

CORPORATE ANNUAL REPORTS (CARS): ACCOUNTING PRACTICES IN TRANSITION

by

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A psalm of thanksgiving:

Make a joyful noise unto the LORD, all ye lands.

Serve the LORD with gladness: come before His presence with singing.

Know ye that the LORD he is God: it is He that hath made us, and not ourselves; we are His people, and the sheep of His pasture.

Enter into His gates with thanksgiving, and into His courts with praise: be thankful unto Him, and bless His name.

For the LORD is good; His mercy is everlasting; and His truth endureth to all generations (Psalm 100).

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Not unto us, O LORD, not unto us, but unto thy name give the glory, for thy mercy, and for thy truth's sake. (Psalm 115:1).

SDG

AMDG

DECLARATION

I, Christo Johannes Cronjé, declare that

CORPORATE ANNUAL REPORTS (CARs) ACCOUNTING PRACTICES IN TRANSITION is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

ABSTRACT

The main goal of this thesis was to obtain an understanding of the way in which accounting practices that are constantly in transition generate the information that is disclosed in corporate annual reports (CARS).

This study shows that CARS may be seen as a product of two main interrelated information processing systems, the first being the mandatory financial information system (MFIS) and the second the discretionary information system (DIS). The MFIS uses accounting practices such as generally accepted accounting principles (GAAP), which include International Financial Reporting Standards (IFRS), International Accounting Standards (IASs), JSE regulations and the Companies' Act requirements, in producing the information disclosed in CARS. The needs of users to reduce the uncertainty and risks in their decision making have an influence on the constantly evolving accounting practices. Standard-setting bodies play a major role in the development and refinement of GAAP.

On the other hand, the DIS, in order to provide a complete picture of business entities, uses discretionary accounting practices to produce the contextual information contained in CARS. These discretionary accounting practices are also currently in transition. They cater for the production of information on the business environment, and provide an operating and financial review, overview of strategy, forward-looking information, key performance indicators and information on corporate governance and transparency. Standard-setting bodies may be able to use the contextual information contained in CARS to develop and refine the GAAP used by the MFIS.

Key words:

Accounting practices, communication, contextual information, corporate annual reports, decision-usefulness, discretionary information, interrelationships, mandatory information, quality, the new science, the old science, wholeness.

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CHAPTER 1

Introduction and problem statement

1.1 Introduction

The traditional formal communication vehicle between a publicly listed entity and its interested constituencies is the corporate annual report (CAR). This issue will be further tested in the questionnaire for preparers (chapter 9) as follows: (Statement 28: *The corporate annual report is the primary communication channel of a company*). The corporate annual reports (CARs) of entities in South Africa have undergone significant change and are still in a process of transition; this is a worldwide trend. CARs are the playing fields on which business information, through the use of “accounting of the mind” practices, appears above the surface. Accounting of the mind practices represent the practices of human beings when making decisions about the control, conversion and allocation of resources. These practices come about through the recording of transactions and past experiences in human memory and are manifested in the form of habits for example (Gouws, 2006). “Accounting of the mind practices” is therefore a broader concept than “accounting practices”, which merely capture entity information. Accounting of the mind practices produce either discretionary disclosures through discretionary accounting practices, or statutory financial disclosures through accounting practices that have become generally accepted accounting principles. A list of accounting practices would consist of the following: observation or discovering, identifying (choice), recognising, classifying, measuring, recording, summarising, analysing, interpreting and reporting of accounting information.

Nowadays CARs are carrying more and more information (which reflects change) and the intention is to present this in such a way that it satisfies the relevant economic needs of various stakeholders. The accounting literature indicates the need for new approaches to and outlooks on the broader topic of financial reporting (Wolk, Tearney & Dodd, 2000:157). This research will investigate the changing appearance of CARs as a whole from a systems perspective.

1.2 A visual overview of the thesis

Chapter 1 Introduction and problem statement	Chapter 2 CARs in context	Chapter 3 The subprocesses responsible for CARs
Chapter 4 Quality issues In CARs	Chapter 5 The business communication potential of CARs	Chapter 6 Decision- usefulness
Chapter 7 Research methodology	Chapter 8 Research results: content analyses	Chapter 9 Research results: questionnaire for preparers
Chapter 10 Research results: questionnaire for users	Chapter 11 Research results: questionnaire for designers	Chapter 12 Conclusions and recommendations

This chapter will cover the problem statement and the importance of the study, the hypothesis of the study, the research objectives and scope, the research methodology, role players that can benefit from the study, a list of definitions used, a list of abbreviations and acronyms used and a demarcation of the chapters of the thesis.

1.3 Problem statement and the importance of the study

From a systems perspective, the changing appearance of CARs over the years has received little attention from researchers generally. Hopwood (1996:55) contends that the CAR is a largely unresearched document. Stanton and Stanton (2002:478) contend that “[e]xplanation of the changing structure and content of annual reports remains divided, largely because of the differing perspectives of researchers...”.

In order to provide a possible solution, this research views CARs as a whole from a systems perspective because “... the more we study the major problems of our time, the more we come to realize that they cannot be understood in isolation. They are systemic problems, which mean that they are interconnected and interdependent” (Capra, 1996:3).

The research problem follows from the fact that generally accepted accounting practices that generate statutory disclosures are seen mainly in isolation and that contextual accounting practices that generate contextual disclosures are deemed to be of less importance. In order to obtain a complete picture of an entity, the generally accepted accounting practices that generate statutory disclosures should not be seen in isolation, but should be studied together with the contextual accounting practices that generate contextual disclosures. CARs are therefore researched by reviewing the whole inclusive process as a system. Because stakeholders interact freely with their environment it is assumed that a CAR is the product of an open system and that CARs can be understood by studying their external environment, internal environment and interrelationships.

CARs are the product of information-processing systems and it will be shown that one system, which also contextualises CARs, is responsible for generating discretionary disclosures, while another system is responsible for generating statutory disclosures. An understanding of the real meaning of the statutory information contained in CARs can only be achieved when the statutory information is supplemented with contextual information.

The research problem addresses the lack of understanding of the interrelated information-processing systems of which CARs are the product, which results in the underutilisation of CARs' creative and innovative potential.

In this study the research questions are as follows:

- Do the CARs generated by the information-processing systems reflect the disclosure of information, captured and screened by accounting practices, that rests on a firm foundation supporting a logical body of practice (Herrick, 1944:49)? This issue will be tested in the questionnaire to be distributed to preparers of CARs (chapter 9) as statement 5: *Accounting practices that capture and screen information, generate the statutory and discretionary disclosures in CARs.*
- Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats? This question will be tested as statement 7 to be included in the questionnaire for preparers (chapter 9). (Statement 7: *CARs can be visualised as the product of information systems, representing an interaction between the entity and stakeholders to generate and share information*) and in the questionnaire for users (chapter 10) as Statement 1 (*Information in CARs is constantly escalating and presented in different formats*).
- Has the business information created by accounting practices the potential to become discretionary or statutory information in CARs? This issue will be covered by a statement to be included in a questionnaire for preparers of CARs (see chapter 9) (Statement 11: *Business information created by accounting practices has the potential to become discretionary or statutory information in CARs*).

- Is there a relationship between the information-processing system that generates the statutory disclosures in CARs and the information-processing system that generates the discretionary disclosures in CARs, which also contextualise CARs? This issue will be further explored in the questionnaire for preparers (chapter 9) (Statement 8: *The interdependency of interrelated systems, that is, the system that generates statutory disclosures and the system that generates discretionary disclosures in CARs, results in the disclosure of balanced information in CARs*).
- Does the discretionary financial information reported in CARs, if proven useful over time, have the potential of being accepted as statutory information governed by generally accepted accounting principles? This question will be included in the questionnaire for preparers (chapter 9) (Statement 12: *The discretionary information reported in CARs, if proven useful over time, has the potential of being accepted and disclosed as statutory information*).
- Is the mandatory financial information system (MFIS) that generates statutory disclosures in CARs a semi-open system? This issue will be explored in the literature review to be undertaken in chapters 1 to 6.
- Should CARs also provide other competitive financial information (e.g. an analyst's report)? This issue will be addressed in the questionnaire for preparers (chapter 9) as follows: Statement 20: *An independent analyst's report should be part of CARs*. It will also be included in the questionnaire for users (chapter 10) as statement 10.
- Do CARs provide enough information for users on the benefits they hold for users' future decision making? This question will also be explored in the questionnaire for preparers (chapter 9) as follows: Statement 32: *CARs provide users with enough information about future benefits for their decision making*.

- Is one of the objectives of CARs to enable users to predict the entity's future prospects? This issue will be addressed in the questionnaire to preparers (chapter 9) as follows: Statement 33: *The CARs objective is to enable users to predict the future prospects of the entity.*
- Do the systems that generate disclosures in CARs allow for feedback from users? This aspect will be covered in the questionnaire for users (chapter 10) as follows: Statement 26: *CARs should provide an observable feedback section for users.*
- Has CARs' potential in the education of accountants been recognised? This aspect will be tested in the questionnaire for users (academics) (chapter 10) as follows: Statement 29a: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the statutory section;* and Statement 29b: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the discretionary/voluntary section.*
- Should business information contained in CARs that is not useful or comprehensible be discarded or replaced? This question will be included in the questionnaire for preparers (chapter 9) as Statement 21: *The business information in CARs that is not useful or comprehensible must be discarded or replaced)* and also in the questionnaire for users (chapter 10) as Statement 27.
- What new dimensions can be added to CARs? This issue will be covered in the literature review in chapters 1 to 6 and in chapter 12.
It may be possible to find answers to these questions if all the processes that encompass the generation of information disclosed in CARs are viewed from a systems perspective.

1.4 Hypothesis of the study

The hypothesis of this study is that CARs are the information products of accounting practices in transition. The word “transition” means “change-over, conversion, development, evolution, metamorphosis, shift” (Collins 1985). It encompasses movement and change.

1.5 Research objectives and scope

In order to address the research problem in an organised and systematic manner, the following research objectives have been formulated:

Firstly, important aspects of the history of reporting will be examined. Secondly, the systems that generate the information in CARs will be explored as a whole in order to discover their essence and attributes. Thirdly, the attributes of information from two different paradigms will be investigated. This will be followed by, fourthly, an exploration of the subprocesses that influence reporting in order to produce a better understanding of the type of information to be disclosed in CARs. For instance, the users’ need to use information in such a way that it is useful for creating the meaning necessary for decision making could influence the accounting practices used in the generation of information. Fifthly, an investigation into the quality of the information used in CARs will be undertaken to discover what types of information need to be disclosed in CARs in order to reduce users’ business risks. Finally, the communication potential of CARs will be identified in order to discover ways to bridge the communication gap between the preparers and users of CARs. The research objectives will include an examination of the attributes of decision-useful information in order to identify the types of information that should be presented in CARs so as to reduce the risks that stakeholders are faced with. From the literature study above, statements will be formulated to be included in research questionnaires for distribution to preparers, users and designers of CARs.

In conclusion, suggestions will be made for improving CARs as a tool to assist users in their decision-making needs, and the learning opportunities that the study of CARs offers students will be discussed.

The study views CARs as a whole and excludes a study of the transition of specific accounting practices. This research investigates holistically the changing appearance of CARs, driven by accounting practices in transition, from a systems perspective.

1.6 Research methodology

1.6.1 Introduction

In this research, systems theory will be used to interpret the relationships between the systems that generate disclosures in CARs. Systems can be either open systems or closed systems, depending on the nature of their relationship with their environment. Open systems interact with the environment to obtain new energy from it. This new energy encompasses new ideas, innovation and creativity generated by feedback. On the other hand, closed systems have no interaction with their environment, and deteriorate as a result of lack of feedback from the environment and outside stakeholders (Schoonraad, 2004:90). From an accounting point of view, systems that for instance take feedback from users into account would qualify as open systems.

Innovation usually takes place when humans are faced with discomfort and imbalances (disequilibrium). The term “equilibrium” occupies a central position in the new science, that is, the paradigm of nonlinear thinking, where relationships, connections and context play a major role and where events and transactions are generally unpredictable (Capra, 1996:122). Emery (1981:74) maintains that systems “contain sets of vectors and processes which prevent the attainment of equilibrium”. If a system attains equilibrium then the system stagnates and dies. Wheatley (1999:77) declares that “[e]verything alive is an open system that engages with its environment and continues to grow and evolve”.

From a systems perspective CARs, which are driven by uncertainty, may be perceived as the information product of interrelated systems, for example the discretionary information system (DIS) and the mandatory information system (MFIS). This issue will be further explored in the questionnaire for preparers (chapter 9) as Statement 8: *The interdependency of interrelated systems, that is, the system that generates statutory disclosures and the system that generates discretionary disclosures in CARs, results in the disclosure of balanced information in CARs.*

In this interrelationship between the DIS and the MFIS, the DIS is involved with the disclosure of discretionary information, which forms the context in which to understand the mandatory information disclosed by the MFIS. The boundaries of these systems (areas of activity) sometimes overlap, but this overlapping should not be cause for alarm or dispute (Goldburg, 2001:14, 15), as both the systems are responsible for disclosing relevant information expressly for the purpose of minimising stakeholder risks. As an open system, entities' CAR documents are the output of the interrelationship of the systems that generate the information disclosed in CARs. The interrelationship of the two systems will be tested in the questionnaire for preparers as statement 10 in chapter 9. (Statement 10: *There is an interrelationship between these systems.*) The discretionary information disclosed in CARs, as generated by the DIS, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles (the MFIS). When studying the history of CARs in terms of its growth and relationships it is evident that it is an open system (refer chapter 2).

Generally accepted accounting practice (GAAP) is accommodated for in the International Accounting Standards Board's (IASB) Framework, International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). The South African GAAP statements are in all respects the same as the IASB Framework, the IASs and IFRSs. The accounting standards that are complied with in South Africa are therefore the accounting standards that are complied with in the United Kingdom. For this reason reference was made to the IASB and not to SAICA. SAICA is also not in possession of any literature and research regarding corporate annual reports.

The research methodology for this study (also see chapter 7) encompasses the following:

- Firstly, using a transdisciplinary approach, a critical literature review will be undertaken to obtain all the dimensions of CARs and the processes involved in generating them. This is necessary for an understanding of the systems that drive the types of disclosure contained in CARs. The review of the literature (refer to chapters 1 to 6) will be used to develop statements that will be included in the questionnaires to be distributed to preparer respondents (refer to chapter 9), user respondents (refer to chapter 10) and designer respondents (refer to chapter 11).
- Secondly, an analytical content analysis will be undertaken to discover the extent to which disclosures in CARs have escalated (refer to chapter 8).
- Thirdly, empirical questionnaires will be developed, making use of the findings of the literature review (chapters 1 to 6), and distributed to applicable respondents (refer to chapters 9, 10 and 11).
- The research is further complemented by the researcher's personal experience in the field of CARs preparation, initially as an accountant and subsequently as an educator and trainer of chartered accountants.

1.7 Who could benefit from the study?

This study will contribute to the body of accountability theory, to the knowledge of preparers, users and designers of CARs documents and to students, standard setters and auditors. It will reconcile the differences between advocates for the disclosure of statutory information and advocates for the disclosure of discretionary information, as the study will

show that there is an interrelationship between the systems that generate information in CARs.

1.8 List of definitions used

The accounting literature contains standard definitions for accounting terms. Some of these terms have been adapted and new ones developed for the context of this thesis. For the purposes of this study, the terms below are defined in the following way:

- **Accountability.**

Accountability is defined as the objective of financial reporting that reflects an agency relationship between managers, who are accountable to absentee owners, and stakeholders in terms of how they have used the economic resources entrusted to them (Kam, 1990:48, 159). The statutory section of corporate annual reports (CARs) reflects that relationship.

- **“Accounting of the mind” practices**

“Accounting of the mind” practices represent the practices of humans (the grassroots practices) that assist them when making decisions about the control, conversion and allocation of resources. They entail the recording of transactions and past experiences in the human memory, for example in the form of habits (Gouws, 2006). (Also refer to chapter 4.) They are the original accounting practices that are further refined and constructed into the accounting practices that generate disclosures in CARs.

- **Accounting practices**

Accounting practices are constructed from “accounting of the mind” practices and are used, as Staubus (1995:95) contends, as the generators of accounting information. Accounting practices stem from prevalent industry practices (Belkaoui, 2004:57) and include observing, discovering, identifying or recognising, classifying, measuring, recording, summarising, analysing, interpreting and reporting. They encompass all the practices and procedures used in the accounting value chain.

- **Accounting praxes – a possible new terminology**

Accounting praxes entail exalted, established and accepted accounting practices used in the process of reporting. However, for the purposes of this study it is assumed that generally accepted accounting principles have the same meaning as accounting praxes.

- **Business communication**

Business communication refers to the establishment and maintenance of mutually beneficial relationships between an entity and its relevant stakeholders through the exchange of information *inter alia* through the feedback that is needed to facilitate optimal decisions on the allocation of scarce resources.

- **Decision usefulness**

Decision usefulness is defined as an objective of financial reporting that has moved away from the traditional narrow goal of stewardship to a much wider role of providing heterogeneous users with information for decision-making purposes. It encompasses the accountability objective (Gouws, 1997:66, 68), and the information in CARs incorporates this objective.

- **Discretionary information system (DIS)**

A DIS is the system that uses discretionary accounting practices to generate discretionary disclosures and initiatives in CARs. This then forms the context in which to understand the mandatory financial information presented in CARs. These discretionary disclosures (Einhorn, 2005:594) are more flexible and relevant than the statutory disclosures generated by the MFIS and are not necessarily uniform. They include intellectual capital management, executive remuneration, human rights, occupational health and safety and human capital practices, innovation, research and development, customer satisfaction, climate change, corporate governance, consumer and public health, reputation risk, and the environmental and social impacts of corporate activity, operating and financial reviews, external threats, exposure risk, corporate responsiveness and impact on value (OECD, 2006:21).

- **Discretionary accounting practices**

Discretionary accounting practices screen the information captured by accounting practices and then disclose it as discretionary information in CARs.

- **Full disclosure**

Full disclosure is defined as the disclosures in CARs generated by the MFIS (the statutory disclosures) and the DIS (the discretionary/contextual disclosures), as well as disclosures to enable/empower users with “limited authority, ability, or resources” (Objective no. 2 in AICPA, 1973) (Wolk *et al.*, 2000:184).

- **Generally accepted accounting practice (GAAP)**

In the US, GAAP stands for generally accepted accounting principles, while in South Africa it refers to generally accepted accounting practice. This implies that these terminologies describe very similar conditions. The term “general acceptance” however remains a source of confusion, especially in a new situation (Belkaoui, 2004:45), as a more recent accounting practice that is preferred above an older established practice may not have the status of that of a generally accepted accounting practice. The new practice must first be accepted as a new standard before it achieves the same status as a principle. Accounting principles are derived from the observation of good accounting practices (Paton & Littleton, 1940). Many accounting concepts have influenced accounting rules, which evolve from practical operating necessities including income tax laws (Wolk *et al.*, 2000:136).

