

**FINANCIAL REPORTING ON HUMAN  
RESOURCES IN THE BANK SECTOR**

**A DISSERTATION OF LIMITED SCOPE**

By:

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A handwritten signature in blue ink, appearing to read 'W. J. Coetzee', is written over the bottom right portion of the page.

**FINANCIAL REPORTING ON HUMAN**

**RESOURCES IN THE BANK SECTOR**

**DEDICATED TO:**

**MY PARENTS**

**MY WIFE JEANNE**

**MY CHILDREN: JANINE**

**WILLEM (Jnr)**

**LARA**

..... But the very hairs of your head are all numbered. Fear ye not therefore ye are of more value than many sparrows ..... therefore all things whatsoever ye would that men should do to you, do ye even so to them; for this is the law and the prophets .....

St Matthew 10: 29-31

St Matthew 7: 12

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<b>INDEX</b>	<b>PAGE</b>
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 DEFINITION OF THE PROBLEM	1
1.2 MOTIVATION AND PURPOSE OF THE STUDY	3
1.3 IMPORTANCE OF THE RESEARCH	4
1.4 RESEARCH APPROACH	5
1.5 ORGANISATION OF THE STUDY	7
<b>2. THE THEORETICAL CONTEXT OF HUMAN RESOURCES ACCOUNTING</b>	<b>9</b>
2.1 INTRODUCTION	9
2.2 THE CONCEPTS “HUMAN RESOURCES ACCOUNTING” “FINANCIAL REPORTING” AND “ACCOUNTING THEORY”	11
2.2.1 Human resources accounting	11
2.2.2 Financial reporting	13
2.2.3 Accounting theory	14
2.3 THE ROLE OF HUMAN RESOURCES ACCOUNTING AS A SOURCE OF INFORMATION FOR DECISION MAKING	15
2.3.1 Financial reporting as a source of information	16
2.3.2 Human resources accounting as a source of information	18

	<b>PAGE</b>
<b>2.4 THE THEORETICAL FRAMEWORK OF HUMAN RESOURCES ACCOUNTING</b>	<b>22</b>
<b>2.4.1 Traditional approaches to the formulation of accounting theory</b>	<b>22</b>
2.4.1.1 Theoretical approaches	22
2.4.1.2 Non-theoretical approaches	25
<b>2.4.2 Modern approaches to the formulation of accounting theory</b>	<b>25</b>
<b>2.5 SUMMARY</b>	<b>29</b>
<b>3. THE OBJECTIVES, DEVELOPMENT AND IMPORTANCE OF HUMAN RESOURCES ACCOUNTING</b>	<b>30</b>
<b>3.1 INTRODUCTION</b>	<b>31</b>
<b>3.2 THE OBJECTIVES OF AND NEED FOR HUMAN RESOURCES ACCOUNTING</b>	<b>32</b>
3.2.1 The objectives for human resources accounting	32
3.2.2 The need for human resources accounting	35
<b>3.3 THE HISTORICAL DEVELOPMENT OF HUMAN RESOURCES ACCOUNTING</b>	<b>37</b>

	<b>PAGE</b>
<b>3.4 THE CURRENT STATUS OF HUMAN RESOURCES ACCOUNTING RE EXISTING HUMAN RESOURCES ACCOUNTING REGULATIONS</b>	<b>39</b>
3.4.1 The current status of human resources accounting	39
3.4.2 Existing human resources accounting regulations	43
<b>3.5 ARGUMENTS FOR AND AGAINST HUMAN RESOURCES ACCOUNTING</b>	<b>44</b>
3.5.1 Arguments for	44
3.5.2 Arguments against	48
<b>3.6 SUMMARY</b>	<b>50</b>
<b>4. PRESENTATION AND ANALYSIS OF THE RESEARCH FINDINGS</b>	<b>51</b>
4.1 INTRODUCTION	52
4.2 THE REASONS FOR HUMAN RESOURCE DISCLOSURES	53
4.3 THE THEME OF HUMAN RESOURCE DISCLOSURES	60
4.4 THE EXTENT OF HUMAN RESOURCE DISCLOSURES	63
4.4.1 Directorate	63
4.4.2 Management	66
4.4.3 Personnel training and participation	67
4.5 THE LOCATION OF HUMAN RESOURCE DISCLOSURES IN THE ANNUAL REPORTS	74

	<b>PAGE</b>
4.6 SUMMARY	78
<b>5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>	<b>79</b>
5.1 SUMMARY AND CONCLUSIONS	79
5.1.1 The concepts “human resources accounting”, “financial reporting” and “accounting theory”	79
5.1.1.1 The theoretical context of human resources accounting	79
5.1.1.2 The role of human resources accounting as a source of information for decision making	80
5.1.1.3 The theoretical framework of human resources accounting	81
5.1.2 The objectives, development and importance of human resource accounting	82
5.1.3 The theme, extent and location of human resource disclosures	83
5.1.3.1 Themes of human resources disclosures	83
5.1.3.2 Extent of human resources disclosures	83
5.1.3.3 Location of human resources disclosures	84

	<b>PAGE</b>
5.1.4 Conclusion	84
5.2 RECOMMENDATIONS	85
6. ENGLISH SUMMARY	91
7. AFRIKAANSE OPSOMMING	93
8. LIST OF SOURCES	95

# **FINANCIAL REPORTING ON HUMAN RESOURCES IN THE BANK SECTOR**

## **CHAPTER I**

In St Matthew 10:29-31 Jesus says: "Are not two sparrows sold for a farthing? and one of them shall not fall on the ground without your Father. But the very hairs of your head are all numbered. Fear ye not therefore ye are of more value than many sparrows. "Furthermore, in St Matthew 7:12 He says: "Therefore all things whatsoever ye would that men should do to you, do ye even so to them; for this is the law and the prophets."

## **INTRODUCTION**

- 1.1 Definition of the problem
- 1.2 Motivation and purpose of the study
- 1.3 Importance of the research
- 1.4 Research approach and methodology used
- 1.5 Organisation of the study

### **1.1 DEFINITION OF THE PROBLEM**

With these passages above Jesus explains that people are the most valuable asset ever to be placed on this earth. People are also entrusted to rule and govern this earth by God.

If people are then so important and so highly valued by our Creator then surely people must show the same consideration in every aspect of life. This is also, to do to other people what is good and to value them so much that you should

report on their activities in business concerns.

A significant part of accounting is the reporting of information on the activities and performances of assets in a company or business concern (Saenger 1991:1). The problem however is the interpretation of what is an asset and what is not.

Trained, loyal and skilful personnel will in most cases be acknowledged by employers as being the most valuable asset of the company or concern (Voth 1975:1).

During the last century the normal accounting procedure and principles were developed to an extent where even the smallest detail was documented and analysed. At any given moment in time a company would be able to supply the detail of, for example, machinery and equipment. However, such detail was not as readily available concerning the investment in personnel (Voth 1975:1).

Since then the situation has changed to such an extent that a new school of thought developed regarding account for the investment in personnel. To account for personnel has come to be known as "Human Resources Accounting" (HRA) and has been defined as "the process of identifying and measuring data about human resources and communicating this information to interested parties. It involves measuring the costs incurred by business firms and other organisations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to organisations. In brief it involves accounting for people as organizational resources, for managerial as well as financial accounting purposes (Flamholtz 1985:1)

With this research it will be attempted to determine the nature and methods of reporting human resource information to possible users of the information. The

financial reports of the top banks in the Bank Sector will serve as basis for this research.

## **1.2 MOTIVATION AND PURPOSE OF THE STUDY**

The first total democratic election in South Africa in April 1994 changed the needs and the face of the then existing work-force.

Since then South Africa has had major and fundamental changes regarding transformation in the work-place. Transformation in itself means the recomposition of the labour force (Flamholtz 1985:1).

Up to 1994 the work/force consisted of a pinnacle of highly skilled personnel which tapered down to an average skilled work-force and then the unskilled people. Another major characteristic of the work-force was the different cultural and social environments of the people comprising the work-force.

Another important factor pertinent to this subject of study is the fact that the compilers of financial statements tend to report only on what is legally required of dictated by certain unique circumstances. In other words the normal traditional financial reporting framework is being used (Saenger 1991:2).

According to Hendriksen and van Brenda (1991:24) "financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions".

Since the change-over of political power in April 1994 there was a growing recognition of the importance of reporting on human assets. To develop human capital, significant investments by individuals and the organizations that employ them are required (Flamholtz 1985:1). With the growing importance of realizing

the time and money invested in personnel and to keep personnel employed, companies and organizations need to change their approach in handling the amount being invested. Currently these amounts are treated as expenses and not capitalized as assets. If these amounts are to be treated as assets, management will have to report on these assets in the financial statements.

It is intended with this research to provide information on how companies in the banking sector currently report on their biggest asset, namely their personnel (Voth 1975:1), and to bring the importance of such reporting under the attention of the compilers of financial statements.

### **1.3 IMPORTANCE OF THE RESEARCH**

Accounting in its oldest form was an effort to document information and then to report thereon if ever required to do so. Over the years accounting has developed into a science with full complications of procedures, principles and ethics. Being a science, accounting can develop even more and change as circumstances change or the needs of the science change.

Saenger (1991:1) states that "accounting is in an age of rapid transition in which the focus on interest has shifted away from the traditional procedural base of accounting towards a dynamic functional base which emphasis the communication and decision-usefulness role of accounting. Financial information is consequently regarded as useful if it facilitates decision making."

The importance of this study is to motivate the managements of business organizations to supply the users of financial statements with more complete information concerning the businesses they are reporting on. Information has made the world smaller and companies all over are realizing that they must match

or exceed the best information practices of competitors in order to survive (Bendell 1993).

Furthermore, this study will provide information on various aspects pertinent to Human Resources Accounting reporting in South Africa. These can be summarised as follows:

- 1) The place of HRA corporate reporting in the context of general financial reporting.
- 2) The effect of the implications of the subject in the new South Africa.
- 3) The nature of existing HRA corporate reporting and how HRA corporate reporting is to change and develop to accommodate transformation in the work-place of the new South Africa.

#### **1.4 RESEARCH APPROACH**

The first part of the study examines the practice of human resources accounting and reporting from a theoretical standpoint. Theoretical research is research based on the examination of recorded facts and is therefore also known as archival research (Saenger 1991:1). It entails research by means of a library search, that is, the examination of secondary data sources which, according to Murdick (1969:8), consist of publications of data gathered by other investigators. In contrast, primary data sources deal with original documents of official files and records (Saenger 1991:1).

Although theoretical research has many advantages, such as the establishment of authoritative, documented opinion, it also has disadvantages which include:

- 1) Selective use of information
- 2) Researcher bias
- 3) The possible skill-deficiencies of previous researchers. (Saenger 1991:1).

The theoretical part of the research will first emphasise the financial reporting and theoretical frame of reference of the subject of study and will then highlight certain aspects important to a better comprehension of the subject. These will include the objective, development and importance of human resources accounting and the current status of human resources accounting.

The second part of the research will investigate the nature and extent of human resources accounting disclosures in the financial reports of the selected target group. The investigation will take the form of a content analysis whereby the following aspects regarding the human resources accounting in the financial reports will be examined:

- The theme of HRA disclosures
- The type of HRA disclosures
- The extent of HRA disclosures
- The location of HRA disclosures in the financial report
- User groups interested in the HRA disclosures.

The data and information obtained from this investigation will be presented in such a manner that the user of this research will be able to form an opinion on existing human resources accounting reporting practices.

The target group will be the top banks in the banking sector from which the financial reports of those that make human resources accounting disclosures will be selected for investigation.

