

Public Reporting of Human Resources – A Case Study in Hong Kong

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ABSTRACT

Research Objective – This paper reports on the levels of public reporting on of human assets among six selected Hong Kong listed companies.

Methodology – Using content analysis, six annual reports of newly listed companies with the largest market capitalization when listed were under study.

Findings – Human Resources (HR) reporting in the annual reports was limited, with less than one per cent out of the total coverage. Most of the reported items were confined to training or career development. There was no designated HR session, and most of HR issues were reported under ‘Business Review’ or ‘Discussion and Analysis’. Yet, the profile of Directors and Senior Management was reported extensively, at 8.9 per cent of the total coverage.

Research limitations – The research was confined to a limited number of Hong Kong based companies and the public documents only.

Implications – There is considerable scope for more extensive and systematic HR reporting; and for HR to be more broadly acknowledged as an important strategic asset.

Originality – The research is one of the few studies that covered HR reporting after the companies being newly listed.

Keywords – China, Hong Kong, Human Resources Reporting, public listed companies

1. Introduction

Reporting of Human Resources (HR) practice becomes an important component of the drive towards improving corporate governance and more extensive public reporting of activities across a number of domains, not only in financial, but also in HR-related areas (Norhayati, 2012). However, corporate public reporting is dominated by financial and accounting conventions that is unable to capture information on intellectual capital (IC) and competitive capabilities since these are not required public reporting (Nurunnabi, Hossain and Hossain, 2011).

Branswijck and Everaert (2012) used a widely adopted IC model of Bukh *et al.* (2005) to study the IC disclosures of the IPO prospecti and the subsequent annual reports of 55 sample companies in Belgium and the Netherlands from 2005-2009. Findings showed that companies disclosed more IC information in the prospecti compared to the annual report. It indicated that a high level of IC disclosure in the prospectus tends to a possible reduction in the risk associated with investor decision-making and a more accurate valuation of firms.

Hong Kong ranked number the third after London and New York in the seventh report in the global financial centers in a study of 75 centers (City of London, 2010). In 2010, there were a total equity funds raised of HK\$858.7 billion, with 113 newly listed companies on the Main Board by initial public offers (IPOs) (HKEx Fact Book, 2010). There is considerable potential for Hong Kong companies to develop more informative and comprehensive public HR reporting. Yet, there are barriers towards developing and implementing HR reporting programs (Chan and Burgess, 2010b).

This paper studies the extent to which human assets that are identified in the first annual reports after its IPOs. The research questions are:

1. How much HR reporting is there in the annual reports?
2. What are the most reported HR items in the annual reports?
3. Have HR issues and assets have been identified as being important?

2. Literature Review

IC such as knowledge, ideas and HR are recognised as being very important contributors to the competitive capability of corporations (Bukh, Nielsen, Gormsen and Mouritsen, 2005). Identifying and measuring these intangibles provides important information for potential investors (Cordazzo, 2007). HR is a strategic asset that creates competitive advantage for the organisation (Hurtado, 2007; Pedrini, 2007; Ulrich, 2005; Guest, Michie, Conway and Sheehan 2003; Wright, Gardner and Moynihan, 2003; Walker, 1980; Marciano, 1995). Research has demonstrated that many corporations, especially those based in Asia, have been slow to identify and report their intangible assets, including HR assets to potential and existing investors (Rimmel, Nielsen Yosano (2009); Singh and Van der Zahn, 2007; Welford, 2005). As a result there is limited coverage of HR in public documents; such reporting of HR issues is usually confined to a few areas such as training expenditure and employee awards. This is especially the case for annual reports and public web sites of listed companies in Hong Kong (Chan and Burgess, 2010a).

