CORPORATE ACCOUNTANTS AND EXTENDED FINANCIAL REPORTING
Some Indian Evidence

V.K. VASAL

The primary aim of this study is to investigate into the effectiveness of corporate accountants. Effectiveness of accountants has been investigated in terms of two different informational roles of accountants. These are 'monitoring' of the informational needs of external users and 'disseminating' actual information through the medium of annual reports, on selected extended financial reporting (EFR) items. The empirical results obtained and analyzed in this study have revealed the following. Effectiveness of accountants in monitoring the financial reporting informational needs of the external users is fairly high. However, results on the second role of accountants have shown a lack of their effectiveness as disseminator of information.

1. PERSPECTIVE

An accountant is a manager who is engaged in the tasks of measuring the events concerning an accounting entity and communicating the information so produced to the interested users. These interested users may be internal or external to the accounting entity. Notably, in terms of responsibilities towards the external users, a corporate accountant is in the vital role of an intermediary. As an intermediary, an accountant monitors the informational needs of the external users and thereafter makes best efforts to meet these needs by communicating appropriate information from the 'private domain' of the corporates to the 'public domain' of the users (elaborated below). In this backdrop, the conventional approach to judging the effectiveness of accountants requires finding the extent to which information communicated through the accounting statements such as annual reports produced by the companies (supply) match with the informational needs of the external users (demand). However, this approach may not reveal the true story as it neither tries to isolate the factors causing a possible mismatch in demand and supply nor identifies that rare situation of a congruence between demand and supply occurring due to a matter of chance.

Alternatively, a more analytical approach to evaluate effectiveness of accountants can be followed in terms of the informational roles of a

Dr. V.K. Vasal is Lecturer, Department of Financial Studies, University of Delhi, South Campus, New Delhi.

manager. According to Lorsch et. al. (1978), corporate managers perform three informational roles. These are 'monitor', 'disseminator' and 'spokesman'. In the monitor role, managers inform themselves about their organizations and environments. On the other hand, in their disseminator and spokesman roles, managers transmit information to others. According to this approach, effectiveness of accountants needs to be evaluated in terms of two different criteria. The first is effectiveness of accountants in monitoring the informational needs of the external users ('desired outcomes'). And the second criterion is effectiveness of accountants in transmitting information, say, through the medium of corporate annual reports ('observed outcomes'). Importantly, an accountant shall achieve complete effectiveness only when transmission of information to the users matches necessarily with the diagnosis made, which in turn has to match with the informational preferences of the users. In other words, 'desired outcomes' and 'observed outcomes' are linked together in this approach only through the 'intended outcomes'; that is outcomes aspired by the accountants. And, therefore, for effective accountants, the 'intended outcomes' should be matching with both the 'desired outcomes' and the 'observed outcomes'. It is only then that the 'observed overcomes' shall match with the 'desired outcomes' too (except the rare possibility of a match due to a random chance). Such a situation is an ideal and a goal for the corporate accountants attempting to be effective. If and when attained, under this situation accountants can truly be called effective. That is, accountants are able to both monitor the informational needs of the users and achieve the desired results by overcoming possible internal and external environmental constraints. This ideal situation is, however, not obtained easily in actual practice wherein 'observed outcomes' and 'desired outcomes' generally mismatch with one another. But as the next best possibility, and an often observed situation in actual practice, it is likely for the corporate accountants to be effective in terms of one of their two major roles : monitor or disseminator.

2. EXTENDED REPORTING

Historically, focus of 'external accounting' has been on the reporting through corporate annual reports (CAR) to the owners (shareholders) on the 'stewardship' of managers. In recent years, however, scope of external accounting has witnessed a remarkable change. It is now widely agreed that a company, the most dominant form of modern business organization, is a socio-economic entity. As a socio-economic entity it enters into a 'legal' and a 'social' agreements with the society. This '(social) contract theory' states that a company is under an obligation to justify its existence in the society in terms of both these agreements. Thus, accountability of a company in the new regime has two distinct aspects. One is 'legal' and the other is 'social'. Importantly, in this new regime, accountability of a company extends to such other publics as 'employees', 'suppliers', 'customers', 'Government' and 'public at large'. In short, a company is presently accountable for its working and affairs not only to the shareholders but to the 'stakeholders' as a whole. In alternative terms, companies are now obliged to serve the additional informational needs of the aforesaid publics, even though not mandated under the law. Such additional disclosures have been variously termed as 'voluntary reporting', 'discretionary reporting' and 'extended reporting' in the accounting literature. It is, apparently, here in the domain of the extended reporting that role of accountants as a monitor assumes greater significance. Of course, to serve emerging additional informational needs and be termed as effective, an accountant has to not only diagnose informational needs of the 'stakeholders' at a time not too soon but also make best efforts to satisfy these needs within the constraints imposed by the internal and external environment.

