Global Reporting Initiatives (G3), Standard Disclosures for Human Resource Practices: Compliance and Determinants in The Financial Services Sector: Europe, Asia and Others

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ABSTRACT

This paper is the first to study whether Human Resource Practices (HRP) disclosure in sustainability reports of Financial Services Sector (FSS) firms comply with G3 guidelines. The paper raises issue on compliance of practices with G3 because it is considered as a generally acceptable reporting framework by many organisations around the world and expects firms to provide consistent and comparable information in sustainability reports. To measure compliance it compares HRP disclosure with the disclosure guidelines in G3 and then compliance between firms within a region and between regions, namely: Europe, Asia and ‘Others’. Using content analysis the paper measures HRP disclosure compliance with G3 standard disclosures between companies in the financial sector within region and between regions and (ii) then uses hierarchical regression analysis to investigate the determinants of the compliance level. The paper reveals that the level of compliance with G3 by FSS firms is higher in Europe than in Asia or the ‘Others’ region. The regression analysis suggests that region, strength of reporting, ethical behaviour of firm, labour/employer relations and capacity of the firms to innovate are the main explanatory variables of HRP disclosures in the FSS firms. Findings of this study would be useful to potential employees, trade unions as well as national regulators and international organisations such as the International Labour Organisations (ILOs) and the OECD. This study also infers that good corporate communication on HRP maintains good labour/employer relationship.

INTRODUCTION

The Global Reporting Initiative (GRI) has issued guidelines which are intended to serve as a generally accepted framework for reporting on business sustainability. Since 1997, the GRI has issued three versions of its guidelines, with the most recent one, known as G3, issued in 2006 and updated to G3.1 in 2011. According to the GRI, comparability means “Issues and information should be selected, compiled and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyse changes in the organisation’s performance over time and could support analysis relative to other organisations” (G3, p.14, para. 1). In order to achieve comparability, it is fundamental for business organisations reporting under the GRI framework to comply with the guidelines.

The GRI framework classifies sustainability disclosures into three dimensions: economic, environmental and social. A key aspect of the social dimension relates to human resource practices (HRP), which the guidelines describe as “labour practices and decent work” (G3). This study investigates the extent to which HRP disclosures by companies in the financial services sector (FSS) complies with G3 standard disclosures and (ii) compare practices between companies in Europe, Asia and other parts of the world. Data is drawn from the 2007/8 sustainability reports of these companies.

The reason(s) to focus on the FSS is because of its size and the key role it plays in facilitating economic activities in an economy (Baskin and Mirante, 1997; Day and Woodward, 2009). Financial services companies, especially banks, are also considered to be public interest entities, with multiple stakeholder groups interested in the contents of their reports. Firms in the FSS rely greatly on the quality and management of human resources to obtain a competitive edge both in the marketing of their services and in the labour market (Bonis et al., 2001; Nielson et al., 2006), and thus HRP disclosures are important. Guthrie (2001) argues that the disclosure of human capital permits stakeholders to identify skills and competency gaps between organisations, leading to more effective allocation of resources. Trade unions and recruitment agencies are keen to know organisations’ HRP for industrial negotiations and supply of human resources respectively. The

1 Sustainability reports can be used (i) to show corporate commitment to sustainable development, (ii) to compare organisational performance overtime and measure the performance against various metrics and standards (GRI 2011)
2 In 2008, the GRI released the final version of a sector supplement for the financial services sector. This supplement includes sector-specific commentary on the Guidelines’ content and additional Performance Indicators for the sector. As far as Labour practices are concerned, the disclosures are broadly similar to those in the general G3 guidelines on which our study is based.
3 Because our study uses 2007/8 reports, we base our analysis on the G3 guidelines as these were current at the time of the study.
provision of more transparent information on HRP would assist stakeholders (investors, employees, trade unions, recruitment agencies, human resource consultants and even international organisations) to make better decisions (Guthrie, 2001; Royal and O’Donnel, 2008). For instance, recruitment agencies may not be willing to supply human resources to firms whose HRP are less transparent. Wyatt (2001) contends the quality of HRP not only impacts on corporate financial returns but also on shareholder value. In the context of the FSS, the qualifications, experience, and professional education of employees signal value superiority. Moreover the rate of labour turnover in the FSS is important information to stakeholders in deciding whether to trade or work with a bank or an insurance company. A high labour turnover rate would indicate lack of effective human resource management practices which entail the need to frequently employ new staff. However, little regulation requires the disclosure of HRP in corporate annual reports4, in sustainability reports or in tailor-made reports to employees (Parker, 1988; Forgaty and Radcliffe, 1999).

The G3 framework has been developed after consultation with a broad spectrum of stakeholders including private and public sector entities both at local and international levels. It requires business entities to disclose HRP in their sustainability reports as a means of communication to both individual and institutional labour suppliers, trade unions, regulators and also international organisations such as the International Labour Organisations (ILO). The framework is presently considered a generally accepted reporting framework by many organisations around the world. Compared to other frameworks (such as Brooking or FORGE) the standard disclosure framework of G3 is considered more relevant to investigate HRP disclosures in sustainability reports of companies because firms which produce and register their sustainability reports with the GRI are assumed to have complied with G3.