According to Grady (1965:407), principles or standards are postulates derived from experiences and reason that have proven useful. Principles are postulates that have been successful in practice (Wolk *et al.*, 2000:141). Generally accepted accounting principles are rooted in experience, reason, custom, usage and practical necessity. They encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time (AICPA, 1970 in Wolk *et al.*, 2000:141). GAAP governs the mandatory information to be disclosed in CARs. GAAP is accommodated for in the IASB Framework, International Accounting Standards (IASs) and International

Financial Reporting Standards (IFRSs). The South African GAAP statements are in all respects the same as the IASB Framework, the IASs and IFRSs. The accounting standards that are complied with in South Africa are therefore the accounting standards that are complied with in the United Kingdom.

- **Internet financial reporting (IFR)**

Internet financial reporting (IFR) improves users' access to information by providing information that meets their specific needs, allowing nonsequential access to information through the use of hyperlinks, and interactive and search facilities, and allowing the opportunity to provide more extensive, in-depth, flexible and timely information than is available in CARs (Laswad, Oyelerere & Fisher, 2000:41). IFR is therefore an additional source of financial information on entities.

- **Mandatory financial information system (MFIS)**

The mandatory financial information system (MFIS) is an information processing system that generates the mandatory information, governed by GAAP and the Companies Act, disclosed in CARs. The purpose of rule-making bodies with regard to mandatory information is to promote uniformity by limiting the alternatives to GAAP.

- **Preparers of corporate annual reports (CARs)**

The preparers of corporate annual reports (CARs) are those role players entrusted with the preparation of the CAR document. They use accounting practices, that is, generally accepted accounting principles, including the requirements of the Companies Act and JSE regulations, for the disclosures contained in the statutory section of CARs; and discretionary accounting practices for the disclosures contained in the discretionary section of CARs.

- **Stakeholders**

Stakeholders are defined as groups or individuals who can affect or who are affected by the achievement of an entity's objectives. They use the disclosures of CARs to reduce risk and uncertainty and to maximise opportunities for making decisions on the control, conversion and allocation of scarce resources.

- **Systems**

Capra (1996:29) states that, in systems theory, the properties of the parts can be understood only in terms of the organisation of the whole. The evolution of disclosures in CARs can only be understood if a study is undertaken within the context of the two systems, that is, the information-processing systems (the MFIS and the DIS) responsible for generating the disclosures in CARs. This study investigates CARs from a systems perspective.

- **The new science**

The new science of the twenty-first century is situated in the paradigm of nonlinear thinking, where relationships, connections and context play a major role and where events and transactions are generally unpredictable (Capra, 1996:122). The essential properties of the system are those properties of the whole that none of the parts possess (Wheatley, 1999:10). These properties originate in the interactions and relationships between the parts (Capra, 1996:29). The systems that generate the information reported in CARs can only be understood in the context of the larger whole.

- **The old science**

The old science is involved with the paradigm of linear thinking, classification and boundaries that developed in the seventeenth century. It represents the belief that in every complex system the behaviour of the whole can be understood entirely from the properties of its parts (Wheatley, 1999:29). In terms of this model, CARs can therefore only be understood by studying the disclosures in CARs separately.

1.9 List of abbreviations and acronyms used

Abbreviations and acronyms used in this study include:

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
CAR	Corporate annual report
CARs	Corporate annual reports
DIS	Discretionary information system

EPS	Earnings per share
EVA	Economic value added
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IASs	International accounting standards
IFR	Internet financial reporting
IFRSs	International financial reporting standards
MFIS	Mandatory financial information system
OFR	Operating and financial review
SAC	Standards Advisory Council
SEC	Securities and Exchange Commission

1.10 Demarcation of chapters

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

This chapter will make the research problem known to the reader. The research problem is that a lack of understanding of the interdependency of interrelated systems that drive the reporting of information in CARs, for example the system responsible for generating statutory disclosures and the system responsible for generating discretionary disclosures, which also form the context of CARs, results in the underutilisation of CARs' creative and innovative potential.

CHAPTER 2

CARs IN CONTEXT

This chapter explores the features that form the context for CARs. Firstly, important aspects of the history and development of CARs will be presented to link the past with the present and to produce insights for shaping the CARs development process.

This will be followed by an interpretation of the two systems that drive CARs. The perception is that CARs, which are driven by several reporting processes, are the information products of interrelated reporting systems, for example the statutory disclosures and the discretionary disclosures.

In addition, an investigation into the attributes of the information disclosed in CARs will be undertaken according to two different paradigms.

CHAPTER 3

THE SUBSYSTEMS RESPONSIBLE FOR CARs

In this chapter the subsystems responsible for CARs will be explored. The objective of this chapter is to produce insights for understanding the type of information that needs to be disclosed in CARs.

The chapter investigates the following four subsystems:

- users' needs and uncertainty
- systems
- innovation
- reporting in CARs

CHAPTER 4

QUALITY ISSUES IN CARs

The quality features of corporate financial reporting will be investigated and their importance for CARs will be considered.

CHAPTER 5

THE BUSINESS COMMUNICATION POTENTIAL OF CARs

In this chapter the business communication potential of CARs will be explored in order to discover ways to bridge the gap between the preparers and users of CARs.

CHAPTER 6

DECISION-USEFUL INFORMATION

In this chapter it will be shown that the users' need for decision-useful information is the primary driving force that determines the types of ultimate disclosure in CARs.

In this chapter, users' interpretation processes will be explored and it will be shown that the main objective of the interpretation processes is to discover meaning. It will be demonstrated that the users' need to interpret financial information is without doubt the *raison d'être* for disclosures in CARs. Users have to play an active role in extracting the information they need. The investigation of information and perception indicates that users of CAR information should mentally construct a whole in order not to lose any information, and should only move to the parts if the interrelationship between the whole and the parts gives rise to enhanced meaning.

In order for CARs to be an instrument in decision making, it is necessary to disclose information about the various inputs and processes of the business information and not just supply information on the outputs. From the investigation it is also clear that predictive information will assist users in predicting the future prospects of entities. Users should in turn be able to give feedback.

CHAPTER 7

RESEARCH METHODOLOGY

This chapter introduces the empirical component of the study. It describes the analytical content analysis as well as the empirical questionnaires that will be developed and distributed to respondents.

CHAPTER 8

RESEARCH RESULTS: CONTENT ANALYSIS

The research findings of the content analysis of the CARs of South African entities will be reported on and interpreted.

CHAPTER 9

RESEARCH RESULTS: QUESTIONNAIRE FOR PREPARERS

The research findings from the questionnaire sent to preparers of CARs will be reported on and interpreted.

CHAPTER 10

RESEARCH RESULTS: QUESTIONNAIRE FOR USERS

The research findings on the questionnaire sent to users of CARs will be reported on and interpreted.

CHAPTER 11

RESEARCH RESULTS: QUESTIONNAIRE FOR DESIGNERS

The research findings on the questionnaire to designers of CARs will be reported on and interpreted.

CHAPTER 12

CONCLUSIONS AND RECOMMENDATIONS

Conclusions are reached from both the quantitative and qualitative components of the study. Recommendations will be made about the potential for improving CARs and possible further areas for research are identified.

CHAPTER 2

CARs in context

2.1 Introduction

Information is creative energy (Wheatley, 1999:93) that is screened by “accounting of the mind” practices and then captured by accounting practices, which are the generators of accounting information (Staubus, 1995:95). This information is *inter alia* used by a mandatory financial information system (MFIS) to generate the statutory disclosures governed by GAAP. A discretionary information system (DIS) uses discretionary accounting practices to select from the information that has been screened by accounting practices to generate relevant discretionary disclosures. The accounting information not used by the MFIS can be used by the DIS to disclose relevant discretionary disclosures, such as value-added statements.

The objective of this chapter is to explore CARs in context. According to systems theory the properties of the parts can be understood only from the organisation of the whole (Capra, 1996:29). It is therefore important to understand the context in which CARs are drawn up, in order to obtain a better understanding of them as a product of various processes.

As a frame of reference for this study, table 2.1 that follows sets out the features that form the context for CARs, with an indication of the chapters in which they will be dealt with.

Table 2.1 Conceptual context of CARs

Features	Description	Chapter
Historical perspective	Important aspects of the history and development of CARs in order to link the past with the present.	Chapter 2
The systems	Interpretation of the systems that generate the information disclosed in CARs.	Chapter 2
Information in CARs	Investigation into the attributes of information from two different paradigms.	Chapter 2
The processes that influence reporting in CARs	The processes that influence reporting in CARs are explored using a network of interconnections.	Chapter 3
Statutory information in CARs	The statutory disclosures in CARs governed by GAAP, which represent the output of the MFIS, are investigated.	Chapter 4
Discretionary information in CARs	The discretionary disclosures in CARs produced by discretionary accounting practices, which represent the output of the DIS, are investigated.	Chapter 4
Communication in CARs	The communication potential of CARs is explored to discover ways of bridging the gap between the preparers and users of CARs.	Chapter 5
Decision usefulness	The features of decision usefulness are explored.	Chapter 6
Decision making	The interpretability and usability of CARs in decision making are explored.	Chapter 6

This chapter explores the features that form the context for CARs. Firstly, important aspects of the history and development of CARs will be presented to link the past with the present and to produce insights for shaping the CARs development process. This will be followed by an interpretation of the two systems that drive CARs. The perception is that CARs, which are driven by several reporting processes, are the information products of interrelated reporting systems, for example the statutory disclosures system and the discretionary disclosures system. In addition, an investigation into the attributes of the information disclosed in CARs will be undertaken according to two different paradigms.

2.2 CARs: a historical perspective

2.2.1 Introduction

The purpose of exploring the process and development of CARs is to develop an understanding of the important events that link the past with present-day corporate business reporting. Business reporting (AICPA, 1994:2), that is, the statutory disclosures and the discretionary disclosures contained in CARs, may be defined as the information an entity provides to help the users of that information with capital-allocation decisions relating to that entity. This reporting includes a number of elements; financial statements being one of them. This type of reporting involves communicating business information that decision makers will find relevant (Beaver, 1981:xiii). The users therefore play an important role in the development of CARs.

Business reporting has evolved over the centuries and has been typified by slow, random, reactive and unempirical growth (Garbutt, 1981; Edwards, 1989; Mattesich 2000; Zeff, 2005:1; Vorster, 2007:32). This issue will also be tested in the questionnaire to be distributed to the preparers of CARs in chapter 9 (statement 1: *Business reporting evolved over centuries and was typified by slow, random and reactive growth*). Initially records of business transactions were few and ungoverned, with the business reporting system being highly unregulated and based on tradition and convention (Gouws & Rehwinkel, 2004:81). Later, useful accounting and stakeholder practices became generally accepted

accounting principles, but resulted in the under-utilisation of CARs' creative and innovative potential. Gouws and Rehwinkel (2004:81) express the view that this "rule book" approach repeatedly vindicated ineffective practices. The developmental focus entailed a top-down approach, with the introduction of accounting principles and standards by accounting regulators, and not a bottom-up approach, such as a consideration of the needs of stakeholders.

Furthermore, government and corporate interventions inhibited the independence and scientific nature of the profession (Zeff, 2005:2). The focal point of business reporting was too narrow and external regulations too overwhelming, resulting in increased and recurrent accountancy problems (Gouws & Rehwinkel, 2004:81). Fortunately, business reporting is in an expansionary phase (this issue will be tested as a statement to be included in the questionnaire to be distributed to preparers of CARs; statement 2: *Business reporting is in an expansionary phase*) and the type of reporting currently found in CARs consists of statutory disclosures governed by GAAP, and discretionary disclosures (Beattie & Jones, 2001:196; West, 2005:7) that concentrate *inter alia* on the needs of employees, customers and suppliers and the capital market.

2.2.2 A historical perspective

The history referred to in this chapter is a literature review of empirical research by other researchers.

All developing and developed societies make never-ending demands on business reporting as a result of their ever-increasing needs. The basic ingredient of business reporting is the recording of data in order to report on it. Even now there are still similarities between the business reporting function in the ancient world and the world of today. No entity has ever been able to afford an unreliable record of receipts and payments or assets and liabilities. Increases in wealth and prosperity demanded a type of

agency reporting, whereby agents who acted on behalf of their masters, using delegated powers to run their affairs, had to report on the running of their masters' affairs and the protection of their interests, for example the assets. According to the wording of the gospel of Luke (16:2), "[t]urn in the account of your management [of my affairs]..." it would seem that reporting to stakeholders on the state of business affairs was common in Biblical times. Today the directors of an entity would be in an agency relationship with the owners and the other stakeholders. The directors act on behalf of the owners and, for this service, earn directors' fees.

In ancient civilisations, the collection of public funds in the form of taxes gave rise to a system of accounting and reporting. These times were not without their problems, as the majority of people were still illiterate and transactions were recorded on materials such as stone tablets, which were scarce, expensive, heavy and difficult to handle. The recording process was difficult and took a long time and, in most cases, money as a means for measuring worth did not exist. In spite of all the inconvenience, this information was perceived to be so important that it was preserved on tablets of stone.

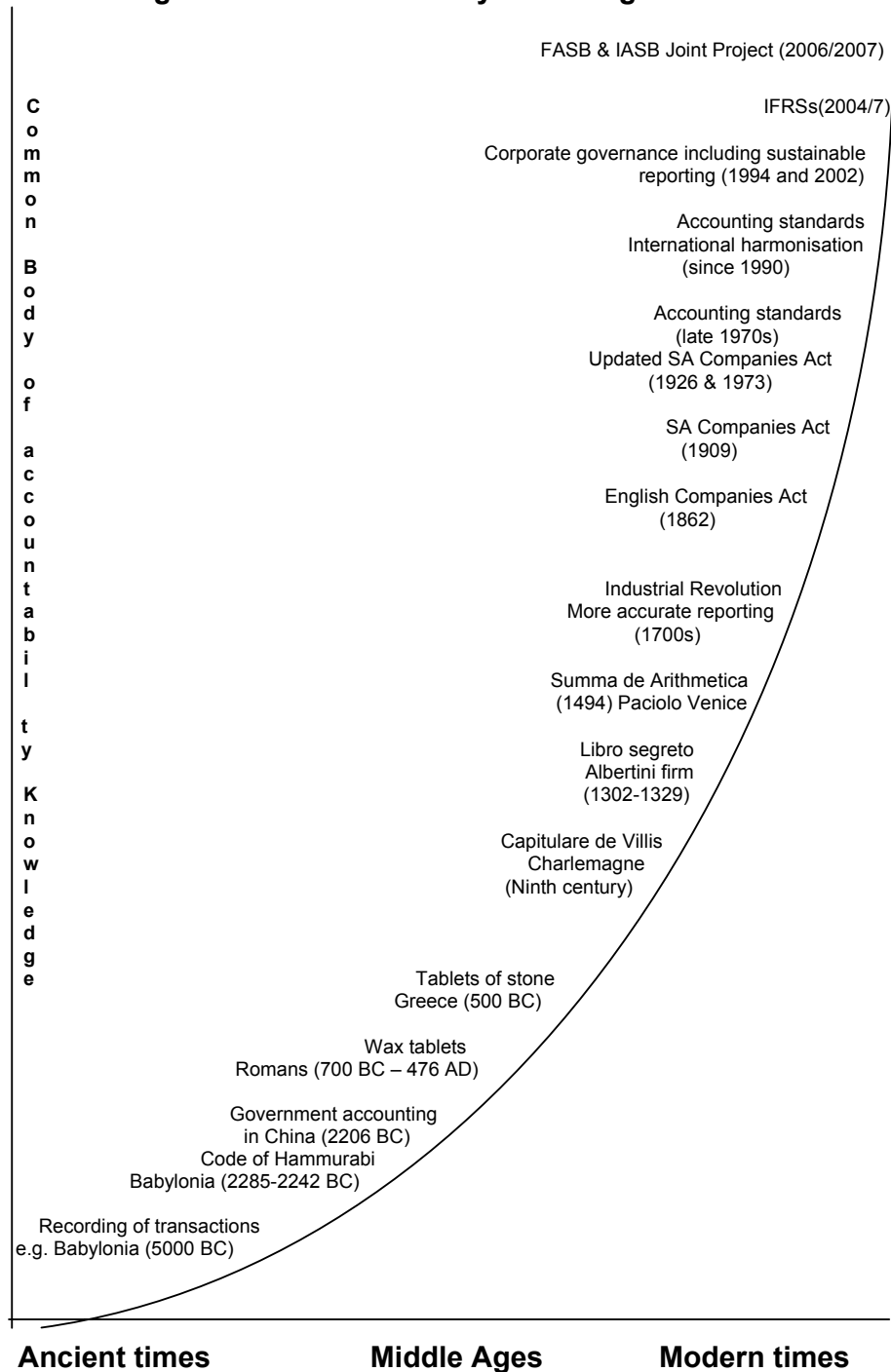
Some of the earliest writings that have been discovered are commercial and trade records. Most (1977:23) states: "There are respectable hypotheses that both writing and arithmetic originated in the need to keep accounts, and that this first took place at the time of man's transition from hunter to cultivator." Therefore, by implication, the need to communicate economic and business-reporting issues was the driving force in the development of written language and arithmetic.

To ensure maximum publicity, information and accounts (the first signs of CARs) were engraved on stone and placed in strategic places where the public had access to them. These disclosures of information were the product of the recording processes then in force. Today CARs are the information products of the systems that generate the disclosures in CARs.

2.2.3 The growth of CARs

The following figure (figure 2.1) illustrates various reporting events over the centuries that contributed to the development of modern CARs.

Figure 2.1 The growth of accountability knowledge



Source: Herbert (1971 in Most 1977:5) (adapted)

These reporting events were the products of information-processing systems, and over time the disclosures escalated as they were influenced by more and more processes, including users' needs, standard setting and so on.

The roots of CARs go far back in history (Gouws, 1982:29) and it seems as if certain functions of business reporting have been applied since the origin of handwriting. This is understandable as there is a relationship and correspondence between the business reporting functions and history. Financial and business reporting and history are both concerned with gathering, recording, systemising and ordering facts, events and actions (transactions).

2.2.3.1 Ancient times

Archaeological excavations have confirmed that financial and business reporting was a feature of ancient civilisations. Brown (1968:16-17) reports that ancient civilisations, for example the Babylonians (approximately 5000 BC), were involved in trading activities and had to provide a detailed agency account or report to their masters. This may be seen as the basis of accounting as we know it today, as reporting to stakeholders remains one of the most important objectives of accounting. The actual recording of transactions dates back to 4000 BC and these detailed agency reports were thus the information product of the systems responsible for their generation. There is proof that formal codes of practice or requirements that served as a motive or incentive for the recording function were already in existence. The best-known code is the Code of Hammurabi, who was king of Babylonia from 2285–2242 BC (Brown, 1968:17; Chatfield, 1977:5). Gouws (1982:35-36) contends that this code may be seen as one of the first attempts to standardise the corporate business reporting process, which is a development that is still ongoing today. Hammurabi's Code may be compared with our current International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs).

In ancient China, reporting was mainly used to evaluate the success of the government and its personnel. Every government department had to compile annual reports (note the similarity to the current CARs) to report on what had been achieved, and these statements were audited by the "control-general". No accounting records survived the fall of the Roman civilisation (700 BC–476 AD), as they kept their accounts on wax tablets, which

were perishable (Most, 1977:24). Today CARs are printed on paper and/or kept in electronic format. In Greece, a stone tablet has been found bearing an account of disbursements of the Athenian state (418 BC to 415 BC). Today this tablet is to be found in the British Museum (Brown, 1968:27). In those days the recording process was difficult and took a long time, however despite all the effort involved, the disclosure of this type of information was seen to be important. The stone tablets were therefore the product of an accounting information system relevant at the time.

