRE FOR CHIEF FINANCIAL ACCOUNTANT

SECTION 1 - RESPONDENT PROFILE

Please indicate, by circling the appropriate number:

1.1. Your age range:

Yrs.	
20 - 30 .....	1
31 - 40.....	2
41 - 50.....	3
51 - 60.....	4
61 - 65.....	5
over 65.....	6

1.2. Sex

Male.....	1
Female.....	2

1.3. Highest educational qualification:

Leaving certificate.....	1
Accounting technician.....	2
Partly qualified accountant...	3
Primary degree.....	4
Higher degree.....	5
Member of professional body...	6
Other (please specify).....	7

.....

1.4. Number of years in present job

0 - 5 years.....	1
6 - 10 years.....	2
11 - 15 years.....	3
16 - 20 years.....	4
21 - 30 years.....	5
more than 30 years.....	6

1.5. Number of years experience with accounting (including period in training)

0 - 5 years.....	1
6 - 10 years.....	2
11 - 15 years.....	3
16 - 20 years.....	4
21 - 30 years.....	5
more than 30 years.....	6

1.6. The extent of any involvement in formal negotiations with employee representatives

Extensive.....	1
Considerable.....	2
Some .....	3
Minimal.....	4
None.....	5

SECTION 2. - COMPANY PROFILE

2.1. To which sector does your firm belong?

Agriculture & Forestry.....	1
Mining and quarrying.....	2
Food, drink and tobacco.....	3
Retail.....	4
Warehousing.....	5
Coal & petroleum products.....	6
Chemicals & allied industries.....	7
Metal manufacture.....	8
Mechanical engineering.....	9
Instrument engineering.....	10
Electrical engineering.....	11
Shipbuilding and marine engineering.....	12
Vehicles.....	13
Metal goods not elsewhere specified.....	14
Textiles.....	15
Leather and fur.....	16
Clothing and footwear.....	17
Cement, bricks pottery, glass etc.....	18
Timber, furniture and other wood.....	19
Paper, printing and publishing.....	20
Other manufacturing.....	21
Construction.....	22
Gas, electricity, turf, water.....	23
Transport and communication.....	24
Distributive trades.....	25
Banking, insurance and finance.....	26
Professional and scientific services.....	27
Miscellaneous services.....	28
Public administration.....	29

2.2. Is your firm:

Unionised.....	1
Non-unionised.....	2
Partly unionised.....	3

3.

2.2. Has your firm been established:

Less than 10 years..... 1  
 10 - 15 years..... 2  
 16 - 20 years..... 3  
 21 - 30 years..... 4  
 more than 30 years..... 5

2.3. If your firm is part of a group of companies, is the ultimate holding company:

Irish..... 1  
 Foreign..... 2  
 Not applicable..... 3

2.4. Number of employees in your firm

0 - 500..... 1  
 501 - 1000..... 2  
 1001 - 1500..... 3  
 1501 - 2000..... 4  
 2001 - 2500..... 5  
 more than 2500..... 6

2.5. Approximately what percentage of the employees in your firm are:  
 (please tick percentage range for each category)

	0 - 25%	26 - 50%	51 - 75%	75 - 100%
Professional/ graduates				
Skilled				
Semi-skilled				
Unskilled				

SECTION 3 - YOUR FIRM'S CURRENT DISCLOSURE PRACTICE

3.1. Which, if any, of the following participation schemes are currently operating for your firm's employees:

- An employee profit sharing scheme,  
(tax-approved)..... 1
- An employee profit sharing scheme,  
(not tax-approved)..... 2
- A share option scheme..... 3
- Employee participation on the Board..... 4
- Formal involvement in decision making..... 5
- None of these..... 6
- Other (please specify)  
..... 7

3.2. To which group/groups of employees are the schemes available?

3.3. Does your firm disclose financial information to all employees/their representatives?

- No..... 1
- Yes..... 2

If NO, what is your firm's main reason?