Importance of The Study

This study is important and original for the following reasons. First compliance with G 3 is important to enhance comparability and understand-ability of sustainability reports. Research into how far the disclosure practices comply with the G3 is therefore considered crucial because users of sustainability reports demand more comparable information (Radebaugh and Gray, 1997) in order to be able to make more effective decisions (Guthrie, 2001; Day and Woodward, 2009) and to gain a competitive edge in the market (de Pablos, 2003; Nielsen et al., 2006). As yet no study has addressed HRP disclosures in sustainability reports in particular.

Second the paper examines compliance with HRP disclosure in the GRI reporting framework rather than the traditional annual report (Guthrie, 2001; Day and Woodward, 2004, 2009; Khan and Khan, 2010; Laine, 2010). It measures compliance of practices in sustainability reports and compares between companies within a country and across different countries. Measuring compliance of sustainability reporting practices with the G3 will shed light on preparers’ knowledge of the GRI framework, its practicability and its fertility. Moreover investigating how firms in the FSS comply with G3 will add insight to GRI disclosure practices in a sectoral context.

The findings of this study are as follows: First FSS firms in Europe are more compliant with G3 than FSS firms in Asia and other parts of the world. The compliance score indicates which of the HRP disclosure items in G3 are practical for reporting whereas the compliance gap indicates which of them are not and why. The compliance gap is pertinent to the GRI as well as assurance providers and preparers of sustainability reports. It is measured at two stages (i) gap in HRP disclosures between companies and the G3 HRP standard disclosures and (ii) gap in HRP disclosures between companies within a region and between regions. Second there are other explanatory variables (number of employees, strength of reporting, ethical behaviour of firms, labour/employer relations and capacity of the firms to innovate) in addition to turnover, profit and total assets for HRP disclosures in FSS sustainability reports. The rest of this paper is organised as follows. Section 2 gives some background on the GRI including G3 and the research questions. Section 3 reviews the relevant literature while Section 4 develops a conceptual framework and the hypotheses tested in the study. Section 5 describes the research methods whereas section 6 presents the results and discussion. The paper ends in section 7 with a concluding note.

GLOBAL REPORTING INITIATIVE AND SUSTAINABILITY REPORTING: AN OVERVIEW GLOBAL REPORTING INITIATIVE

In 1997, the GRI project in Boston initiated the practice of Sustainability Reporting and two years later, the first GRI guidelines’ exposure draft was issued. While the guidelines were still in

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4 The ‘Value-Added Statement’ (VAS) recommended in the Corporate Report (ASSC, 1975), was designed to provide a meaningful employee report (Burchell et al., 1985). The VAS was popular in the UK, but had a very short life span. Moreover it reported only the contribution of employees to the creation of wealth by the organisation and this was through labour cost. International Accounting Standard (IAS) 19 on ‘Employee Benefits’ requires certain disclosures in the financial statements but these are restricted to the disclosure of any financial benefit accrued to an employee both short-term and long-term and post-employment benefits. Finally, the European Commission (EC) Directives: 94/95 provides employee representatives with right to information and consultation (Johansen, 2010).
draft form, 20 companies released a sustainability report. In 2000 the first guidelines (version 1: G1) were formally published and the GRI made considerable efforts to raise their awareness among both private and public sector enterprises (Owen, Swift and Hunt, 2001). As a result, the number of companies complying with the guidelines increased to 50 in the year 2000 and 130 in 2002 when the second version, G2, was issued. In 2006, the guidelines were revised again and a third edition known as the G3 guidelines for sustainability reporting was issued. G3 recommends that organisations report on six dimensions\(^5\), one of which is social performance. This dimension includes labour and work practices which we describe as HRP. Between 2006 to date, 1350 companies issued and registered their sustainability reports with the GRI.\(^6\)

### Sustainability Reporting

A sustainability report can either be a supplementary report or an integral part of the annual report of a business organisation. The main objective of sustainability reporting is to extend the degree of accountability of organisations beyond the traditional role of financial reporting to a broader group of stakeholders (Gray et al., 1987; Garz and Volk, 2007). While there is now a move towards integrated reporting rather than a separate sustainability report, integrated reporting is in the early stages of development (The IIRC, 2011). In 2007/8, the period of our study, separate sustainability reports were becoming the norm, with the G3 guidelines increasingly being accepted as the standard for such reporting.

### Human Resource Practices

The standard disclosure guidelines in G3 deal with specific aspects of human resource practices (labour practices and decent work) based on international conventions and protocols.\(^7\) G3 requires a concise disclosure on five categories of human resource practices. These five disclosure categories are divided into separate disclosure elements. This is presented in Table 1.