3. OBJECTIVE

The primary objective of this study is to investigate into the effectiveness of corporate accountants. In the study, effectiveness of accountants has been examined in terms of their major roles of identifying (monitor), measuring and communicating (disseminator) information on extended financial reporting (EFR) items through the medium of corporate annual reports.[1] In the study, extended financial reporting refers to those disclosures on the financial and commercial performance of a company which are beyond the requirements of the Indian Companies Act 1956. Using terminology developed in section 1 above, the operational objective is to examine effectiveness of the accountants in terms of the 'intended outcomes' vis-a-vis the 'observed' and the 'desired' outcomes on 'extended financial reporting' (EFR) items.

4. METHOD

In order to achieve the aforesaid research objective, the following steps are taken. First, those items of EFR which are being disclosed consistently by the companies through their annual reports are identified. A close examination of the annual reports of companies operating in the Central Public Sector has been carried out for this purpose[2]. Further, for the purposes of analysis in this study, annual reports have been examined for four cross-sectional years, 1988 to 1991[3]. Based on this examination, a 'disclosure Index' consisting of 28 informational items has been prepared. Also, based on the availability of annual reports for all the sample years, a sample of 129 companies is taken.

Second, 'observed outcome' for each of the 28 informational items has been measured. In the study, 'observed outcome' is the percentage reporting done by the sample companies on each item. For the purpose of matching corporate preferences as reflected in the 'observed outcomes' with those relating to the 'intended outcomes' and the 'desired outcomes', values of computed percentage reporting have been ranked in a descending order. That is, higher is the percentage reporting on an item, lower is its' rank.

Third, for measuring 'intended outcomes', that is preferences of accountants on disclosures of selected EFR items, a questionnaire-based interview method has been used. Using a 5-point scale, responses on perceived importance of items have been obtained from a sample of 64 corporate accountants. On the rating scale '5' indicated disclosure on an item perceived of 'utmost importance' and '1' indicated disclosure on an item perceived of 'no importance' at all by the accountants. For each of the items 'mean response' is computed as a number equal to the sum of integer values assigned to the item divided by the total number of individuals who have responded to the item. Values of computed mean responses indicate the attitudes of accountants towards disclosures on selected items of extended financial reporting. For purposes of analysis, these mean responses have been ranked in a descending order.

Fourth, for measuring users preferences on information disclosure, that is 'desired outcomes', the measurement instrument developed at step three has been used. A sample of 66 individuals representing different users of annual reports has been taken for this purpose. Like step three, 'mean response' of users for each informational item has been computed. Values of mean responses give an indication of the perceived importance of disclosures on different informational items to the users of annual reports. Computed values of mean responses, as for step three, have been ranked in a descending order.

Last, an analysis has been performed on the ranks of 'intended outcomes', 'observed outcomes' and 'desired outcomes' by computing the Kendall's correlation coefficient (Tau-b). The hypotheses tested and results obtained in the study are discussed in the following section.

5. FINDINGS

Based on the commonly held beliefs and past evidence, the following three research hypotheses have been formulated and subjected to testing by the findings of this study. The hypotheses are (i) there is a general disagreement between the 'observed outcomes' and 'desired outcomes', (ii) there is a lack of association between the 'intended outcomes' and the 'desired outcomes', and (iii) the 'observed outcomes' are a reflection of the 'intended outcomes'. (See Chandra, 1974; Chen and Lambert, 1977; Belkaoui, 1979; Firth, 1979; and Firer and Meth, 1986).

Empirical results obtained on the association between the accountants preferences, users preferences, and preferences of the ultimate suppliers of information through corporate annual reports that is the companies, are presented in Table-1. A detailed examination of the presented results has been done below in terms of the three hypotheses listed above.

Table 1 : Degree of Association Between Groups — Financial Reporting (p-values in brackets)

Kendall's Tau-b Correlations :	R91	R90	R89	R88	RPREP	RUSER
R91	1.0000					
R90	.959 (0.000)	1.0000				
R89	.910 (0.000)	.936 (0.000)	1.0000			
R88	.905 (0.000)	.936 (0.000)	.987 (0.000)	1.0000		
RPREP	.195 (0.074)	.207 (0.062)	.149 (0.134)	.149 (0.134)	1.0000	
RUSER	.226 (0.046)	.244 (0.035)	.186 (0.083)	.186 (0.083)	.785 (0.000)	1.0000

No. of cases : 28

Legend : R91 – Actual reporting on information items in sample year 1991.
R90 – Actual reporting on information items in sample year 1990
R89 – Actual reporting on information items in sample year 1989
R88 – Actual reporting on information items in sample year 1988
RPREP – Perceptions of preparers of annual reports.
RUSER – Perceptions of users of annual reports.

Effectiveness of accountants in external reporting has been examined conventionally by measuring the association between the users preferences and preferences of the companies in reporting different informational items. For this criterion, results presented in Table-1 have revealed that the 'observed outcomes' in annual reports have a low degree of association with the 'desired outcomes' of the users of annual reports. In 1988 to 1991, the coefficient values observed are 0.19, 0.19, 0.24 and 0.23, respectively. Further, in all sample years coefficients are statistically not significant at 1 per cent level of significance. In the year 1988 and 1989 the coefficients are non-significant even at 5 per cent level of significance. These research findings imply that the degree of association between the 'desired outcomes' and the 'observed outcomes' is very low and generally non-significant. Thus, the results imply that accountants lack effectiveness in terms of the conventional effectiveness evaluation criterion. In operational terms, the results show that relatively more reporting is being done by companies on items having relatively lower importance to the users of annual reports and *vice-versa*. To sum, results of the study are "in agreement with the popular belief of a lack of agreement between the views of users and the actual content of annual reports."