- No legal requirement..... 1
- Cost would outweigh benefit..... 2
- Insufficient demand from employees...3
- Possible leak of confidential  
information..... 4
- Effect on pay negotiations..... 5
- Never considered it..... 6
- It has been tried and it failed..... 7
- Other (please specify)..... 8

IF YOU ANSWERED "NO" IN QUESTION 3.2., PLEASE GO TO SECTION 4

IF YOU ANSWERED "YES" IN QUESTION 3.2., PLEASE COMPLETE THE FOLLOWING:

3.4. Please describe, very briefly, the financial information your firm discloses to its employees.

3.5. Please describe, very briefly, the form of training in understanding financial information (if any) your firm gives to the employees:

3.6. What is your firm's main reason for disclosing financial information to employees ? (please circle ONE number)

- Required to do so by an overseas parent company..... 1
- To pre-empt a legally imposed system. 2
- To improve industrial relations..... 3
- To improve productivity..... 4
- Because employees have a right to information..... 5
- To dispel rumours..... 6
- To improve the sense of team spirit.. 7
- Because of pressure from employees... 8
- To help reinforce management's views. 9
- Other (please specify).....10

.....

SECTION 4.

YOUR PERSONAL VIEWS

NOTE: THIS SECTION RELATES TO YOUR OWN VIEWS. YOUR VIEWS MAY OR MAY NOT COINCIDE WITH THE FIRM'S POLICY WHICH WAS CONSIDERED IN SECTION 3.

4.1. In relation to each of the statements below, tick the column which best reflects your personal attitude.

	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
1. The financial accountant should limit his role to the presentation of a true and fair view to members until the law requires otherwise.					
2. Employees have a fundamental social right to information about the organisation for which they work.					
3. The Professional Bodies should lobby for legislation requiring the disclosure of financial information to employees					
4. The majority of employees are just not interested in financial information.					
5. Employees need financial information about the company which employs them if they are to make valid employment decisions.					
6. Disclosure of financial information by itself is not enough. It will only be successful if it forms part of an overall company policy of employee participation.					



	STRONGLY AGREE	AGREE	UNCERTAIN	DISAGREE	STRONGLY DISAGREE
7. The majority of employees would not understand financial statements					
8. Disclosure of financial accounts to employees should be a matter for internal negotiation within companies, and not a matter for legislation.					
9. In the future, video presentations will commonly supplement the written annual corporate report.					
10. Disclosure of financial accounts to employees is useless where most of the workforce is unskilled.					
11. It is impossible to keep up to date with the stream of SSAPs that are being issued.					
12. Disclosure of financial information to employees is a subject to which I have not yet given much thought.					
13. Companies just cannot afford the cost of disclosing financial information to their employees.					
14. Businesses would be healthier if employees were informed of the affairs of the business.					
15. In the current environment of unemployment, there is no need to give financial information to employees.					
16. If companies are to disclose information to employees, all levels of employee should receive the same information.					
17. The media used for the dissemination of financial information should vary with the levels of financial expertise of the employee.					

4.2. Do you think that the disclosure of financial information to employees will become general practice:

- In the next five years..... 1
- In the next ten years..... 2
- In the next twenty years..... 3
- Never..... 4
- Don't know..... 5

4.3. Who, do you feel ought to be responsible for designing and preparing the financial information to be included in an annual employee report?

- No information should be given..... 1
- The Financial Accountant..... 2
- The Personnel Manager..... 3
- The Communications Officer..... 4
- The Public Relations Officer..... 5
- Divisional Managers..... 6
- The Marketing Manager..... 7
- A Committee of the above..... 8
- Other (please specify)..... 9

.....

4.4. If disclosure is inevitable, who do you think should be primarily responsible for initiating the general disclosure of financial information to employees?

- The EEC..... 1
- The Government..... 2
- The Employees/their representatives 3
- Individual Boards of Directors..... 4
- Individual Company Accountants..... 5
- The Professional Accountancy Bodies 6
- Other (please specify)..... 7

.....

4.5. In relation to the Vredeling EEC Directive, are you:

- Unaware of it..... 1
- Aware, but unsure of its content.. 2
- Familiar with the general terms... 3
- Fully conversant with the terms... 4

4.6. If you are not familiar with this Directive, do you feel it is mainly because:

- It has not been publicised..... 1
- You familiarise yourself with Directives when they become law.. 2
- You feel it will never be enacted.. 3
- You have no interest in that area.. 4
- It is not relevant to your work.... 5

4.7. If you are familiar with this directive, what impact do you think it will have on your company:

- Major..... 1
- Considerable..... 2
- Moderate..... 3
- Minor..... 4
- None..... 5

4.8. If there are any other comments you would like to make on any aspect of the issue of disclosure of financial information to employees, your views would be greatly appreciated. Please use the space below for such comments.