#### Table 1: Human Resource Practices

<table>
<thead>
<tr>
<th>Category</th>
<th>Elements</th>
<th>Disclosure Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Employment</td>
<td>LA 1</td>
<td>Total workforce by employment type, employment contract and region.</td>
</tr>
<tr>
<td></td>
<td>LA 2</td>
<td>Total size and rate of employee turnover by age group, gender and region.</td>
</tr>
<tr>
<td></td>
<td>LA 3</td>
<td>Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.</td>
</tr>
<tr>
<td></td>
<td>LA 4</td>
<td>Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.</td>
</tr>
<tr>
<td></td>
<td>LA 5</td>
<td>Percentage of employees covered by collective bargaining agreements.</td>
</tr>
<tr>
<td>2: Labor/management relations</td>
<td>LA 6</td>
<td>Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.</td>
</tr>
<tr>
<td></td>
<td>LA 7</td>
<td>Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region.</td>
</tr>
<tr>
<td></td>
<td>LA 8</td>
<td>Education, training, counselling, prevention, and risk-control program in place to assist workforce members, their families, or community members regarding serious diseases.</td>
</tr>
<tr>
<td></td>
<td>LA 9</td>
<td>Health and safety topics covered in formal agreements with trade unions.</td>
</tr>
<tr>
<td>4: Training and Education</td>
<td>LA 10</td>
<td>Average hours of training per year per employee by employee category.</td>
</tr>
<tr>
<td></td>
<td>LA 11</td>
<td>Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.</td>
</tr>
<tr>
<td></td>
<td>LA 12</td>
<td>Percentage of employees receiving regular performance and career development reviews.</td>
</tr>
<tr>
<td>5: Diversity and Equal Opportunity</td>
<td>LA 13</td>
<td>Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity.</td>
</tr>
<tr>
<td></td>
<td>LA 14</td>
<td>Ratio of basic salary of men to women by employee category.</td>
</tr>
</tbody>
</table>

Source: GRI Sustainability Reporting Guidelines: G3, p.31

G3 standard HRP disclosure requirements make employers accountable by requiring a set of fourteen disclosure elements on HRP. Companies producing a sustainability report are expected to comply with the guidelines so as to disclose clear, consistent and comparable information on any of the standard disclosures in the G3, including HRP (Narayanan et al., 2000).

### Prior Studies

The literature on HRP disclosure (Guthrie, 2004; Samudhram et al, 2008; Day and Woodward, 2009; Khan and Khan, 2010) is relatively sparse. Guthrie (2004) compares human resource practices disclosures between companies and suggests it allows for better resource allocation. Previous studies suggest that the advantages of reporting on human resources are (i) more transparency, (ii) less transaction costs, (iii) increasing trust between employer and

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\(^5\) These dimensions are: (1) Vision and Strategy, (2) Profile, (3) Governance, Commitments and Engagement, (4) Economic Performance Indicators, (5) Environmental Performance Indicators, (6) Social Performance Indicators.

\(^6\) G3 was intended to be a dynamic framework that would be updated and expanded as required. As such, G3.1 was released in March 2011 to provide more guidance on some aspects of the social dimension such as human rights, community impacts and gender issues. The updates have little impact on the disclosures relating to HRP.

employees and allowing employees to compare their own companies against the practices of other organisations in the same sector (Flamholtz and Main, 1999; Guthrie, 2001; Burgman et al., 2005).

Other studies suggest HRP disclosure is linked to the returns and the sector to which a firm pertains or the intricacy in measuring human capital (McGregor et al., 2004; Royal and O’Donnel, 2008; Roslender and Dyson, 1992). Petty and Guthrie (2000) contend that HRP reporting drives firms to imitate the best disclosure practice of other firms. Grover and Davenport (2001) argue that it affects the social order of firms within a sector as well as between sectors. de Pablos (2002) suggests that some firms disclose HRP in order to project a better corporate image. The author argues that this may not be the case if the HRP disclosures are ‘bad news’ (see also Foong et al. (2003). Olson (2001) investigates HRP reporting of 18 Swedish companies and contends that less than 10 percent reports HRP (see also Bonti et al. 2003; Harrison and Sullivan, 2000) who suggest that there are many firms over the globe which generate profit from human capital but do not report on human resource practices generally.

The most recent studies on HRP disclosure were from (Day and Woodward, 2009; Khan and Khan, 2010). Day and Woodward (2009) determine the extent to which disclosure in published annual reports of firms in FSS complies with their sector guidelines in the UK. They reveal that only 56% of firms in the FSS disclose workplace information in general, but the highest level of disclosures are (i) Learning and development and (ii) Diversity and equal opportunities with a disclosure score of 96% and 93% respectively. Khan and Khan (2010) explore HRP disclosure practices in Bangladesh. Using a sample of 32 companies from Dhaka Stock Exchange (DSE) and Brooking’s (1996) constituents of intellectual capital, they investigate twenty human capital items of disclosure. They suggest that 80% of banks disclose at least 11 out of the 20 items selected in their study. They do not highlight those 11 items but report that the average disclosure by banks is higher than any other sector in Bangladesh.

This study differs from previous studies and contributes to the body of knowledge in a number of ways. It investigates disclosure of HRP by companies against G3 standard disclosures in order to measure compliance level and identify a compliance gap with G3. G3 is a different reporting framework. Unlike other studies it uses solely sustainability reports rather than annual reports. Using three different group of countries, it reports the differences and similarities in the disclosure of HRP by country grouping. Finally the study empirically investigates the determinants of compliance to G3.

**CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT**

Stakeholder theory is used to provide insights into disclosure of HRP by companies. Stakeholder theory posits that corporations have various stakeholders to whom they are responsible and from whom they need approval in order to maintain their continued success (Ullmann, 1985). Stakeholders are beyond stockholders (Mitchell et al., 1997) and comprise any group or individual who can affect or be affected by the achievement of an organisation’s mission (Gray et al. 1977; Freeman, 1984, see also Caroll, 1993, pp.22-23; Robert, 1992; Dierkes and Antal, 1985; Preston et al. 1999; Gray et al., 1995). Ullman (1985) uses ‘stakeholder power’ dimension and argue that firms tend to satisfy the demands of stakeholders who control or supply critical resources. Employees are classified stakeholders who can exercise strong power on the firm. Employees are direct contributors to generate firm’s profits and as such they have a strong power as stakeholders. A conceptual framework is shown in figure 1 below.