## **1.5 ORGANISATION OF THE STUDY**

### **CHAPTER 2: THE THEORETICAL CONTEXT OF HUMAN RESOURCES ACCOUNTING**

- 2.1 Introduction
- 2.2 The concepts "human resources accounting", "financial reporting" and "accounting theory"
- 2.3 The role of human resources accounting as a source of information for decision-making
- 2.4 The theoretical framework of human resources accounting
- 2.5 Summary

### **CHAPTER 3: THE OBJECTIVES, DEVELOPMENT AND IMPORTANCE OF HUMAN RESOURCES ACCOUNTING**

- 3.1 Introduction
- 3.2 The objectives of and need for human resources accounting
- 3.3 The historical development of human resources accounting
- 3.4 The current status of human resources accounting re existing human resources accounting regulations

3.5 Arguments for and against human resources accounting

3.6 Summary

**CHAPTER 4: PRESENTATION AND ANALYSIS OF THE RESEARCH FINDINGS**

4.1 Introduction

4.2 The reasons for human resource disclosures

4.3 The theme of human resource disclosures

4.4 The extent of human resource disclosures

4.5 The location of human resource disclosures in the annual reports

4.6 Summary

**CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

5.1 Summary and conclusions

5.2 Recommendations

**LIST OF SOURCES**

## **CHAPTER 2**

Proverbs 8:22, 23

"The Lord formed and brought me forth at the beginning of His way, before His acts of old. I was inaugurated and ordained from everlasting, from the beginning, before even the earth existed."

### **THE THEORETICAL CONTEXT OF HUMAN RESOURCES ACCOUNTING**

- 2.1 Introduction
- 2.2 The concepts "human resources accounting", "financial reporting" and "accounting theory"
- 2.3 The role of human resources accounting as a source of information for decision making
- 2.4 The theoretical framework of human resources accounting
- 2.5 Summary
- 2.6 List of sources

#### **2.1 INTRODUCTION**

One of the major functions of accounting is to report on the activities of the concern. It is however a complaint of financial statement users that these reports concentrate too heavily on the short term. Judgement is being made on the performance of a concern via the income statement which is prepared on a period of one year. In an attempt to incorporate longer term reporting, the avenue of reporting on accounting for the investment in human resources should be researched (McLeary 1985: 226). Further motivation for an emphasis on human

resources accounting is provided by Prabhakara (1986:1) who states that:

"The literature in the discipline of accounting has thus far concentrated on the aspects of physical and financial resources, which are well accounted universally with accepted standards of preparation and presentation. It is acknowledged that human resource accounting will represent one of the major innovations in behavioural aspects of accounting and control systems in the decades to come" (Prabhakara 1986:1).

Human resources accounting, according to Dembovsky (1979:1) is that there should be developed and established ways and means of measuring the cost and value of people to an organisation that provides valid and reliable models.

As a result of the increasing importance of human resource accounting disclosures, not only in leading overseas countries but also in South Africa and the fact that this type of disclosure forms the central theme of this study, this chapter surveys the role of human resource accounting within a theoretical and financial reporting context. This chapter will commence with a review of the concepts of human resources accounting, financial reporting and accounting theory. This is deemed necessary to promote knowledge of the nature of these concepts and the role of human resources accounting as source of information for decision-making purposes. To gain knowledge on human resources accounting one has to study the accounting theory regarding this subject. Then only can the different accounting theories be discussed.

## 2.2 THE CONCEPTS "HUMAN RESOURCES ACCOUNTING", "FINANCIAL REPORTING" AND "ACCOUNTING THEORY"

### 2.2.1 Human resources accounting

To account for personnel has come to be known as "Human Resources Accounting" and has been defined as "the process of identifying and measuring data about human resources and communicating this information to interested parties. It involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to organizations. In brief it involves accounting for people as organizational resources, for managerial as well as financial accounting purposes (Flamholtz 1985: 1).

Since the first double entry system was fathered by Luca Pacioli in 1494, accounting developed into a complete science. Accounting today, 500 years later, is based on principles, methods and procedures to produce an end product.

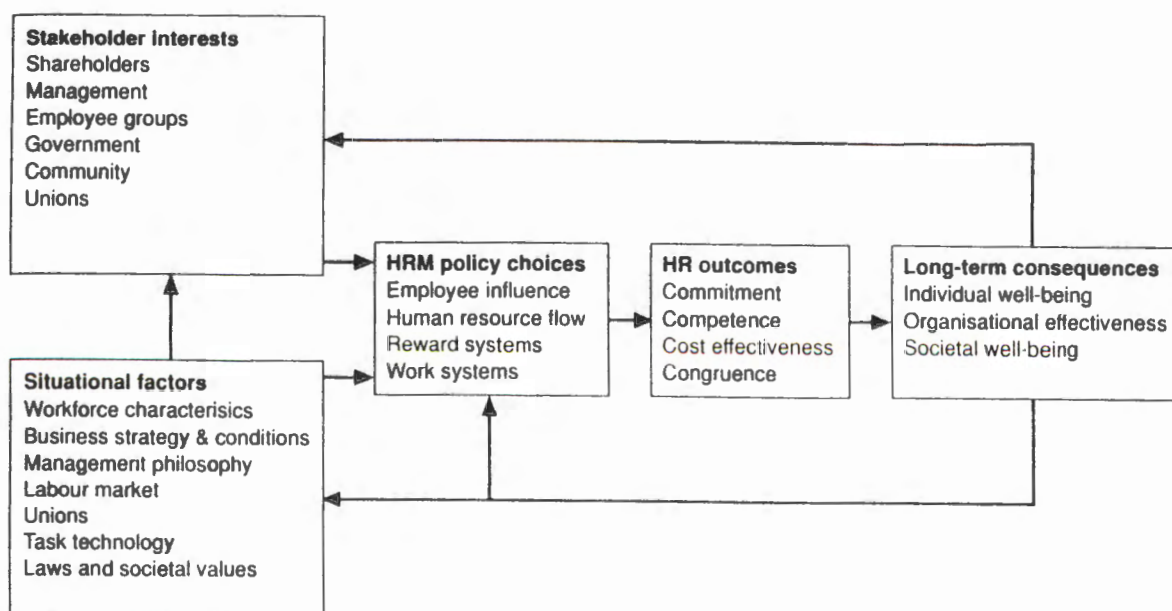
Human resource accounting is also part of this development with and is therefore also based on certain principles, methods and procedures. One of the basic concepts and principles in accounting is the matching concept. McLeary (1995:193) states the applicability of this concept to the subject of study as follows: "If the matching concept is to be consistently applied then the costs of training a man to do a job should be written off over the period that he uses the skills acquired by that training. After all, if he leaves the enterprise it will have to incur those costs again in training someone else, while if he stays those costs will not have to be re-incurred."

A method of human resource accounting is to capitalise all relevant costs of

recruiting and training. According to Hollinshead and Leat (1995:17) human resource expenses must not be written off but must be capitalised. If the expenses are capitalised, the employees become an asset of the concern and the money spent on the employees is then an investment. Investments in human resources represents value to any organization, not only current but also future value. Any investment made by business concerns is measured according to the return on investment (Voth 1975:2) and therefore human resource accounting provides a method of quantification and a form of management.

In the early 1980's the Harvard Business School developed a model or, as they named it, a map of Human Resource Management. This model, presented in Figure 2.1, offers a set of prescriptions for managers to connect the effective management of Human Resources with corporate success and the broader positive consequences for society. (Hollinshead and Leat 1995:17)

**Figure 2.1 Map of the Human Resource Management Territory (Beer et al. 1984)**



According to Hendriksen and van Breda (Accounting Theory 1992: 24, 852) corporations train employees because, on average, training ensures increased future benefits from the services of the employee. That being the case, the cost of training should be capitalized and not expensed as is current practice. At a minimum the cost associated with human resources should be spelled out in detail so that users might see where a company has invested its resources.

Following from the above two main approaches (procedures) to human resources accounting can be distinguished: a traditional approach (writing off as expenses) and a modern approach (capitalizing the expenses). The two procedures will be discussed in 2.4 to add further clarity to the analysis of accounting theory and to determine their relevance to human resource accounting financial reporting.

### 2.2.2 Financial reporting

The concept financial reporting is as old as accounting itself. The end result of accounting is to report on the money involved. According to Konar (1989:11) "financial reporting should provide information to help present and potential investors and creditors and other users in assessing amounts timing and uncertainty of prospective cash receipts."

Section 286(3) of the Companies Act requires that

.... annual financial statements of a company shall, in conformity with generally accepted accounting practice, fairly present the state of affairs of the company and its business as at the end of the financial year concerned ....

Although companies in South Africa can legally disclose the minimum amount

of information in terms of statutory requirements many companies provide additional information in their annual reports.

Financial reporting on human resources accounting will form part of the additional information in annual reports as stated above. The developing of a conceptual framework is what is needed to enhance financial reporting on human resource accounting.

This study will discuss the reporting in more depth via a content analysis approach from the financial statements of the top banks in the banking sector of South Africa.

### 2.2.3 Accounting theory

In 1964 Hermanson (Vorster 1977:19) stated that there are two methods to quantify human resources for business concerns, namely:

- a) The unpurchased goodwill method where the excess of earnings based on average for the industry will be expressed as a goodwill and then be allocated to the human resources of the concern.
- b) The adjusted present value method where the current value of future wage payments will be calculated at a specific rate for a limited period.

An accounting theory started to develop on human resource accounting and in 1968 was already a step further. In an article in the Accounting review by Brummet, Flamholtz and Pyle (pp 217-224) it was stated that the accounting theory and the reporting on human resource accounting was insufficient and they propose a development of a model. The model should be based on the "Economic

value basis".

Vorster (1977:27) states that there has been in a relative short period a tremendous progress in the developing of an accounting theory of human resources. Furthermore he states that several methods were developed to quantify human resources in business concerns and that certain guidelines were established on reporting on human resources. In fact it didn't only stay with formulating accounting theories, it was actually practically implemented in countries overseas.

In this chapter under point four the different theoretical frameworks will be discussed and proposed as to which of the approaches must be used to enhance the accounting theory on human resource accounting.

### **2.3 THE ROLE OF HUMAN RESOURCES ACCOUNTING AS A SOURCE OF INFORMATION FOR DECISION MAKING**

Decision making is the most important factor in the current competitive business world. Every policy to be implemented or transaction to be made is due to a decision taken. Good decisions cannot be made if the decisions are not based on well thought over information. The quality of the information and the type of information determine the quality of the decision taken. Human resource accounting is currently a source of information on which decisions are based. Information on human resource accounting is mostly obtainable from financial reports.

### 2.3.1 Financial reporting as a source of information

According to Lee (Saenger 1991: 16) "financial reporting has, over the years, developed into a highly sophisticated and technical multi-statement function which bears little resemblance to the crude and unregulated tabulations which constituted the early form of financial reports". Hendriksen and van Breda (1991:24) are of the opinion that this sophisticated reporting function should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions.

Financial reporting has changed significantly over the years due to a variety of influences. The influences on financial reporting had the effect that different types of reporting are available which again will lead to different types of decisions which can be made. The types of reporting, according to Brown and Lee (Saenger 1991:16), consist of:

- i) Legal reporting (based on for example the Companies Act).
- ii) Professional reporting (based on for example the accounting standards).
- iii) Voluntary reporting (information in addition to that required by the Companies Act and the accounting profession).
- iv) Share market reporting (information required by Stock Exchanges on listed companies).
- v) Governmental reporting (information required by governmental bodies).
- vi) Indirect reporting (for example, reporting on taxation).

The different forms of financial reporting and the requirements and needs of the various users of financial reports led to conflicts of interest and consequently to heated debates (Baxter 1981: 289). During 1975 the Accounting Standards Steering Committee (ASSC) in the United Kingdom identified seven different

user groups, namely:

- (i) The equity investor group (share trading decisions).
- (ii) The loan creditor group (decisions on loans short term and debentures).
- (iii) The employee group (Employees and prospective employees require information in assessing the security and prospects of employment. It is in this type of reporting where human resource accounting can play a most valuable role.)
- (iv) The analyst-advisor group (providers of advisory services to make recommendations to clients).
- (v) The business contact group (decision on business competitors and suppliers).
- (vi) The government (tax revenue reporting).
- (vii) The public (interest groups with vested interests).(Konar 1989: 44)

Criticism from the user groups on the quality of financial reporting resulted in financial reporting to determine its usefulness to decision - makers (Wolk, Francis & Tearney 1984: 188).

From this research new reporting trends followed which Beaver (1981:17) summarises as follows:

- (i) Emphasis on
  - a) economic financial reporting,
  - b) the user of financial information,
  - c) technically more complex disclosures, and
  - d) judgemental reporting.
- (ii) Recognition of managements prerogative to choose accounting policies.
- (iii) Rapid development in professional and statutory reporting.

(iv) Less emphasis on bottom line-reporting and more on other useful information.