5. FEEDBACK

5.1. Would you be interested in receiving a summary of the findings of this survey?

Yes..... 1  
No..... 2

If yes, please give name and address to which summary should be sent:

NAME.....

ADDRESS.....

.....

.....

THANK YOU VERY MUCH FOR YOUR HELP IN FILLING UP THIS QUESTIONNAIRE

APPENDIX G.1.

COVERING LETTER SENT WITH QUESTIONNAIRE

Dear

I am currently conducting research for a higher degree thesis into the subject of "DISCLOSURE OF FINANCIAL INFORMATION TO EMPLOYEES IN IRELAND". I am registered at Dublin City University. As part of this research I am anxious to determine the current disclosure practice in major companies in Ireland and also to seek the opinions of the Chief Financial Accountants in those companies.

I should be most grateful if you would assist me with this work by completing the enclosed questionnaire and returning it to me in the envelope provided. It should take you approximately 20 minutes to complete.

The returned questionnaires will be treated with the utmost confidence, and the findings will be reported in such a way as to make it impossible to trace individual responses back to particular individuals or companies.

If you would be interested in hearing the overall results of the survey, would you please indicate this in the last section of the questionnaire. If there is any question you feel you do not wish to answer, please indicate this in the margin and go to the next question.

Many thanks in anticipation of your help.

Yours sincerely,

Patricia C. Barker  
Lecturer in Accounting

APPENDIX G.2.

SECOND REQUEST LETTER

Dear

I wrote to you three weeks ago enclosing a questionnaire on the subject of "DISCLOSURE OF FINANCIAL INFORMATION TO EMPLOYEES IN IRELAND".

I understand that you must be extremely busy, and am sorry to approach you again on this matter; but in order to get as complete a picture as possible of current practice and attitudes, it is important that the response rate is as high as possible.

I should, therefore, be most grateful if you would complete the questionnaire and return it to me. It should take you approximately twenty minutes to complete.

In case you have mislaid the original questionnaire, I enclose a fresh copy and another stamped envelope.

If you have returned the questionnaire and this request has crossed with it in the post, thank you for your help, and please ignore this request.

Yours sincerely,

Patricia C. Barker  
Lecturer in Accounting.

APPENDIX H

DESCRIPTION OF INDEXATION OF DISCLOSURE CONTINUUM SCORING TO EMPLOYEES

	SCORE
No disclosure	0
Reference to right of employees to access published information	0
Summary profit and loss account and balance sheet	1
Same information as shareholders	2
Summary profit/sales/employee costs	3
Summarized results and production and marketing inform.	4
Quarterly costings, results and budgets	5
Monthly variance analysis	6
Annual video and accounts	7
Annual employee reports	7
Half yearly results	8
Monthly summary of results	9
Monthly divisional results	10
Special employee reports with monthly meetings	11
Results annually and monthly with discussions of future plans	12
Detailed weekly and cumulative divisional information	13

APPENDIX I

DESCRIPTION OF INDEXATION OF CONTINUUM OF PRE-DISCLOSURE EDUCATION

PDE course/video for all employees	4
PDE for all employee representatives	3
PDE down to junior management	2
PDE for senior management	1
No PDE	0

APPENDIX J

1991 Syllabi - ICAI

CONTENT

Knowledge Level

1            2            3

1. **Preparation of Financial Accounts and SSAPs**

Company Accounts

Accounting and disclosure requirements of the Companies Acts .  
 Preparation and presentation of financial statements .  
 The issue, re-purchase and redemption of shares .  
 The purchase and sale of a limited company .

Statements of Standard Accounting Practice

An understanding of the rationale and a basic ability to apply the following standards to practical situations:  
 Disclosure of accounting policies .  
 Earnings per share .  
 The accounting treatment of Government grants .  
 Extraordinary items and prior year adjustments .  
 Stocks and work in progress .  
 Statements of source and application of funds .  
 Accounting for depreciation .  
 Accounting for research and development .  
 Accounting for post balance sheet events .  
 Accounting for contingencies .  
 Accounting for investment properties .

**NOTE**

The technical releases and other technical guidance notes issued by the Institute which are examinable will be specified each year in the Syllabus Information Leaflet.

Analysis and interpretation

Analysis and interpretation of financial statements and the drafting and presentation of reports thereon - an understanding of the use and significance of accounting ratios will be expected.