2.2.3.2 The Middle Ages

Charlemagne's "Capitulare de Villis", which developed during the ninth century, displays images of a series of detailed instructions to the steward for giving account of his stewardship. The fledgling characteristics of an accounting system were therefore already observable (Gouws, 1982:45). The detailed instructions for the steward were the beginnings of accounting standards and the international financial reporting standards (IFRSs) currently used by the MFIS for reporting statutory matters in CARs.

Visser (1978:10) states that, in the 1300s, partnerships used a secret or private ledger called the *libro segreto*, which was kept by one of the partners. This *libro segreto* is one example of early business reporting and such a ledger used by the Albertini firm covers the period 1302–1329. In the year 1494, Luca Paciolo (Latinised as Lucas Patiolus [Brown, 1968:108; Previts & Merino, 1998:4-5]) published his book *Summa de Arithmetica, Geometria Proportioni et Propotionalita* in Venice in which he explained the principles of the double-entry system, which had been in use in Venice for more than two hundred years. He was not the developer of the double-entry bookkeeping system, but documented the practices of his time. These practices (Gouws, 1982:45) may be compared to current day GAAP, which is used by the MFIS in producing statutory disclosures in CARs.

2.2.3.3 Modern times

The Industrial Revolution gave rise to an escalation in disclosures. From the long history of CARs it may be seen *inter alia* that financial and business reporting was a process that constantly responded to the needs of the environment and of the society in which it was functioning. Apart from the influence that society had on CARs, they in turn have had a major influence on various elements of society. Today CARs represent an interaction between entities and stakeholders with the purpose of generating and sharing information. This statement will be tested further in the questionnaire to be distributed to preparers of CARs in chapter 9 (statement 7: *CARs can be visualised as the product of information systems, representing an interaction between the entity and stakeholders to generate and share information*).

The first reporting requirements for companies in England were governed by the requirements of the English Companies Act, which was adopted in 1862. The South African Companies Act of 1909 was based on the English Companies Act and was later amended in 1926 and again in 1973. Visser (1978:393) reports that over time these amendments became necessary in order to cater for developments in financial reporting. The requirements of the South African Companies Act are *inter alia* applied by the MFIS in generating the statutory disclosures in CARs.

Accounting standards appeared on the scene in the late 1970s and, in conjunction with the requirements of the Companies Act, represented the generally accepted accounting principles that govern the mandatory section of information in CARs. According to Visser (1978:394), "... a very conservative effort was made to conserve a balance between the need to inform investors and a fear of disclosing too much information which might in turn be a disadvantage to the said company in its competition with other companies as these might take a mean advantage of such information".

Companies progressively disclosed more information in CARs than was required by law (Foster, 1986:31) in order to obtain the support and understanding of their investors and potential investors on the one hand, and management, employees, the public, creditors and other stakeholders on the other. A further development in the disclosure requirements of the statutory information reported in CARs was the international harmonisation initiative that commenced in 1995. This led to the release of international accounting standards (IASs) aimed at making the statutory disclosures in CARs more comparable around the globe. The South African GAAP statements are in all respects the same as the IASs and IFRSs. The accounting standards that are complied with in South Africa are therefore the accounting standards that are complied with in the United Kingdom. Currently, IFRSs are gradually replacing IASs, and a joint project of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) is underway with the aim of developing a common conceptual framework that is both complete and internally consistent. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that are principles-based, internally consistent, and internationally converged, and that can lead to financial reporting that provides the information needed for decision making (FASB, 2007:1). An example of the transition of accounting practices in the public sector is the accounting for heritage assets under the accrual basis of accounting driven by the International Public Sector Accounting Standards Board. Heritage assets are assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, and this purpose is central to the objectives of the entity holding them. In addition to museum collections, such as those of art, antiquities and books, the term "heritage assets" includes assets such as landscape and coastline, historic buildings and archaeological sites (IFAC, 2006:10).

The growth in accountability knowledge since 5000 BC has been remarkable. It has evolved from the basic reporting of those times to the point where CARs now display the attributes of multifarious reporting and, as Lee (1994:223) points out, annual reports are multipurpose documents. The next section is an interpretation of the systems that generate the information disclosed in CARs.

2.3 The systems responsible for disclosures in CARs

CARs consist of two sections, that is, a section of statutory disclosures and a section of discretionary disclosures (Stanton & Stanton, 2002:479). This statement will be tested in the questionnaire to be distributed to preparers of CARs (see chapter 9) as statement 6 (*CARs are normally divided into two sections, that is, the statutorily required financial information and the discretionary disclosures*) and statement 9 (*CARs that are driven by user needs represent inter alia a system responsible for generating statutory disclosures governed by generally accepted accounting practices [GAAP] and a system responsible for generating discretionary disclosures*). In chapter 1 it was stated that a lack of understanding of the interdependency of the interrelated systems that generate disclosures in CARs, for example a system responsible for generating statutory disclosures and a system responsible for generating discretionary disclosures, which *inter alia* also form the context of CARs, results in the under-utilisation of CARs' creative and innovative potential. The discretionary disclosures could for example be researched to further develop statutory disclosures. The discretionary disclosures complement statutory disclosures for a full understanding of the business as a whole. Discretionary disclosures therefore fill the gap left by statutory disclosures.

The DIS is a system involved in the discretionary disclosures in CARs. The discretionary disclosures *inter alia* form the context within which to understand the mandatory financial information disclosed in CARs which is generated by an MFIS. The discretionary disclosures are more flexible and relevant, but not necessarily uniform. Companies use discretionary disclosures when accounting standards and the associated financial accounts appear to be inherently unsuitable for disclosing matters such as intellectual capital (OECD, 2006:5). The DIS has the attributes of an open system as it responds to the information needs of users. The MFIS is the system involved with the mandatory information disclosed in CARs and is governed by GAAP, JSE regulations and the Companies Act. The purpose of the MFIS is to limit alternative statutory disclosures in order to promote uniformity.

The discretionary information disclosed in CARs is an important source for standard-setting bodies to explore to develop accounting standards further. Information generated by the DIS, in the form of discretionary disclosures in CARs could, after rule-making bodies have carried out a certain amount of research, become mandatory information in CARs, which would then be generated by the MFIS.

Capra (2002:202) maintains that sustainable systems evolve their patterns of existence over time in continual interaction with other systems. This principle of continual interaction manifests itself in the systems that drive reporting in CARs. The sustainability of these systems involves change and a dynamic process of co-evolution rather than a static state (ibid, 2002). The information in CARs changes constantly and is never static. Systems are self-generating networks, organisationally closed within boundaries but open to continual flows of feedback. There are six principles of ecology that are critical to sustaining systems (ibid, 2002): networks, cycles, uncertainty, partnership, diversity and dynamic balance. These principles are discussed further in table 2.2.

Table 2.2 Principles of ecology applied to CARs

<p>Networks</p> <p>Systems can be viewed as networks within networks. Their boundaries are not boundaries of separation but boundaries of identity (Capra, 2002:202).</p> <p>CARs are perceived as the products of interrelated systems, the MFIS and the DIS, and are driven by the information needs of stakeholders. As in the case of networks, the boundaries of these systems sometimes overlap.</p>
<p>Cycles</p> <p>All systems act on feedback from their environment (Capra, 2002:202).</p> <p>As with systems, there is interaction between the entity and the stakeholders in order to generate and share information, which is constantly on the increase and is presented in different formats in CARs. CARs represent webs of relationships.</p>

Uncertainty and information

For its own survival systems need energy to continuously change from areas of discomfort (uncertainty) to areas of equilibrium (Capra, 2002:202).

The needs of different stakeholders for decision-useful information to reduce uncertainty likewise influence the change in disclosures in CARs.

Partnership

The exchanges of energy and resources in a system are sustained by co-operation (Capra, 2002:202).

This cooperation may also be seen in CARs as the business information created by accounting practices that has the potential to become discretionary or statutory information in CARs. The discretionary information reported in CARs, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles.

Diversity

The greater the diversity of systems, the more resilient they will be (Capra, 2002:202).

This diversity manifests itself in the systems, for example, in the discretionary disclosure system that generates discretionary disclosures and the mandatory disclosure system that generates statutory disclosures. The information generated by the systems is diverse in nature, as the mandatory information is governed by GAAP and is therefore more reliable than the discretionary information, which is more flexible and relevant.

Dynamic balance

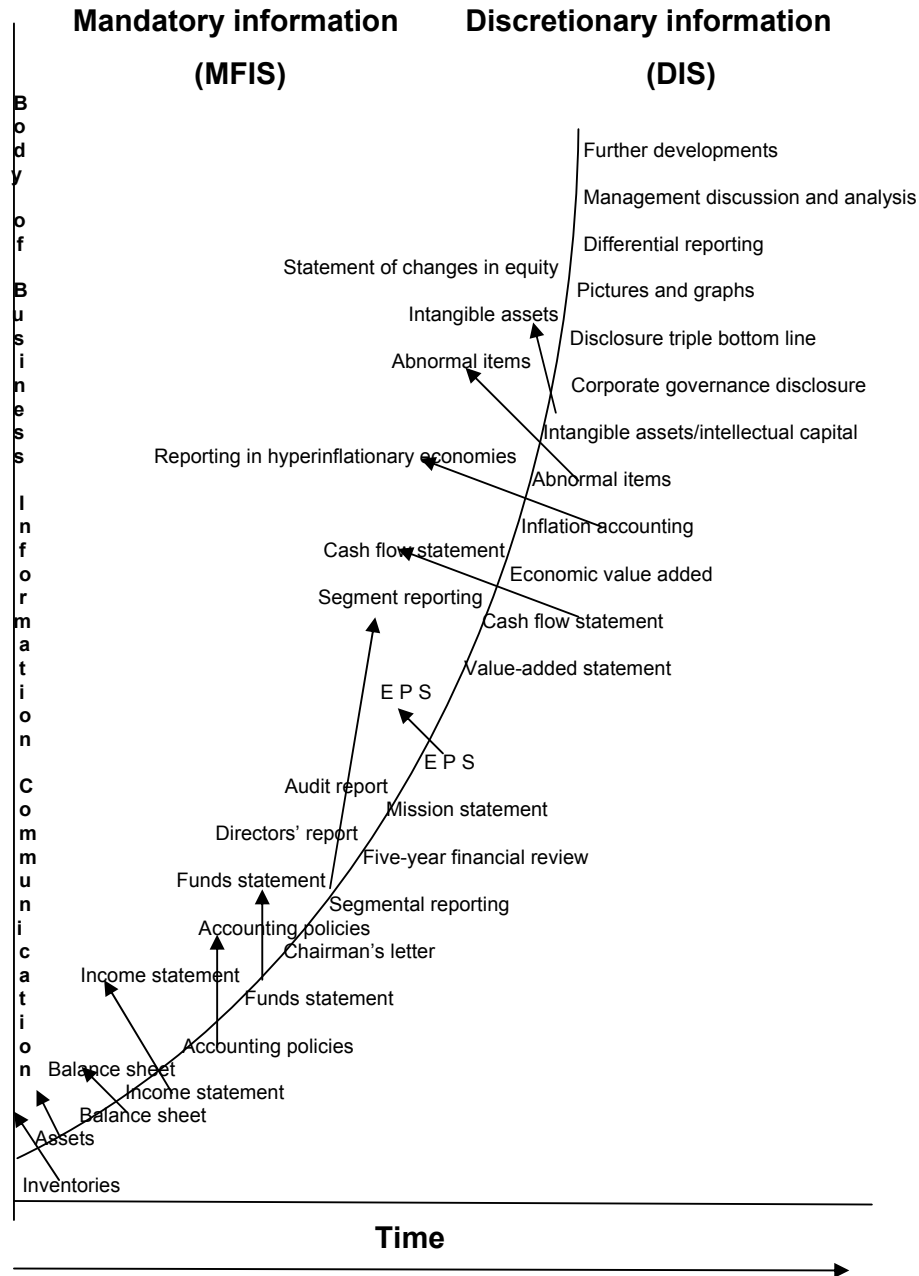
A system is a flexible, ever-fluctuating network. (Capra, 2002:202).

As far as CARs are concerned the two systems, the MFIS and the DIS produce disclosures that evolve owing to accounting practices in transition.

The basic principles of ecology – the nonlinear network structure, multiple partnerships, diversity of systems and the goal of optimising instead of maximising information – are fundamental requirements for the proper functioning of the systems responsible for generating disclosures in CARs.

Figure 2.2 is a representation of the growth in the body of business information disclosures over the centuries. The specific dates of the occurrences have been omitted, as the exact dates of their appearance are not known. The graph reflects growth over time and the representation assumes that the first link in the business information disclosure chain was the recording of inventory generated by the discretionary disclosures that later formed part of statutory disclosures. The arrows on the graph indicate which discretionary information became mandatory information over the centuries. For example, earnings per share (EPS) was discretionary information at first and, after being found useful, became mandatory information, IAS 33 (IASB, 2005). Information in respect of intangible assets was first disclosed as part of discretionary information and later an accounting standard for intangible assets was developed, IAS 38 (IASB, 2005). Note that not necessarily all of the discretionary disclosures become mandatory disclosures, for example internally generated goodwill is not regarded as an intangible asset in IAS 38 (IASB, 2005).

Figure 2.2 The growth and conversion of business information disclosures



Source: Own observation

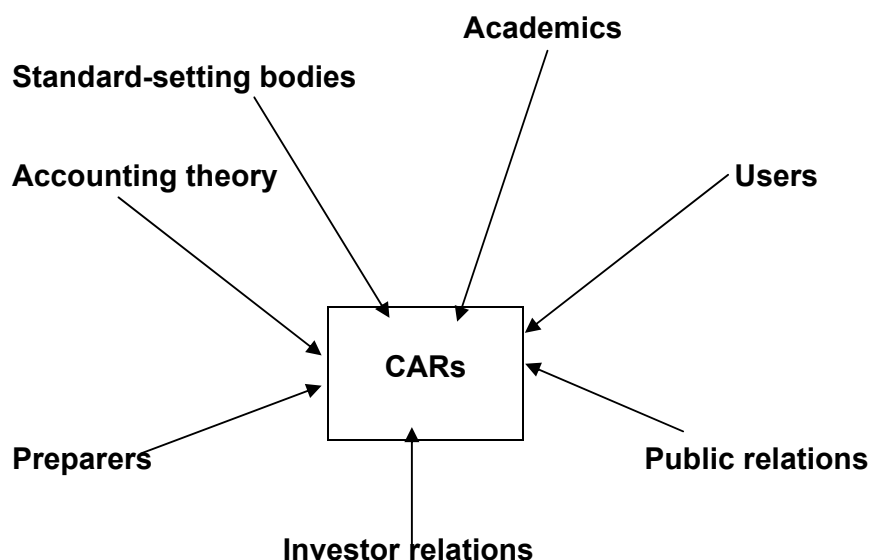
Figure 2.2 indicates that discretionary accounting practices utilised by the DIS, by means of which discretionary information in CARs is presented, has the potential, if found to be useful over time, to become generally accepted accounting principles utilised by the MFIS for disclosing statutory information in CARs. A statement that has not yet developed

to the point of being governed by GAAP is the value-added statement (Van Staden, 1998). Figure 2.2 shows that almost all statutory disclosures originated as discretionary disclosures. Furthermore, current and emerging business practices will influence the evolution of accounting practices in the future. This is because accounting practices and discretionary accounting practices develop over time and, if they become known and prove useful, they eventually become generally accepted accounting practices. In the questionnaire to be distributed to preparers of CARs (chapter 9), this issue will be tested as statement 3: *current and emerging business practices will influence the evolution of accounting practices in the future*.

2.4 Disclosure of information

CARs are driven by various reporting (disclosing of information) practices in order to provide adequate information. Without adequate information users of business reporting cannot accurately judge the opportunities and risks inherent in investment opportunities (Knutson, 1993:12; AICPA, 1994:1). CARs must therefore perform the role of carriers of adequate information – the creative energy for decision making.

Figure 2.3 The role players of CARs



Source: Own observation

Figure 2.3 gives an indication of the various role players that influence the information contained in CARs. The standard-setting bodies are the major role player in the development of accounting practices to create disclosures in CARs. They carry out their own research and develop and refine the IFRSs and IASs that generate the mandatory disclosures in CARs. Academics are also involved in research projects and write articles to communicate their research findings to interested parties. Professionals identify, facilitate and disclose information; management is responsible for the information that is disclosed and "... has considerable discretion over the content and timing of the many diverse public disclosures it makes ..." (Foster, 1986:24); users are entitled to use the information for addressing uncertainties and risk; public relations (including corporate communications) has the task of communicating entity information to stakeholders; and investor relations has the task of identifying the types of disclosure that are important to investors. OECD (2006:11) identifies a diversity of actors that influence the ultimate disclosures in CARs (e.g. different types of investor, accounting bodies, academics, science policy specialists, management consultants).

Another role player that shapes the information content in CARs is accounting theory. Hendriksen (1977:1) defines accounting theory as "a set of broad principles that (i) provides a general frame of reference by which accounting practice can be evaluated and (ii) guides the development of new practices and procedures". The role of accounting theory is to provide frameworks for the orderly dissemination of disclosures in CARs.

The roles that preparers and users play in the outcome of CARs will be explored in chapters 9 and 10. The statements to be included in the questionnaire for preparers (chapter 9) will be as follows: statement 15a: *Although the ultimate responsibility for the preparation of CARs lies with the directors (represented by the Chief Executive) of publicly listed companies, the following department(s) is/are entrusted with the preparation of the following sections of CARs: The **financial department** is entrusted with the accumulation and preparation of the mandatory information section (e.g. the statutorily required financial*

*statements and notes) of CARs); statement 15b: The **finance department** is entrusted with the accumulation and preparation of the discretionary (voluntary) information section (e.g. including integrated sustainability reporting, corporate governance matters and other discretionary [voluntary] reporting.) of CARs; statement 15c: The **investor relations department** has the opportunity to advise on the types of information that should be disclosed in CARs; statement 15d: The **finance department** is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c); statement 15e: The **corporate communications department** is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c) and statement 16: The CARs preparation process involves a team effort, where several departments work together.*

Larger companies make use of external designers in the CARs preparation process (Stanton & Stanton, 2002:479). In order to identify the role players who instruct designers on the design of CARs, the following statements will be included in the questionnaires for designers (chapter 11) as follows: statement 1a: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Corporate communications;* statement 1b: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Finance* and statement 1c: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Other.*

The CARs of entities exist as a result of the need for information. In the information age the role of CARs as the carriers of messages for the benefit of various role players has become very important. The information these contain must be available in an understandable form that meets the needs of the various role players. Disclosures in CARs may be based on the attributes of the new science and/or the attributes of the old science. The new science of the twenty-first century is a perspective of nonlinear thinking,

where relationships, connections and context play a major role and where events and transactions are mainly unpredictable (Capra, 1996:122). This does not prohibit or limit users from engaging in forecasting activities. The disclosures in CARs can only be understood within the context of the larger whole, that is, taking all the features of the conceptual context of CARs into account (refer to table 2.1). The context of CARs must first be understood before it can be decided what types of information to disclose. On the other hand, the old science is involved with the perspective of linear thinking, classification and boundaries, which developed in the seventeenth century. It represents the belief that in every complex system the behaviour of the whole can be understood entirely from the properties of its parts (Wheatley, 1999:29). In terms of this model, CARs can therefore only be understood by studying the disclosures in CARs separately.

