

Determining the relation between financial reporting and employment creation in the framework of BCG matrix

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Abstract

The best financial reporting system for the consistency of the benefits of the manager and stock holder is not the best financial reporting system to give information to the users of financial statements. Today, in Iran the government is considered as one of the common users of the financial reports of the enterprises. Based on the emphasis of the government on employment creation in the commercial enterprises and the dependency of governmental financing on employment creation from the enterprises for the benefit of the government, the financial reports should present the direct or indirect employment creation during the financial period. This is determined in the framework of BCG matrix by social accounting instrument. The present study attempted to express the relation between employment and BCG matrix and financial reporting, the way to give direction to the strategic decisions of the managers to employment creation and its presentation in financial reports. It was shown how to use a management tool for external organization reporting. It was proposed to formulate the required standards for financial reports based on social needs to pave the way to achieve an administrative, financial system.

Keywords: Financial reporting, employment creation, BCG matrix, Social accounting, Financial and non-financial information.

Introduction

The benefits of brief and to the point speech are recognized well as in accounting literature, the term information overload means the increase of the information costs, reduction of the decision making quality and good design of information systems

(Ramni and Stin Bart, 2000). It is required to refer to some points in financial reporting to disclose information as it seems strange at first but it is used to meet the demands of various users by different tastes. Some of these items are employment issue in commercial organizations being raised as non-financial criterion. According to formal statistics of management and planning organization in Iran in the fourth annual economic and cultural development plan, averagely 896000 new jobs were created in different economical departments. Above all, these jobs are planned in a definite framework as building, transportation, agriculture, public services, etc and this shows the significance of the issue. Here, employment issue is presented beside social accounting and management issues with BCG matrix and the result of this process, financial reporting is presented as a relevant cycle. The present study answered the following questions:

- a. Is it necessary that employment creation process and changes in employee and human resources are presented in financial reports?
- b. In case of presenting employment creation tools in financial reporting, how we can use social accounting to and BCG matrix to help this issue?
- c. Can we determine a common field between management accounting, social accounting and financial reporting regarding employment issue?

Answering the above question is the main purpose of the present study. To do this, at first the generalities of financial reporting are explained and then social accounting basics are reviewed and then by presenting the definitions and features and BCG matrix stages, the relations between the three items were determined.

1. The theoretical basics of presenting employment creation process in financial reporting
 - a. Theoretical basics of financial reporting

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Financial reporting process is consisting of various sections and the main part is financial statement. Other financial reports being presented as case with specific aims are including some cases as provided financial reports for receiving bank loan, the justification reports of the board of directors to increase capital about the partnership companies and tax statement (Theoretical concepts of financial reporting of accounting standards in Iran). Although nothing is directly referred to disclosure or non-disclosure of employment creation and its completion including the increase of manufacturing lines or service lines or the increase of the customers, increase the export or any other items being related to employment issue. This issue can be a good example of case reports.

b. The position of employment creation concept in quality features of information

Reviewing the quality features of information based on financial reporting concepts took our attention to the following items:

Reliability

In this case, it can be said that what type of information is reliable? Here, determining the financial and non-financial measure is of great importance. But the mere financial or non-financial information content cannot show the low or high reliability and it is considered the view of the users of financial reports as the important factor about information reliability. According to Inter and Larker (1998) research, it can be said that executive managers of the companies are concerned about the quality of non-financial information namely the measures of the performance of the employees and their creativity (Ghorbani, 2007). Or the fact that auditors reach the red flag from many non-financial measures. Although reliability is important for the auditors, but its significance that is subjective, determines their professional judgment.

Relevance

Relevant information is the one that besides being confirmed can also predict (Theoretical concepts of financial reporting). In SFAC No. 2, timeliness is one of the important features of relevant information (SFAC NO 2, p.15). Developing production line or service sections and increasing the employment showed the increasing growth of a business enterprise, so it is fully relevant information while

the information of the fixed historical price not only is dedicated to the past, but also it doesn't have any value against the information of human resources. Information disclosure of Non-Financial Performance Measures and non-quantitative information useful in decision making process is of great importance (Handriskson and Berda, 1992). The information of employment creation is non-financial but it is having quantitative feature, it can be measured in the framework of financial measures and this is a value for it.