There has also been a recent development towards extending reporting beyond financial data to include social, environmental and ethical aspects of a business (Balmer, Fukukawa and Gray, 2007; Fuentes-Gracia, Nunez-Tabales and Veroz-Herradon, 2007). For the top 20 Hong Kong companies by market capitalization, Chan and Burgess (2010a) in a study of annual reports and corporate websites found very limited HR disclosure, an inconsistent coverage

across companies and a reluctance to report on the strategic value and the contribution of HR to the organization in both annual reports and on company web pages. Interviews with the CEOs and HR managers for ten listed companies revealed a desire to proceed with more HR reporting and disclosures but a reluctance to report beyond statutory requirements or to introduce more strategic HR functions into the organization (Chan and Burgess, 2010c).

White, Lee, Yuningsih, Nielsen and Bukh (2010) studied 156 Australian and UK listed biotechnology companies to examine voluntary IC disclosure data in annual reports and financial statements on the corporate websites using the Bukh *et al.* (2005). Findings showed that the UK biotech companies disclose more HR information than the Australian sample companies. However, many of the potential HR disclosure items (16 out of 27 items) that are included in the index were not disclosed in either country.

The emphasis on IC can be interpreted as an indication of its importance to the capital market (Abhayawansa and Guthrie, 2010). Bukh *et al.* (2005) developed and applied a disclosure index that has been subsequently applied in the analysis of annual reports and IPO prospecti elsewhere (Rimmel *et al.*, 2009).

In a study of 16 Jordanian banks, Muna (2012) studied the impact of investment in HR activities on the effectiveness of investment in human capital from the annual reports and structural questionnaires. Muna (2012) urged to publish results of investing in human capital so as to show the importance to stakeholders.

3. Methodology

Content analysis is a very popular choice in analyzing IC disclosure (Norhayati, 2012). Content analysis is defined as "a method of codifying the text of writing into various groups or categories based on selected criteria" (Guthrie and Abeysekera, 2006: 120).

This study adopted content analysis, in terms of frequency and counts on the first annual reports after IPO. For the purposes of the content analysis we reviewed each prospecti and identified the material that was related to the 27 employee issues found in the Bukh *et al.* (2005) analytical framework.

4. Findings and Discussion

The following sections will address the research questions about what HR issues were identified as being important to the success of the prospective business ventures.

4.1 Description of Sample Companies

The sample companies covered three industries, including financial (three companies), industrial goods (two companies) and material-metals (one company). The market capitalisation of the selected companies ranged from HK\$14,351 billion to HK\$257,741 billion (US\$1 = HK\$7.8). There was also a wide variation in total employment size, ranging from 7,046 to 447,401. Details of the selected companies are listed in Table 1.

Table 1 Description of the selected listed companies

Company	Sector	Market Value (HK\$ billion)	No. of Employees
AIA Group Ltd. (AIA)	Financial - Insurance	257,741	36,000
Agricultural Bank of China Ltd. - H Shares (Agricultural Bank)	Financial - Bank	122,033	447,401
United Company RUSAL Plc (RUSAL)	Material- metals	178,062	71,961
China Rongsheng Heavy Industries Group Holdings Ltd. (Rongsheng)	Industrial goods	56,770	7,046
Changsha Zoomlion Heavy Industry Science & Tech Dev Co., Ltd. - H Shares (Zoomlion)	Industrial goods	18,986	28,833
Chongqing Rural Commercial Bank Co., Ltd. - H Shares (Rural)	Financial - Bank	14,351	13,524

Source: HKEx (2011) and Annual Reports (2011)

4.2 *Extent of HR Disclosures*

The annual reports ranged from 154 pages to 315 pages. The space allocated to HR disclosures was limited; less than 1 per cent on HR designated reporting and 9.7 per cent on HR related issues. The profile of the directors and senior management was reported extensively at 8.9 per cent. Table 2 shows the space allocated to HR disclosures in the selected Companies.