Most of the disclosures in CARs today are based on the “old science” model. However, the following section will reveal that the disclosure of information in CARs is primarily driven by two systems, which are based on two different models. The system that generates and discloses voluntary information is based on and makes more use of the attributes of the new science model, while the system responsible for generating and disclosing mandatory information tends to be based on and use the attributes of the old science model. As such, the disclosure of balanced information (according to these two models) in CARs is not an easy task. In order to discover how the attributes of information (according to the two models) differ, a comparison will be made between information presented in accordance with the old science model and that presented from a new science perspective.

In table 2.3 the attributes of the old and new science (Blignaut, 2002:273-274) have been applied to the systems generating disclosures in CARs.

Table 2.3 The old science versus the new science

Attribute	The old science	The new science	Application to the two systems driving the disclosures in CARs
Science	Absolute, deterministic influence of science and technology	Science: chaos and qualitative	The information disclosed by the MFIS is absolute because it is governed by GAAP. (Old science) . The information disclosed by the DIS tends to be more qualitative, because rules play a lesser role when deciding what to disclose and what not. (New science) .
Truth	Truth as objective and neutral	Truth, objectivity and neutrality subject to the role of belief and value systems	The MFIS discloses information that is more reliable and neutral. A clinical approach is followed. (Old science) . The issue of reliability will be tested in the questionnaire for users (chapter 10) as follows: statement 2: <i>I mainly use the statutory information [e.g. the financial statements] presented in CARs because it is more reliable and standardised.</i> The DIS discloses information that is more subjective, where use is also made of visuals and photos. An entity could for example boost its corporate image with this subjective information. (New science) .
Cosmos	Closed systems	Open systems	The MFIS responsible for generating statutory disclosures in CARs may be viewed as a semi-open system. The development of generally accepted accounting principles is influenced mainly by external incidents, which it uses for disclosures in CARs. The GAAP used by the MFIS are initially published as exposure drafts and circulated for comment before they are approved as accounting standards. (Old and new science) . The DIS is an open system, as it reacts with the feedback received from different stakeholders. Disclosures by the DIS over the years have escalated, which shows that this system reacts to the feedback it gets. However there might be room for improvement. (New science) .
Cosmos	Predictability/measurability/control	Complexity	The information disclosed by the MFIS, as a result of the rules laid down by accounting standards, is more controlled and measurable than that disclosed by the DIS. (Old science) . On the other hand, the information disclosed by the DIS is more difficult to measure. It might for instance not be measurable e.g. intellectual capital. (New science) .
Source of strength	Stability	Change	The information disclosed by the MFIS is more stable and average (old science) , while the information disclosed by the DIS is more volatile and fluctuates from moment to moment. (New science) .

Style	Structured	Flexible	As GAAP is used to govern the disclosures by the MFIS, it is more structured. (Old science) . On the other hand, the disclosures by the DIS are more flexible as there are not always specific rules for how and where in CARs they should be disclosed. (New science) . The issue of flexibility will be tested in the questionnaire to users (chapter 10) as follows: (Statement 3: <i>I mainly use the discretionary information presented in CARs because it is more flexible and relevant</i>).
Strategy	Top down	Bottom up	GAAP follows a top-down approach as it prescribes the information to be disclosed by the MFIS in CARs. (Old science) . In most cases the DIS follows a bottom-up approach, as the feedback from stakeholders can be taken into account more easily. Apart from the guidelines of the global reporting initiative (GRI), and guidelines for disclosure of an operating and financial review (OFR) for example, there are fewer rules. (New science) .
Improvements	Incremental	Revolutionary	As from 2003/4 there have been vast improvements in the accounting standards used by the MFIS in the generation of disclosures. However, over the years these improvements have been incremental, owing to the time it takes to get them internationally accepted and implemented. (Old science) . The discretionary information section in CARs shows that there have been major improvements in discretionary disclosure, for example the introduction of photos and visuals. Disclosures are constantly on the increase. (New science) .

The attributes of the old science and the new science are very different. Table 2.4 shows how the information presented in CARs will differ if presented in accordance with the attributes of the old science paradigm (mainly used by the MFIS) compared with those of the new science paradigm (mainly used by the DIS). For this comparison (see table 2.4) use was made of the attributes of information contained in Wheatley (1999).

Table 2.4 A comparison of the information presented in CARs

In accordance with the attributes of

THE MFIS	THE DIS
The information is provided according to the rules of GAAP and accounting praxes.	The information is provided using a spontaneous approach.
The information appears in numerical form for example and is structured and classified.	The information is presented in such a way that it allows stakeholders to comprehend the whole.

The information is usually uniformly presented.	The visual appearance of the information is important and there is much scope in CARs for creative and artistic design.
The informational content is shaped by various regulations and standards.	The information content is relatively difficult to control owing to the abundance of information and lack of standards.
The underlying form in which the information is presented is important.	The contents and meaning of information are important. The underlying form is unimportant.
There is a tendency for average fluctuations to give smooth statistics. The emphasis tends to be on large numbers, important trends and major variances.	All information is important. Fluctuations give rise to information and convey important messages.
The information presented is rational and straightforward.	The information presented focuses more on quality than on quantity.
Most of the information presented is measured, quantified and audited.	All information is not necessarily measured, quantified and audited.
The information in CARs is presented objectively.	The information is presented subjectively.
The information is presented in an orderly way. In general one is therefore unlikely to find information that is disturbing, different or disconfirming.	The information presented deals with both good news and bad news and the information is essential for all stakeholders (public accountability).

Table 2.4 indicates how disclosures in CARs generated by the MFIS and the DIS differ as a result of the different attributes of the two systems. Although different in nature, the disclosures generated by the two systems complement each other and give rise to full disclosure in CARs. This issue will be further explored in the questionnaire for users (chapter 10) as follows: statement 4: *As the statutory and discretionary information in CARs complement each other, I make use of both these sources of information.*

Both tables 2.3 and 2.4 show that the MFIS, which discloses the statutory information in CARs governed by GAAP, has the attributes of information presented in the old science paradigm, for example, various regulations and standards shape the informational content of the statutory information and a rule-book approach is followed. Tables 2.3 and 2.4 also show that the DIS, which discloses the discretionary information in CARs generated by discretionary accounting practices, has the attributes of information presented in accordance with the new science model, for example, the information reflects the overall picture to give a comprehensive view of a company (OECD, 2006) and far more emphasis

is placed on aesthetic features. Desmond (2000:168) mentions the idea of a core document that summarises information for all users in a compelling and accessible way.

The information that is too detailed for the core document may be divided into two categories: mandatory disclosures and voluntary communication. Whatever the form of CARs, the preparers and compilers of these documents need to strike a balance between the two models in order to present meaningful information in CARs as a whole.

2.5 Summary and conclusion

This chapter explored the features that form the context of CARs. Important aspects of the history and development of CARs were presented to link the past with the present and to produce insights for shaping the process of CARs development. It was concluded that the growth in accountability knowledge since 5000 BC has been of great significance. From the basic reporting that characterised its beginnings, it has evolved and grown, and today CARs contain the attributes of multiplicity.

An interpretation of the two systems that generate disclosures in CARs was undertaken. It was assumed that CARs, the development of which is driven by the needs of the users to reduce uncertainty and risks, represent a larger system (the DIS) in which statutory disclosures governed by GAAP form a subsystem (the MFIS) and that there is an interrelationship between this subsystem and the larger system. It was shown that almost all statutory disclosures generated by the MFIS originated as discretionary disclosures generated by the DIS. This is because accounting practices and discretionary accounting practices develop over time and, after they have become known and have proven useful, become generally accepted accounting practices. GAAP is the tool used by the MFIS to generate statutory information in CARs.

An investigation into the attributes of the information disclosed in CARs was also undertaken using two different paradigms. It was concluded that the preparers and compilers of CARs need to strike a balance between the two paradigms in order to present meaningful information in CARs as a whole.

CHAPTER 3

Subprocesses responsible for CARs

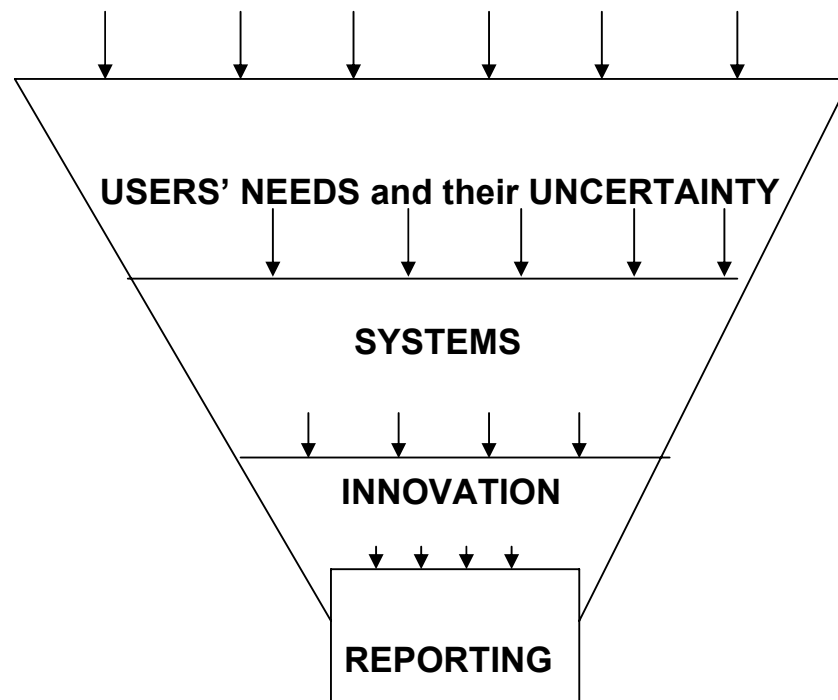
3.1 Introduction

Reporting (disclosure of information) is driven by uncertainty (Foster, 1986:15). The users' needs for understandable information to reduce uncertainty influence accounting practices and GAAP, as well as the discretionary accounting practices. These all play a role in the development of the disclosures contained in CARs. In chapter 2 some of the features that form the context of CARs were explored. Important aspects of the history and development of CARs were presented to link the past with the present and to produce insights for shaping the CARs development process. An investigation of the systems that drive disclosure in CARs was undertaken in order to interpret the functioning of the systems and their interrelatedness. An investigation of the attributes of information disclosed in CARs was also carried out using two different paradigms to determine the types of balanced information to be disclosed in CARs.

The aim of this chapter is to explore the subprocesses responsible for CARs. This will give a better understanding of the type and quality of the information currently being disclosed in CARs and will allow an opportunity to make recommendations for further improvements in this regard.

The layout of the chapter is done according to four subprocesses, that is, users' needs and their uncertainty, systems, innovation and reporting. Figure 3.1 is an illustration of the four subprocesses that drive reporting in CARs. The information to be disclosed in these documents should as far as possible address users' needs to reduce uncertainty. Then, the internal systems that produce information in CARs need to be explored in order to find areas for improvement. In addition, creative thinking and innovation will determine the types of information users need and ways in which internal systems can contribute to the production of decision-useful information. The final subprocess is the disclosure of the information produced by the systems/processes in the CARs.

Figure 3.1 The subprocesses that drive reporting in CARs



Source: Own observation

3.2 Users' needs

Uncertainty, for example a lack of general and future-orientated information on an entity, and shortcomings in one's own education, are the ultimate drivers of the disclosures in CARs. Conversely, the aim of these disclosures is to reduce uncertainty.

Every user of these reports is experiencing some type of risk (King, 2002b:76), for example investment risk and cash flow risk, which can only be managed if the right information is available. Ongoing user research into the type of information required to reduce uncertainty influences the type of information that is disclosed in CARs. The issue of risk reduction is further tested in the questionnaire for users (chapter 10) as follows: statement 22: *CARs as an information carrier should provide stakeholders with information that would help to minimise the risks [e.g. investment risks] they are faced*

with, and statement 23: *CARs are knowledge-sharing documents into which stakeholders can tap for investment risk-reducing information.*

Different users have different levels of uncertainty and users need to manage their risk by having the right type of information available. The feedback users give on their needs also influences standard setters who acknowledge that there is a wide variety of user groups, not limited to investors or potential investors. In the IASB Framework (IASB, 2005:para. 9-11) mention is made of various user groups. These include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public. The framework also states that these user groups use financial statements to satisfy some of their differing needs for information, which include the following:

- *Investors. The IASB Framework (IASB, 2005 para. 9(a)) states that the providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information that enables them to assess the ability of the entity to pay dividends.*

The needs of this group of users form part of a social contract (Foster, 1986). The needs of investors for this type of information will have an effect on the statutory disclosures governed, *inter alia*, by GAAP, as well as the discretionary disclosures generated by the discretionary accounting practices presented in CARs. A certain balance must therefore be struck between statutory disclosures and discretionary disclosures.

- *Employees. The IASB Framework (IASB, 2005 para. 9(b)) is of the view that employees and their representative groups are interested in information about the stability (maybe not the most desirable state of affairs) and profitability of their employers and that*

they are also interested in information that enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.

Employees' needs therefore influence the type of information to be generated by the MFIS, for example IAS 19 (IASB, 2005), which deals with disclosures on employee benefits, as well as the information generated by the DIS, for example integrated sustainable information on human resource management.

- *Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due (IASB, 2005: Framework: para. 9(c)).*

Lenders are a dominant group and as such are in a position where they are able to demand certain types of information (Foster, 1986:5) and they therefore influence the type of accounting practices used in the process of generating disclosures. The historical influence of bankers on the preparation of financial statements was significant as they not only influenced the statements themselves but also the accounting principles (Heath, 1978:41). Their needs will therefore have an effect on the information to be generated and disclosed by the MFIS and DIS in CARs. Wolk *et al.* (2000:314) is of the opinion that the quality of disclosures in annual reports results in lower risk premiums. The same applies to interest rates. This issue is addressed in the questionnaire for preparers (chapter 9) as follows: statement 28: *The quality of disclosures in CARs results in lower risk premiums.*

- *Suppliers and other trade creditors. The IASB Framework (IASB 2005: para. 9(d)) asserts that suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due and that trade creditors are more likely to be interested in an entity over a shorter period than lenders unless they are dependent on the continuation of the entity as a major customer.*

Liquidity and solvability disclosures originated as a result of the needs of creditors. They have even influenced the classification of operating capital. Suppliers influence the type of information to be disclosed in CARs, for example current assets and current liabilities, so that the current ratio of entities can *inter alia* be computed.

- *Customers. Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, it (IASB, 2005: Framework: para. 9(e)).*

The customers' need for the long-term survival of an entity will influence the type of information to be generated by the systems involved in CARs. It will, for example, influence the discretionary information generated by the DIS that is addressed in the sustainable development review section of the CARs document.

- *Governments and their agencies. The IASB Framework (IASB, 2005 para. 9(f)) asserts that governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities and that they also require information in order to regulate the activities of entities and determine taxation policies, and as a basis for national income and similar statistics.*

One may therefore speculate that all information on an entity as far as is practically possible is important to government (which can also be seen as an investor) and will influence the ultimate information to be disclosed in CARs.

- *Public. The IASB Framework (IASB, 2005 para. 9(g)) is of the view that entities affect members of the public in a variety of ways, for example entities may make a substantial contribution to the local economy, including the number of people they employ and their patronage of local suppliers, and that financial statements may assist the public by providing information on trends and recent developments in the prosperity of the entity and the range of its activities.*

The public will therefore influence the type of information to be disclosed, for example the information that forms part of the operational review contained in the discretionary information section of CARs.

Over and above the users identified by the framework, AICPA (1994:8) identifies additional user groups, that is, management and board members that use business reporting to help in making decisions to do with managing the business; competitors who use business reporting to help evaluate competitive strengths and weaknesses and business strategy; academics who use the data for research purposes; and the press, which uses the data for its copy. Business competitors and academics are therefore also users of CARs. There are also users concerned with various social causes who use business reporting to help assess a company's involvement in areas of concern, for example an entity's involvement in black economic empowerment. Disclosures in CARs should preferably be made to these various stakeholders on an equal basis. This issue will be tested in the questionnaire for users (chapter 10) as follows: statement 21: *Various stakeholders make demands on the information in CARs, and these should be provided for on an equal basis.*

The varying needs of the different users will influence the reporting (disclosure of information) in CARs in a variety of ways, as different stakeholders will have different needs.

3.2.1 Users expect more to address their needs

Researchers such as Gouws (1997:66) conclude that the objective of financial reporting has moved away from a narrow approach to a much broader one: it has evolved from its narrow intention of stewardship to a far wider intention of providing heterogeneous users with information for decision-making purposes. This issue will be further explored in the questionnaire for users (chapter 10) as follows: statement 20: *The objective of business reporting in CARs has moved away from a narrow approach of accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.* Clatworthy and Jones (2001:311) indicate that the annual report evolved from a statutorily produced document into one in which narratives, photographs and graphs dominate. The aspect of photographs will be tested in the questionnaire for users (chapter 10) as follows: statement 13: *In CARs photographs add value to the company profile.* The

inclusion of narratives, photographs and graphs has been necessary in order to provide users with decision-useful information. The decision-usefulness objective has, however, not totally replaced the stewardship objective, but rather encompasses it (Gouws, 1997:68). It may be concluded that the discretionary accounting practices used by the DIS in CARs to generate and disclose discretionary information encompass the accounting practices that generate the statutory disclosures in CARs.

Wolk *et al.* (2000:170) note that, from 1960, the issue of user needs and objectives has increased in prominence in accounting research. The document that first recognised the objective of decision usefulness was APB Statement No 4 published by the Accounting Principles Board (APB) during 1970 (Puxty, 1990:350). Since this recognition, “the decision usefulness approach has been characterised by an ever-growing body of research, focussing on the users themselves, their decisions, information needs and information-processing abilities” (Schoonraad, 2004:49). As mentioned above, the IASB Framework (IASB, 2005) also acknowledges the existence of different user groups.

This ongoing research into user needs has influenced the type of information that is currently being published in CARs by the management of entities. Some of this information is beyond the scope of the framework but is disclosed in the discretionary section of CARs, which is generated by the discretionary accounting practices used by the DIS in CARs. These discretionary accounting practices are important in that they influence the development of future standards and the review of existing reporting standards, that is, the International Financial Reporting Standards (IFRSs).

3.2.2 Quality information

The needs of heterogeneous users, through proper feedback systems, may determine the quality of the information found in CARs. This in turn affects the innovation process involved in accounting practices and accounting standards, which ensures that quality information as well as quantity information is reported in CARs. The characteristics of the

qualitative disclosures generated by the MFIS include understandability, relevance, materiality, reliability, faithful presentation, substance over form, neutrality, prudence, completeness and comparability. The attributes of good quality information generated by the DIS include discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. Transparency in financial statements has emerged as one of the most widely applied characteristics of desirable reporting (Mensah, Nguyen & Prattipati, 2006:47). It would then seem that there are two types of quality information in CARs: the type generated by the MFIS and that generated by the DIS. This issue will be explored further in chapter 4.