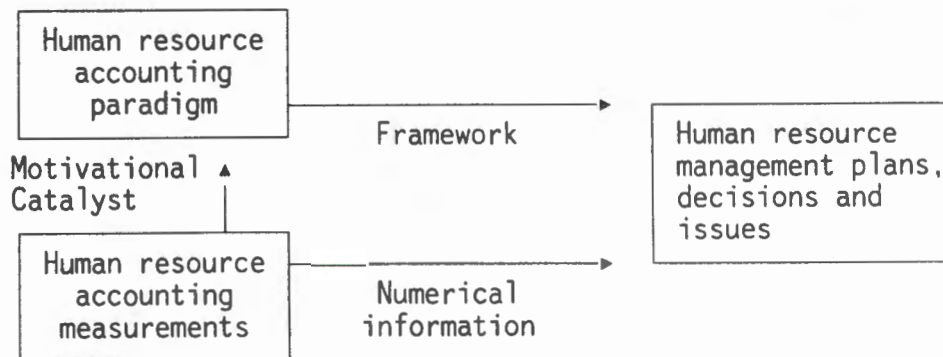
This study emphasizes points (ii, iii and iv), which will also be the more modern approach and a change to the rigid traditional approach.

The reporting on accounting matters developed where certain formats and tabulations are used which is not only acceptable nationally but also internationally. The accounting bodies through out the world joined forces and created a structure where the emphasis is on disclosure and not only the basic information.

### 2.3.2 Human resources accounting as a source of information

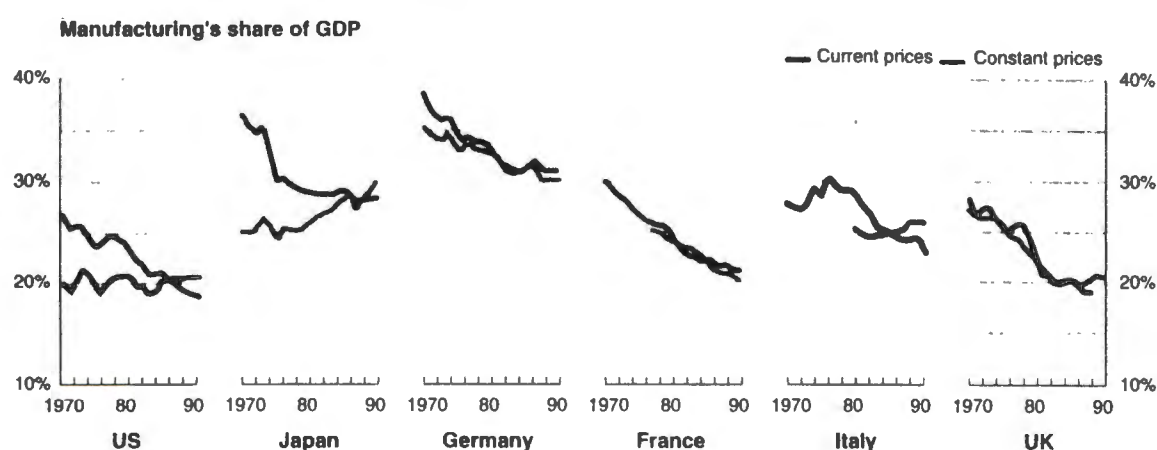
Human resources accounting has three major functions. It serves as a framework to facilitate human resource decision making, it provides numerical information about the cost and value of people as organizational resources, and it can motivate line management to adopt a human resource perspective in their decisions involving people. These functions are graphically presented in Figure 2.2.

#### **FUNCTIONS OF HUMAN RESOURCES ACCOUNTING** (Flamholtz 1985:9)



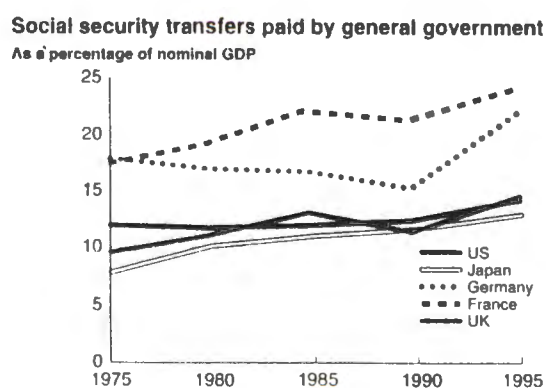
Human resources accounting is at present a major source of information for decision making as the emphasis has moved away from not only production measurement but to productivity measurement as well as social commitment. Figure 2.3 below sets out manufacturing as a share of the gross domestic product in different countries.

**Figure 2.3 Manufacturing's share of GDP (Hollinshead and Leat 1995:32)**



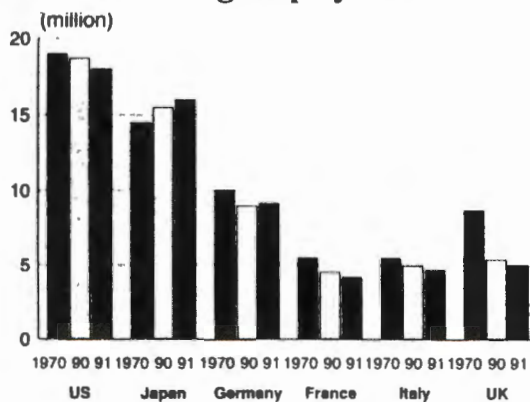
Most countries have a political base with the major part of their policies based on socialism. Human rights have been entrenched in basically all the laws of most countries.

**Figure 2.4 Social security transfers paid by general government (Hollinshead and Leat 1995:33)**



Human resources accounting is needed in this context to disclose what is happening to the energy of human beings and what its value is for management. According to Prabhakara (1986:3) human resources accounting is a sealing tool that generates and reports quantitative control information about the contribution of human resources to promoting industrial productivity. In figure 2.5 it is shown clearly that except for Japan there was a decline in employment of manufacturing personnel in the period 1970 to 1991. If the latter information was not available one would never have thought that there is a decline in manufacturing employment. It is therefore imperative to report on human resources.

**Figure 2.5 Manufacturing employment (Hollinshead and Leat 1995:32)**



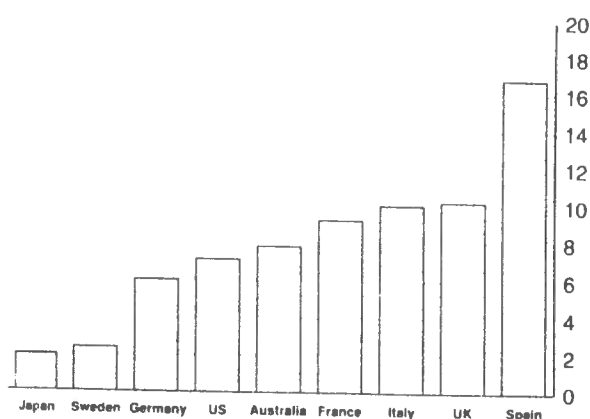
The information on the activities of human beings is unlimited and its value is priceless. Accounting for human resources is now imperative and should be developed to its full extent. Some of the information as an example internationally available is the female labour force as a percentage to the total labour force. Table 2.1 stipulates the percentage from 1960 to 1989. Countries which have shown a major growth in female employment are; Belgium, Denmark, France, Luxemburg, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom. (Hollinshead & Leat 1995: 34, 35):

**Table 2.1 Female labour force as percentage of total labour force 1960-89**  
(Hollinshead and Leat 1995:34)

Country	1960	1968	1974	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Austria	39.4	38.9	39.8	38.9	38.7	38.9	38.7	38.8	39.7	39.5	39.7	40.1	40.5	40.7
Belgium	30.2	32.0	33.7	36.7	37.2	37.7	38.2	38.7	39.1	39.7	40.2	40.7	41.2	41.3
Denmark	30.9	37.7	40.9	43.5	44.1	44.5	44.9	45.4	45.6	45.6	45.8	46.0	45.7	45.7
Finland	43.7	42.9	45.7	46.0	46.1	46.4	46.9	47.0	47.1	47.3	47.1	47.1	47.2	47.2
France	33.3	35.1	37.0	39.4	39.8	40.1	40.5	40.9	41.4	41.7	42.0	42.4	42.6	42.8
Germany	37.3	36.1	37.2	37.6	37.8	38.0	38.2	38.4	38.6	38.7	39.0	39.4	39.4	39.4
Greece	32.6	29.3	29.3	30.1	30.0	31.9	31.5	34.1	34.6	35.4	35.6	35.9	36.9	36.9
Ireland	25.6	25.6	26.8	27.8	28.7	29.1	29.5	29.8	29.5	29.6	30.0	30.9	30.5	30.7
Italy	30.7	28.5	29.7	32.8	33.3	33.5	33.7	34.2	34.6	34.9	35.5	36.1	36.3	36.6
Luxembourg	26.5	26.0	28.1	30.8	30.9	32.7	32.3	33.1	33.6	33.9	34.1	34.3	34.7	35.0
The Netherlands	21.5	23.0	25.7	29.2	30.4	31.4	32.0	33.8	34.2	34.5	34.8	37.6	38.3	38.4
Norway	28.2	29.4	36.1	40.3	40.9	41.4	41.6	42.2	42.6	43.2	44.1	44.3	44.6	44.4
Portugal	17.8	21.8	37.8	40.2	39.7	40.7	40.7	40.9	41.0	41.4	41.0	41.7	42.3	42.4
Spain	21.8	23.0	27.3	28.6	28.4	28.3	28.9	29.5	29.6	29.9	30.5	32.5	33.8	34.1
Sweden	33.6	38.1	41.8	44.7	45.2	46.0	46.2	46.6	46.9	47.1	47.6	48.0	48.0	47.9
Switzerland	34.1	33.4	34.5	35.8	36.2	36.7	36.8	36.9	37.1	37.0	37.0	37.3	37.6	37.8
United Kingdom	32.7	34.7	37.4	39.1	39.2	38.9	39.1	39.5	40.2	40.5	41.0	41.6	42.1	42.8

A very important figure to any country is the unemployment level. This percentage is better valued when compared to previous figures of unemployment to see any fluctuations. This figure also leads to other criteria such as the inflation rate, interest rate, political climate, social climate, etc. Figure 2.7 shows the unemployment levels of certain countries.

**Figure 2.7 Recent unemployment levels (Average percentage of total workforce, 1980-92) (Hollinshead and Leat 1995:35)**



Human resources accounting is an important source of information for decision making. It is thus important to examine the accounting theory of human resources accounting.

## **2.4 THE THEORETICAL FRAMEWORK OF HUMAN RESOURCES ACCOUNTING**

Various approaches to the development of accounting theory exist at present. Belkaoui (1985: 10) classified the approaches into two main categories, namely

- the traditional approach, and
- the modern approach.

The traditional approach can be sub-divided into:

- the theoretical approach, and
- the non-theoretical approach.

A brief summary of the above approaches , with emphasis on their relevance to the subject of study, follows.

### **2.4.1 Traditional approaches to the formulation of accounting theory**

#### **2.4.1.1 Theoretical approaches**

The following types of theoretical approaches were identified by Belkaoui (1985:10)

(i) Deductive approach ("Top-down" approach)

This approach involves the logical derivation of accounting principles from objectives and postulates to act as a basis and guide for practical applications. Deductive theories are usually normative (prescriptive) in nature because the deductive method is a closed, non-empirical system in which the conclusions are based strictly on the stated objectives and postulates (Hendriksen and Wolk, Francis & Tearney: Saenger (1991: 36)).

This approach can be criticised as too far removed from reality to serve as a basis for realistic, workable principles and practical rules.

(ii) Inductive approach ("Bottom-up" approach)

According to this approach financial data of companies are observed over a period and if relationships manifest themselves repeatedly, general deductions are made or principles formulated (Hendriksen 1982: 9).

Caplan (Saenger 1991: 37) is of the opinion that this approach will play a major role in future accounting research as it has the ability to solve particular practical questions.

(iii) Ethical approach

This approach is based on assumptions regarding the individual who accounts and strives towards pragmatism in the solution of accounting problems (Most 1982: 64).

This approach emphasises the fairness concept which is manifested in the phrase "fair present" in South African audit reports.