Cash Flow Statements

Construction and interpretation of basic cash flow statements with emphasis on reconciling movements in cash balances



1. **Financial Statements and SSAPs**

Company Accounts

Accounting and disclosure requirements of the Companies Acts .  
 Preparation and presentation of financial statements .  
 The issue, re-purchase and redemption of shares .  
 The purchase and sale of a limited company .

Advance Corporation Tax - book-keeping entries .  
 Financial information issued with financial statements .

Statements of Standard Accounting Practice and Exposure Drafts

An understanding of the rationale for all current Statements, Exposure Drafts and specified Technical Releases (\*), and an ability to apply them to practical situations and to new and developing areas of accounting .

\* The Technical Releases and other technical guidance notes issued by the Institute of which are examinable will be specified each year in the Syllabus Information Leaflet.

2. **Consolidated Financial Statements, Mergers and Acquisitions**

Consolidated financial statements

Preparation and presentation of financial statements for groups of companies together with associated companies (including overseas subsidiaries and the problems of currency conversion) .  
 Group source and application of funds .

Mergers and acquisitions

Accounting considerations, including the treatment of pre-acquisition profits and goodwill .  
 Book-keeping entries and preparation of accounts .  
 Determination of fair value on acquisition, and calculation of acquisition adjustments .  
 Presentation of related disclosures in notes to financial statements .

3. **Specialised Accounting Topics**

Banking and Financial Services

Accounting for treasury products, including  
Bills of Exchange  
Accounting for complex capital issues

Other Specialised Accounting Topics

Elements of other special accounts, examinable in the two earlier papers on the Financial Accounting syllabus, could be capable of being included as part of a question where such would represent a relevant aspect of the question

4. **Analysis and Interpretation, Income Measurement and Capital Maintenance**

Analysis and Interpretation

Analysis and interpretation of financial statements and the drafting and presentation of reports thereon (an understanding of the use and significance of accounting ratios will be expected).

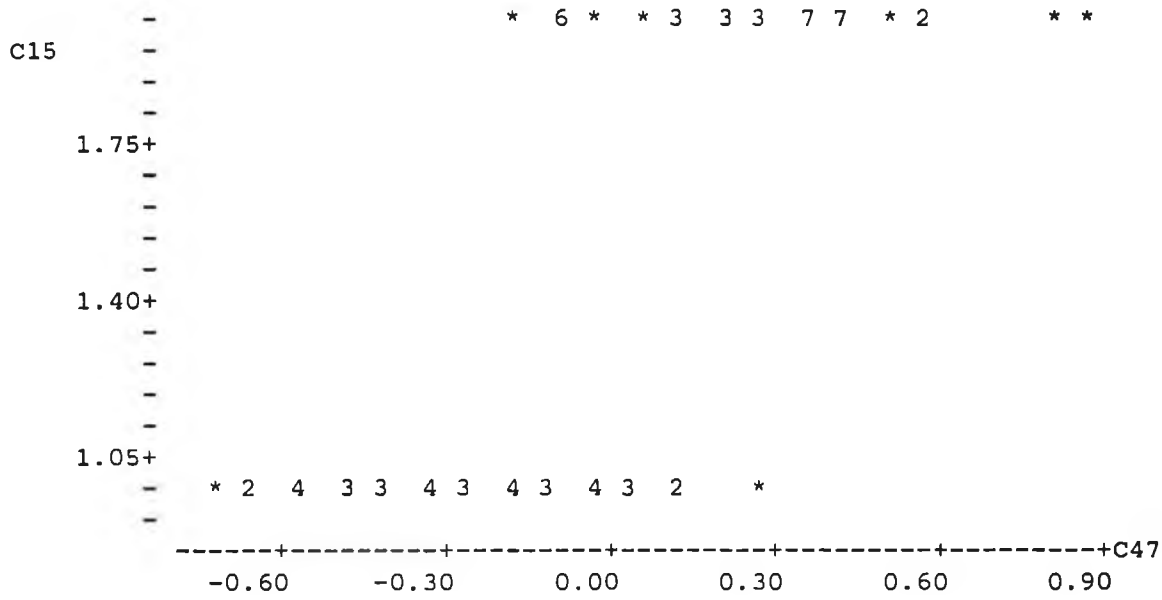
Income Measurement and Capital Maintenance

An understanding of and an ability to address the practical problems of accounting in an environment of changing prices

APPENDIX K - STANDARDIZED RESIDUALS AGAINST PREDICTED VALUES FOR Y

419.