Reporting of financial and non-financial measures

The financial measures are defined ones with predetermined frame that we reduce its applicability by interpreting the related definitions or direct the related information to the special users. As Amir and Lou defined in their study that relevance of financial measures is due to the changes in new economy commercial models (Qorbani, 2007). Thus, most of the professional associations formulated some measures for non-financial performance of profit and non-profit institutions including 24th August conference (2000) in USA for formulating non-financial measures of performance proposed that these measures are determined about university performance and court effectiveness.

The research showed that various types of reporting financial performance measures can affect the use of professional and non-professional investors by the effect of information transparency and explicit presentation of information (Hirst and Hopkins, 2002). If the user is the government, besides considering the financial measures based on the present condition will focus on non-financial measure of employment creation. Before the government considers the people being employed, by achieving such information follow employment creation process. As it was said, who is the information user, or which organization, the priority of each of the features can be varied.

Disclosure

The selection of the best disclosure method depends upon the information nature and its significance (Handriskson and Berda, 1992). The presentation of employment process completion and employment creation amount can be disclosed only via some statistics and another time it can be raised based on the economic needs in financial reporting. In Iran, the second

method is more justified. In the conceptual statement No. 1, the board of financial accounting standards with the aim of financial reporting aims of commercial sections considered the aim of financial reporting as presenting information for the potential investors and creditors and other users as the information is useful in logical investment decisions, providing credit and similar decisions (Financial accounting concepts statement NO. 1, 1978). In this statement, one of the functions of financial reporting is determining credit providing. Iran administration regarding some of the enterprises considered providing credit dependent upon employment creation. But it is the duty of financial reporting systems of business enterprises to give the required information to the government. This can be voluntarily in the initial stage and then obligatory. This type of disclosure can be rank based on company size. The moderate or small companies are on the priority. This is not special for profit institutions as both public and profit sectors require exact scientific planning in accordance with the needs based on correct information. The most important type of information is financial report considered as one of the planning tools, on condition that the information is timely, correct and relevant (HosseiniAraqi and Aqalu, 2003). Other benefit of this type of disclosure is tax information transparency and its cycle is shown in Figure 1.



Figure 1. Employment creation cycle, tax and financing

Social accounting and users of financial statements

Social accounting is the process of collecting, measuring and reporting the transaction and mutual effect of the transaction between the business institutions and their surrounding society. Although the information of social accounting affect the decision of the investors, this effect is not considerable (Khoshtinat and Raai, 2004). The studies of Shelton and Jams Golen showed that the investors at high level rarely are affected by financial disclosure regarding the social responsibilities (Shelton and James Golen, 1998).

Why the users of financial statements as generally and investors as specifically do not consider the information of social accounting including the non-financial performance measures. But this type of information is based on the realities being considered by financial and non-financial community. If the information is analyzed accurately, the society and the government see the potential and actual power of business institutions in developing the economy, entrepreneurship and employment creation and take the required decisions as social accounting and social reporting can be considered as one of the important approaches of accounting (Babajanio and Forughi, 2004).

Thus, even the accounting standards of some countries made providing the social balance sheet based on human resources changes and employment as in Belgium, social balance sheet is provide based on the following structure:

1) Information about the number of the labor force employed, here the mean number of the full employment or temporary staffs is disclosed during the fiscal year. For three groups, total working hour and total wage should be considered. Also, the employees can be divided based on the following measures: a. The type of contract (full employment, temporary for any special work and replacement contract), b. Based on group (management, employer, workers and others), c. The gender of the employees (woman or man).

2) The table of mobile labor force, this part shows the information of newly employed employees and the number of the employees, their contract is finished and it shows the reason of contract (retirement, leave, etc).

3) Using the guarantees and encouragements of government

4) Information of training plans of the employees (Khoshtinat and Shiri, 2007).

As it is said, reporting the employee position is accepted in most countries but the basics of providing the relevant information is important as reduction of employees is due to the increase of effectiveness for the benefit of the company and sometimes it is due to the economical shock, one of the signs of bankruptcy. These cases are studied.

BCG matrix model

This model was the first strategy models in economy and development planning of the societies. BCG matrix is a chart that was developed by Bruc (1970) to help Handerson to assign production line of the institutions,

product management and it was applied as technical tool to analyze portfolio and strategic management. This model was raised in business level and helped the organizations in developing manufacturing and services

sections. Four levels of matrix are: 1) Star (star rising of a product), 2) Questions position (problem child or wild cat)(low liquidity), 3) Cash cow (high liquidity), 4) Dogs (Underdog) and its chart is shown in Figure (2).