3.2.3 Discretionary disclosures

The King Report on Corporate Governance for South Africa (“the Code”) calls for a balanced approach to providing business information. The disclosure of information can therefore never be one-sided. Kaplan and Norton’s (1992) research addresses the interests of a wide range of stakeholders with regard to the fundamental principles of good financial, social, ethical and environmental practice (King, 2002a:5). These stakeholder interests (OECD, 2006) and stakeholder relationships have a direct influence on the type of information reported in CARs. This issue will be addressed further in chapter 4.

3.2.4 User characteristics

The characteristics of users are an important consideration for the preparers of CARs. Such people need to be sensitive to user characteristics, such as level of education, intelligence, communication skills, culture and relevant knowledge (Gouws, 1997:65), as these factors will certainly shape disclosure CARs in the future.

3.2.5 Feedback

Feedback is an important concept in systems theory, because the direction of a system is controlled by the feedback from the environment that a system receives. Open systems constantly have to change in order to stay the same (Cutlip, Center, Broom & Du Plessis, 2002:22). Feedback makes a system open, therefore users must use their experience of the information presented in CARs to give feedback on the types of information they need. This will influence the accounting practices that deliver entity-orientated information to the DIS for generating discretionary disclosures using discretionary accounting practices. This in turn could influence the development of future accounting standards and the review of existing standards that govern the mandatory information generated by the MFIS. For CARs to survive as a system, it has to adapt and adjust to the feedback given by users. Feedback influences the kind of reporting (disclosure of information) that takes place in CARs, as the needs of users are taken into account.

3.3 The systems and factors affecting disclosures in CARs

3.3.1 The systems

The users' need to reduce uncertainty drives the type of information to be disclosed in CARs. Hence, systems that produce the information required in CARs need to be developed and used by the role players for this purpose. The disclosures contained in CARs, the inclusion of which is driven by the needs of users to reduce uncertainty and risk, are the product of information-processing systems. The MFIS, that is, the system that is responsible for generating the statutory information included in CARs, is governed *inter alia* by GAAP. But financial statement information is only a subset of the information demanded by various parties (Foster, 1986:15).

Wolk *et al.* (2000:302) contend that financial reporting is often used as an umbrella term to cover both the financial statements themselves and additional types of information. In 1933, the Securities and Exchange Commission (SEC) distinguished between protective and informative disclosure (Wolk *et al.*, 2000:303). Starting in the late 1970s more discretionary disclosures appeared on the scene (Golub, 1981 in Wolk *et al.* 2000:304).

There was a shift away from hard information (as signified by objectively verifiable historical data) to soft information embodied in opinions, forecasts and analysis (Wolk *et al.*, 2000:304). The DIS, in contrast with the MFIS, may be regarded as the system responsible for generating discretionary information.

These systems are interrelated in that the business information created by accounting practices has the potential to become either discretionary or statutory information in CARs, and the discretionary financial information reported in CARs, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles. Thus these systems are used to create the meaningful information to be disclosed in CARs.

3.3.2 Factors affecting disclosures in CARs

- *History*

The information presented in CARs has evolved over the centuries. As far back as 1494, Paciolo, a professor of mathematics, summarised the accounting practices of his time. He was the first writer on the subject of accounting (Brown, 1968:108). In 1494 he published his *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*. His view on bookkeeping, including the double-entry system, is described in one section of the *Summa*, namely the *Particularis de Computis et Scripturis*. He did not invent the double-entry system, but he was one of the first people to describe it: the basic structure of the double-entry system first appeared about two hundred years before his publication (Lee, Bishop & Parker, 1996:12). His publication dealt with the accounting practices of the time (Gouws, 1982:49–50). In chapter 1 of this research it is stated that business information created by accounting practices has the potential to become either discretionary or statutory information in CARs. Accounting practices are therefore the research playground for the development of GAAP.

- *Role of double-entry bookkeeping*

As the first accounting practice, double-entry bookkeeping has become an embedded tradition in modern accounting theory and practice (Lee *et al.*, 1996:20). Double-entry bookkeeping only produces selected information in the form of statutory disclosures. However, users also need the contextual and discretionary information produced by discretionary accounting practices to assist them in making decisions about the control and allocation of resources.

This need for more information is catered for by “accounting of the mind” practices, which capture all the entity-related information to be screened by accounting practices and/or discretionary accounting practices. These accounting practices are responsible for accounting information and may be used by the MFIS to generate the statutory disclosures governed by GAAP. The DIS, which uses discretionary accounting practices, is responsible for generating discretionary disclosures. The information generated by accounting practices that are not utilised by the MFIS, for example the value-added statement, can be used by the DIS for disclosing discretionary information. It is important to note that, in accounting practice, if the attributes of the double-entry system only are used to generate disclosures then *other valuable information is lost* (Wheatley, 1999) to entities and stakeholders. All the information about an entity, even those entities that do not focus on economic activity only, must be captured and used by “accounting of the mind” practices.

Goldburg (2001:251) states that many characteristics that have to be captured and used by accounting practices are ignored in the double-entry system and, if recorded at all, have to be handled “outside an existing double entry system”. He goes on to mention that from each occurrence only a few of the many characteristics are selected in the double-entry process. Double entry, in this way, becomes an obstacle to providing optimal information. Here again *valuable information is lost* (Wheatley, 1999). In the CARs, the double-entry system is used primarily by the MFIS in the process of generating the statutory information to be disclosed, but double-entry records are not the alpha and omega in that they do not capture all information important for users.

- *Standard setters and rule-making bodies*

Standard setters are involved with mandatory accounting practices in transition. They are responsible for setting standards, for example those found in the IASs and the IFRSs and used as GAAP for generating statutory information. In CARs, rule-making bodies and standard setters have a particular interest in the MFIS, which produces the statutory disclosures governed by GAAP. Wolk *et al.* (2000:118) report that rule-making bodies play a major role in the process of standard setting. The American Institute of Certified Public Accountants (AICPA, 1994:113) and the Association for Investment Management and Research (Knutson, 1993:7) recommend that standard setters and regulators should increase their focus on the information needs of users, and users *should be encouraged* (feedback) to work with standard setters to increase the level of their involvement in the standard-setting process.

The reporting standards used are important and the MFIS has to meet these standards in order to disclose comparable information so that these disclosures can be audited without difficulty. Wolk *et al.* (2000:118) contend that accounting regulation will continue in the future and that it currently deals with the refinement of financial statements and the standardisation of practices, rather than with expanded disclosure, as many accounting practices have been eliminated. In accounting practice, the process starts with “accounting of the mind” practices, which entail the things humans do, for example the practices that they use to allocate scarce resources. Many of these practices are eliminated when entities capture and screen entity information, as only some of the practices are formalised into accounting practices used in the process of capturing entity information. The information captured by accounting practices and not disclosed as statutory information governed by GAAP could be disclosed by the DIS in CARs as discretionary information.

One of the rule-making bodies is the International Accounting Standards Board (IASB). The IASB, based in London, began operating in 2001. It is committed to developing, in the public interest, a single set of high quality, global accounting standards that generate

transparent and comparable information in general purpose financial statements (IASB, 2005:5). The IASB is constantly performing its own research into the development of generally accepted accounting practices and could use the discretionary accounting practices that are responsible for discretionary disclosures in CARs.

Standard setting in accounting, which has been developing since the publication of the first accounting practices by Paciolo in the fifteenth century, does not use all accounting practices for generating the statutory information to be presented by the MFIS in CARs. However, the DIS in CARs ensures that relevant information not required by standard setters is nevertheless captured by discretionary accounting practices, including cost and management accounting practices, and reported as discretionary information. This type of information may be disclosed if it proves useful for user groups.

- *Corporate communications department*

One of the functions of the corporate communications departments of entities is the communication of entity-related information to stakeholders. In Hallgreen's (2006) view, the corporate communications department forms part of the multidisciplinary team responsible for the ultimate collation of all the various inputs from other sections of the organisation regarding the statutory and discretionary disclosures of CARs. The preparers of CARs (including the corporate communications department) have the task of communicating the constantly changing information created by accounting practices in transition.

- *Finance department*

The finance department (in most cases) is entrusted with the final preparation and finalisation of CARs. Although the ultimate responsibility for the preparation of CARs lies with the directors (represented by the chief executive) of publicly listed companies, the finance department is entrusted with gathering the data for preparing the mandatory information section (e.g. the statutorily required financial statements and notes). It is also

responsible for collating all the statutory disclosures generated by the MFIS. It is usually also entrusted with gathering the data for and preparing the discretionary (voluntary) information section (e.g. integrated sustainability reporting, corporate governance matters and other discretionary [voluntary] reporting) included in CARs. This department therefore uses the mandatory information, the discretionary information and inputs from the investor relations department in the final CARs preparation process and has the responsibility for presenting the ever-changing information generated by accounting practices in transition.

- *The integrated sustainable reporting department*

This is the department responsible for collating and reporting discretionary information, particularly on aspects pertaining to sustainable development such as the entity's economic contribution, social performance (including black economic empowerment) and environmental performance. This information is then supplied to the finance department or the multidisciplinary team responsible for finalising CARs.

- *Investor relations*

As a role player in the business communication process involved in CARs, the investor relations professional should have an understanding of corporate finance, accounting, investment banking and corporate structure (Schoonraad, 2004:27). Other professional requirements include communication and marketing skills, an understanding of the full scope of corporate activity, experience in and knowledge of the financial media, experience of and skills in writing press releases, annual and interim reports and speeches, and an intimate knowledge of how capital markets work (Marcus & Wallace, 1997:319). The investor relations department provides input on the type of information that should be reported in CARs to satisfy the needs of investors (Hallgreen, 2006). The input the investor relations group makes can enhance the information disclosed in CARs.

- *Public relations/networking*

Public relations departments enhance relationships between the entity and its various stakeholders. Schoonraad (2004:99) reports that public relations are concerned with building and managing stakeholder relationships. The public relations department may be in possession of valuable information, which could be supplied to the entity in order to enhance the quality and comprehensibility of disclosures in CARs.

3.4 Innovation

3.4.1 Introduction

As the needs of user groups influence the type of information that will ultimately be disclosed in CARs, entities need to use creative skills and innovation to ascertain the best way of presenting this information in CARs. New ideas and innovations should be introduced, and new ways of presenting the information developed. CARs should be constantly adapted to ensure that the users' need for understandable and meaningful information is successfully met.

3.4.2 Reasonable knowledge

An essential quality of the information provided in the financial statements is that it is readily understandable by users who are assumed to have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence (IASB 2005: Framework: para. 25). "Reasonable knowledge" is an objective term, but might be taken to mean practical or sensible knowledge. The issue of reasonable knowledge will be covered in the questionnaire to preparers (chapter 9) as follows: statement 34: *CARs are not intended for the average layman*. Users therefore have a responsibility to obtain reasonable, practical and sensible knowledge of business and economic activities and accounting, and researchers should take this into consideration when involved in the ongoing process of upgrading accounting standards.

3.4.3 Playground for innovation

CARs, as the product of information systems, represent an interaction between entities, stakeholders and researchers. As such, the CARs document is a playground for innovation and the generation and sharing of new ideas. The CARs of any entity are an excellent breeding ground for the further development of new discretionary disclosures and statutory disclosures. The standard-setting bodies that are involved in their own research to develop accounting practices for statutory disclosures may use discretionary information disclosed in CARs and related discretionary accounting practices as a source for their research efforts.

3.4.4 Disclosure of information

As the needs of the different users of information vary, as much information about an entity as possible has to be disclosed. Disclosure is construed as an imperative postulate and is described in the literature in negative terms: "... that which is necessary to make them [accounting reports] not misleading (Wolk *et al.*, 2000:145). Disclosure also deals with, for example, forecasts of operations for the forthcoming year (PWC, 2006c:1) and management's analysis of operations (PWC, 2006a:1). Preparers of CARs need to use creative thinking and innovation to determine how best to disclose information in order for it not to be misleading and for it to be useful to a variety of stakeholders.

Wolk *et al.* (2000:146) are of the opinion that expanded disclosures, that is, discretionary disclosures, are very important. Reporting is an evolving process (PWC, 2006a:1) because expanded disclosure is already noticeable in CARs, where the amount of information published is constantly on the increase and presented in different formats, for example the information given in CARs now includes the year in review, the chairman's statement, the chief executive's report, an operational review, global activities, a sustainable development review, and disclosures about corporate governance, among other things. Discretionary disclosures complement statutory disclosures in CARs resulting in full disclosure of the big picture.

3.4.5 Global and local environments

The information from the financial, business and economic environments that is captured by accounting practices and channelled into CARs should be of a high quality. Management's knowledge of the global and local environments, including business and financial issues and the interaction between the entity and its stakeholders, which it obtains from feedback from stakeholders, should ensure that the innovation process produces financial and business reporting and disclosure in CARs that are transparent and of high quality.

3.4.6 Technology, images and colour

Technology, images and colour could enhance the quality and appearance of CARs. The issue of images and colour will be included in the questionnaire for preparers (chapter 9) as follows: statement 22: *Images and colour improve the meaningfulness of the information in CARs and create a playful and relaxed atmosphere*. AICPA (1994:53) maintains that written information should be supplemented with charts and graphs to improve management's presentation and the users' comprehension of the information. The aspect of graphs will be tested in the questionnaire for users (chapter 10) as follows: statement 14: *In CARs graphs enhance the interpretation of numbers*.

Beattie & Jones (1999:46) warn that the use of tools such as photographs and graphs by management represent part of the "impression management" process. However, in this study graphs are seen as tools for communication or voluntary presentational media (Beattie & Jones, 2001:196). Entities' CARs are usually printed on hard copy and distributed to stakeholders. However, technology has also made it possible for the CARs of most entities to be available on their websites (Barac, 2004). In turn, feedback from stakeholders obtained from these websites can be used as valuable inputs to the CARs innovation process.

Furthermore, images and colour may improve the meaningfulness (McKinstry, 1996:110-111) of the information in CARs and are powerful tools for improving comprehension. Charts, photographs, captions and other graphical design elements (Tuohey, 2003:36-37)

may create a playful and relaxed tone. Companies are trying to be more pictorial in their presentation (Pratt, 1996:13). However, stakeholders should always be aware of the attributes of impression management (Beattie & Jones, 1990:46; Stanton, Stanton & Pires, 2004:59), that is, presenting something in as favourable a light as possible, and they should not be unduly influenced by these features. The issue of obfuscation and impression management will be tested in the questionnaire for preparers (chapter 9) as follows: statement 24: *In CARs “good news” is written and presented in such a way that it is easier to read*; and statement 25: *In CARs “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers’ attention*; and in the questionnaire for users (chapter 10) as follows: statement 18: *Positive messages in CARs are highlighted, whereas negatively valued are avoided*; and in the questionnaire for designers as follows: statement 2: *Designers generally have some training/experience in impression management, that is, a technique to present something in as favourable a light as possible*; statement 3: *By making use of photos, graphics and graphs, negative aspects of a company can be converted into positive messages*; statement 4: *As far as CARs are concerned, design devices (e.g. photos, graphics, graphs) can be used to influence the perceptions of readers of CARs*; and statement 5: *The design of CARs is viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible*.

3.5 Reporting in CARs

3.5.1 Statutory reporting

Rule-making bodies are primarily concerned with the MFIS, which generates the statutory disclosures governed by GAAP. Traditional accounting focuses primarily on tangible assets, although intangible assets such as intellectual property, for example patents and trademarks, where a market value has been established by a transaction, and acquired items such as goodwill, are also catered for (IAS 38, IASB, 2005; OECD, 2006:7). The aim of the rule-making bodies is to limit alternatives to GAAP. In some cases, IASs permit different treatments for given transactions and events, for example property, plant and equipment (PPE) may be measured after recognition in terms of the cost or the revaluation model IAS 16 (IASB, 2005). In limited cases, one treatment is identified as the

“benchmark treatment” and the other as the “allowed alternative treatment”, for example borrowing costs may be recognised as an expense or may be capitalised as part of the cost of qualifying assets IAS 23 (IASB, 2005).

An entity’s financial statements may appropriately be described as being prepared in accordance with IFRSs whether they use the benchmark treatment or the allowed alternative treatment (IASB, 2005:11). The IASB’s objective is to ensure that like transactions and events are accounted for and reported in a like way and unlike transactions and events are accounted for and reported differently, both within an entity over time and among entities to promote comparability internationally.

Consequently, the IASB intends not to allow choices in accounting treatment. In addition, the IASB has reconsidered, and will continue to reconsider, those transactions and events for which IASs permit a choice of accounting treatment; the objective being to reduce the number of these choices (IASB, 2005:11). It would therefore seem likely that in the future alternative accounting treatments would be minimised. Thus, the MFIS, which makes use of GAAP, discloses information in CARs that is more comparable across entities than the disclosures generated by the DIS.

Present-day statements of GAAP, as represented by financial reporting standards, are used to govern the statutory disclosures in CARs. In the IASB Framework (IASB, 2005) attention is drawn to the elements of financial statements, that is, the assets, liabilities, equity, income and expenses. IAS 1 (IASB, 2005) prescribes the basis for presenting general-purpose financial statements so as to ensure comparability both with an entity’s financial statements of previous periods and with the financial statements of other entities. Accounting practices not yet used by the MFIS in the generation of statutory disclosures, for example the practices that generate the value-added statement, could be used by the DIS and disclosed as discretionary disclosures.

3.5.1.1 The framework

The IASB Framework (IASB, 2005) was developed by standard setters to serve as a basis for the preparation and presentation of financial statements (the statutory disclosures). It deals mainly with accounting numbers and accompanying explanatory notes and, to a limited extent, with discretionary disclosure narratives. It therefore forms part of the MFIS in CARs that governs the disclosure of mandatory information.

The IASB Framework (IASB, 2005: para. 1(f)) states that one of its purposes is to be of assistance to users of financial statements in interpreting the information they contain. This statement indicates that the standard-setting process is currently evolving from the objectives of accountability and stewardship (the old science – refer chapter 2) to one of providing information that could be decision useful to all users (the new science – refer chapter 2).

The IASB Framework (IASB, 2005:para. 8) defines a reporting entity as an entity that has users who rely on the financial statements as their major source of financial information about the entity. It should be noted that the framework deals only with the information covered by the financial statements. The framework, together with other accounting standards (and used by the MFIS to generate statutory disclosures in CARs), governs the mandatory financial information disclosed in CARs. This system ignores other accounting practices that have not yet become generally accepted accounting principles. Some of the business information created by the other accounting practices and not used by the MFIS is being catered for by the DIS in CARs and is being disclosed as discretionary information.

The objective of financial statements is to provide information on the financial position, the performance and the cash flows of an entity (mostly products of double entry) that is useful to a wide range of users for making economic decisions (IASB, 2005:Framework: para. 12). The IASB goes on to state that the financial statements prepared for this purpose meet the common needs of most users, but that they do not provide all the information that users may need to make economic decisions since they largely portray

the financial effects of past events and do not necessarily provide nonfinancial information. This is clearly an indication that there is a great deal of information that is not presented. However, a wide range of information including nonfinancial information vital for economic decision making is published in the discretionary section of CARs.

3.5.1.2 General purpose financial statements

Another accounting standard that concerns statutory information in CARs is IAS1 (IASB, 2005). This deals specifically with the presentation of financial statements, and its objective is to promote the comparability of statements with previous years and with other entities. This standard is applicable to general-purpose financial statements presented in accordance with IFRSs.