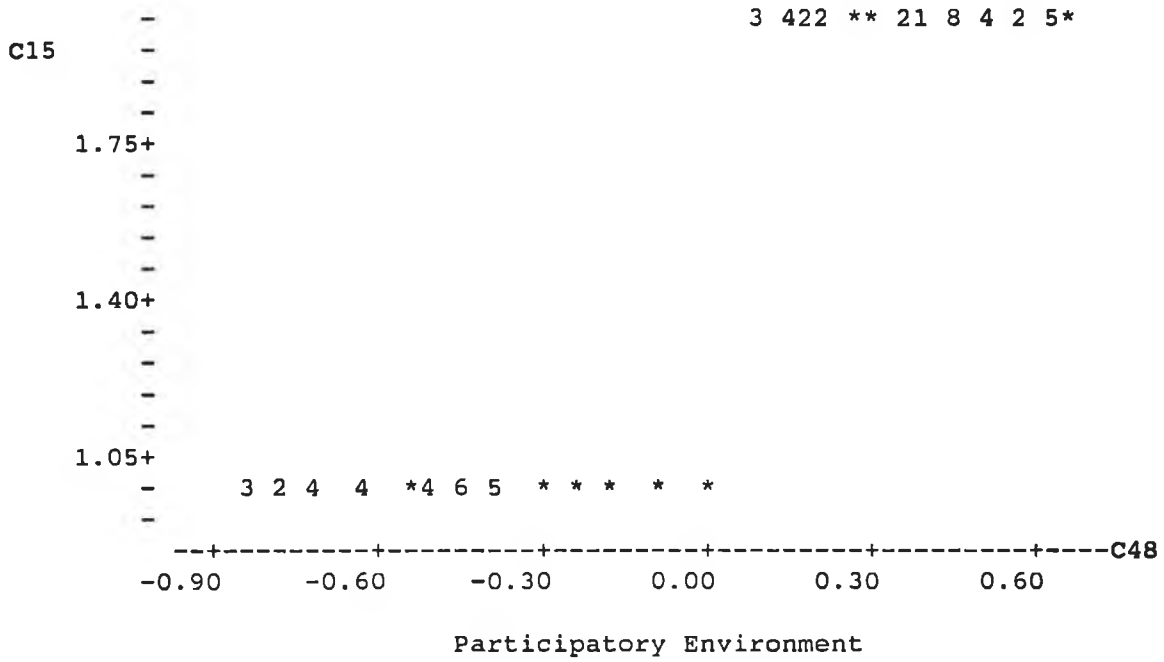
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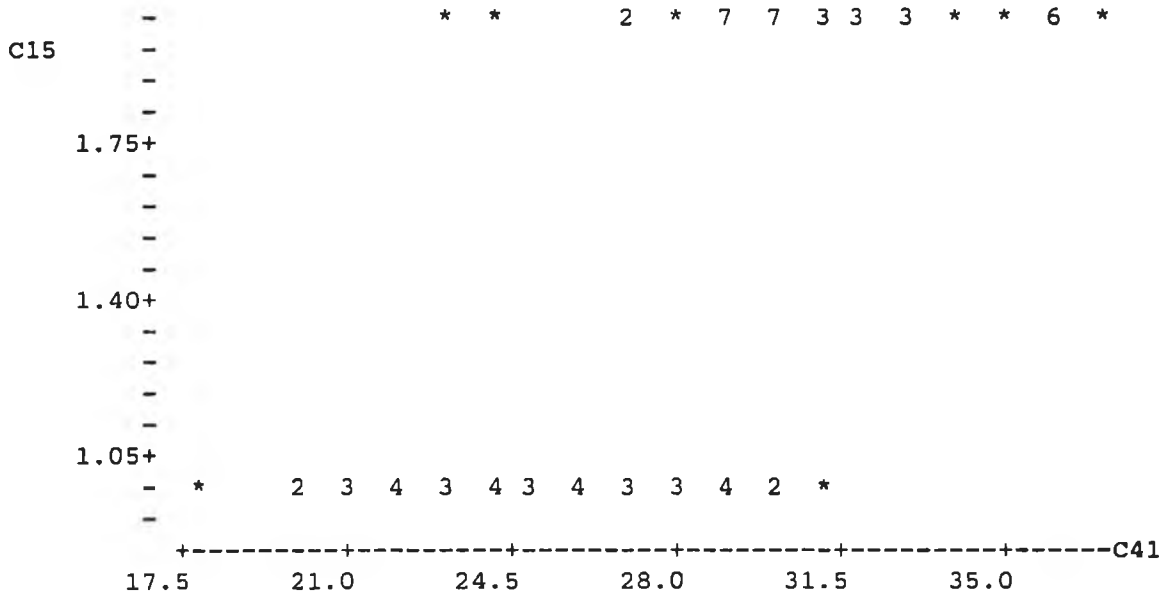
Attitude

420.