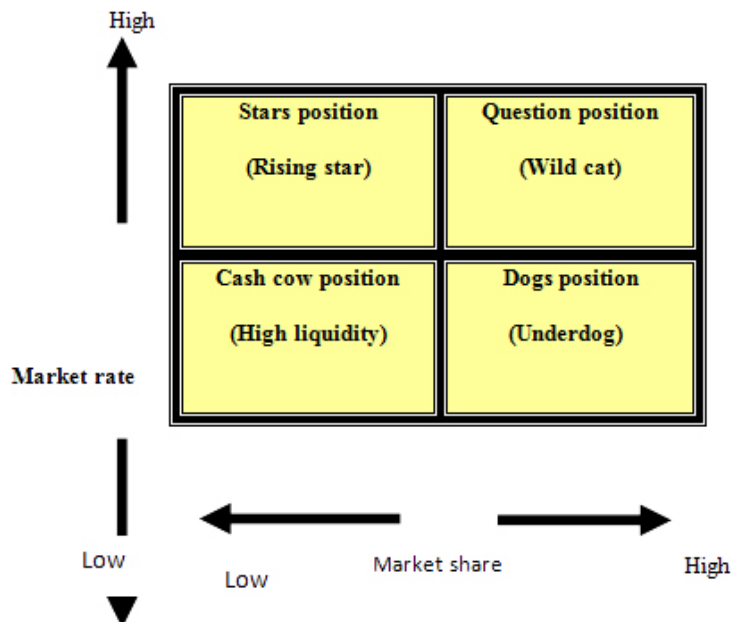


Figure 2. The BCG positions

Here, the position of dogs was investigated. This position refers to the fact that the business institution is underdog about a special type of product. This stage creates such liquidity that only market share is kept. Underdog position has some social benefits as employment creation or keeping employment level. Such cases are without any value in terms of accounting and financial reporting due to the lack of money value but they can make the company profitable in future. This issue regarding the government that tries to get the loans paid to the enterprises and is obliged also to create job, when the developing environment of it is observed, it can be hopeful of its policies in employment section or find a solution. Stef Edward of the Chartered Institute of *Management Accountants (CIMA)* believed that the information of DOGS position of BCG matrix stated that as it was an enterprise without any profitably, by keeping the job condition and human resources indirectly stated the stockholders that we can have social effects on economical society (Stef *et al.* 2006-2007). The information of employment creation of business institutions are the inputs of administrative and gov-

ernment information systems. Zebornic and Radva have performed some researches, they investigated BCG analysis from the government for information processing and found that the government by these analyses found about the significance, applicability, confidentiality, complexity, internal link and vulnerability of company information (Zebornic and Radva, 2000). These analyses can be used for employment creation of the companies. The analyses of BCG matrix in governmental dimension are a set of some activities about administrative system and the related subsystems (Zebornic and Radva, 2000). The relation between BCG and employment creation and financial reporting is shown in Figure 3.

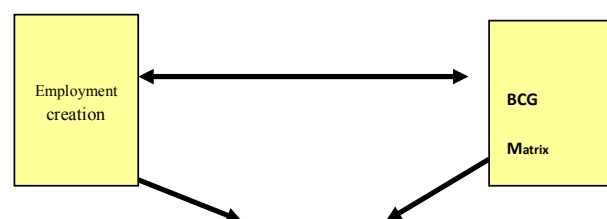


Figure 3. The relation between BCG and employment creation and financial reporting

Conclusions

In economic environments faced with unemployment crisis, all the accounting tools are used to solve this problem. Maybe the required resources are present but the lack of a framework for financial reporting emphasizes on the defect in financial reporting system and the government will have some problems in determining the priorities of employment. The present study after the general review of the concepts of financial reporting emphasized on non-financial performance measures and explained social accounting and the related functions. Then, the BCG matrix and its application in future of a business enterprise are analyzed. In a general summary, one of the effective ways to control unemployment is using financial reports based on social realities as enterprise employment creation. It is expected that the standard authorities in Iran attempted to solve this economical problem and formulated some standards based on economical and accounting theories to make the companies obliged to reporting about the completion of employment creation process or social balance sheet. It is obvious that the methods applied by the enterprises to determine and predict the required human resources are voluntarily.

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