(iv) Sociological approach

This approach centres on the welfare of society as criterion for the formulation of accounting theory. It implies that accounting principles or techniques are evaluated on the basis of their impact on all groups in society and that accounting information is only useful if it contributes to making social welfare judgements (Belkaoui 1985 a: 19).

According to Yu (Saenger 1991: 43) this approach assumes the existence of "established social values" which are to be used in serving the various interests of society. In addition, the AAA (1966) calls for the development of accounting information which will meet the needs of individuals as well as of society.

(v) Economic approach

This approach is based on economic welfare and evaluates accounting principles and techniques according to their impact on the national economy. It regards accounting data as useful only if it contributes to making general economic welfare judgements (Belkaoui 1985 a: 20). It is therefore consequently expected of financial statements to reflect economic reality.

#### 2.4.1.2 Non-theoretical approaches

##### (i) Pragmatic approach

This approach emphasises the practical consequences of financial reporting practices and accordingly sees the primary objective of accounting as the provision of information that satisfies the needs of most of the financial report users (Beams 1969: 384).

##### (ii) Authoritarian approach

This approach is similar to the pragmatic approach but is primarily utilised by professional accounting bodies in pronouncements issued to regulate accounting practices (Belkaoui 1985 a: 14).

#### 2.4.2 Modern approaches to the formulation of accounting theory

Different modern approaches to the formulation of accounting theory have been developed. The traditional approaches concentrate on the prescription and description of accounting principles as a means of solving accounting problems, the modern approach represents new accounting research which has created new methodologies and has utilised unique ways of looking at accounting problems (Belkaoui in Saenger (1991: 42)). These approaches will be discussed briefly in the next section.

(i) Regulatory approach

The regulatory approach entails the development of regulations governing financial reporting by the accounting profession and other interested parties. In South Africa the regulations are known as Generally Accepted Accounting Practice (GAAP). This approach is based on two major categories of theories, namely:

- a) Public interest theories - to protect and benefit the general public
- b) Interest-group theories - maintain that regulations are supplied in response to the demands of special interest groups (interest-group theories are mostly political or economical) (Belkaoui in Saenger 1991: 45).

(ii) Events approach

The events approach focuses on the provision of information on relevant economic events, which could be used in various decision-making situations. The data generated by the event can be transformed into accounting information that meets the user's specific information needs (Sorter 1969: 13).

(iii) Behavioural approach

Hendriksen (1982: 6) regards the behavioural approach to the formulation of accounting theory as "one of the best promises for the development of theories that will guide accounting towards more useful ends". The behavioural approach has two main aspects, namely:

- a) Communication-decision orientation (emphasis on the relevance of the information)
- b) Decision-maker orientation (emphasis on the behaviour of different individuals in response to the information communicated) (Hendriksen 1982:6; Belkaoui 1985 a: 85).

The following issues were concentrated on in studies on the behavioural effects of accounting information:

- a) Disclosure in and use of financial statements.
- b) General principles of financial accounting and alternative financial accounting models

Behavioural research has explored many areas regarding the behaviour of the decision maker. This research has contributed to the predictive potential of financial reporting and therefore the predictive approach to the formulation of accounting theory.

#### (iv) Predictive approach

The predictive approach evolved from the need to solve a problem in the formulation of accounting theory. According to Beaver, Kennely and Vos (Saenger 1991: 51) decision-usefulness is one of the most prevalent thoughts in accounting and can be regarded as the major essence of the predictive approach.

Belkoui (1985a: 115) states that the predictive approach primarily focuses on the ability of accounting information to explain and predict economic events. Belkoui (1985a: 122) states furthermore that the predictive approach also proposes that the evaluation of alternative accounting methods should be based on the reaction of the capital market to information produced by such methods.

(v) Positive approach

According to Jensen (Saenger 1991: 53) the positive approach to the formulation of accounting theory centres on an explanation of "why accounting is what it is, why accountants do what they do, and what effects these phenomena have on people and resource utilization". Supporters of the positive approach do not try to explain which accounting alternative is the best but instead try to understand why certain alternatives are chosen by managers and accountants (Felton 1982:60). Investors and analysts could use this approach as a predictive model of the accounting policies underlying financial statements.

This approach can be of great help to disclose information on human resource accounting, being positive and the fact that it can break away from the normal conservative and conventional methods of disclosing information.

The above discussion of the different modern approaches in contrast to the traditional approaches emphasizes the need to move on to the modern approach with special attention to the positive approach. A well-developed positive accounting theory does not exist at this point in time but surely given the changes in the South African work-force and work place will provide the positive approach to become entrenched as an accounting theory to disclose information on human resources.

## **2.5 SUMMARY**

In this chapter the theoretical context of human resources accounting was investigated. The basic concepts were also considered to establish the relevant background on human resource accounting and to possibly provide a basis for development of a financial theoretical framework for human resource accounting.

The different approaches, traditional and modern, in developing a theoretical framework were discussed in brief, to determine the most applicable approach in developing such a framework. The positive approach merited special mention because of the importance of this approach to the theoretical facet of this study.

The role of human resource accounting was emphasized and the communicating on this to decision makers in financial reporting was re-iterated.

The next chapter examines the objectives, importance and development of human resource accounting in relation to its historical development.

## **CHAPTER 3**

Genesis 1:27 & 28

So God created man in His own image, in the image and likeness of God He created him; male and female He created them. And God blessed them, and said to them, be fruitful, multiply, and fill the earth and subdue it; and have dominion over the fish of the sea, the birds of the air, and over every living creature that moves upon the earth.

### **THE OBJECTIVES, DEVELOPMENT AND IMPORTANCE OF HUMAN RESOURCES ACCOUNTING**

- 3.1 Introduction
- 3.2 The objectives of and need for human resources accounting;
- 3.3 The historical development of human resources accounting
- 3.4 The current status of human resources accounting regarding existing human resources accounting regulations
- 3.5 Arguments for and against human resources accounting
- 3.6 Summary

### 3.1 INTRODUCTION

"The increasing importance of human capital to the economy as a whole, as well as to individual firms a great deal of research has been designed to develop concepts and methods of accounting for people as assets. This field, has come to be known as human resource accounting" (Flamholtz 1985: 1)

The modern thinking is that human assets of a company have to be included in the normal treatment as any other asset of the company regarding disclosure of performances, involvement in decision-making. This is in view of the long-term interests of the organisation (Prabhakara 1986: 3). Human resource accounting is therefore needed to disclose what is happening to the energy of human beings and what is its value for management (Prabhakara 1986: 3).

In his book **THE HUMAN ORGANISATION: ITS MANAGEMENT AND VALUE** the late noted organizational theorists Rensis Likert stated that

"every aspect of a firm's activities is determined by the competence, motivation and general effectiveness of its human organization".

It is thus clear that every effort must be made to investigate the existing systems and objectives of human resource accounting. The development and possible establishment of trendy systems and procedures will not only regarding emphasize the importance to the economy and obviously it will stimulate top management to realize the value of "human capital".

## **3.2 THE OBJECTIVES OF AND NEED FOR HUMAN RESOURCES ACCOUNTING**

### **3.2.1 The objectives for human resources accounting**

Theodore Schultz, who received a Nobel Prize for his work on the theory that the skills, experience and knowledge that people possess are ASSETS that can be termed "human capital", stated

"labourers have become capitalists not from a diffusion of the ownership of corporation stocks as folklore would have it, but from the acquisition of knowledge and skill that have economic value"  
(Flamholtz 1985: 1).

If one reasons that human beings are assets because of their skills and knowledge then the people of an organisation should be treated similar to the other capitalized assets of the organisation. Early accounting theorists supported the theory that people be treated as assets. This was their standpoint even before human capital was defined or increased in economic importance. Examples of this are D R Scott who said

"a trained force of technical operatives is always a valuable asset"

and W A Paton who said

"in a business enterprise a well organised and loyal personnel may be a much more important asset than a stock of merchandise".

The major objective of human resources accounting is then to treat people as

assets of the organisation for which they work. The main objective will remain that the cost of training and developing a human being at an organisation is to capitalize the mentioned cost in the financial records of the concern. This cost must be capitalized and disclosed in the financial statements according to acceptable accounting standards. However in today's scenario and trends human beings cannot be treated as cold blooded lifeless machines.

Other objectives are that a more human or social approach be adopted. This means that much more useful information must be disclosed. An elaboration on the effect the employees have on the organisation as well as the community they are serving.

Information such as:

- the number of employees - split between male and female
- the percentage growth in number of employees
- the earnings per employee of the organisation (It means much more to the employee than earnings per share will mean to him/her)
- the investment per employee regarding training and developing of skills
- the normal working conditions which will include all benefits
- the safety and accident history for the period reported on
- job security and the possibility of retrenchments if at all

The International Labour Organisation (ILO) celebrated its 75th anniversary in 1994. It is an agency of the United Nations and it embodies a number of fundamental principles such as:

- Labour is not a commodity
- freedom of expression
- poverty anywhere poses a threat to prosperity everywhere
- all human beings, irrespective of race, creed or sex, have the right to pursue their material well-being.

It has already been noted that the ILO creates international standards, and so far standards have been created in the following areas:

- the abolition of forced labour;
- freedom of association;
- equality of treatment and opportunity;
- the promotion of productive employment and vocational training;
- social security
- conditions of work including hours;
- minimum age of entry into the labour market;

- maternity protection;
- prevention of work-related accidents;
- protection of various minority groups (Hollinshead and Leat 1995: 293)

The objectives to establish human resources accounting are clear. The need for this very important information and acceptance of the standpoint will now be researched.

### 3.2.2 The need for human resources accounting

In an changing environment as in South Africa change needs to be effected in all aspects of life. The developing process in professional careers also needs change and speeding up. South Africa has, during the last three years, changed from a purely capitalist society to a more socio-capitalist society. The emphasis also moved away from the winner-takes-it-all-situation, the winners being the shareholders and owners of business concerns, to a sharing-option which is more socialistic and more in line with the new trend of human rights. Human rights being entrenched in the constitutional act will in future have the effect that companies and business-concerns will be forced to disclose as much information on human resources as is required by the government of the day. A truth is that if you have to disclose information you will have to account for it. We need to implement properly researched accounting systems and procedures to account for human resources. It will not be wise if everyone discloses and accounts on human resources in his own way.

In 1986 Prahakara already emphasised the need for human resource accounting. He then admitted that the current accounting system was less dependable as to the

information on human resources. On the other hand he stated that the executives in an organisation are familiar with the accounting language and its use in decision making. Therefore it will be convenient for the executives to use accounting information on human assets if the accounting system is designed to produce such information as well.

(Flamholtz 1985: 4) states that due to a growing concern regarding productivity in the USA, human resource professionals and line managers as well as academics began to investigate a variety of potential tools to increase employee productivity. This included the developing of human resource accounting.

An article by Lee Brummer, Eric Flamholtz and William Pyle in the Accounting review of 1968 (pp. 217 - 224) describes the need for human resource accounting and the development there-of. They emphasize that the current accounting system doesn't satisfy the needs of executives on information on human assets.

Time has moved on to 1997 and it is time to increase productivity and create a better world for all the peoples living here. If we want to do this it will have to be proven to the people that they are important contributors to wealth. In order to make this commitment the accounting profession needs to change and develop a human resource accounting approach to be used by business concerns.

### **3.3 THE HISTORICAL DEVELOPMENT OF HUMAN RESOURCES ACCOUNTING**

Francesco Dantini was the first person to do human resource accounting. Just after Luca Pacioli had fathered the double-entry system of bookkeeping, Francesco Dantini made an entry to his general ledger labelled "Martha - our slave" (Meyers Flowers: Vorster 1977: 21). Since then centuries had passed before accounting theorists began to re-introduce the principle of human assets.

The first practical application of human resource accounting was in 1962 when a professional sports club Braves changed management and in the process moved from Boston to Milwaukee. The new management decided to capitalise the contracts of the players plus all developing and recruiting costs. These "assets" were then depreciated at 12,5% per annum. This accounting policy remained intact until 1966 when management decided to slightly change the policy by treating developing costs as an expense and contract costs still to be capitalized. The fact that the above was accepted and disclosed by the auditors in the financial statements proved that it was an acceptable accounting principle (Vorster 1977: 22 - 23).