Unfortunately, general-purpose financial statements cannot always address the information needs of all stakeholder groups, as different stakeholders have different information needs. To solve this problem the accounting profession could broaden its views on reporting and move towards developing differential frameworks and differential reporting standards for a variety of stakeholder groups, taking *inter alia* cultural differences into account, as different cultures may have different value systems. The benefits of achieving this might exceed the cost of providing it. In the United States of America there are currently three aspects of differential reporting receiving attention (Wolk, Dodd & Tearney, 2004:302). These are the reporting standards of small firms versus larger firms, summary annual reports and the Securities and Exchange Commission (SEC) attempts to streamline annual reports. Schroeder & Gibson (1992: 28) report that summary reports are shorter, simpler documents than traditional annual reports. Hence, the systems that drive reporting in CARs may be flexible and adaptable in providing the information users want for their decision making.

IAS 1 (IASB, 2005) views financial statements as structured representations of the financial position and the financial performance of an entity. IAS 1 has been revised and released on 6 September 2007. The “balance sheet” now becomes the “statement of financial position”, the “income statement” becomes the “statement of comprehensive income”, the “statement of changes in equity” remains the same, and the “cash flow statement” becomes the “statement of cash flows”. IAS 1 views the objective of general-purpose financial statements as providing information about the financial position, the financial performance and the cash flows of entities that is useful to a wide range of users in making economic decisions. It also states that financial statements show the results of management’s stewardship of the resources entrusted to it (agency theory). Agency theory deals with the issue of how to motivate managers to take decisions consistent with the interests of outside investors (Kam, 1990:48, 159). For financial statements to meet this objective they must provide information about an entity’s assets, liabilities, equity, income and expenses, including gains and losses, and other changes in equity and cash flows. IAS 1 (IASB, 2005) states that this information, along with additional information included in the notes, will assist users of financial statements in predicting the entity’s future cash flows and, in particular, their timing and certainty (AICPA, 1973). However, the information provided by the MFIS is certainly not enough for users to make predictions on. They will also need the discretionary information generated by the DIS.

Table 3.1 sets out the objectives of financial statements (Wolk *et al.*, 2000:182-183; Williamson, 2006:5-6). AICPA (1973) in Wolk *et al.* (2000:182-183) addresses twelve objectives of financial reporting and table 3.1 illustrates that, in order to meet those objectives, relevant information could be disclosed in the statutory section of CARs using the MFIS and/or in the discretionary section of disclosures in CARs using the DIS.

Table 3.1 Objectives of financial statements

	Objective	MFIS	DIS	Comments
1	Decision making	X	X	Both the MFIS and the DIS are able to provide information that is useful for making economic decisions.
2	Financial statement	X	X	The DIS could also produce information, <i>inter alia</i> , for those users who have limited authority, ability and resources. This would ensure full disclosure to all relevant stakeholders
3	Cash flows	X		The MFIS generates the information for predicting, comparing and evaluating potential cash flows.
4	Earnings	X		The MFIS generates the information for predicting, comparing and evaluating an entity's earning power.
5	Management ability		X	The DIS normally generates information taking into account management's ability to utilise the entity's resources effectively.
6	Disclosure	X	X	Factual interpretive information useful for predicting, comparing and evaluating an entity's earning power can be generated by both systems.
7	Statement of financial position	X		The statement of financial position is generated by the MFIS. Current values may be used where applicable.
8	Uncompleted transactions		X	The net results of completed earnings cycles and activities in recognisable progress towards completion of incomplete cycles can be reported through the DIS.
9	Expected information		X	The factual aspects of an entity's transactions having or expected to have significant cash consequences could be generated by the DIS and disclosed in the discretionary information section of CARs.
10	Forecasts		X	Financial forecasts for enhancing the reliability of users' predictions could be generated by the DIS.
11	Governmental		X	For governmental and not-for-profit organisations information evaluating the effectiveness of the management of resources could be generated by the DIS.
12	Social concerns		X	Information which is important to the entity's role in social concerns is normally generated by the DIS.

Source: Adapted from Wolk *et al.*, (2000:182-183)

As indicated in table 3.1, the Trueblood objectives can be catered for in the statutory and discretionary sections of CARs. To meet the Trueblood objectives full disclosure would be necessary.

The statutory disclosures generated by the MFIS are one of the products of an abundance of information disclosed in CARs. This is therefore not the only information that a user would use to predict the timing and certainty of an entity's future cash flows. For example, narrative information (which “means a verbal or written account of events. It covers a verbal or written ‘story’ that explains and complements the annual financial statements” [Gouws & Cronjé, 2001:163]) supplied by management is also important to users. This includes financial reviews, environmental reports and value-added statements. The term “describe” as used above includes a picture in words that is expressive and illustrative for the purpose of giving meaning to the numbers contained in the financial statements. Illustrative ways of expressing reality include graphs, pie charts and flow diagrams (Gouws & Cronjé, 2001:164). The use of colour and metaphor may also contribute to understanding and may be used in the disclosure of discretionary information in CARs.

3.5.1.3 Small “gaap”

Small “gaap” is another accounting practice used by the MFIS in the generation of the statutory information to be disclosed in CARs. In 1977 and 1987, Senior Council (legal advisors) was of the opinion that compliance with a statement of generally accepted accounting principles (GAAP) meets the requirements of “fair presentation” in the Companies Act, while ☐rince☐pliance may constitute a contravention of the Act, but would not necessarily do so.

In September 1999, Senior Council concluded that paragraph 9 of Schedule 4 of the Companies Act requires disclosure whenever the financial statements of a company depart from any of the Accounting Practices Board (APB) statements (Stegman, 2001:70). In light of the above, two financial reporting frameworks can currently be distinguished, one based on generally accepted accounting principles (gaap – uncoded accounting principles that are generally accepted because a number of companies comply with them) and the other based on statements of Generally Accepted Accounting Principles (GAAP – IFRSs codified by the APB). Although compliance with gaap may ensure compliance with section 286(3) of the Companies Act, companies are strongly encouraged to comply with

the IFRSs. IAS 1 (IASB, 2005) does therefore make provision for the ☐rince☐pliance of standards in exceptional cases. In such cases, reasons for ☐rince☐pliance, as well as further disclosure, must be given.

From the above it is evident that more accounting practices than just generally accepted accounting principles do exist, and that they are currently being used by the MFIS to generate statutory disclosures.

3.5.1.4 Continuous improvement, research and innovation

Users' evolving needs for more relevant, reliable and comparable information influence the type of information that is already available in CARs (e.g. additional discretionary disclosures). This in turn influences the development of future standards and the review of existing reporting standards, that is, the IFRSs. The continuing improvement of accounting standards is also apparent in the IASB's due process.

3.5.1.5 IASB due process

IFRSs are developed through a formal system of due process and broad international consultation involving accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world (IASB, 2005). The IASB consults the Standards Advisory Council (SAC) on major projects, agenda decisions and work priorities, and discusses technical matters with it. These meetings are all open to the public. The IASB performs its own research and is the major role player in the development of accounting practices to be used in the CARs disclosure process. The IASB often takes note of new discretionary disclosures in CARs in its research into accounting practices. CARs therefore become an important playing field in the development of generally accepted accounting practices. The needs of certain users may result in the continuing improvement of accounting standards in transition through the inclusion of more and enhanced statutory disclosures.

3.5.1.6 Openness of meetings

In the continuous improvement of accounting standards, the openness of the meetings of the IASB (IASB, 2005:9) is noteworthy. For instance, when the IASB issues a standard or an interpretation, it publishes a “Basis for conclusions” to explain the rationale behind the conclusions and to provide background information that may help users of IFRSs to apply them in practice. The IASB also publishes members’ dissenting opinions on standards. Feedback is thus allowed and enhances the standards that govern the statutory disclosures in CARs.

3.5.2 Discretionary reporting

3.5.2.1 Introduction

In CARs the DIS, which uses the information generated by discretionary accounting practices, is responsible for capturing and disclosing the discretionary information needed to address users’ information requirements. Here signalling theory plays an important role. Wolk *et al.* (2000:101) contend that signalling theory

... explains why firms have an incentive to report voluntary [sic] to the capital market even if there were no mandatory reporting requirements ... voluntary disclosure is necessary in order to compete successfully in the market for risk capital. The ability of the firm to raise capital will be improved if the firm has a good reputation with respect to financial reporting.

Lev and Penman (1990 in Wolk *et al.* 2000:308) report that firms that disclosed expected favourable earnings were rewarded by favourable changes in security prices. The disclosure of discretionary information in CARs could reduce an entity’s cost of capital (Barnett, 2003).

The management of an entity has access to additional management and financial information that helps it carry out its planning, decision-making and control responsibilities. Management may determine the form and content of such additional information in order to meet its own needs. This internal business information is also

important to users and is sometimes presented as discretionary disclosures, captured and generated by the discretionary accounting practices used by the DIS in CARs.

The increase in the information needs of users results in the disclosure of more and different information in CARs, for example environmental information, the value-added statement and other discretionary information, to mention just a few. A recent development in operating and financial reporting has been the requirement for an operating and financial review (OFR) to be incorporated in the reporting package of entities in the UK (Rutherford, 2003:38-40). The incorporation of an OFR will be tested in the questionnaire for preparers (chapter 9) as follows: statement 17: *An operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management should be incorporated in CARs.* It will also be included in the questionnaire for users (chapter 10) as statement 8. The OFR should be flexible and should be an attempt to capture the whole story (Mori Report, 2000; Deloitte, 2005:28-35) of the entity's performance and prospects, seen through the eyes of management, but without merely repeating the numbers (Ross, 2005:1). The introduction of the OFR in entities could lead to some reorganisation (Ross, 2005:1) of discretionary reporting.

As the above indicates, the continuously escalating amount of information generated by accounting practices has found its way into documents such as CARs, and is presented in different formats. The view of preparers (see chapter 9) regarding this issue will be tested with the inclusion of the following statement in the questionnaire to be distributed to preparers of CARs: statement 4: *the information disclosed in CARs is continuously escalating and being presented in different formats.*

3.5.2.2 Discretionary disclosures by Sasol

In 2005, Sasol was the winning company of the annual "Excellence in Corporate Reporting" adjudication, which assessed the quality of annual reports (Everingham & Watson, 2005:9). It might therefore be useful to assess the types of reporting that Sasol

included in its annual report. Sasol's annual report comprised three documents: the statutory disclosures, the discretionary disclosures (called the annual review which includes summarised financial information) and a summarised sustainable development report.

The discretionary disclosures included in Sasol's annual report consist of the following (Sasol, 2005) and are the information products of the DIS:

- The year in review
- Our group of companies
- Chairman's statement
- Turning natural gas into low-emissions diesel
- Chief executive's report
- Sasol's integrated business model
- Operational review
- Global activities
- Sustainable development review
- The world of Sasol
- Board of directors
- Corporate governance

The discretionary disclosures, together with the statutory disclosures in CARs, represent the big picture (Mori Report, 2000) of an entity. Birken, Edwards & Woodland (2005:193) also refer to new tools and techniques of accounting that look outside the traditional boundaries of accounting and which could form part of the discretionary disclosures, for example strategic management accounting (kaizen, balanced scorecard and value chain analysis), corporate social responsibility and ethical investments. Efforts are underway to create a comprehensive framework for discretionary reporting (OECD, 2006:17). Discretionary accounting practices are therefore in a process of transition.

The main challenges that face discretionary frameworks (OECD, 2006:18) are: (i) to assist entities to disclose timely, relevant and comparable reports regarding more informed estimates of future benefits and risks (PWC, 2006c:1); (ii) not to overlap with existing discretionary disclosures; (iii) not to overload information disclosure; and (iv) not to increase preparation costs for companies listed in multiple jurisdictions. Current initiatives regarding the development of frameworks consist of moving toward sectoral disclosure frameworks (OECD, 2006:18; PWC, 2006e:1). Discretionary reporting is an evolving process.

The Enhanced Business Reporting Consortium (EBRC) intends to supplement its current disclosure framework with industry frameworks, that is, pharmaceutical, oil and gas, telecom, banking and information technology (PWC, 2006e:1). The statutory information disclosed in CARs therefore needs to be complemented by discretionary disclosures to give users the full picture of entities. Discretionary disclosures generated by discretionary accounting practices have become so important that even the curricula of professional bodies will be expanded to empower accountants with regard to this new development.

3.6 Summary and conclusion

The aim of this chapter was to explore the systems/processes that drive reporting in CARs.

Uncertainty plays a major role in the nature of financial reporting and the users' need to reduce uncertainty and risk has an influence on the type of accounting practices that generate the reporting included in CARs. Different users have different levels of uncertainty and users need to manage their risk by having the right type of information available. The ongoing research into user needs has influenced the type of information that is currently being published by management of entities in CARs. The needs of heterogeneous users, ascertained through proper feedback systems, may determine the quality of the information in CARs. A balanced approach should be followed to providing information. The characteristics of users are an important consideration for the preparers

of CARs. Users need to use their experience of the information presented in CARs to give feedback on the types of information they need. This would influence the accounting practices that generate disclosures in CARs.

The internal systems/processes and factors that affect the production of accounting practices for the disclosure of required information were also identified. The MFIS is the system responsible for disclosing statutory information generated by generally accepted accounting practices. The DIS, in contrast to the MFIS, may be regarded as the system responsible for generating discretionary information. Factors that affect disclosures in CARs include the historical development of accounting practices, for example the role of double-entry bookkeeping, the role of standard setters and rule-making bodies, other role players for example, the corporate communications department, the finance department, the integrated sustainable reporting department, the investor relations department and public relations.

Innovative ideas for new ways of disclosing information could be developed. CARs should be constantly adapted to ensure that the needs of users for understandable and meaningful information are being successfully met. Standard-setting bodies and other role players could use creative skills and innovation for developing accounting practices to generate disclosures in CARs to address the information needs of stakeholders

Finally, the statutory and discretionary disclosures in CARs were explored from a systems perspective. Rule-making bodies are primarily concerned with the MFIS, which generates the statutory disclosures of general purpose financial statements governed by GAAP. Other aspects of statutory reporting that were explored were the objectives of the IASB Framework; the objectives of financial statements; small gaap; the continuous improvement of accounting standards in the IASB's due process as well as the openness of the IASB meetings. Discretionary reporting is also important to users and the following

aspects were explored: the Operating and Financial Review (OFR) and discretionary disclosures by Sasol. The statutory information disclosed in CARs needs to be complemented by discretionary disclosures to give users the full picture of entities.

The conclusion is that the users' need to reduce uncertainty influences the type of accounting practices that generate the information that is disclosed in CARs. If, because of a lack of accounting standards (GAAP), data cannot be disclosed as statutory information then it could be disclosed as discretionary information through the development of discretionary accounting practices in other sections of CARs. This chapter has shown that the development of accounting practices is influenced by different systems/processes.

CHAPTER 4

Quality issues in CARs

4.1 Introduction

The need to reduce the uncertainty of users drives reporting (disclosure of information practices) in CARs, as users need quality information in order to make proper decisions. The insights contained in chapter 3 indicate that the users' need to reduce uncertainty influences the type of accounting practices that generate the information disclosed in CARs. There are two types of disclosure in CARs: the one entails the disclosure of statutory information generated by the MFIS making use of generally accepted accounting practices, and the other entails the disclosure of discretionary information generated by the DIS making use of discretionary accounting practices.

The objective of this chapter is to investigate the quality issues and features of the information that users need for proper decision making. This research assumes that the main purpose of CARs is to represent, in all material respects, all the information that is necessary to make proper decisions. This issue will be further explored in the questionnaire for preparers (chapter 9) as follows: statement 31: *The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions* and in the questionnaire for users (chapter 10) as statement 19.

This chapter comprises discussions on (i) the quality of business reporting; (ii) the information filtering process; (iii) qualitative objectives of financial accounting; (iv) quality objectives of discretionary disclosures; (v) a balanced scorecard approach; (v) the further development of discretionary disclosures; and (vi) a focus on ethics.

4.2 Quality of business reporting

The quality of business reporting in CARs affects the integrity of the information being communicated to stakeholders. One of the most important implications of CARs is that they determine the flow of capital, because “if investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere” (King, 2002a:9). The business information contained in these financial statements must therefore be adjudged trustworthy and of superior quality before an investor will decide to invest. Quality is a crucial issue when offering the business information compiled for the benefit of stakeholders.

There are some practical constraints to note that still ensure quality information in business reporting, but that may reduce costs. AICPA (1994:54-57) lists the following constraints:

- *Business reporting should exclude information outside management’s expertise or for which management is not the best source. That is, business reporting should include only company-specific information that is within management’s expertise to provide* (AICPA, 1994:54-57). The business disclosures in CARs should therefore be entity related and generated by the DIS and the MFIS using accounting practices to screen entity-specific information.
- *Management should not be required to report information that would harm a company’s competitive position significantly* (AICPA, 1994:54-57). The information disclosed in CARs must therefore strike a balance between the need to inform and the need to safeguard information that might be to the disadvantage of the entity involved when competing with other entities (Visser, 1978:394). Balanced quality disclosures are therefore essential.

- *Management should not be required to provide forecasted financial statements. Rather, management should provide information that helps users forecast for themselves a company's financial future* (AICPA, 1994:54-57). Belkaoui (2004:365) states the following in this regard: "The user, rather than the accountant, transforms the event into accounting information suitable to the user's own individual decision model." The preparers of CARs therefore provide information and leave the task of transforming and using that information to the users as they deem fit. Future-orientated information is important and could be disclosed in the discretionary sections of CARs: information should be provided that assists the users in forecasting a company's financial future. As this type of information is difficult for auditors to express an opinion on, it would not be included in the statutory reporting section of CARs.

- *Other than for the financial statements, management need only report the information it knows. That is, management should be under no obligation to gather information it does not have, or need, to manage the business* (AICPA, 1994:54-57). What does the information that management knows consist of? Is it merely information on the past or also information about the future? To decrease uncertainty, accountants produce an ever-increasing amount of future-orientated information (Gouws & Van der Poll, 2004:106). In table 4.1 the attributes of past and future phenomena are illustrated as follows:

Table 4.1: Accounting's arrow of time

	Present	
	Past	Future
Created by:	Reality	Simulated reality
Accounting phenomena	• Real (pure) events	• Artificial (non) events
	• Physical happenings	• Simulated happenings
	• Occurrences	• Predictions
	• Transactions	• Contingencies
		• Allocations
		• Provisions and reserves
Method	• Double entry (DE)	• Book entry through DE
Orientation	• Matter orientated	• Mind orientated
	• Resource flow orientated	• No flow
Outcome	• Certainty	• Uncertainty
Paradigm	• Accountability	• Decision usefulness

Source: Gouws (2003:11)

The above shows that accounting transactions are part of an evolving process over time (Gouws 2003:11). The same applies to CARs, which is a product of accounting practices in transition. Managers using the MFIS for disclosing statutory information in CARs will be concerned with past and present phenomena in order to create their reality. But is it true that many items in CARs are concepts without any reality behind or in them (Gouws, 2005)? Managers using the DIS for disclosing discretionary information in CARs will also consider future phenomena to create simulated reality. As reality is a mental construct it has the attributes to appear in CARs.

- *Certain elements of business reporting should be presented only if users and management agree they should be reported – a concept of flexible reporting* (AICPA, 1994:54-57). In CARs, the DIS generates flexible reporting, which is not necessarily prescribed by law or accounting standards. Users will opt for information that might reduce their uncertainties.