Table 2 Space allocated to the major reported HR

Company	No. of pages	Pages on reporting of HR strategies	%	Pages on reporting of key Management	%	Total % of HR reporting
AIA Group Ltd. (AIA)	259	4	1.5	16	6.2	7.7
Agricultural Bank of China Ltd. (Agricultural Bank)	315	4.5	1.4	29	9.2	10.6
United Company RUSAL Plc (RUSAL)	217	0.25	0.1	20	9.2	9.3
China Rongsheng Heavy Industries Group Holdings Ltd. (Rongsheng)	154	3	1.9	15	9.7	11.7
Changsha Zoomlion Heavy Industry Science & Tech Dev Co., Ltd. (Zoomlion)	216	0.25	0.1	38	17.6	17.7
Chongqing Rural Commercial Bank Co., Ltd. (Chongqing)	307	1	0.3	12	3.9	4.2
Total	1,468	13	0.9	130	8.9	9.7

4.3 Most reported HR related issues

The most frequently reported items in their annual reports were the profile of Directors and Senior Management, from 3.9 per cent to 17.6 per cent. Zoomlion got the highest HR reporting among the selected companies. A report on the biography of directors, supervisors and senior management was as follows:

“Dr. Zhan Chunxin, male, born in 1955, is the Chairman and Chief Executive Officer of our Company. Dr. Zhan has been appointed as a director of our Company since the establishment of our Company in 1999, and as the Chairman since 2001. Currently, Dr. Zhan also serves as the chairman of various subsidiaries of our Company, including Zoomlion Powermole Limited, Hunan Teli Hydraulic Co.,

Ltd. and Hunan Zhongchen Rolled Steel Manufacturing Engineering Co., Ltd., and he is a director of Zoomlion H.K. Holding Co., Ltd., Zoomlion International Trade, and Zoomlion Capital (H.K.). Dr. Zhan became an expert entitled to special government subsidy granted by the State Council in January 1994, a senior engineer as recognised by the Ministry of Construction in 1995 and a researcher-level senior engineer specialized in management and engineering as recognised by the Ministry of Construction in September 1997...” (Zoomlion Annual Report, 2011:118).

The remaining five companies that reported the profile of Board of Directors and Senior Management were with similar format and coverage. Rongsheng reported their Directors and senior management (9.7 per cent). Agricultural Bank also reported it's the profile of its Directors, Supervisors and Senior Management extensively (9.2 per cent) in the section of Discussion and Analysis. RUSAL reported its Profile of directors and senior Management (9.2 per cent). AIA reported Board of Directors and Executive Committee; the remuneration packages of senior management were reported under the Dynamic Team under Corporate Social Responsibility (6.2 per cent). The reporting of Directors, Supervisors and Senior Management accounted to 3.9 per cent in Chongqing.

4.4 *Limited HR reporting items*

The reporting of HR disclosures was scattered and inconsistent in terms of the content and format in the six selected companies. HR designated reporting was training and development (four companies); other items as career development programs, bonus and compensation, and employee breakdown by education or geographic region.

Rongsheng reported HR items under 'Business Review' (1.9 per cent). It presented the number of employees and some general description of the HR policies. It wrote:

“As at 31 December 2011, we had 7,046 employees (as at 31 December 2010: 5,782). We recruited new employees to cater for the business expansion in the Period. We offer competitive remuneration packages to employees. Moreover, discretionary bonuses are granted to qualified employees by reference to the performance of individuals and the Group as a whole. As our success hinges on the concerted effort from all departments formed by skilled employees with high morale, we endeavor to cultivate a culture of learning and sharing, focusing on individual training and development, and nurture the concept of teamwork.” (Rongsheng 2011: 27).

AIA reported the HR issues briefly (1.5 per cent) under a sub-section, called Our People, in the Financial and Operating Review. There are five items namely, the 'Empowerment', 'High Standards of Professionalism'; 'Premier Agency'; "Building Leadership Strength"; 'Career Opportunities in an Expanding Group'; and 'Fostering a high performance Culture'. It reported the

result of its Employees Satisfaction Survey on 20,000 employees, having 91 per cent response rate. Another was its training activities, career path, share purchase scheme. Its training report was mainly on the number of workshops and the awards obtained as a result of this. It stated as:

“Workshops are carried out across the region to educate employees on the ways AIA measures its financial performance; and in 2011, we conducted 15 sessions. Our efforts were recognized by the Hong Kong Management Association (HKMA) in 2011, when we received an Excellence Certificate in their Excellence and Training Award category (AIA Annual Report, 2011:64)