In 1966 R G Barry Corporation initiated to develop a usable system of human resources accounting. Dr Rensis Likert from the University of Michigan, together with a team of researchers who were also the managers of Barry Corporation, developed a human resources accounting system in the ensuing 15 months.

This was after Robert Woodruff the vice-president of the Barry Corporation had stated:

"Conventional accounting does an adequate job of providing

information on profit, equity and the changes which occur in the physical and financial resources of the business. It says nothing about the condition of the internal human resources or the external human resources of the business" (Likert & Pyle: Vorster 1977: 24)

Firstly they capitalized direct and indirect costs of personnel recruitment, training and development. Initially they included 95 managers classified into four categories. Each category had its own value in order of seniority. During 1969 they extended the system for 155 management people. This system was discarded in 1974 as it was observed that the system was not encouraging compared to the costs of the system. Another negative was that Barry Corporation, although a company with approximately 240 managers, was too small to maintain the costs of the system (Prabhakara 1986: 7).

During 1968/69 research was done to determine the replacement costs of management for a company called Midwestern Insurance Company. This research was not in particular for human resource accounting but more for internal use only (Flamholtz 1974: 84). In the early seventies the American Telephone and Telegraph Company better known as AT&T developed and used a human resource accounting system but also just for management purposes (Stone: Vorster 1977: 26).

A company Lester Witte & Company developed a sophisticated system for human resources accounting in 1976. This system endeavoured to calculate the current value of the net future cash flow which will be generated by the employee. The purpose was to monitor the development and training of the personnel of the company (Flamholtz 1974: 249-267).

The further development of human resources accounting with special attention to

the last few years will be researched in the next section of this chapter where the current status and regulation on human resources accounting will be emphasized.

### **3.4 THE CURRENT STATUS OF HUMAN RESOURCES ACCOUNTING** **RE EXISTING HUMAN RESOURCES ACCOUNTING** **REGULATIONS**

#### **3.4.1 The current status of human resources accounting**

"While it is true to say that the ANC and COSATU do not have explicit policies on the question of human resource development in a post-apartheid South Africa, it is nevertheless important to recognise that considerable thinking is being devoted to this matter. There is no doubt that the gap between "disadvantaged blacks and privileged whites" is going to be a matter of important focus as South Africa rapidly approaches a new dispensation. It is our view that organisations are going to need to take these policy views into account as they prepare for future organisational and Human Resource strategies (S.P.A Consultants 1993:5). The above emphasizes the total importance of Human Resource Accounting.

Dr Japie Jacobs special advisor to the Minister of Finance - 1993 pointed out the following:

- Only 2% of South Africa's assets are owned by blacks.
- Over 90% of top, managerial positions are held by whites.
- Although 1 in every 7 people is white, 9 out of every 10 managerial positions are held by whites.

Last mentioned is apparent if taken into account the results of a survey done by the financial Mail in 1992 on education. The most disturbing fact was the

following:

Out of 10 000 grade one black children entering school:

- 1 300 reach matric
- 270 write matric
- 113 pass matric
- 27 gain university exemptions
- 1 gains an exemption with maths and science

(Financial Mail: S.P.A Consultants 1993:2)

The current status of human resources accounting is now important as the ANC's-attitude towards organised labour is that organised labour should be empowered and that it must play a central role in developing economic policy promoting industrial democracy and full collective bargaining for all workers. This means that the workers (humans) will dictate the economic routes and policies for the future. If this happens the human will then become the most important and also the biggest asset of any business concern in South Africa. Last mentioned is the reason for starting this paragraph with the current status of human resources accounting. The current status must be in place to such an extent that we can build on it for the future to address the future reporting needs of human resources accounting. Furthermore it is also needed to create a specific culture with directors and managers to be part of the work-force and to gain information and report there-on to the people of South Africa.

A "strong" organizational culture has become the cornerstone of employee relations strategies in many companies in the 1980's. The problem with organizational culture is the management there of. According to Blyton and

Turnbull (1992:75) many writers have proposed models of changing culture which are consistent with the tenet that organizational culture can be managed. Silverzweig and Allen (1976) built a model around the premise that people form shared values when they come into a sustained period of interaction. This model proved that the behaviour of managers and of the organization can be changed by altering the environment within which the behaviour occurs.

Silverzweig and Allen proved that a specific culture can be created with directors and managers. This is what is needed in the South African business concerns - a more people's-approach. A human related approach by the business sector will enhance the cause of human resource accounting and reporting.

The need for human resource accounting is currently more than a desirability, it is a must (Hendriksen & van Breda 1991:852). The old arguments of expensing or capitalizing costs are still the debate. In their book (Hendriksen & van Breda 1991:852), they appeal to business concerns that at a minimum the costs associated with human resources should be spelled out in detail so that users might see where a company has invested its resources. In South Africa there was a small beginning with Anglo American preparing their financial statements specifically for their employees. The reason why Anglo American did this, was that they wanted to encourage their employees to become shareholders to forestall future nationalization. (Hendriksen & van Breda 1991:853). An extraction of the financial report in 1988 showed the following:

"The profit was used by Anglo to pay dividends to its shareholders

	1998	1987
	(R)millions	(R) millions
	516	514

Of the total profit R516 million will be paid out in dividends to those people who own shares in Anglo, thus helping to increase the value of Anglo to the benefit of all its shareholders. The current reporting is still heavily based on one year (short term). The income statement reflects the performance over a period of one year. Many management teams have been judged by this performance and the problem is that very little or no information concerning the management is supplied. The reason therefore is that many firms have difficulty with the concept of human resources accounting. The financial statements of Anglo reported on above supplied the following concerning their human resources:

- :- Full relevant particulars of senior managers and directors on page 2 and 3 including the position held and academic qualifications.
- :- The rest of the personnel are dealt with in statistics at the bottom of page 9.
- :- The social report on pages 10-12  
(McLeary 1985:228)

The above information is non-financial information. This information could have been of much more value if for example just the following was reported on:

- :- The cost of training.

:- The staff turnover.

(McLeary 1985:228)

Another system except the writing-off system and the cost capitalizing system is a system where the benefit of the employee to the business concern is reflected in the salary he earns. The employees future value can then be determined over the period of his future working life. This amount can then be discounted per annum after it was reflected as an asset over the working life of the employee.

(McLeary 1985:228)

Whether the future holds vast improvements on human resources accounting remains to be seen. Systems which will enable financial statement preparers to report on human resources need to be developed and introduced. However, if the unions keep on emphasizing the major importance of the "human asset, business concerns might be forced by legislation to report on human resources. (SPA Consultants 1992:4)

#### 3.4.2 Existing human resources accounting regulations

(McLeary 1985:229) stated the following:"South Africa can expect this subject to become important in the near future with the rapidly developing sophistication of the various trade unions. In the United Kingdom the matter has been considered relevant for many years and has been included in various bits and pieces of legislature, but there has never been any standard in sight which may clarify the matter."

The above statement was made in 1985. Since then companies have been providing employees and financial statement users with special reports concerning human resource information. A research in 1997 concerning specific legislation

or regulations also proved the above. The following sources were investigated:

- :- Accountants Index of Certified Public Accountants (AICPA)
- :- Accountants Digest.
- :- Financial Accountants Standard Board (FASB)
- :- CICA
- :- Australian Society of Accountants
- :- The Accountants Manual.

The only legislation concerning human resources was found from the Accountants Manual namely:

Ontarios Employed Equity Act of 1993.

This act was repealed.

No specific legislation or standard or statement concerning human resources currently exists.

### **3.5 ARGUMENTS FOR AND AGAINST HUMAN RESOURCES ACCOUNTING**

#### **3.5.1 Arguments for**

The biggest argument for is that most probably the biggest account in the income statement is the account for money spent on human resources. Every year this money is written-off. This money is also in most cases more than what is spent

on the real fixed assets of the concern. The argument also goes that without the human entrenched in the business no business will produce or make profits. This then brings you to the point where it is clear, measured as an asset, the human being is most important. Living in a free world no human being can be possessed by somebody else (Mcleary 1985:227). People can move around as they wish. On the other hand trade unions and employees need more information. So the argument has moved that a system be found and implemented to satisfy all the needs.

In the United Kingdom because of the above they moved the emphasis from human resources accounting to human resource management in an effort to get to a system.

Blyton and Turnbull (1992:202) argue "one of the most significant changes leading to the rise of human resources management in any case, and it is often argued that some firms may have used human resource management precisely to undermine trade union influence."

According to Beer et al. (1984:8) one of the central policy areas of human resources management is to enhance employee influence.

## Managers' views on employee participation

		% Respondents				
		Definitely agree				Definitely disagree
		1	2	3	4	5
<b>Managers' views ought to be represented in any scheme for employee participation as are the views of the workers</b>	1980	48.9	32.2	13.4	3.6	1.8
	1990	21.3	39.2	17.9	13.9	7.7
<b>Regular meetings between work groups and their supervisors are an appropriate form of employee participation</b>	1980	25.9	40.6	21.4	8.8	3.3
	1990	17.3	40.6	21.3	15.3	5.5
<b>There is a need for the provision of more information to employees</b>	1980	22.0	31.7	24.6	15.0	6.8
	1990	15.9	34.8	27.2	16.5	5.6
<b>Joint consultation committees are an appropriate form of employee participation</b>	1980	13.3	35.2	31.3	15.3	4.9
	1990	9.2	29.2	36.5	19.7	5.4
<b>There is a need for greater employee participation in my organization</b>	1980	12.2	19.5	31.3	22.0	14.9
	1990	13.2	26.6	34.3	17.5	8.4
<b>Employee participation diminishes the role of middle and junior managers</b>	1980	10.8	19.6	18.5	22.9	21.2
	1990	12.3	16.2	22.7	33.0	15.8
<b>Two-tier boards (management and supervisory) are an appropriate form of employee participation</b>	1980	3.7	16.1	28.6	24.3	27.3
	1990	10.1	17.5	30.2	25.0	17.2
<b>Extending collective bargaining is an appropriate form of participation</b>	1980	4.5	14.5	33.3	32.0	15.7
	1990	8.5	13.8	34.2	28.2	15.2
<b>Worker directors elected through trade unions are an appropriate form of employee participation</b>	1980	2.7	8.2	16.2	26.6	46.3
	1990	12.5	13.9	20.8	27.7	25.1
<b>Worker directors elected through employees are an appropriate form of participation</b>	1990	13.1	21.7	23.6	23.0	18.6

<sup>1</sup> Total sample, 1980 n = 1058; 1990, n = 827.

Another argument for human resource accounting is to get the business to report on the activities of human beings. This can get the employees to become shareholders. Schuller (1989:136) states it clearly that employees who become shareholders is a strategy from management far from clear. It is true that many of these strategies have emerged as tax efficient forms of remuneration for employees.

### Managers' views on profit sharing and employee shareholding schemes

	% Respondents				
	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree
Profit-sharing (with cash awards)	33.0	48.6	11.7	4.9	1.7
Profit-sharing (through shares in the company)	38.2	44.1	12.0	3.5	2.2
Save-As-You-Earn share ownership schemes	28.3	42.4	23.3	3.6	2.5
Executive Share schemes	27.4	38.6	22.8	7.8	3.5

It is indeed true that many good arguments for human resource accounting exist and also that strong support for them applies.

### 3.5.2 Arguments against

The biggest argument against human resource accounting is that there is no proven system to implement. Over the years many systems were put into place but in the end abandoned because of lack of support by other business concerns or proved that the system still did not produce the necessary information to the concerned users of financial statements. A further problem was that these accounting systems proved to be very expensive. This was proved in R G Barry Corporation (Likert & Pyle: Vorster 1997: 24) that the system had to be abandoned because of the extreme expenses compared to the value in return received from the system.

An argument against human resource accounting comes from the true capitalists. This argument is that the shareholders invest their money, expertise and skills into a product. The fact that humans have to use their energy to make the product they are getting paid for. This argument was first addressed in Europe. There they tend to give a broader answer to the question, "For whom?" Meaning to whom must be accounted for and to whom must be disclosed. The importance of stockholder ownership is discounted in favour of the broader concept of stakeholder concerns. For instance French corporations are requested to present a social balance sheet to a company works council every year. These councils are made up of labour and management. The following information must be provided in these social balance sheets:

- Employment
- Wage related benefit packages
- Health and safety conditions
- Other conditions of work
- Employee training
- Industrial relations
- Housing and transportation provided to employees

(Hendriksen & Von Breda 1991: 852)

Clearly the above goes beyond what is required from American corporations - the true capitalists.