As argued in section 1 of this study, evaluation of the effectiveness of accountants in terms of the conventionally followed approach does not reveal the true story. This is so because it is possible for the accountants to be partly effective in terms of one of their two major informational roles. In order to examine this proposition and enlist some of the likely reasons causing above noted mismatch between the 'observed outcomes' and the 'desired outcomes', a two-stage analysis has been performed. In the analysis, a comparison of 'intended outcomes' has been done with both the 'desired outcomes' and the 'observed outcomes'. In the first stage, association between the ranks assigned to the 'desired outcomes' and the 'intended outcomes' has been analyzed. Results presented in Table-1 have shown a statistically significant and high degree of association between these two variables. The observed coefficient of correlation between the two groups is as high as 0.79 and is also statistically significant at 1 per cent level. Importantly, this research finding shows that a popularly accepted belief of "relative importance of items being perceived differently by accountants and users" is not validated by the results. That is, effectiveness of accountants in terms of their role as a monitor is observed to be fairly high.

In order to examine effectiveness of accountants in terms of their role as disseminator, results on association between the 'intended outcomes' and the 'observed outcomes' have been analyzed. Results show that in the four years 1988 to 1991, correlation coefficient values between the two variables are, respectively, 0.15, 0.15, 0.21 and 0.20. Further, these values are statistically non-significant at 5 per cent level of significance in all sample years. Only in the years 1990 and 1991 the coefficients are observed significant at 10 per cent level. This implies a very weak association between the actual corporate reporting and the accountants preferences. Also, these results show a lack of strong association between the 'intended outcomes' and the 'observed outcomes', more particularly when compared with the correlation coefficient between the 'intended outcomes' and the 'desired outcomes' (analyzed above). In other words, interpretation of the results is that relatively more reporting is being done by companies on items having relatively lower perceived importance to accountants. In operational terms, the results imply that 'monitoring efficiency' of the accountants is generally not reflected in the actual content of corporate annual reports. The above results, thus, lead to the following inference. "Contrary to the popular belief of a strong agreement between the views of accountants and actual content of annual reports, the results of this study have provided evidence of a consistently low degree of association between the two groups."

To summarize, the most important implication of the findings discussed above is that according to the conventional evaluation criterion Indian accountants do lack effectiveness. However, accountants, as an important intermediary between the users as consumers of information and companies as suppliers of information have been found quite effective in monitoring the users informational preferences. Importantly, it is observed that disclosure preferences of accountants do not match highly with those relating to the actual reporting by companies. That is, while performing their role as disseminator of information, accountants have not been successful in implementing their disclosure preferences in practice through the annual reports. This observed behavior of accountants in reporting information on extended financial reporting items can be explained in terms of various personal, organizational and environmental constraints. Some of these possible constraints are a lack of will on the part of accountants to make information public, extra costs involved in collection and dissemination of information, fear of potential misuse of information by business competitors, and last but not least, accountants not being the ultimate authority in deciding the contents of annual reports.

6. CONCLUSIONS

The primary aim of this study has been to evaluate the effectiveness of corporate accountants in India. Effectiveness of accountants has been examined in terms of the information disclosed on extended financial reporting (EFR) items through the medium of corporate annual reports. It is concluded from the empirical findings of this study that accountants are fairly effective in their role as a monitor of the informational needs of the external users. However, accountants have been observed lacking effectiveness in their role as a disseminator of extended financial reporting information through the medium of corporate annual reports.

NOTES

1. Extended reporting could fall into the domain of either financial or social accounting. Since the study is concerned with the analysis of extended financial reporting (EFR), disclosures falling in the realm of social accounting have been excluded from the reckoning. Notably, social accounting is concerned with the information reporting on social performance of a business entity. NAA (1974) has identified four major areas of social performance as community involvement, human resources, physical resources and environmental contributions, and product or service contributions. In his study, Ramanathan (1979) has also included energy usage, research and development, and productivity statistics as areas of social reporting. Fair business practices has also been listed as an area of social reporting in the study by Ahmed and Zeghal (1986). In the present study all disclosures of information on these aspects by the sample companies through their annual reports have been excluded while constructing the 'disclosure index' (see section 4).
2. In the study, a choice for Central Public Sector Companies (CPSC) has been made for the following reason. The Institute of Chartered Accountants of India (1985) has found in its study that it is mainly the companies operating in the public sector which are currently supplying a great deal of information not mandated under the provisions of the Indian Companies Act. Disclosures by many a CPSC have been found in the said study to be approaching the state-of-the-art.
3. The cross-sectional years 1988 to 1991 correspond to the fiscal years 1987-88 to 1990-91. A fiscal year begins on April 1 and ends on March 31. At the time of collection of data 1990-91 was the latest year for which annual reports were available.

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