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8 The seven items on workplace suggested in FORGE are: Disciplinary practices, Work/life balance, Health and safety, Learning and development, Diversity and equal opportunities, Freedom of association, forced and child labour, Bullying and harassment.
9 FORGE is a consortium established by a group of leading providers with representatives from a range of stakeholders including trade associations, government departments and non-government organisations (day and Woodward, 2009).
Stakeholder theory suggests that profitable companies are motivated to disclose their good news so as to distinguish them from poor performers and also to be able to raise capital at more favourable terms (Wallace and Nasser, 1995; Meck et al., 1995, de Pablo, 2002; Foong et al., 2003; Tauringana and Mangena, 2007). Cooke (1991) suggests that the size of firms affect the level of disclosure (for HRP disclosure, see Day and Woodward, 2009). ACCA (2004) suggests that companies perceive a rise in pressure by stakeholders to disclose the impact of their activities on society and the environment. Stakeholder theory posits that a company’s relationship with its stakeholders can explain the extent of disclosure in their reports. Craig and Diaga, (1998) contend that the reporting system is affected by the country or region in which the company operates. In a similar vein, Smith et al., (2005) explain that a communitarian society would have a higher disclosure level than a contractarian society. Using three regions, this study therefore hypothesises that:

\(H1\): The level of disclosure is related to the region(s) in which the company operates.

Voluntary disclosure is a moral obligation (Gray 2010). This study argues that the ethical behaviour of firms therefore impact on its disclosure practices. However, the ethical behaviour of firms varies between countries as well as between companies within a country. If the ethical behaviour of firms in a country is high it is likely that they will provide a higher level of disclosure than firms in a country where the ethical behaviour of firms is low. Using the ethical behaviour of firm’s score per country in the World Economic Forum Report (2009/10), it is therefore, hypothesised that:

\(H2\): The level of disclosure is positively related with the ethical behaviour of firms in a country.

Accounting literature supports that the level of disclosure practices is dependent on a country’s strength of reporting (see Boolaky et al., 2011). Companies which locate and operate in a country with a strong reporting system are more transparent than those locating in a country where the strength of reporting is weak. Based on that it is hypothesised:

\(H3\): The level of disclosure is positively related with the strength of reporting of a country in a region.

The stakeholder theory further suggests that a company is responsible for its action towards the stakeholders and without reporting the impact of its action society will remain unaware and thus unable to assess whether the values of society align with the activities and goals of the company (Black and Hartnell, 2004). If the impact of the action(s) of company is a ‘good news’ (Tauringana and Manega, 2008), then a company may incline to disclose this information. This may be true when a company innovates, Its systems and practices. Management would motivate to disclose more information because that would demonstrate their capacity to innovate in the industry. On that basis, it is hypothesised that:

\(H4\): The level of disclosure is positively related with a firm’s capacity for innovation in a region.
Content analysis is used for this study (Weber, 1988; Guthrie and Petty, 2000; Krippendorff, 2004; Boolaky, 2007; Ensslin and de Carvalho, 2007). Research on the most appropriate unit of analysis for disclosure studies using content analysis is still ongoing (Gray et al., 1995; Neu et al., 1998; Unermann, 2000, p.668; Milne and Adler, 1999). Taking account of the ongoing debate, this paper uses sentences to identify and categorise the disclosure items and measure the disclosure by matching them with G3 guidelines. This type of analysis is suitable because voluminous qualitative data needs to be analysed (see Holsti, 1969; Boyatis, 1998, Guthrie and Petty, 2000; Guthrie et al., 2004; Boolaky, 2007; Day and Woodward, 2009; Khan and Khan, 2010). A scoring technique is used to measure the compliance level with G3 (see Guthrie et al., 1999; Guthrie and Petty, 2000; Brenan, 2001; Boolaky, 2007). Three number codes is used to pinpoint the disclosure and its extent as follows: 0 = no disclosure at all, 1 = moderately disclosed and 2 = fully disclosed. The reason(s) for using a three number code is because some companies do disclose HRP but not totally in accordance with the G3. In this case it is classified as moderate disclosure. For the purpose of data collection, HRP disclosures are recorded in its five categories and fourteen elements (Sveiby, 1997). The data was collected by taking each element from each disclosure category using the scoring technique mentioned above. The sustainability reports of 76 firms in the FSS from GRI website are used to retrieve data related to HRP. The reasons for choosing sustainability reports are first they are formal documentation where a company reports its social responsibility, though others also report on social responsibility in their annual reports (Gray et al., 1995). Second companies nowadays use their sustainability reports (KPMG, Survey, 2008) to construct their social imagery whereas previous studies support that they are used as a vehicle to communicate companies’ environmental and social reporting (Kelly, 1981; Guthrie and Parker, 1990; Campbell, 2000).

**Measuring HRP Disclosure Compliance and Its Explanatory Variables**

In order to measure HRP disclosure compliance by companies with the G3 guidelines Cooke’s disclosure index is used. This index is the ratio of the actual disclosure scores to the expected disclosure score. The model is produced below

\[ TI = \frac{\sum d_i}{M} \]

where

- \( TI \) = Total disclosure index; \( TD \) = Total disclosure score; \( M \) = maximum disclosure score for each company; \( d_i \) = item of disclosure; \( m \) = actual number of relevant disclosure items and \( n \) = number of items expected to be disclosed.