Lastly an argument against is also that seeing there is no legislation or regulation or even an accounting standard to adhere to, no business concern is over-stepping the law by not complying or reporting on human resource activities. Many business concerns are just reporting on human resources as they like and consider it an absolute bonus to the financial statements user (SPA Consultants 1992: 38).

It is thus clear there are many arguments for and arguments against human resource accounting which will inevitably lead to human resource disclosure. The fact remains that the world, not only South Africa, is in a state where human and civil rights are high or even at the top of priority lists of the main politicians. This will filter down to the workplace and with the trade unions the people will become such a force that business concerns will have no choice but to embark on a human resource accounting system and report there-on.

### 3.6 SUMMARY

In this chapter the objectives and need for human resources accounting was discussed. The current status compared to the historical development and historical status was investigated to determine any new developments and progress on human resource accounting.

Although the research has proven progress on human resource accounting, still no regulations or legislation could be found as yet. It is suggested that at least a standard on human resource accounting be developed so that the process in reporting on human resource accounting can be formalized and disciplined.

The arguments for and against human resource accounting were discussed. Both these arguments hold water and should be respected. It is however similar to one of the former presidents of the United States of America, namely Franklin Delano Roosevelt, who stated in one of his speeches:

"No country however rich can afford the waste of its human resources. Demoralization caused by vast unemployment is our greatest extravagance, morally it is the greatest menace to our social order."

The next chapter examines the human resource accounting reporting in the financial statements of the top banks in South Africa.

## **CHAPTER 4**

### **Matthew 25 : 27**

Then you should have invested my money with the bankers, and at my coming I could have received what was my own with interest.

## **PRESENTATION AND ANALYSIS OF THE RESEARCH FINDINGS**

### **4.1 Introduction**

### **4.2 The reasons for human resource disclosures**

### **4.3 The theme of human resource disclosures**

### **4.4 The extent of human resource disclosures**

### **4.5 The location of human resource disclosures in the annual reports.**

### **4.6 Summary**

## 4.1 INTRODUCTION

In this chapter the actual consideration and disclosures concerning human resources of the top banks in South Africa will be researched. The annual financial reports for the year ended 1997 will be analysed. The top banks to be used in this research are:

\* **AMALGAMATED BANKS OF SOUTH AFRICA (ABSA)**

- Allied Bank
- Trust Bank
- United Bank
- Volkskas Bank
- MLS Bank
- Nu Bank
- Bankfin
- Cutfin

\* **BOLAND BANK HOLDINGS LIMITED**

- NBS Bank

\* **FIRST NATIONAL BANK HOLDINGS LIMITED**

- \* **NEDCOR**
  - Nedbank
  - Permanent Bank
  - Peoples Bank
  - UAL Merchant Bank
  - Cape of Good Hope Bank
  - Syfrets
- \* **SAAMBOU BEHEREND BEPERK**
- \* **SOUTH AFRICAN RESERVE BANK**
- \* **STANDARD BANK HOLDINGS LIMITED**

The research findings will be presented in tabular form so that the reader can reach his/her own conclusions other than those reached by the author regarding the disclosure of human resource accounting. The research will be a content analysis in order to determine whether the banks mentioned above have reported on human resource accounting with the emphasis on the following:

- \* Reasons for human resource disclosures
- \* Theme of human resource disclosures
- \* Extent of human resource disclosures
- \* Location of human resource disclosures

#### **4.2 THE REASONS FOR HUMAN RESOURCE DISCLOSURES**

None of the banks reported specifically why they wanted to report on human resources. However, all the banks reported on human resources with different

reasons and in different ways.

\* **ABSA**

ABSA Bank didn't give any specific reason why they wanted to report on human resources. Throughout the annual report the awareness of human resources can be experienced. The group chief executive stated in his review: *"In line with the group's purpose and mission, human resource processes must enhance the quality of life and employees. The aspirations of employees to prepare themselves for the future needs of the financial industry also became apparent through the number of employees completing the Institute of Bankers courses"* (ABSA Annual report, 1997 : 28).

It is also apparent that human resources is important to ABSA. The chairman's review starts with the chairman and members of staff discussing a document showing their involvement in the bank activities. The reasons why ABSA Bank disclosed on human resources is to comply with the mission of the bank regarding human resource policy. It also shows the importance of human resources to the bank (ABSA Annual report, 1997 : 7).

\* **BOLAND BANK**

Boland Bank reported on human resources frequently throughout the annual report. The reason being that people are very important to the bank. The bank considers itself as the bank for the people and needless to say then to be served by well trained staff. The managing director M.S. Le Roux states in his managing director's review: *"Large amounts are spent on staff training, and training is a priority for the coming year. Everything possible is being done to ensure that staff are part of the process of change and not victims thereof. A series of "open discussions", to which all staff members in a particular area are invited, is held throughout the country. All the general managers of the bank attend such a discussion and staff may address any question to the management. The practice in terms of which the staff elect a staff member to be co-opted as a director by the board of directors was continued as well"* (Boland Bank Annual report, 1997 : 15).

Another reason for reporting on human resources is the comment on the participation of personnel in share options with the bank. A share purchase trust was used to purchase share options and "A" convertible debentures on behalf of the employees (Boland Bank Annual report, 1997 : 29).

The annual report of Boland Bank starts with an artist's design of industry and two people shaking hands. It proves that the human assets of the bank is important and therefore a major reason for reporting there-on.

\* **FIRST NATIONAL BANK**

Although FNB has a total different approach compared to the other banks, they also do report on human resources. FNB has a much more corporate and industrial approach as the artist design of a huge balanced crane on the front cover shows. The artist's note to this design states: *"This illustration depicts planning redesign and continuing transformation within a group interacting globally and nationally. There is an impression of considered order, rather like an architect's model, supported by technology and people - both employees and customers. The pair of scales indicates balance"* (First National Bank Annual report, 1997 : 1).

Neal Chapman, chairman of the group states in his chairman's statement: *"The creators of value in our organisation will always be our people. We are adapting our human resource systems and strategies, including compensation to promote the development of a winning culture and the transformation of our staff into a customer focused cost - conscious workforce that is sales driven. If our staff are to be committed to this process they need to understand it and be kept as fully informed as possible. We also need their feedback to help us transform the organisation"* (First National Bank Annual report, 1997 : 19).

From the above it is clear that FNB actually considers the human-asset as most important and this statement made by the chairman is actually an invitation to the people to become involved. This then also the reason for the statement. It is however a very positive step in reporting on human resources and can possibly also be a first step in organised reporting on human resources.

**\* NEDCOR**

Nedcor's annual report front cover has a design of a conglomeration of hands holding one another. This gives one the impression that the human-asset is most important to the bank. In this annual report there is a constant reporting on human resources. The reason for this is that the bank had to report on the following besides the normal reporting.

- Personnel training (page 13)
- Staff participation (page 37)
- Employee incentive scheme (page 47)

Nedcor is very impressive with the reporting on their human resources. Not all the banks, actually very few, endeavour on reporting in a numerical fashion. To illustrate last mentioned Richard Laubscher the Chief Executive in his chief executive's review is quoted. *"During the past year we spent considerable time focusing the attention of our people on three vital issues:*

- *Selecting and retaining the right clients.*
- *Reducing the cost-to-income ratio.*
- *Improving the management of our people through vastly improved communications and people development programmes.*

*These colleges were designed to enhance present performance levels by unleashing the untapped potential of our people. Our people productivity*

*index, i.e. profit per staff member, has improved an average by 26 % per annum over the past five years". He states furthermore: "The cost-to-income ratio improved from 61.4 % to 58.7 % despite a 12 % increase in staff costs during the year. Staff members increased by only 58 %, mostly in the chief support areas, and training programmes were attended by over 2 000 participants at our three centres during the year" (Nedcor Annual report, 1997 : 13, 14).*

The reason why the above was reported is because Nedcor as stated have indexes as well as a base to control and work from when it comes to human resources. This feedback is most valuable to the shareholders as well as the employees of the bank.

Another reason for human resource disclosure concerning Nedcor was the short but detailed reporting on staff participation (Nedcor Annual report, 1997 : 37) as well as the employee incentive scheme (Nedcor Annual report, 1997 : 47).

#### \* SAAMBOU

Saambou's annual report does the normal reporting on directors, economy, business and financials. It impresses by reporting on page 2 included amongst all the very important financial ratio's the growth in employees as well as a nett applied income per staff member. Although no specific reason is given why Saambou wants to report on human resources, there is a constant referral to human resources (the importance thereof). Saambou also makes use of a human resource committee (Saambou Annual report, 1997 : 11). This committee states that a material investment in training of personnel is made, because they believe that the future for a successful organisation lies in the capabilities of the people (Saambou Annual report, 1997 : 8).

\* **SOUTH AFRICAN RESERVE BANK**

The SARB does very little reporting on human resources besides the normal reporting on who the directors are. The SARB's personnel philosophy is quoted: *"The Reserve Bank believes that employees should find working for the Bank a stimulating and personally enriching experience, and consequently accepts co-responsibility for the development of each employee to his or her full potential. Career progress is based on the constitution made by the individual towards the fulfilment of the responsibilities of the Bank and therefore initiative innovative thinking and professional expertise are deliberately developed and rewarded"* (SA Reserve Bank Annual report, 1997 : 6).

Given the fact that the SARB is a privately owned company and the SARB is not in competition with any other bank in SA they most probably need to do more reporting on human resources than what they are doing.

\* **STANDARD BANK**

The annual report of Standard Bank gives you a defined impression that the emphasis is business with the client base as most important. The mission of the bank also states this clearly: *"Our mission is to be the best financial services group based in Southern Africa, with the most satisfied customers"* (Standard Bank Annual report, 1997 : 1).

There is thus no specific reason why Standard Bank reports on human resources, but they do the normal reporting on all the different themes throughout the annual report. The reporting discloses information on the directors, management and personnel.

The client may be most important to Standard Bank but big investments were made into the personnel as well.

The group chief executive's report on human resources stated: "*A robust base for identifying and streaming talented personnel now exists throughout the group. A major effort was devoted to longer-term staffing plans aimed at improving employment equity and diversity. Total human resources development expenditure was 3.9 % of payroll costs, which compares favourably with domestic and international standards*" (Standard Bank Annual report, 1997 : 19).

#### **4.3 THE THEME OF HUMAN RESOURCE DISCLOSURES**

In order to compare the seven different financial annual reports concerning the theme, extent and location will have to present it in a tabular fashion. The table will present the different themes with a point allocation. Every theme will then be rated i.e.:

- |   |   |                       |
|---|---|-----------------------|
| 1 | = | Merely mentioning     |
| 2 | = |                       |
| 3 | = | General discussion    |
| 4 | = |                       |
| 5 | = | Elaborated disclosure |

The themes with their allocated points in brackets are:

- Directorate disclosure (8)
- Top management disclosure (5)
- Personnel training disclosure (5)
- Personnel participation scheme disclosure (5)
- Affirmative action disclosure (2)
- General disclosure
  - mentioning number of employees
  - human resource committee
  - possible retrenchment or not
  - numerical disclosure i.e. profit per staff member
  - slogan - human resource related or not (5)
- Total points = 30

**TABLE 4.3.1**

	ABSA	Boland Bank	First National Bank	Nedcor	Saambou	SARB	Standard Bank	Average
Directorate	7	7	8	6	7	2	5	6.0
Management	4	3	4	4	4	-	3	3.14
Personnel Training	4	3	5	5	3	1	2	3.29
Personnel Participation.	4	4	3	4	-	-	4	2.71
Affirmative	1	-	2	2	-	1	2	1.14
General	2	4	3	4	4	-	3	2.86
Total	22	21	25	25	18	4	19	19.14

From the above it is clear that all the banks have the same or very similar themes on which was reported. For this comparison the SA Reserve Bank, being a private company and also state-owned, will be excluded.

Table 4.3.1 has shown that only two banks haven't disclosed on affirmative action policies, being Boland Bank and Saambou Holdings Limited. The only bank not reporting on personnel participation was Saambou Holdings Limited as the bank did not have apparent staff participation or share option schemes.