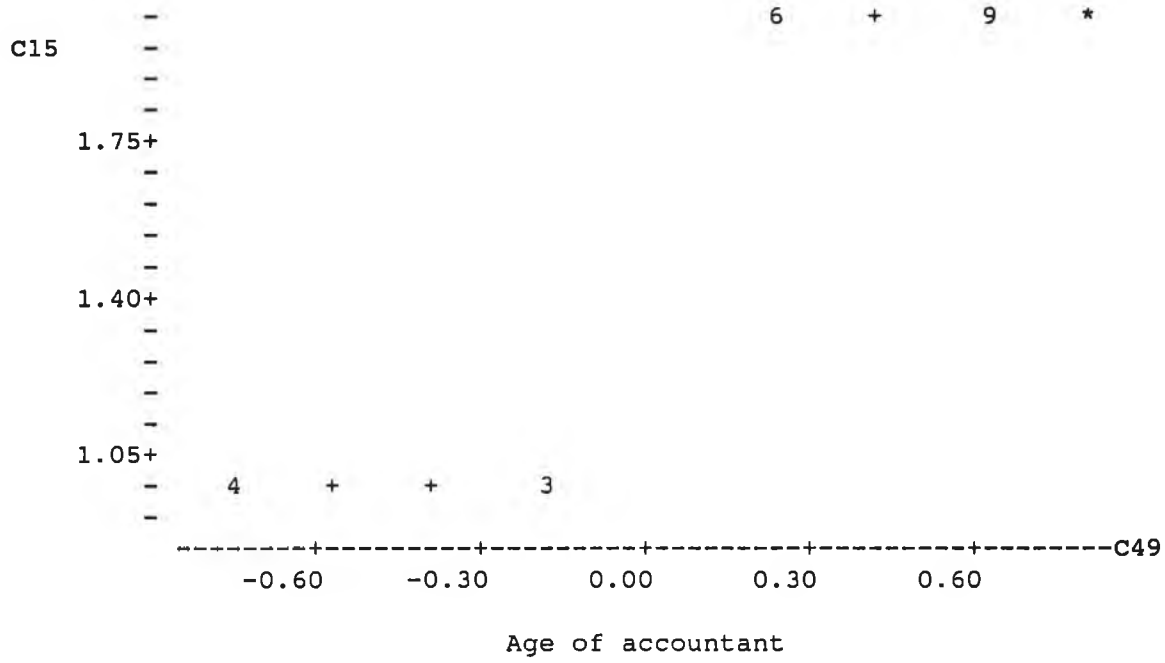
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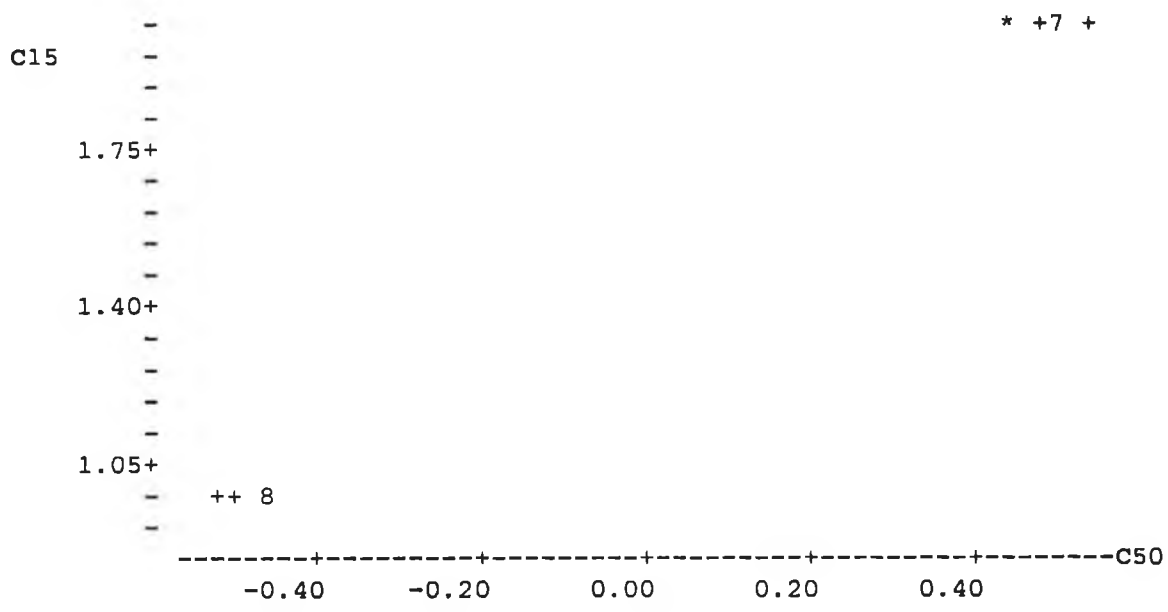
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MTB > plot c15 c49