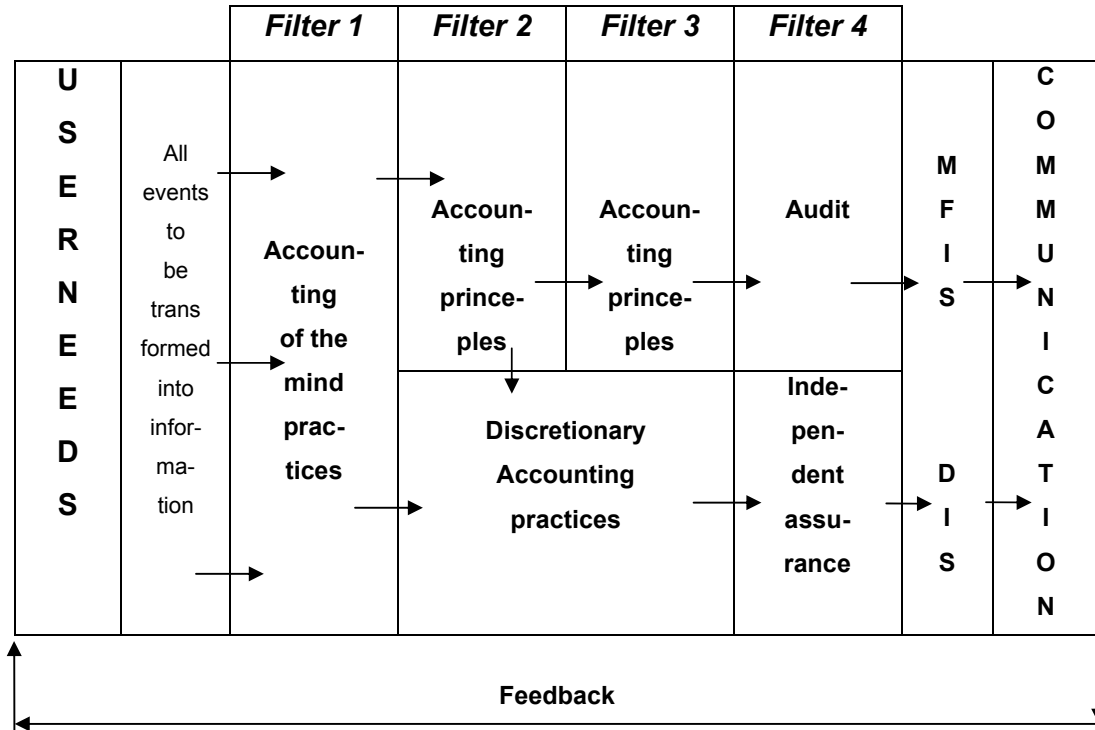
- *Companies should not have to expand reporting of forward-looking information until there are more effective deterrents to unwarranted litigation that discourage companies from doing so* (AICPA, 1994:54-57). There are risks for entities reporting forward-looking information, because if users have based their decisions on forecasted information that reflected a brighter outcome than the actual outcome, companies may be held liable where users made improper decisions. Entities will therefore be cautious about disclosing forward-looking information in CARs until there are more effective defensive measures against indefensible and unreasonable litigation.

All of the above constraints are applicable to CARs and have quality implications. It is therefore necessary to consider the quality features of information within the boundaries of these constraints. In order to do so, it is also necessary to consider the process of quality information flows, which is driven by user needs.

4.3 The filtering process

The process of quality information flows is illustrated in table 4.2. The role of CARs is to provide stakeholders with the quality information they need to make proper decisions fairly in all material respects. The filters in table 4.2 reduce the types of information to be disclosed in CARs. Events to be transformed into information are screened by four filters. The four filters for statutory information generated by the MFIS are “accounting of the mind” practices, accounting practices, accounting principles and audit. The four filters for discretionary information generated by the DIS are “accounting of the mind” practices, accounting practices, discretionary accounting practices and independent assurance. The statutory disclosures and the discretionary disclosures are the information and communication products of CARs.

Table 4.2: CARs as providers of quality information



Source: Own observation

Filter 1

During this stage of the filtering process the quantity of information is reduced. The process starts with user needs, which influence the “accounting of the mind” practices that capture and screen all events that have to be transformed into information. These practices consist of the natural activities performed by human beings when making decisions about the control and allocation of resources. They include *inter alia* the recording of transactions and past experiences in the memory, for example in the form of habits. The business information created by these practices has the potential to become either discretionary disclosures or statutory disclosures in entities’ channels of communication, of which CARs is the most dominant. “Accounting of the mind” practices focus on the needs of users. The information that filters through filter 1 is thus concerned with the control and allocation of resources.

Filter 2

The second filter in the process consists of accounting practices and discretionary accounting practices. The accounting practices select some of the “accounting of the mind” practices and are the drivers of quality accounting information. Staubus (1995:95) maintains that accounting practices are the generators of accounting information and can be described as a set of activities intended to reduce the decision-making risks of users. Accounting practices stem from prevalent industry practices and the literature, such as textbooks and journal articles (Belkaoui, 2004:57), but Staubus (1995:96) points out that “... the criteria on which accountants decide to account for, or ignore, events are not clearly stated in the authoritative literature of accounting...”. These encompass all practices and procedures that are being used in the accounting value chain by users, management, management accountants and analysts, to name but a few, in order to capture and record data and to make information more understandable.

Gouws (2005) is of the opinion that these practices include and link up with other practices such as the calculation and compilation of earnings per share (EPS), the value-added statement, the balanced scorecard, economic value added (EVA), opportunity cost and the cost of capital. A list of such accounting practices includes observing and discovering events; recording such events, for example identifying and recognising; and classifying, measuring and reporting (Beattie & Jones, 2001:195), as well as, summarising, analysing and interpreting. These activities include postulates, axioms, assumptions, doctrines, conventions, constraints, principles and standards (Wolk *et al.*, 2000:137).

Accounting practices have largely evolved from practical operating necessities, but have also appeared in theoretical works written in the formative years (1930–1946) (Wolk *et al.*, 2000:136). Accounting practices screen out certain information to generate financial reporting disclosures. Beattie and Jones (2001:199) refer to micro-based accounting practices as well as macro accounting practices. These can be visualised as follows:

Table 4.3: Micro- and macro-based accounting practices

Accounting practices	Attributes	Countries
Micro-based accounting practices	Comparatively weak governmental influence on accounting, relatively strong accounting professions and comparatively active equity markets	Australia, the Netherlands, the US and the UK
Macro accounting practices	Comparatively strong governmental influence on accounting. Relatively weak accounting professions and comparatively inactive equity markets. Accounting practices are legalistic and tax-based, tending to be uniform and inflexible.	France and Germany

Source: Beattie & Jones (2001)

Although there are differences in accounting practices between developed and developing countries, a body such as the International Accounting Standards Board (IASB) strives to harmonise accounting standards globally for the sake of comparability (IASB: 2005). Discretionary accounting practices also use information generated by accounting of the mind practices to be disclosed as discretionary disclosures. The discretionary disclosures form the context in which to understand mandatory disclosures.

Filter 3

The third filter in the filtering process consists of accounting principles. Accounting principles are sometimes seen as being synonymous with practices (Grady, 1965:ix). This is the case in South Africa; however, in the US the term “accounting principles” is preferred and, in order to avoid confusion, accounting principles will also be used in this research. Principles are postulates that have been successful in practice.

AICPA (1970) in Wolk *et al.*, (2000:141) asserts that generally accepted accounting principles are rooted in “experience, reason, custom, usage, and ... practical necessity” and “... encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time”. They could also be termed standards or concepts. They contain definitions of basic accounting terms, proposed rules for presentation and measurement of accounting data, and concepts to be applied to published financial statements (Wolk *et al.*, 2004:125). Generally accepted accounting principles rest on a foundation of the basic concepts and broad principles that underlie financial reporting. These principles and concepts are based on qualitative characteristics such as, understandability, relevance, reliability and comparability (IASB, 2005: para.24-46).

Principles may be defined as “[a] general law or rule adopted or professed as a guide to action, a settled ground or basis of conduct or practice ...” (AICPA, 1953 in Wolk *et al.*, 2004:125). A principle closely relates to a law; however a law differs from a principle in that the former contains elements observable by empirical techniques whereas the latter does not. If a principle could be empirically tested and proven true (or at least not proven false) it would be capable of becoming a law (Wolk *et al.*, 2004:125). Principles are general standards that influence the way we view phenomena and the way we think about problems (Harré, 1970:206). Principles are general approaches used in recognising and measuring accounting events. The postulates and principles approach largely ignores the question of user objectives. Accounting policy decisions (the selection of accounting principles) influence the timing, quality and quantity of public financial information (Walker, 1988:170). With the forming of accounting policy, entities decide which measurement and reporting alternatives are acceptable and which are not (May & Sundem, 1976:763).

Accounting principles may also be termed “accounting praxes”; these entail established and accepted accounting practices used in the process of reporting. They represent exalted accounting practices or *institutum*. As stated in chapter 3 of this study, the IASB develops global accounting standards that generate transparent and comparable information (IASB, 2005:5), for example the International Accounting Standards (IASs)

and the International Financial Reporting Standards (IFRSs). The aim of standard-setting bodies (Special Committee on Research Program, 1958:62–63 in Wolk *et al.* 2000:131) is to advance the written expression of what constitutes generally accepted accounting principles. This moves beyond merely a survey of existing practice and unsettled and controversial issues to include continuing efforts to determine appropriate practice and to narrow the areas of difference and inconsistencies in practice. The transition of accounting principles in the US (Zeff, 2005:1-32) is set out below:

Table 4.4: Accelerating growth of US GAAP

<u>Year</u>	<u>Event</u>	<u>Comments</u>
<u>1932-33</u>	Introduction of broad principles of accounting.	The purpose was to improve accounting practice.
<u>1934</u>	Congress creates the Securities and Exchange Commission (SEC).	The aim of the SEC was to insist on comparability, full disclosure and transparency practices.
<u>1936</u>	Introduction of the term “generally accepted accounting practices”, known as GAAP.	GAAP was used for the first time to generate statutory disclosures.
<u>1938/39</u>	The Institute begins issuing ‘Accounting Research Bulletins’ to provide the SEC with support for proper accounting practice.	These were the first signs of a standard setting process of accounting practices.
<u>1938/39</u>	Congress permits different accounting practices for inventory	Today the aim of standard setting bodies is to limit alternative accounting practices.
<u>1940</u>	American Accounting Association publishes Professors W.A. Paton and A. C. Littleton’s monograph, “An Introduction to Corporate Accounting Standards”.	This reflects further growth in accounting practices.
<u>1940s</u>	The use of alternative accounting methods is allowed when there is diversity of accepted practice.	Currently, a main aim of the IASB is to minimise alternative accounting methods in order to promote comparability.
<u>1950</u>	Criticism emerged for the allowance of alternative accounting methods.	Currently, GAAP (used for the disclosure of statutory information in CARs) tends to be more uniform, while discretionary accounting practices (used for the disclosure of discretionary information in CARs) tend to be more flexible.
<u>1959</u>	Research is now performed in establishing accounting principles by the APB.	The discretionary disclosures in CARs are an important research breeding ground for the further development of GAAP.

<u>1968</u>	Introduction of a Management's Discussion and Analysis of Operations (MD&A), a narrative discussion.	The type of information required by the MD&A for American companies can be disclosed for South African companies in the Directors Report as well as part of the Operational and Financial Review (OFR) in the discretionary information section of CARs. The information would <i>inter alia</i> cover risks and uncertainties, and could include forward-looking information disclosures.
<u>1970</u>	Basic concepts and accounting principles underlying financial statements are introduced.	South African companies use the IASB Framework (IASB, 2005), which sets out the concepts that underlie the preparation and presentation of financial statements (the statutory required section of CARs) for external users.
<u>1970/71</u>	Criticisms lead to the establishment of the Wheat Study Group on "the establishment of accounting principles" and the Trueblood Study Group on the "objectives of financial statements"	Criticisms have also lead to the transition of accounting practices. The mandatory financial information system (MFIS) responsible for statutory disclosures utilises these accounting practices, which form part of a closer system, as it <i>inter alia</i> changes through cataclysmic events. The discretionary information system of CARs on the other hand is an open system as it interacts and reacts freely with the feedback from user groups.
<u>1973</u>	The formation of both the FASB and the IASB brings the term 'standard setting' into general use.	Currently the FASB (USA) and the IASB, with its head office in London, negotiate on an ongoing basis in an effort to reconcile the different accounting practices applicable to US companies and those applicable to the rest of the world.
<u>1973</u>	The Trueblood Study Group introduces a 'decision usefulness' approach to the development of accounting standards	The objective of business reporting in CARs has moved away from a narrow approach of accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes. This statement is further examined in the questionnaire for preparers (statement 30, chapter 9). This decision-usefulness approach influences the evolution of accounting practices.
<u>1975</u>	Interpretations of practices are being introduced.	The International Financial Reporting Interpretations Committee (IFRIC) is a committee of the IASB that assists it in establishing and improving standards of financial accounting and reporting for the benefit of the users, preparers and auditors of financial statements. The role of the IFRIC is to provide timely guidance on newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop. It thus promotes the rigorous and uniform application of IFRSs (IASB 2005:2087).

2002/03	The SEC Chairman and others call for a return to 'principles-based standards' to overcome the current emphasis in the FASB's standards on length and detail.	<p>In chapter 9 (statement 13) of this study, preparers of CARs are in favour of principles-based accounting standards. 75.6 percent of the respondents disagreed with the statement that GAAP should be rule based as opposed to principles based.</p> <p>This shows that the development of accounting practices is a never ending process.</p>
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Source: Zeff (2005) adapted

The above shows how accounting practices evolve over time. The information allowed through by filter 2 (the accounting practices) is now further screened by filter 3 (the accounting principles or praxes). These accounting principles are used by the MFIS to generate the statutory information presented in CARs. The information screened out by filter 3 may still find its way into CARs through the DIS to be presented as discretionary information, for example the value-added statement, which is generated by accounting practices and is currently disclosed as discretionary information and not as mandatory information.

The information that succeeds in passing through all the filters of the MFIS will ultimately be presented as the statutory information in CARs. The information that succeeds in passing through all the filters of the DIS will ultimately be presented as the discretionary information in CARs.

Filter 4

The fourth filter in the process of quality information flows is the audit process. The information generated by the MFIS and governed by generally accepted accounting principles will be subject to a statutory audit and this information will form part of the statutory disclosures in CARs. The information generated by the DIS using discretionary accounting practices and disclosed as discretionary information might be subjected to some auditor involvement such as independent assurance. AICPA (1994:105-106) makes *inter alia* certain recommendations regarding auditors' involvement in business reporting:

- *Allow for flexible auditor association with business reporting, whereby the elements of information on which auditors report and the level of auditor involvement with those elements are decided by agreement between a company and the users of business reporting (AICPA 1994:105-106).*

The independent assurance report that auditors issue regarding discretionary disclosures (specifically sustainable development matters) is an example of flexible auditor association.

From the above it is evident that information on an entity that is communicated to users flows through different filters. This filtering process reduces the types of information that will eventually be presented in CARs in the form of audited financial information produced by the MFIS. However, the information that is filtered out finds its way back to the user through the DIS of CARs and makes its appearance as discretionary information. As a result of this filtering process, the CARs, as provider of quality information, reduce the risks and uncertainties that stakeholders are confronted with (Gouws, 2006) and help various stakeholders in their need to allocate scarce resources. To ensure that the disclosures contained in CARs are of high quality, users should be able to give feedback in this regard. The issue of feedback will be tested in the questionnaire to preparers (chapter 9) as follows: statement 35: *CARs must also provide for feedback from users.*

4.4 The qualitative objectives of financial accounting

Belkaoui (2004:166) summarises the qualitative objectives of statutory information generated by accounting principles in CARs to include relevance, understandability, verifiability, neutrality, timeliness, comparability and completeness. This is in line with the qualitative characteristics given in table 4.5. In the IASB Framework (IASB, 2005: para.24-46) a description is given of the qualitative characteristics that make the information provided in the statutory section of CARs useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

The following characteristics of statutory disclosures, according to the framework (IASB, 2005) shown in table 4.5, are also applicable to the discretionary disclosures generated by the discretionary information system (DIS) in CARs.

Table 4.5: Qualitative characteristics of statutory disclosures

Understandability	Information created by accounting practices and provided in the statutory section of CARs should be readily understandable by users.
Relevance	For information generated by accounting practices to be useful it must be relevant to the decision-making needs of users.
Materiality	Information is material if its omission or misstatement could influence users' economic decisions taken on the basis of the statutory section of CARs.
Reliability	Information generated by accounting practices must be free from material error and bias and users should be able to depend on it.
Faithful representation	Most financial information is subject to some risk of being a less than faithful representation of that which it purports to portray.
Substance over form	Information must be accounted for and presented in accordance with its substance and economic reality and not merely its legal form.
Neutrality	The information contained in the statutory section of CARs, generated by GAAP must be neutral, that is, free from bias.
Prudence	Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty.
Completeness	The information created by accounting practices in the statutory section of CARs must be complete within the bounds of materiality and cost.
Comparability	Users must be able to compare the statutory section of the CARs of an entity through time in order to identify trends in its financial position and performance and be able to compare the statutory section of CARs of different entities in order to evaluate their relative financial position, performance and changes in financial position. This can only be done if accounting practices are uniform.
Timeliness*	If there is undue delay in the reporting of information generated by accounting practices it may lose its relevance.
Balance between benefit and cost*	This characteristic would help to ensure that only information truly needed is included in business reporting and only the information that can be provided at an acceptable cost (AICPA, 1994:91).

Balance between qualitative characteristics*	In practice a balance, or trade-off, between qualitative characteristics is often necessary in order to produce CARs timeously and so that benefits exceed the cost of providing CARs.
True and fair view/ fair presentation	The application of the principal qualitative characteristics and of appropriate accounting standards normally results in the statutory section of CARs, which conveys what is generally understood as a true and fair view, or as presenting fairly such information.

* Also regarded as constraints by the IASB Framework (2005)

Source: Adapted from the IASB Framework (2005)

As far as the understandability characteristic is concerned it must be borne in mind by the preparers of CARs that the accounting information will not always be understandable to users owing to its complexity.

As far as the relevance characteristic is concerned, preparers of CARs should note that the more relevant the information is, the less reliable it may be, that is, information obtained (and audited) further back in the past is more reliable than recent (not yet audited) information that is more relevant. In CARs the statutory information created by GAAP would be more reliable, while the discretionary information created by discretionary accounting practices would be less reliable. A balance must therefore be struck between relevant and reliable information. Preparers of CARs should be aware that as far as the comparability characteristic is concerned, comparability is impossible without recognising the contextual/initial conditions, for example the inputs and the processes. This is catered for by the discretionary information system (DIS), which gives the contextual information. It is important to disclose information about the various inputs and processes of the accounting and financial information presented (Gouws & Lucouw, 1999:105), as given by the discretionary information section of CARs, as it is important to give sufficient indication of the changes in forces, processes and capabilities that determine the numbers (outputs). Only then is comparability possible, as the statutory section of CARs seldom informs users about how the results were achieved. The aspects of inputs, processes and outputs will be further tested in the questionnaire for users (chapter 10) as follows: statement 5: *Narrative disclosures in CARs are more understandable than numbers and ratios.*

For a balance between the benefit and cost characteristic, AICPA (1994:53) asserts that this characteristic should help to ensure that only information truly needed is included in business reporting and then only information that can be provided at an acceptable cost. Foster (1986:38) states: “A common argument presented against disclosure is the cost incurred when competitors use the disclosure to their own advantage.” However entities in industry have a rich network of information sources on what their competitors are doing (OECD, 2006:18). It would therefore be difficult to support an argument that increased disclosure of many items in financial reports as this, would result in a major competitive disadvantage (Foster, 1986:38). The benefit versus cost characteristic therefore also acts as a filter that reduces the information that is eventually disclosed. CARs comply with this requirement as business information in CARs that is not useful or comprehensible is discarded or replaced, which helps to balance benefit and cost. AICPA (1994:91) is of the opinion that standard setters should search for and eliminate less relevant disclosures in this regard.