#### **4.4 THE EXTENT OF HUMAN RESOURCE DISCLOSURES**

To illustrate the extent of human resource disclosures the information as shown in Table 4.3.1 will be used as the base. For practical purposes the information in Table 4.3.1 will be used horizontally.

##### **4.4.1 DIRECTORATE (MAXIMUM 8)**

###### **ABSA (7)**

The group executive directors are shown on a group photo. Their age and responsible portfolio's are stated. Other interests in other businesses are also stated. The managing director refers to the employees in his review with regards to quality and training of employees.

**BOLAND BANK (7)** A group photo of the board of directors is given with every directors' age and qualifications. On the corporate governance report the board of directors' functions are briefly explained. The directors report illustrate the interest of directors in the share capital as well as new appointments and resignations. The managing directors in his review also referred to staff training and staff participation.

**FIRST NATIONAL (8)** Individual photo's of every director executive and non-executive with age and qualifications, also illustrating on which committee he/she is serving. The specific interests in other companies are also listed for each director. Full details of the advisory boards and directors of subsidiary companies are shown. The managing director elaborates in his report on human resources. The statutory information the directors' interests in the company and also the mentioning of retirements, new appointments and resignations are disclosed. The changes on the boards of the principal subsidiary companies were indicated. Directors' emoluments are disclosed as usual in the notes to the income statement. The corporate governance report sets out clearly the functions of the board of directors and the procedures in making decisions on strategic issues. The disclosure of First National Bank Holdings directorate is transparent and well executed.

**NEDCOR (6)**

Different to the other banks the directorate is disclosed also with photo's but without age, qualifications or other interests and also after the chairman's review and chief executives' review. It is only the last few pages where this information plus directors' interests in other businesses are disclosed. The chairman's statement mentioned the changes in the board of directors. The corporate governance report also sets out the functions of the board of directors.

**SAAMBOU (7)**

The directorate is also disclosed with photo's with specific details concerning their other interests, age and qualifications on the following page. The managing director refers to human resources in his chief executives' review. The directors report to the financial statements mentions the changes in the board of directors. The corporate governance report disclosed the functioning of the board of directors.

**SARB (2)**

The board of directors is named without age or qualifications as well the changes in the board.

**STANDARD BANK (5)** The chairman's report refers to the changes in the board of directors. At the end of the annual report the directorate is named with each one's age and no qualifications. Reference is made to the position the director holds in office.

#### **GENERAL (6.67)**

**EXCLUDING (SARB)** The disclosure on the board of directors of all the banks is good. The average in terms of Table 4.3.1 is 83 % with First National Holdings Bank the highest (100 %) and Standard Bank the lowest with (63 %).

#### **4.4.2 MANAGEMENT (MAXIMUM 5)**

All the banks excluding SA Reserve Bank reported on their management in a similar fashion. It is presented on a full page as a group structure with portfolio's, qualifications and age disclosed. The reason why Boland Bank Holdings Limited and Standard Bank Holdings Limited are awarded with a mark of 3 is that both the banks didn't elaborate in detail as much as the other banks did. The average of 73 % is fair.

#### 4.4.3 PERSONNEL TRAINING AND PARTICIPATION (MAXIMUM 10)

##### ABSA (8)

The group chief executive's review states that the banks employees continue to make quality service to clients. The chief executive acknowledges the human resource effort in the bank (ABSA Annual report, 1997 : 18). Full disclosure is given in the chief executives review on human resources. The mission of the bank includes "*to improve the quality of life of employees*". Four areas have been identified:

- \* Education and training
- \* Transformation and process innovation
- \* Reward management
- \* Internal communication

The bank established an interactive distance learning environment to encourage their employees to improve themselves, and was also awarded by President Mandela with the Education African Award. A programme named the "Employee Well-being" provided trauma counselling to employees of the bank. ABSA also accommodates the new Labour Relation's Act to build capacity from the lowest levels up. ABSA implemented a three-year strategy on internal communication and put to use a channel Visible Voice. In the Corporate governance report the worker participation process is reported on: *"A number of human resource processes have been designed to increase the participation of staff in decision making. Worker participation is further enhanced by the interaction created through the performance management process whereby staff contract their key performance areas with their supervisors and obtain an assessment of their performance"* (ABSA Annual report, 1997 : 33). This report concludes on human resources with the policy regarding constructive employment and development.

**BOLAND BANK (7)** The managing director reports in his review that large amounts are spent on staff training and that training is a priority for the coming year. A series of open discussions to which all staff members are invited is held throughout the country. Staff may address any question to management. In the corporate governance employee participation is disclosed. Boland Bank makes use of various participative structures for issues which directly and materially affect employees. In this report it is stated clearly: *“These structures were designed to maintain sound relationships between employer and employees by means of the efficient communication of relevant information, the identification and solving of conflict and regularly conducting “open discussions” between the executive management and all the employees of the company”* (Boland Bank Holding Annual report, 1997 : 17).

The participation of employees in the shares of Boland Bank Holdings is disclosed in full as part of the notes to the financial statements (Boland Bank Holdings Annual report, 1997 : 29).

**FIRST NATIONAL (8)** The entire approach of the chairman of First National is indicative of his sincerity to the human being. In his report on human resources he starts with: *“The creators of value in our organisation will always be our people”* (First National Holdings Annual report, 1997 : 19). He reports furthermore on developing the staff with programmes and creating communication programmes. The Building a Better Bank programme is used in the transformation process. This report states the number of employees as well as the reduction in staff with the reason for last-mentioned. The investment in staff training in total as well as the investment in training per person is disclosed. The chairman concludes on human resources with the policy of the bank concerning affirmative action, equal rights and the policy of Code of Best Practice.

In general very good disclosure on human resources as it entails policy reporting as well as numerical reporting.

**NEDCOR (9)**

The extent of human resource disclosure is throughout the annual report. The chief executives review states: *“Our people management philosophy entails having competent and fulfilled staff to enable both our people and Nedcor to meet our objectives. This has seen a focus on performance management, processes, organisational transformation, training and development, industrial relations and vastly improved communications”* (Nedcor Holdings Annual report, 1997 : 14).

The annual report discloses in full on employee incentive scheme (Nedcor Holding Annual report, 1997 : 47) as well as staff participation with the remuneration committee. The chairman’s statement and the Corporate governance disclose in full on the board of directors. The role of people is clear in the Nedcor Holding Annual report.

**SAAMBOU (3)** This annual report is different to the others as there is no reference to staff participation or employee incentive schemes. The report is much more condensed with normal reference to the board of directors and then specific reporting in the Corporate governance report on human resources. The human resource committee determines the salaries, incentive bonuses and possible allocations or allotments of options and shares to directors and top management. This committee also determines the policy on human resources (Saambou Holding Limited Annual report, 1997 : 35). The report has a general discussion relating human resources in the business review, concerning the value of staff and the importance of training and developing the employees of Saambou (Saambou Holdings Limited, 1997 : 8).

**SA RESERVE BANK (1)** Very little disclosure is made in this annual report concerning human resources. The only disclosure is in the mission statement on personnel philosophy: *“The Reserve Bank believes that its employees should find working for the Bank a stimulating and personally enriching experience”* (SA Reserve Bank Annual report, 1997 : 6).

**STANDARD BANK (6)** Standard Bank discloses in the report of his Group Chief Executive's review the following on human resources: *"A major effort was devoted to longer-term staffing plans aimed at improving employment equity and diversity. Total human resources development expenditure was 3.9 % of payroll costs, which compares favourably with domestic and international standards. The Group's Staff complement at December 31 1997 was 32 288 of whom 28 825 were within South Africa, 2 803 elsewhere in Africa and 660 in off-shore locations. The South African staff complement is 45 % black, Asian and coloured and 65 % female"* (Standard Bank Holdings Annual report, 1997 : 19). Staff participation relating to share option schemes is reported on in full (Standard Bank Holding Annual report, 1997 : 76, 90).

General information on affirmative action and the number of employees is disclosed in this report.

#### **4.5 THE LOCATION OF HUMAN RESOURCE DISCLOSURES IN THE ANNUAL REPORTS**

The annual reports have all basically the same type of reporting. A typical report can be summarised as follows:

- \* Group structure
- \* Five-year review
- \* Chairman's statement
- \* Chief executive's review
- \* Financial review/information/statements
- \* Corporate governance
- \* Analysis of shareholders

The location of human resource disclosures will now be set-out in tabular form with the above seven points as the basis. The following headings will be referred to in these reports:

- \* Directorate
- \* Management
- \* Personnel training and development
- \* Personnel participation
- \* General - affirmative action etc.

<b>ABSA BANK</b>							
	Group Structure	Five-year Review	Chairman's Statement	Chief Executive's Review	Financial Information	Corporate Governance	Analysis of Shareholders
Directorate	P7, P12, P13, P69		P11				
Management	P14, P79						
Personnel Training				P18, P28, P29		P32	
Personnel Participation						P33, P34	
General	P1	P68, P67, P75					P77
(ABSA Bank Annual Report, 1997)							
<b>BOLAND BANK</b>							
Directorate	P4, P5		P10		P22		
Management				P13			
Personnel Training				P15		P17	
Personnel Participation					P29, P30	P17	
General		P2			P41, P42	P16	P47
(Boland Bank Holdings Annual Report, 1997)							

<b>FIRST NATIONAL HOLDINGS LIMITED</b>							
	Group Structure	Five-year Review	Chairman's Statement	Chief Executive's Review	Financial Information	Corporate Governance	Analysis of Shareholders
Directorate	P8, P10, P11, P12, P13				P35	P64	
Management	P9						
Personnel Training			P19				
Personnel Participation			P19		P36	P66	
General			P19				P34
(First National Holding Annual Report, 1997)							
<b>NEDCOR HOLDINGS LIMITED</b>							
	Group Structure	Five-year Review	Chairman's Statement	Chief Executive's Review	Financial Information	Corporate Governance	Analysis of Shareholders
Directorate			P11	P21	P41, P57, P65		
Management					P65, P66		
Personnel Training				P13, P14		P36	
Personnel Participation				P14	P47	P37	
General		P6			P57, P60	P37	P64
(Nedcor Holdings Annual Report, 1997)							

<b>SAAMBOU HOLDINGS LIMITED</b>							
	Group Structure	Five-year Review	Chairman's Statement	Chief Executive's Review	Financial Information	Corporate Governance	Analysis of Shareholders
Directorate	P10, P11				P15		
Management	P12						
Personnel Training			P4	P8			
Personnel Participation					P27	P35, P36	
General		P2					
(Saambou Holdings Annual Report, 1997)							
<b>STANDARD BANK HOLDINGS LIMITED</b>							
Directorate	P95, P96		P13	P58	P77		
Management	P96, P97, P98			P58			
Personnel Training				P19			
Personnel Participation				P19	P76, P80, P86, P90		
General	P2	P36				P52	P58, P92
(Standard Bank Holdings Annual Report, 1997)							

From the above it is clear that all the banks disclose in a similar fashion, some more for example in the chairman's report and others more in the report on financial information. The main part is that basically all the topics mentioned in the beginning of this section are disclosed on.

#### 4.6 SUMMARY

The research in this chapter has proven that all the banks do report on human resources in their annual reports. None of them supplied specific reasons why they are reporting on human resources, but it was clear in the theme's of human resources on which they reported, that human resources are important to them. The complete image of the annual reports presents a human orientated-approach. These annual reports also proved that there is as yet no specific accounting principles to which the banks or businesses have to adhere to. The reporting is merely high-lighting or mentioning certain aspects and in some cases numerical reporting. The latter being the minimum.

The extent of human resource disclosures also differs. Some banks disclose more on directors than on employees and vice versa. The same is applicable on the location of reporting.

The following chapter will discuss the conclusion's of this research and offer some recommendations.

## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary and conclusions

#### 5.2 Recommendations

#### 5.1 SUMMARY AND CONCLUSIONS

The preceding chapters investigated the reporting on human resources accounting with specific emphasis on the banking sector. The results of the previous chapters are summarised in this chapter and a conclusion leading to specific recommendations is reached.