As regards the compliance gap, the following model is used:

\[ \text{Compliance gap} = 1 - \left( \frac{TI}{TD/M} \right) \]

which is simplified as follows: \( 1 - TI \)

Because the maximum compliance score is expected to be 1, the gap index is therefore obtained by taking actual compliance score from 1. It is assumed that non-disclosure of an item is equivalent to violation of G3 HRP disclosure. Both indices were repeated on an item by item basis and also on a company by company basis for each region.

To measure the level of HRP disclosure compliance between firms within a region and between firms between regions. Herfindahl index is utilised (Van der Tas, 1988). This index is a quantitative method to measure the level of harmony for each item in the financial report and concentration of method between and within countries. This paper uses this index to measure the level of compliance for each item of HRP disclosure in the sustainability report between and within the three regions. The index is reproduced below and illustrated with an explanatory note.

\[ H = \sum_{i=1}^{n} P_i^2 \]

That is:

- \( H \) = Herfindahl index;
- \( n \) = number of alternative accounting methods and;
- \( P_i \) is the relative frequency of accounting method I.

From model (1) it is obvious that the \( H \) index will have a maximum value of 1.

To investigate the determinants of the disclosure score, hierarchical multiple regression analysis is used. Total disclosure (TI) is the dependent variable and the explanatory variables other than the control variables are: strength of reporting (SOR), ethical behaviour of firms (EBOF), labour/employer relationships (LER) and capacity for innovation (CFINO). Because no specific data is available on these four explanatory variables by company per country, the author...
has recourse to the country scores reported by World Economic Forum (WEF) (2009). The scores reported in the WEF report are principally an average score which is considered suitable for this study, in the absence of relevant and specific data. Region is used as a dummy variable. The regression is run at two stages. Profit, total income, salary and total assets are used as control variables. Model 1 includes only the control variables and Model 2 includes all the independent variables. The regression model is presented below:

\[ T_l = \alpha + \beta_1 \text{profi} + \beta_2 \text{toi} \text{ii} + \beta_3 \text{saliii} + \beta_4 \text{toaiv} + \beta_5 \text{REGvi} + \beta_6 \text{SORvii} + \beta_7 \text{EBOFviii} + \beta_8 \text{LERx} + \epsilon \]

**RESULTS AND DISCUSSION**

(i) **Compliance of HRP disclosures by companies with G3**

This section presents the extent and nature of HRP disclosure by companies against G3 fourteen (14) disclosure items. Eleven items are disclosed by the FSS firms but with a variation in the degree of compliance with G3, and (ii) three items are not disclosed at all. Table 2(a) presents the percentage of companies complying with the eleven (11) items (LA1,2,4,5,7,8,9,11,12,13,14) in the guidelines and Table 2 (b) highlights the three (3) disclosure items not commonly reported by companies in each of the three regions.

**Table 2 (a): Disclosure Score Summary by Regions**

<table>
<thead>
<tr>
<th>Regions</th>
<th>% of companies complying with the disclosure guidelines</th>
<th>% of companies not complying with the disclosure guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>100.00</td>
<td>Nil</td>
</tr>
<tr>
<td>Asia</td>
<td>39.29</td>
<td>61.31</td>
</tr>
<tr>
<td>Others</td>
<td>51.00</td>
<td>49.00</td>
</tr>
</tbody>
</table>

Table 2 (a) reveals that in Asia on average 62% of companies in FSS do not fully comply with the G3 disclosure guidelines on HRP. Europe scores a high level of disclosure (100%) followed by ‘Others’ with 51%. In regards to the three items not disclosed, 10% FSS firms in Asia do, however, disclose average hours of training per year per employee.

**Table 2 (b): Items not Disclosed by Companies (%)**

<table>
<thead>
<tr>
<th>Disclosure Category/ Elements</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment: LA 3-Benefits to full-time employees not provided to temporary or part-time employees by major operations</td>
<td>Europe</td>
</tr>
<tr>
<td>Occupational Health and Safety: LA 6- Percentage of total workforce represented in formal joint management-worker health and safety committee</td>
<td>100</td>
</tr>
<tr>
<td>Training and Development: LA10- Average hours of training per year per employee by category</td>
<td>100</td>
</tr>
</tbody>
</table>

This finding refers to a specific disclosure item (LA10: average hours of training per year per employee by category). It differs from that of Day and Woodward (2009) and Khan and Khan (2010) who investigate training and development in a general manner. This study adds to the literature by reporting that in the UK FSS, eight out of nine banks disclose information on health and safety. However, the study of Day and Woodward does not include the elements of the health and safety disclosures items. The reason for LA 6 not being disclosed could be due to these firms not having a formal joint management-worker health and safety committee. LA 3 could be classified as ‘bad news’ if the companies disclose wage and salaries differentials between full-time and part-time employees. This information would not like bringing to the public domain (Foong et al., 2003).

Two indices are computed, viz: compliance index and compliance gap index. The results are presented in Table 3 which is independent from Table 2.