For ‘Human Resources Management and Organisation Management’, Agricultural Bank reported under ‘Business Review’, with 1.4 per cent. It covered ‘Comprehensive HR reform, Development’ and ‘Cultivation of HR’, ‘Management of Remuneration and Benefits’; ‘Information on Employees’; ‘Distribution of Employees by Regions, by Departments; by Education Background and by Age’. The reporting was mainly factual and not strategic in nature. Even for the report of ‘Comprehensive Human Resources Reform’, it mentioned briefly on the recruitment of senior employees or the introduction of performance assessment system. An extract was showed as follows:

“... We implemented the new position system and commenced a pilot scheme by recruiting talented employees for senior professional positions. A performance management and assessment system which divided all staff into different grades and categories was implemented. The results of the assessment were ranked by categories and the performance grades were divided into designated distribution... (Agricultural Bank Annual Report 2011:62)

Chongqing Rural got 1 page report on Employees and Human Resources Management under Management and Analysis. The HR items reported are: ‘Basic Information on Employees’; ‘Overview of Human Resources Management’ and ‘Training’. An extract of ‘Overview of Human Resources Management’ on how HR strategies were linked with the strategic plan of the Company is:

During 2011, adhering to the strategic plan for development of listed banks, the Bank adjusted and optimized the organizational structure and considerably enhanced its professional level in operation and management, further optimized the employees structure through campus and social recruitment as well as introduction of various types of talents, strengthened cultivation of young managerial personnel, professionals, and key business personnel, thus building echelons of professional teams, tightened up staffing management to boost human resources management efficiency, completed upgrading of the human resources management system and further improved professionalized and information-based management of human resources. (Chongqing Annual Report 2011:74)

On the contractor to the most reporting on the board of directors, the HR reporting of Zoomlion got the least (less than one page, at 0.1 per cent). The breakdown of employees by education and function was tabulated only under Directors, Supervisors, Senior Management and Employees. It was showed in Table 3.

Table 3 Employees the Company (As of 31 December 2011)

Number of employees		28,833	% of total number of employees
By educational level	Postgraduate or above	1389	4.82%
	Bachelor's Degree	8197	28.43%
	Tertiary Education	7409	25.70%
	Others	11838	41.05%
By function	Production	14017	48.62%
	Sales	3388	11.75%
	Technical	6676	23.15%
	Financial	707	2.45%
	Management	4045	14.03%

Source : Zoomlion Annual Report 2011:39

RUSAL also got the least HR reporting, 0.1 per cent, that was mainly focused on training activities, career path, bonus, labour relations under 'Management Discussion and Analysis'. RUSAL reported its Remuneration and Benefits Policies as:

"The remuneration paid by the Group to an employee is based on his or her qualifications and performance, as well as the complexity of his or her job. Wages for employees are generally reviewed annually and are revised in accordance with a performance assessment and local labour market conditions. Annual salary reviews covering main labour markets are unaudited for this purpose." (RUSAL Annual Report 2011: 57)

5. Conclusions

This finding of this study showed that that there are limited HR disclosures in the selected organisations. In terms of the research questions, the findings showed:

1. There is minimal HR reporting, typically less than 1 per cent of the space in the annual reports being devoted to major HR issues.
2. The HR issues identified were varied, but a few issues were consistently reported: training activities, the profile of Board of Directors and Senior Management.
3. There were considerable differences across the companies in terms of coverage and detail, even for companies in the same sector.

This finding of this study showed that there are limited HR disclosures in the selected organisations that listed on the Hong Kong Exchange in 2011. There is potential bias in terms of the limited coverage and the traditional focus of annual reports towards tangible assets and projected financial returns. Based on this limited sample the limited HR disclosures are consistent with earlier studies of HR and social reporting in Hong Kong (Oxfam, 2008). Future research could examine not only the trends and the international comparisons across annual reports, but also include interviews with senior executives and HR managers regarding the factors determining the extent and detail of HR disclosures.

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