##### 5.1.1 The concepts “human resources accounting “financial reporting” and “accounting theory”

###### 5.1.1.1 The theoretical context of human resources accounting

The theory of human resources accounting was discussed. Concepts such as human resources accounting, financial reporting and accounting theory were investigated.

Two different approaches regarding human resources accounting were identified namely the traditional approach (writing off as expenses) and the modern approach (capitalizing the expenses).

The financial reporting on human resources accounting in terms of statutory requirements is the minimum disclosure of information, however the companies do supply additional information in their annual reports.

The need to develop an accounting theory on human resources accounting is now more imperative than ever. In 1964 Hermanson and in 1968 Brummet, Flamholtz and Pyle and in 1977 Vorster urged the development of such an accounting model. Many present researchers do the same.

#### 5.1.1.2 The role of human resources accounting as a source of information for decision making

According to Lee (Saenger 1991: 16) “financial reporting has, over the years, developed into a highly sophisticated and technical multi-statement function”. The above proves that more specific disclosures are needed and not just the traditional numerical reporting.

Different types of reporting were identified and new trends followed which emphasised the using of financial information. In analysing information concerning human resources accounting Flamholtz (1985: 9) states the three major functions, namely that

- it serves as a framework to facilitate human resources decision making,
- it provides numerical information about the cost and value of people as organizational resources, and
- it can motivate the management to adopt a human resources perspective in their decisions involving people.

#### 5.1.1.3 The theoretical framework of human resources accounting

In investigating the above the two main approaches namely:

- the traditional approach, and
- the modern approach

were analysed. For this study the modern approach was identified as the more applicable approach. This approach represents new accounting research which has created new methodologies and has utilised unique ways of solving accounting problems. Of all the sub-sections of the modern approach the positive approach seems to be the best approach in developing a conceptual framework in developing an accounting model for human resources accounting. Investors and

analysts can use this approach as a predictive model of the accounting policies underlying financial statements.

### **5.1.2 THE OBJECTIVES, DEVELOPMENT AND IMPORTANCE OF HUMAN RESOURCE ACCOUNTING**

It is clear that human resource accounting and the development there-of is very important. This study compared the historical development with the existing status as well as existing new developments. It also investigated numerous arguments against, as well as arguments for human resource accounting.

The current situation concerning human resource accounting is that there is no regulations or legislation. It is now clear that some form of discipline must be developed. Given the changing times and the shifting of emphasis from normal assets to the human “asset” legislation will become a necessity in the near future.

Current legislation in South Africa for example:

- The Constitutional Act
- The Bill of Rights
- The Labour Act

entrenches the well being of the human being. Companies in South Africa will have to disclose on human resources.

### **5.1.3 THE THEME, EXTENT AND LOCATION OF HUMAN RESOURCE DISCLOSURES**

#### **5.1.3.1 Themes of human resources disclosures**

All the banks had a specific theme of human resource importance. Many of the annual reports started with a logo or image of human beings on the front cover and a thin thread of human being importance was noted throughout the annual reports. However all the banks have shown more importance in reporting on their directors then reporting on their human “assets” (The employees). Precise and specific details concerning the directors were disclosed with only “additional” information supplied on employees. Some banks reported the minimum numerical detail concerning the employees. The complete image of the annual reports presents a human orientated-approach but with no specific legislation or guidelines the companies will continue with the ad-hoc reporting as they do now.

#### **5.1.3.2 Extent of human resources disclosures**

The extent of human resources disclosures differed from bank to bank. Some banks, for example Nedcor and First National, reported as usually in the directors review but also reported numerically on the employees in service.

### 5.1.3.3 Location of human resources disclosures

The banks all had different lay-outs in reporting on human resources. They did however report on all the themes in different locations. The most preferred locations were the chairman's statement, the chief executive's review and the corporate governance. Less significant information was supplied elsewhere for example the group structure and financial information.

### 5.1.4 CONCLUSION

Throughout this investigation the need and urgency for information have become clear. Information regarding our well-being, our progress, our future. Humans want to know they are making a positive contribution to the world they live in.

Furthermore accountancy as a science has shown the ability to develop and keep up with the pace, trends and need of the modern world by developing different reporting (feed back) to the users of information. The modern approach linked with the positive approach as set out in this study has shown that it can break away from the normal conservative and conventional methods of disclosing information.

The business-world (in this case the banks) has also indicated its willingness to report on the human asset.

The need is now to co-ordinate, regulate and legislate the reporting on human resources to such an extent that the user can easily obtain and interpret the information required.

## **5.2 RECOMMENDATIONS**

In order to regulate the reporting it is recommended that an exposure draft (ED) re human resources involvement be developed. This exposure draft can then in time be developed into an accounting statement.

This exposure draft will be of great assistance to the compilers of financial statements as well as the users. The usual reporting on training schemes and involvement of the employees in the business can be disclosed in the corporate governance.

A proposed summarised example of an exposure draft can be as follows:

## Exposure draft

### Presentation

An enterprise should present basic earnings per employee on the face of the income statement for different groups of employees i.e.:

- Total employees;
  - Directors and top management
- regarding the net profit for the period.

### Disclosure

The disclosure requirements may be summarised as follows:

- The amounts used as the numerators in calculating basic earnings per employee and a reconciliation of those amounts to the net profit or loss for the period.
- The weighted average number of employees used as the denominator in calculating basic earnings per employee, and a reconciliation of these denominators to each other.

- If an enterprise discloses, in addition to basic earnings per employee, per employee amounts using a reported component of net profit other than net profit or loss for the period attributable to ordinary shareholders, such amounts should be calculated using the weighted average number of employees. If a component of net profit is used which is not reported as a line item in the income statement, a reconciliation should be provided between the component used and a line item which is reported in the income statement. Basic per employee amounts should be disclosed with equal prominence.

### Disclosure example

#### **X Ltd**

#### **Income statement for the year ended 31 December 19x8**

	Notes	R'000
Retained profit for the year		4 000
Opening retained earnings		<u>XXX</u>
Closing retained earnings		<u>XXX</u>
Earnings per employee	4	R125,00
Headline earnings per employee	5	R131,25
Earnings per employee (director and top management)	6	R3 200,00
Human resource cost per employee	7	R4 750,00

**Notes to the financial statements for the year ended 31 December 19x8**

4. Earnings per employee

The calculation of basic earnings per employee is based on earnings (net profit) of R4 000 000 which includes extraordinary and abnormal items as well as dividends received and interest received. The net profit is after taxation. The total employees amounted to 32 000.

5. Headline earnings per employee

The calculation of headline earnings per employee is based on headline earnings of R4 000 less adjustments to earnings which have no bearing on headline earnings:

Earnings	R4 000 000
Loss on sale of fixed asset (after taxation)	<u>200 000</u>
Headline earnings	<u>R4 200 000</u>

Total employees amounted to 32 000.

6. Earnings per employee - top management

The calculation of basic earnings per employee is based on earnings (net profit) of R4 000 000 which is the total net profit after taxation. The total employees is the number of designated directors and top management, for example 1 250.

## 7. Human resource cost per employee

This calculation is based on the total remuneration account which will include training costs and perks received as share participation schemes divided by the number of employees. In this instance for example R152 000 000 divided by 32 000 employees.

These recommendations can lead to much more transparency and very important information about the human asset can be obtained. Examples of last mentioned are:

- Productivity can be measured in the ratio of earnings per employee.
- The contribution of employees to the headline earnings of the business is visible.
- The structure of the business can be determined in the ratio of earnings per employee-top management. Is it, for example too top heavy? Specific business skills of certain directors are visible.
- The contribution into human resources is indicative of minimum wages, distribution of wealth and the importance of the human asset.
- Norms can be developed to measure effectiveness if businesses in the same trade and similar structures compare differently, which will give very useful information to investors re productivity and management.

This study is concluded referring back to the Bible text it started with. Jesus explains in St Matthew 10:29-31 that the human being is most valuable and whatsoever contribution is made by the human must be returned to him in the same fashion. If the human asset delivers a contribution to a business concern, this contribution must be returned in telling (reporting) the human of his efforts.

St Matthew 7:12 the Lord says: “Therefore all things whatsoever ye would that men should do to you, do ye even so to them; **FOR THIS IS THE LAW** and the prophets”.

## **ENGLISH SUMMARY**

The problem of not currently reporting on human resources in the financial statements of business concerns was defined in chapter 1. This was followed by a discussion which centered around the importance and motivation of researching the problem. The framework and methodology to do the research were set out systematically and explained.

Chapter 2 dealt with the theoretical context of human resources accounting. Concepts such as human resources accounting, financial reporting and accounting theory were discussed. Human resources accounting as a source of information and the role it plays in decision making were briefly discussed. In the last part of the chapter a theoretical framework of human resources accounting with specific reference to the traditional approach of accounting and the modern approach of accounting was researched.

In chapter 3 the objectives and need for human resources accounting were discussed. The current status compared to the historical development and historical status was investigated to determine any new developments and progress on human resources accounting. The arguments for and against human resource accounting were also explained.

Chapter 4 showed that all the banks report on human resources in their financial statements. The importance of human resources to the banks is evident in the themes of human resources on which the banks have reported. These annual reports also proved that there is as yet no specific accounting principles to which businesses have to adhere to concerning this accounting subject. The extent and location of human resource disclosures also differed, due to the fact that there is no specific guideline on disclosing human resources in financial statements.

In chapter 5 the conclusion and recommendations re the reporting on human resource accounting were given. The conclusion was reached that in order to develop as a science and enhance its status, accountancy must be encouraged to adopt the modern approach of human resources accounting. Arising from the above conclusion it is recommended that an exposure draft (ED) on human resources accounting be developed. This ED can be utilized to organise reporting on human resources in financial statements.

## AFRIKAANSE OPSOMMING

Die probleem dat sake-ondernemings nie tans in hulle finansiële state verslag doen rakende menslike hulpbronne nie, is in hoofstuk 1 gedefinieer. Die belangrikheid van en motivering vir navorsing oor dié probleem is verder verduidelik. Die hoofstuk word afgesluit met 'n uiteensetting van die beoogde navorsingstuk, asook die navorsingsmetodiek wat gebruik gaan word.

Hoofstuk 2 handel oor die teoretiese inhoud van menslike hulpbronrekeningkunde. Konsepte soos menslike hulpbronrekeningkunde, finansiële verslagdoening en rekeningkundige teorieë is bespreek. Menslike hulpbronrekeningkunde as bron van inligting en die funksie wat dit in die besluitnemingsproses vervul is bespreek. Die laaste gedeelte van die hoofstuk is 'n teoretiese raamwerk van menslike hulpbronrekeningkunde met spesifieke verwysing na die tradisionele en die moderne benadering van rekeningkunde.

In hoofstuk 3 is die doelwitte en behoefte vir menslike hulpbronrekeningkunde bespreek. Die huidige status is vergelyk met die historiese ontwikkeling en historiese status, om enige nuwe ontwikkelings en vooruitgang rakende menslike hulpbronrekeningkunde vas te stel. Die argumente ten gunste van menslike hulpbronrekeningkunde en die argumente daarteen is bespreek.

Hoofstuk 4 het bewys gelewer dat al die banke wel in hulle finansiële state oor menslike hulpbronne verslag doen. Die verskillende temas met betrekking tot menslike hulpbronne waaroor die banke verslag gedoen het, het die belangrikheid van menslike hulpbronne bevestig. Die finansiële state het ook getoon dat daar tot nou toe geen spesifieke rekeningkundige beginsels of riglyne bestaan waaraan sake-ondernemings rakende hierdie onderwerp moet voldoen nie. Die omvang en plek waar menslike hulpbronverantwoording gedoen is het van bank tot bank verskil.

In hoofstuk 5 is gevolgtrekkings en aanbevelings rakende menslike hulpbronrekeningkunde gemaak. Daar is tot die gevolgtrekking gekom dat aangesien rekeningkunde die vermoë het om wetenskaplik te ontwikkel en by moderne benaderings aan te pas, laasgenoemde benadering aangemoedig moet word. Direk na aanleiding van bogenoemde is aanbeveel dat 'n geopenbaarde konsep (GK) met betrekking tot menslike hulpbronne ontwikkel moet word. Dit sal tot gevolg hê dat verslagdoening oor menslike hulpbronne in finansiële state georganiseerd gedoen kan word.

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