**Table 3: Comparing Companies’ HRP Disclosures with G3 Guidelines**

<table>
<thead>
<tr>
<th>HRP Disclosure Items</th>
<th>Compliance Index</th>
<th>Compliance Gap Index =</th>
<th>Compliance Gap between regions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Europe</td>
<td>Asia</td>
<td>Others</td>
</tr>
<tr>
<td>LA 1</td>
<td>1</td>
<td>.321</td>
<td>.788</td>
</tr>
<tr>
<td>LA 2</td>
<td>1</td>
<td>0</td>
<td>.596</td>
</tr>
<tr>
<td>LA 3</td>
<td>0</td>
<td>.355</td>
<td>0</td>
</tr>
<tr>
<td>LA 4</td>
<td>0</td>
<td>.500</td>
<td>0</td>
</tr>
<tr>
<td>LA 5</td>
<td>1</td>
<td>0</td>
<td>.269</td>
</tr>
<tr>
<td>LA 6</td>
<td>0</td>
<td>.357</td>
<td>0</td>
</tr>
<tr>
<td>LA 7</td>
<td>1</td>
<td>.642</td>
<td>.276</td>
</tr>
<tr>
<td>LA 8</td>
<td>1</td>
<td>.285</td>
<td>.653</td>
</tr>
<tr>
<td>LA 9</td>
<td>0</td>
<td>0</td>
<td>.288</td>
</tr>
<tr>
<td>LA 10</td>
<td>0</td>
<td>.964</td>
<td>0</td>
</tr>
<tr>
<td>LA 11</td>
<td>1</td>
<td>.355</td>
<td>.730</td>
</tr>
<tr>
<td>LA 12</td>
<td>1</td>
<td>.428</td>
<td>.596</td>
</tr>
<tr>
<td>LA 13</td>
<td>1</td>
<td>.071</td>
<td>.711</td>
</tr>
<tr>
<td>LA 14</td>
<td>1</td>
<td>.107</td>
<td>.231</td>
</tr>
<tr>
<td>Mean</td>
<td>.785</td>
<td>.305</td>
<td>.224</td>
</tr>
</tbody>
</table>
Table 3 reports that HRP disclosure in the sustainability reports of companies in Europe are in more harmony with G3 than companies in Asia and other parts of the world. The mean compliance percentage is 78.57% for European companies; 36.3% for Asian companies followed by 42.44% for companies from other regions. This leads to a compliance gap index of 69.7% (ie. non-compliance with G3) in Asia. Contrary to Europe and ‘Others’, FSS companies in Asia fully disclose the average hours of training per year by employees’ category and also moderately disclosed on rates of injury and programme for skill management and lifelong learning (see also Day and Woodward, 2009; Khan and Khan, 2010). In regards to ‘Others’, level of compliance is nil for LA3, LA6 and LA10 which is also similar for European companies. The compliance gap between regions indicates that when comparing Europe against Asia, companies in Europe are 69.7% ahead of those in Asia as regards compliance with the G3 HRP disclosure (see Day et al., 2009 for workplace disclosures by financial services firms in UK). However, companies in Europe are only 36% ahead of companies in ‘Others’ region with the G3 compliance. The level of compliance with G3 between Asia and ‘Others’ reveals that Asian companies still lag in the compliance level with a negative gap of -12.1%. The reason(s) is because of the reporting culture(s) of the Asian countries (Radebaugh, 1975; Gray, 1988; Perera, 1989; Neu et al., 1998) and companies in this region may be more stockholder focus with less emphasis towards informing other types of stakeholders, such as employees (Rose and Mejer, 2003; Smith et al., 2005; Simmet et al., 2009). In Europe some countries (Denmark, Norway and Switzerland) have detailed regulations on social responsibilities of firms towards the public and as such their disclosure practices are more transparent and this is the apparent reason for a high score in Europe. Moreover the power of stakeholders to influence management is a function of the resources they control in the company (Ullmann, 1985). For example, the number of employees, strong employees’ pressure groups’, strong employee’ provident fund are determinants of employees power in a company to pressurise for disclosure of social responsibility activities. This may be more common in the European set up than in Asia.

(ii) Compliance of practices between companies within region and between regions

This section reports compliance of practices between companies by region and between regions. The compliance score of each FSS firm in a region is compared against each other to determine HRP disclosures between companies. For example, the HRP disclosure compliance of an FSS firm in Europe is compared against each other European firm. As regard HRP disclosure between regions, the compliance score of each region is compared against the other. The results are presented in Table 4.

<table>
<thead>
<tr>
<th>Disclosure Items</th>
<th>Compliance by Regions</th>
<th>Compliance Gap between Companies</th>
<th>Compliance Gap between Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Europe</td>
<td>Asia</td>
<td>Others</td>
</tr>
<tr>
<td>LA 1</td>
<td>1</td>
<td>.184</td>
<td>.925</td>
</tr>
<tr>
<td>LA 2</td>
<td>1</td>
<td>0</td>
<td>.479</td>
</tr>
<tr>
<td>LA 3</td>
<td>0</td>
<td>.413</td>
<td>0</td>
</tr>
<tr>
<td>LA 4</td>
<td>1</td>
<td>0</td>
<td>.290</td>
</tr>
<tr>
<td>LA 5</td>
<td>1</td>
<td>0</td>
<td>.120</td>
</tr>
<tr>
<td>LA 6</td>
<td>0</td>
<td>.327</td>
<td>0</td>
</tr>
<tr>
<td>LA 7</td>
<td>1</td>
<td>1</td>
<td>.479</td>
</tr>
<tr>
<td>LA 8</td>
<td>1</td>
<td>.128</td>
<td>.652</td>
</tr>
<tr>
<td>LA 9</td>
<td>1</td>
<td>0</td>
<td>.148</td>
</tr>
<tr>
<td>LA 10</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>LA 11</td>
<td>1</td>
<td>.510</td>
<td>.716</td>
</tr>
<tr>
<td>LA 12</td>
<td>1</td>
<td>.327</td>
<td>.479</td>
</tr>
<tr>
<td>LA 13</td>
<td>1</td>
<td>.005</td>
<td>.652</td>
</tr>
<tr>
<td>LA 14</td>
<td>1</td>
<td>.020</td>
<td>.095</td>
</tr>
<tr>
<td>Mean</td>
<td>.785</td>
<td>.279</td>
<td>.360</td>
</tr>
</tbody>
</table>