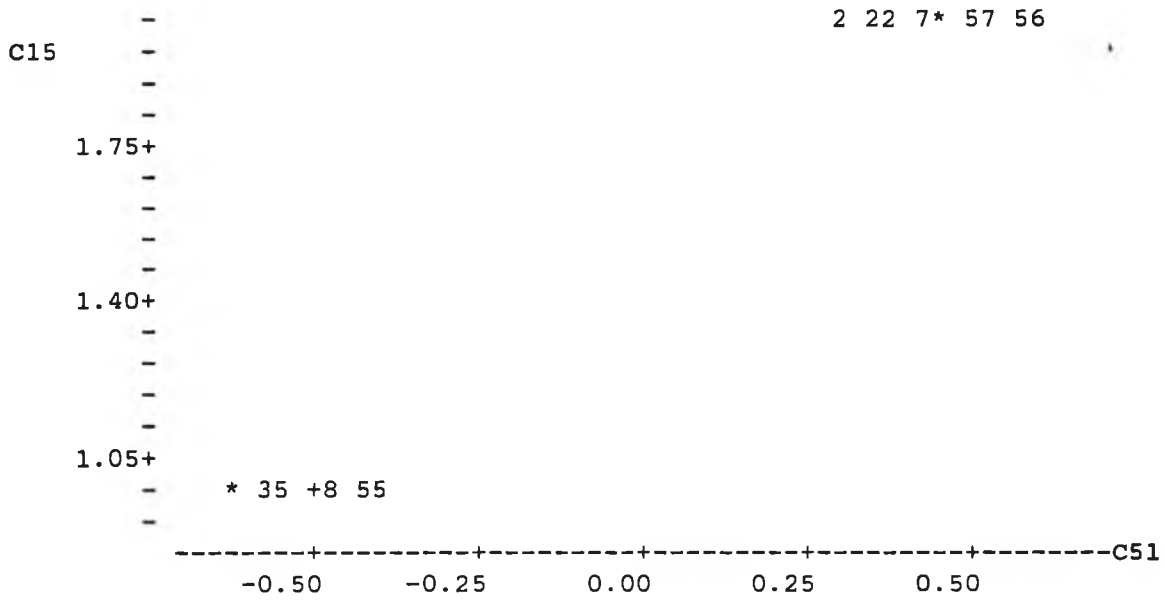
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Control