In general Europe FSS companies score a higher level of disclosure. European companies fully comply with eleven (11) of the fourteen (14) disclosure items recommended in G3. Similar to the findings on compliance of practices with G3, all European companies in the sample do not disclose LA3 (benefits to full-time employees not provided to part-time/temporary employees by major operations), LA6 (percentage of work force represented in formal joint management-worker health and safety committee ) and LA 10 (average hours of training per year per employee/category). The low or nil disclosure of LA6 is very likely due to mandatory disclosure on health and safety under different international jurisdictions (Day et al., 2009). Intuitively non-disclosure of LA 3 might be also due to non-existence of part-time and or temporary staff and

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11 Employees of the FSS in the UK (banks and insurance companies) are unionised with the AMICUS (Day et al, 2009)
LA10 due to immateriality. However, nothing has come to the attention of the author during the content analysis that LA 10 is not disclosed due to immateriality. Disclosure of HRP between companies in the Asian region is relatively low with a score of 17.3%. The level of compliance of practices are nil for LA2 (labour turnover rate), LA4 (percentage of employees covered by collective bargaining agreement), LA5 (Minimum notice period regarding operational changes) and LA9 (health and safety topics) and between 0.5% to 1 % for LA13 (composition of governance bodies and breakdown of employees per category/gender/age) and LA 14 (ratio of basic salary of men to women). Some firms do not voluntarily disclose labour turnover because high labour turnover may be classified as ‘bad news’ (Foong et al., 2003; Tauringana and Mangena, 2007). In regard to LA4-5, non-disclosure could be due to the fact that employees are not unionised and therefore these companies do not feel any pressure to disclose. Similar to the case of Europe, disclosure for health and safety topics may be a mandatory requirement under different international jurisdictions. Contrary to European companies, compliance of disclosure practices for LA10 is nearly 95% between Asian FSS companies. This is probably to legitimise their commitments towards staff training and interest for keeping them up-to-date with new technology, regulations and similar topics. The level of between company practices in the ‘Others’ region is higher than in Asia by a score difference of 8.3% (25.6-17.3). Common to European companies, LA3, LA6 and LA10 are also not disclosed by companies in the FSS of this region. Similar to Asia, the disclosure practices between companies on LA5 and LA9 are also low. Overall the between company compliance gap among the three regions reveals that the disclosure practices between companies is higher in the European region than Asia and other regions. This means that HRP disclosures by the European firms are more comparable than say Asian firms.

(iii) Determinants of HRP disclosure

Using hierarchical multiple regression analysis, this section reports the determinants that influence HRP disclosure practices of companies. Four control variables (total income, profit, total assets and salary) are used in Model 1 and in Model 2 all the other variables are included together with the control variables in order to determine their impact on the disclosure level. The results of the two models are summarised in Table 5.

Table 5: Determinants of HRP disclosure compliance with G3

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th></th>
<th></th>
<th>Model 2</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>t</td>
<td>Sig</td>
<td>Beta</td>
<td>t</td>
<td>Sig</td>
</tr>
<tr>
<td>Constant</td>
<td>17.604</td>
<td>.000</td>
<td>.570</td>
<td>-.564</td>
<td>.506</td>
<td>.244</td>
</tr>
<tr>
<td>Profit</td>
<td>.068</td>
<td>.580</td>
<td>.564</td>
<td>-.104</td>
<td>1.175</td>
<td>.493</td>
</tr>
<tr>
<td>Total Income</td>
<td>-.064</td>
<td>.550</td>
<td>.584</td>
<td>-.087</td>
<td>-.690</td>
<td>.397</td>
</tr>
<tr>
<td>Total Assets</td>
<td>.210</td>
<td>1.197</td>
<td>.077</td>
<td>-.102</td>
<td>.852</td>
<td>.397</td>
</tr>
<tr>
<td>Salary</td>
<td>.077</td>
<td>.660</td>
<td>.512</td>
<td>1.437</td>
<td>1.062</td>
<td>.293</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>.260</td>
<td>2.34</td>
<td>.023**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regions: Europe</td>
<td>.765</td>
<td>8.954</td>
<td>.000***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>.249</td>
<td>2.815</td>
<td>.006***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard of Reporting</td>
<td>.218</td>
<td>1.141</td>
<td>.258</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethical behaviour of firm</td>
<td>.339</td>
<td>1.943</td>
<td>.057*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour/employer relation</td>
<td>.366</td>
<td>3.501</td>
<td>.001***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity for innovation</td>
<td>-.138</td>
<td>1.408</td>
<td>.164</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>.064</td>
<td>.808</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square Change</td>
<td>.743</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Moderately significant (.10 level)
**Significant at (.05 level)
***Significant at (.01 level)

a. Predictors: (Constant), Salary, Total income, Profit, Total Assets
b. Predictors: (Constant), Salary, Total income, Profit, Total Assets, Labour/employer relationship, Asia Code, Europe Code, Capacity for innovation, Standard of Reporting, Number of Employees, Ethical behaviour of firms
c. Dependent Variable: compliance index

After processing the control variables in Model 1, it reports an R square of .064 or 6.4% of the variance. However when the other set of variables are entered in Model 2, the model as whole explains 80.8%. Model 2 reports an R square change of 0.743 or 74.3%. This implies that (NOE, EUROCO, OTHERCO, SOR, EBOF, LER) explains an additional 74.3% of the variance in the disclosure of HRP by firms in FSS, even when the effects of profit, total income, salary and total assets are statistically controlled for.

According to stakeholder theory, firms in communitarian countries (stakeholders’ focus) disclose more information than contractarian countries (stockholders’ focus). European firms which are considered as part of the society (Smith et al., 2005) are expected higher disclosure than firms in Asia and other regions. Table 7 reports the contribution of each independent variable in the equation. There are three variables (EUROCO, OTHERCO and LER) that are statistically significant at .01. European firms are more compliant with G3 than firms from Asian or ‘Other’ region of the globe.
This finding is comparable with prior studies on disclosure harmonisation (see Craig and Diaga, 1998, Smith et al., 2005). When comparing the effect of each of these variables in our model, LER (beta = 0.366) has a lower influence than EUROCO (beta = -0.765) on the disclosure practices. Stakeholder theory further supports that labour employer relationships are fundamental to the firm’s success. The stronger is this relationship the more news the firm will have to disclose. Finding(s) in this study confirms the hypothesis that LER significantly (.01) contribute to HRP disclosure. NOE (beta = -0.260) is statistically significant at .05 level. In line with the tenets of stakeholder theory, employees are key stakeholders of a company because they supply a key resource to the employer. As such they need to be consistently informed by the employer. Nevertheless the analysis also reveals that ethical behaviour of firms (EBOF) could significantly influence the disclosure of HRP using a significance level of .10. However, none of the control variables made a unique contribution in the equation.

**SUMMARY AND CONCLUSIONS**

This paper is the first to study whether sustainability reporting practices by FSS firms comply with G3 and in particular on HRP disclosure. The paper raises issue on compliance of practices with G3 because (i) the latter expects firms to provide consistent and comparable information in sustainable reports and (ii) G3 is considered as a generally acceptable reporting framework by many organisations around the globe. To measure compliance we compare HRP disclosure by FSS firms with the disclosure guidelines in G3 and then compliance of practices between firms within a region and between regions, namely: Europe, Asia and ‘Other’. This study has not compared G3 with any other guidelines.

The five principal HRP disclosure categories and its fourteen disclosure elements as per G3 are analysed and compared with the disclosures of firms in FSS to measure whether their disclosures comply with those recommended in G3. Europe scores higher as regards level of compliance with G3 followed by ‘Other’ and Asia is ranked last. This study also discovers that there are a few common items not at all disclosed in the sustainability reports of the firms. The reasons (as discussed in the paper) could be due to them being reported in more details somewhere else (Day and Woodward, 2009) or could be due to the country specificity (Smith et al., 2005). In regards to compliance with G3, the average score is 78.5%, 30.3 and 42.4 for Europe, Asia and ‘Other’ respectively. The compliance gap is highest for Asia because fewer firms comply with G3. When comparing one region with the other, the inter-region gap is wider between Europe and Asia than Europe and ‘Other’, but the latter is more compliant with G3 than Asia.

Compliance between firms also highlights that the level of disclosure between firms within Europe is higher. This implies that stakeholders could easily compare information on the sustainability reports of FSS firms in the European region contrary to Asia and the ‘other’. Similar to compliance of practices with G3, Europe scores the highest on compliance of disclosure practices between firms within regions and between regions. There is a wider gap between Europe, Asia and ‘Other’.

The regression model supports majority of the variables included in the model but reject all the control variables. It fully supports the application of the stakeholder theory. Variables such as regions, the number of employees, labour/employer relationships which are within the ambit of stakeholder theory are significant in predicting HRP disclosure against variables such as total income, profit, total assets and salary. The results from the regression model supports opinions advanced by Nobes (1998) Gray et al.; Smith et al., 2005 and rejects opinions entertained by Clarkson et al, (2008) which argue that performance affects disclosure. As regards the impact of strength of reporting on HRP disclosure, the finding is consistent with Radebaugh and Gray (1997) who contend that the effect of national differences affects the accounting and reporting practices.

A limitation of this study is that it has used the sustainability reports of FSS firms which are registered with the GRI. As such the number of firms in the sample is not equally distributed among the three regions because more FSS firms in Europe register their sustainability reports with GRI in 2008 than the other regions. Though the findings can be generalised in the context of FSS, it is too early to generalise the findings of this study across all sectors.

Further research in other sectors, such as mining, manufacturing, distribution and other should be conducted and the results compared to those in this study.

**REFERENCES**


FORGE (2002), Guidance on Corporate Social responsibility Management and reporting for the Financial Services Sector: A Practical Toolkit, FORGE, London,