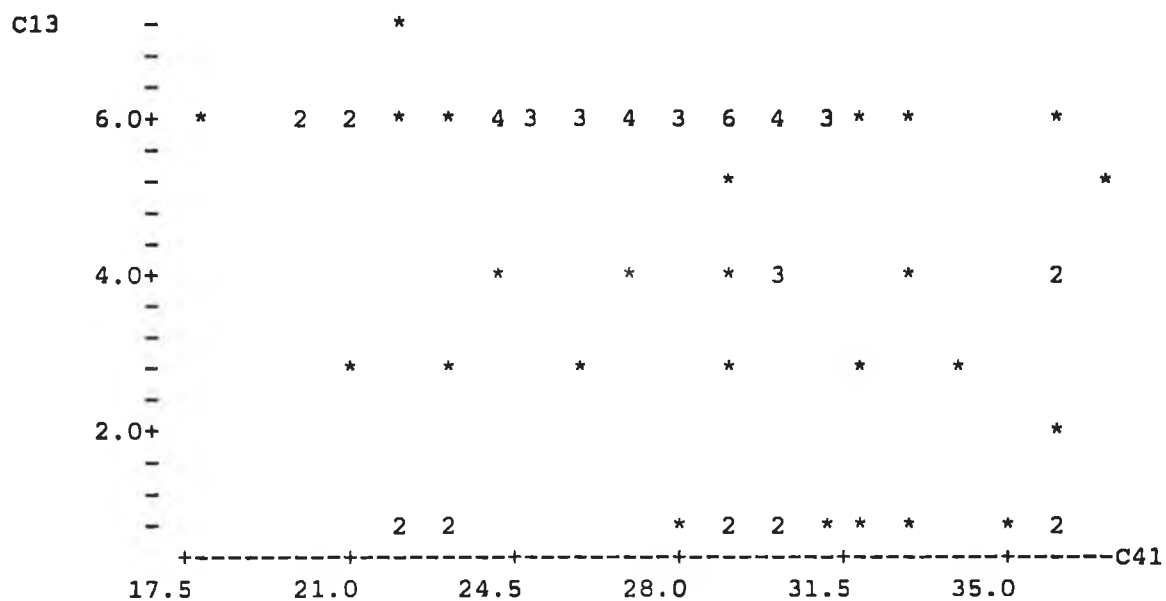
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Skill

APPENDIX L - TEST FOR MULTICOLLINEARITY BETWEEN VARIABLES

MTB > plot c13 c41



ATSCORE AND PARTENV COLLINIARITY

## APPENDIX M

### SOME PROPOSALS FOR EXPANSION OF EDUCATION AND TRAINING OF ACCOUNTANTS

Arising from this study, some practical issues suggest themselves for inclusion on the syllabi of degree and professional programmes for Financial Accountants. They would include the following:

#### M.1. CONCEPTUAL ISSUES

The communication process; Theories of communication  
The power attaching to information  
Theories of selective information  
The corporate social responsibility of business enterprises  
The accountant's professional and societal responsibility to employees  
The information needs of employees  
The information needs of Trades Unions

#### M.2. CONTENT OF EMPLOYEE AND EMPLOYMENT REPORTS

Employment statistics:

Numbers employed, with details of gender, age and skill  
Geographic location of employees  
Cost of wages, salaries and personnel related expenditure  
Policies on disabled employees, and on women; affirmative action programmes, pension funding, communication with employees, training and promotions; production statistics by segment, including budget and actual  
Future expansion and contraction plans, including plans for employment, redeployment, redundancies and retraining  
Other segmental information Details of management and organization structure

#### M.3. METHODS OF PRESENTING FINANCIAL INFORMATION

Value added statements  
Pictics  
Bar charts  
Pie charts  
Cartoons  
Video presentations  
Oral presentations  
Use of colour and texture in design  
Fog index

#### M.4. PRE-DISCLOSURE EDUCATION

The need for such education  
Understanding the inability to comprehend numeric representations  
Understandable explanation of jargon used in accounting  
Explanation of concepts underpinning financial accounting  
The role of the independent, disinterested accountant

APPENDIX N

SUMMARY OF DESCRIPTIONS OF PRE-DISCLOSURE EDUCATION GIVEN BY RESPONDENTS

1. Courses available in syllabus of training courses to give an explanation of annual accounts for senior management.
2. General training programmes have financial content.
3. In a bank, it is assumed that employees understand accounts.
4. Employees are given an explanation of the employee report by their managers.
5. Employees are encouraged to study, inter alia, financial matters.
6. Training courses for management levels, but not below.
7. Our information is carefully presented to avoid jargon, so none is necessary.
8. Senior and semi-senior employees are sent to IMI courses.
9. Internal training courses at understanding accounts generally, and on our accounts in particular are pitched at admin/clerical staff and technical supervisory staff.
10. Explanations are given to workers if requested at meetings.
11. In house training includes financial modules
12. In house courses
13. Courses for members of the joint participation council.
14. IPC courses for all employees.
15. Management courses for senior staff include finance.
16. We use simple English.
17. Weekly information is explained in detail as it is issued.
18. A video is presented annually on financial results. All employees are shown the video and the accountants are available to answer questions.

SUMMARY

	No.	%
None	56	76
Senior management	4	6
Not necessary	4	6
All employees	<u>10</u>	<u>13</u>
	<u>74</u>	<u>100</u>