In the above section, the quality features of statutory financial information as prescribed in the framework with which the MFIS in CARs is involved have been identified. The following section deals with the quality aspects that apply to the discretionary information section, that is, that involved in the DIS in CARs.

4.5 Quality objectives of discretionary disclosures

Discretionary (or narrative) disclosures in CARs are not a recent development (OECD, 2006:13). The narrative reporting sections in American and Canadian annual reports are known as Management Discussion and Analysis (MD&A), and in Britain, the Operating and Financial Review (OFR).

The OECD (2006:13) lists the following recurring themes that are addressed by discretionary disclosures: (i) contextual information that enables a more complete understanding of current and prospective financial results and position; (ii) expanded

information on both financial and nonfinancial performance measures; (iii) forward-looking information (PWC, 2006c:1) for assessing prospective performance; (iv) the risks and uncertainties that may affect the company's long-term value; and (v) information on key performance indicators (KPI) that companies use in managing their business (PWC, 2006b:1). The disclosure of trends in working capital on a monthly basis throughout the financial year in order to monitor cash flow risk could also be useful. This aspect will be addressed in the questionnaire for users (chapter 10) as follows: statement 12: *Monthly averages of working capital should be included in CARs*. All of the above information is disclosed in the discretionary section of CARs. The discretionary disclosures include specific reporting about intellectual assets (OECD, 2006:13).

In 2002, the Institute of Directors of Southern Africa published the King Report on Corporate Governance for South Africa ("the Code") with the aim of improving the quality of corporate governance disclosures. These disclosures also appear in the discretionary section of CARs.

4.5.1 Background

As statutory disclosures in CARs may fail on their own to give a complete picture of a company, it is necessary to supplement statutory disclosures with discretionary disclosures. The MFIS responsible for generating mandatory disclosures in CARs only discloses information that can be measured in monetary terms. Certain intangible assets are, for example, not disclosed by the MFIS. The OECD (2006:7) is of the opinion that "[a]lthough accounting standards can probably be developed further to take into account a wider range of intangibles, clear limits are set by the difficulty of establishing monetary values (valuation) that are at the same time consistent across firms, verifiable and that cannot be easily manipulated".

Other information in CARs needs therefore to fill the gap in order to give a complete picture of an entity. This information is catered for by the DIS, which generates discretionary disclosures in CARs through the utilisation of discretionary accounting practices.

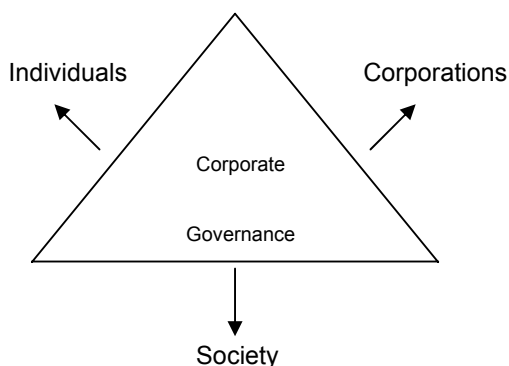
In order to assist investors and other users to ascertain the true value of an entity, several guidelines to aid narrative (discretionary) reporting have been developed that promote the disclosure of contextual information (OECD, 2006:13). These include material, qualitative and forward-looking information about an entity's value drivers, trends, risks and uncertainties (OECD, 2006:13, PWC, 2006c:1). Discretionary information is not necessarily information to which numbers are attached.

In order to address the quality of business information, the King Committee reviewed corporate governance standards and practices in South Africa. In the introduction of the Code (King, 2002a), the following quote encompasses the quality of management and information in the communication with an entity's stakeholders:

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.

This alignment may be visualised as follows in figure 4.1.

Figure 4.1: Interests of individuals, corporations and society



The first King Report indicated that entities, societies and the environment are interdependent. The King Report 1994 went beyond regulatory and financial aspects of

corporate governance and advocated an integrated approach to good governance that also included the reporting of quality information to stakeholders. In CARs the DIS generates the disclosures that go beyond the regulatory and financial aspects of corporate governance. This integrated approach was necessary to address the interests of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical and environmental practice (King, 2002a:5). The aim was therefore to include the disclosure of quality information to all stakeholders in CARs.

4.5.2 Triple bottom line

The quality of information presented by entities must embrace the economic, environmental and social aspects of an entity's activities (Bennett & James, 1999:477; King, 2002a:9). The attributes of the triple bottom line can be presented as follows:

Table 4.6: The triple bottom line

Aspects	Attributes	Application to the disclosures in CARs
Economic	The economic aspect includes the familiar financial aspects as well as the nonfinancial ones relevant to the business of an entity.	The financial aspects and the non-financial ones relevant to the business will generally be disclosed in the discretionary disclosure section of CARs.
Environmental	The environmental aspects embrace the effects that an entity's products and/or services may have on the environment.	Good and bad news about environmental aspects of entities are normally addressed in the discretionary disclosures section of CARs.
Social	The social aspects encompass values and ethics, and reciprocal relationships with stakeholders other than just the shareowners.	The social aspects are disclosed in the discretionary disclosure section of CARs.

Source: King (2002a)

Entities cannot just address the interests of one stakeholder group in CARs, but need to provide quality information that addresses the needs of all stakeholder groups following the guidelines of the triple bottom line. But, "... financial measurement and reporting is still

evolving and there is no universally accepted measurement – framework-only generally accepted accounting practices (Bennett & James, 1999:477). GAAP and discretionary accounting practices are in a process of change in order to provide quality information in CARs that can address the needs of all stakeholder groups.

4.5.3 Attributes of quality discretionary information

The following table has been compiled using the seven characteristics of good corporate governance (King, 2002a:10-11). These characteristics have been applied to determine the attributes that quality information should possess in order to be presented to different stakeholders in CARs.

Table 4.7: Attributes of good quality information

Characteristic	Attribute
Discipline	Disclosures universally recognised and accepted to be correct and proper.
Transparency	Disclosures should be such that stakeholders can make meaningful decisions with ease.
Independence	Mechanisms should be put in place to avoid potential conflicts of interest in the disclosure of information e.g. management might not want certain sensitive information to be disclosed.
Accountability	The information concerning stewardship is normally disclosed in the statutory sections of CARs.
Responsibility	To ensure that information is valid, and where misrepresented, corrective action must follow and those guilty of false presentation must be penalised.
Fairness	Rights of various groups to be acknowledged and respected.
Social responsibility	Awareness of social issues, with a high priority on ethical issues.

Source: Adapted from King (2002a:10-11)

If the preparers of CARs are aware of the above characteristics and apply them in an ethical manner when disclosing information in CARs, then the information presented in CARs should be of a high quality. In practice the possibility exists that disclosures are not made following the above characteristics. The disclosure of bad news for example may be downplayed. This aspect is tested in the questionnaire for users (chapter 10) as follows:

statement 15: *The disclosure of bad news regarding environmental and social issues is often avoided in CARs* (Cronjé, 1998:9-10; Beattie & Jones, 1999:46).

4.6 Balanced scorecard approach

In the past, business information concentrated on financial aspects only, that is, accounting numbers created by the MFIS of CARs. Unfortunately these reporting practices only show how effective a company has been in the past (OECD, 2006:13). In order to convey quality information on an entity as a whole, the use of a range of frameworks could be considered, for example the balanced scorecard approach (Kaplan & Norton, 1992) and the value chain scorecard practices (Lev, 2001:123).

A balanced scorecard approach entails broader issues that are becoming more important in accounting. In the use of the balanced scorecard, measurement is done from four perspectives, namely the financial, customer, internal business, and innovation and learning perspectives. The balanced scorecard retains measures of financial performance, but supplements these with measures regarding customers, internal business processes, and learning and growth. It therefore enables organisations to track financial results while monitoring the progress made in respect of building the capabilities needed for their growth (Vermaak & Cronjé, 2001:302; Cronjé & Vermaak, 2004:481). The balanced scorecard approach is a confirmation that performance measurements other than GAAP are in a development phase and will in time attain greater acceptance.

A balance should be maintained between the need to inform and a fear of disclosing too much information, as the latter could be to the disadvantage of an entity in its competition with other entities, which might take unfair advantage of such information (Visser, 1978:394; King, 2002a:14). This balance in the disclosure of information could be seen as yet another filter and may influence the type of information disclosed in CARs. The balanced scorecard approach is in a development phase and will in time gain greater acceptance.

4.7 Further development of discretionary disclosures

Discretionary disclosures in CARs generated by discretionary accounting practices should be reliable and consistent and should be presented in such a way that they improve the quality of corporate communication. Apart from the MD&A and the OFR, other guidelines, such as those issued by the FASB (2001), could be consulted to enhance discretionary reporting in CARs. The drivers and preparers of CARs could identify what is perceived to be useful decision-making information in terms of users' needs and could respond by improving the discretionary information content of CARs (Myburgh, 2001:214). The discretionary information created by the DIS of CARs will contribute to the quality of the information presented in CARs, as these need to reassure stakeholders that there is evidence of good stewardship by the directors. The discretionary section of CARs could *inter alia* comply with the criteria laid down in the Sustainable Reporting Guidelines of the Global Reporting Initiative (GRI). The disclosure of discretionary information will add to the context in which to better understand the statutory disclosures in CARs.

According to OECD (2006:17) efforts are underway to create a comprehensive framework (Enhanced Business Reporting Consortium [EBRC], a project of the AICPA's Special Committee on Enhanced Business Reporting launched in 2004) for discretionary reporting that will contribute to (i) improved capital market efficiency, (ii) a lower cost of capital, (iii) a lower bid/ask spread and (iv) reduced share price volatility. As far as the disclosure of intellectual capital is concerned voluntary reporting would (OECD, 2006:17) (i) make intellectual assets and their value drivers more visible; (ii) reassure stakeholders that the specific risks arising from the intellectual assets are properly managed; and (iii) report intellectual asset-specific key performance indicators that portray the performance of the company in terms of how it has managed its intellectual assets. This information could then be disclosed in the discretionary information section of CARs. The issue of intellectual capital is further explored in the questionnaire for users (chapter 10) as follows: statement 16: *I would like to see more disclosure on intellectual capital.*

A disclosure framework draft was released by the EBRC in October 2005 to promote greater transparency on corporate strategy and performance (OECD, 2006:17). During October 2005 the IASB released a reporting framework called the Management Commentary (MC), which proposes the development of a principle-based standard containing nonmandatory evidence to provide forward-looking and contextual information for investors (OECD, 2006:17). Another role player that reviews best practices is the International Corporate Governance Network (ICGN). South African companies could make use of an OFR, such as that already in use by UK companies, to structure their discretionary disclosures in CARs. The adoption of the best discretionary accounting practices would improve the quality of discretionary disclosures in CARs.

Entities could consult with users on an ongoing basis to determine the discretionary disclosures that would best add to understandability. The CARs should supply stakeholders with quality information that is understandable and that would enable them to judge the stewardship, performance, conformance and sustainability of an entity on a continuing basis.

4.8 Focus on ethics

Accounting practices should be used in an ethical way to generate disclosures in CARs. A holistic focus on ethics could, but would not necessarily, enhance the quality of business information in CARs. The focus on ethics is, *inter alia*, an effort to enhance the credibility of directors and the accounting profession. Terry (2002:9-10) reports that as a result of the corporate failures in recent times of entities like BCCI, Robert Maxwell and Barings Bank in the UK, Masterbond, MacMed, Leisurenet and Regal Treasury in South Africa, as well as Global Crossing, World Com, K-Mart and Enron in the US, to name a few, the question of ethics in business reporting has once again become an area of concern. Distorted business information may for instance be the result of pressure (as a result of greed) from investors for favourable short-term financial results (Terry, 2002:9-10). If the business objective is merely the achievement of favourable short-term financial results, it will pressurise financial directors to present manipulated business information in CARs.

Distorted business information in CARs will not assist investors in making proper investment decisions.

Rossouw and Van Vuuren (2004:265) contend that, "... managing ethics in a value-based manner is much more complicated than doing so in a rule-based manner, for the simple reason that whilst rules can be prescribed, values cannot be ...". Unfortunately ethics can never be just a list of procedures or a set of rules, but has to be rather a state of mind. Preparers of CARs need this state of mind in order to disclose credible information through the use of accounting practices for the benefit of users. The issue of credible information will be further explored in the questionnaire for preparers (chapter 9) as statement 26a: *It is my view that CARs provide credible statutory information* and statement 26b: *It is my view that CARs provide credible discretionary information*. The same statements will be included in the questionnaire for users (chapter 10) as statements 6a and 6b.

From an ethical point of view CARs should not be used for propagandistic purposes. CARs should not contain information that is untrue and they should not dis-inform or discriminate between users. CARs should not be used to predict.

4.9 Summary and conclusion

In this chapter the attributes of quality business reporting were identified. The quality of business reporting in CARs affects the integrity of the information being communicated to stakeholders. Business reporting must be adjudged trustworthy and of superior quality before an investor will decide to invest. The practical constraints on ensuring quality information were discussed (AICPA, 1994:54-57), as they are applicable to CARs and have quality implications.

The process of quality information flows driven by user needs was also considered. It was shown that events to be transformed into information are screened by four filters. The four

filters for statutory information generated by the MFIS are “accounting of the mind” practices, accounting practices, accounting principles and audit. The four filters for discretionary information generated by the DIS are “accounting of the mind” practices, accounting practices, discretionary accounting practices and independent assurance. Filtered information on an entity that is communicated to users reduces the risks and uncertainties that stakeholders are confronted with.

The qualitative objectives of financial accounting were considered that make the information provided in the statutory section in CARs useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability. The qualitative characteristics of statutory disclosures are also applicable to the discretionary disclosures generated by the discretionary information system in CARs.

As statutory disclosures in CARs may fail on their own to give a complete picture of a company, it is necessary to complement statutory disclosures with discretionary disclosures. In order to assist investors and other stakeholders in ascertaining the true value of an entity, several guidelines to aid narrative (discretionary) reporting have been developed that promote the disclosure of contextual information (OECD, 2006:13). These include material, qualitative and forward-looking information about an entity’s value drivers, trends, risks and uncertainties (OECD, 2006:13, PWC, 2006c:1). The King Report advocates an integrated approach to good governance that also includes the reporting of good quality information to stakeholders. Information presented by entities must embrace the economic, environmental and social aspects of an entity’s activities (King, 2002a:9). The attributes of good quality discretionary information were considered and if preparers of CARs apply these characteristics in an ethical manner when disclosing information in CARs, then the information presented should be of a high quality.

A balanced scorecard approach may be followed in presenting disclosures in CARs. In the use of a balanced scorecard approach, measurement is done from four perspectives, namely the financial, customer, internal business, and innovation and learning perspectives. The balanced scorecard approach entails broader issues. It retains measures of financial performance, but supplements these with measures that take into

account customers, internal business processes, and learning and growth. The balanced scorecard approach is in a developmental phase and will in time gain greater acceptance.

The further development of discretionary disclosures was considered. A comprehensive framework is currently being developed (OECD, 2006:17) for discretionary reporting that will contribute to (i) improved capital market efficiency, (ii) a lower cost of capital, (iii) a lower bid/ask spread and (iv) reduced share price volatility. In October 2005 the IASB released a reporting framework called the Management Commentary to encourage forward-looking and contextual information for investors (OECD, 2006:17). Another role player that reviews best practices is the International Corporate Governance Network (ICGN). South African companies could make use of an OFR, such as that already in use by UK companies, to structure their discretionary disclosures in CARs.

Consideration was also given to the fact that accounting practices need to be used in an ethical way to generate disclosures in CARs. A holistic focus on ethics could, but would not necessarily, enhance the quality of business information in CARs.

The conclusion is that quality is the focal point of business information. The disclosure of high quality information results in a lower risk premium for highly evaluated entities, which leads to lower debt costs and therefore an increase in earnings (Wolk *et al.*, 2000:315; OECD, 2006). Better disclosure in CARs therefore results in a better bottom line. CARs determine the flow of capital; therefore business information must be adjudged trustworthy and of high quality before an investor will decide to invest.

CHAPTER 5

The business communication potential of CARs

5.1 Introduction

Accounting by its very nature is complex. Morgan (1988:481) contends "... for accounting, like other aspects of social life, is inherently complex, multi-dimensional and paradoxical ...". To communicate accounting concepts is therefore a difficult task. "The use of technical terms to communicate accounting information can lead to misunderstanding when the meaning of such terms is not fully appreciated by the recipient of the information ..." (Evans, 2004:210). The communication of accounting concepts will be further addressed in the questionnaire for preparers as statement 29: *To communicate accounting concepts is a difficult task.*

One of the aims of accounting is to communicate information between and among preparers and users of such information and this is accomplished using specific words and techniques that simulate the characteristics of a specific language (Belkaoui, 1995:1). This *inter alia* implies that the readability of CARs needs to be enhanced. Therefore the disclosure of statutory information and discretionary information in CARs needs to be properly communicated to stakeholders in order to address their information needs. In chapter 4 the features that enhance the quality of the information to be disclosed in the CARs of entities were explored. The chapter concluded that these features do indeed contribute to the enhancement of disclosures in CARs and that preparers of CARs should have an enduring awareness of them when compiling mandatory financial information and discretionary information in CARs where ethics plays an important role.

Communication between entities and stakeholders occurs "continuously and in many forms" (Courtis, 1998:459). A meaningful channel of disclosure communication is that between the entity and financial analysts representing brokerage firms and investment consultants (Wolk *et al.*, 2000:305). In this chapter the business communication potential

of CARs is explored in order to discover ways to bridge the gap between the preparers and users of CARs.

Firstly, the process of communication in general is explored, followed by an investigation into CARs as a communication system, distinguishing between the communication features of the system responsible for the statutory disclosures in CARs, namely the MFIS, and those responsible for the discretionary disclosures in CARs, namely the DIS. The two systems responsible for the disclosures (communication) in CARs can be visualised as follows:

.Figure 5.1: The MFIS and DIS as communication systems

Rational communication			
N E W S C I E N C E		MFIS	O L D S C I E N C E
	DIS		
Demonstrative communication			

Source: Own observation

The MFIS gravitates towards rational communication making use of the features of the old science discussed in chapter 2. It therefore generates disclosures (communication) making use of generally accepted accounting practices. It could be argued that the communication here is more rules based. The DIS favours demonstrative communication making use of the features of the new science discussed in chapter 2. It therefore generates disclosures making use of narratives, pictures, visuals and graphs. Although the two systems are diverse, they are nevertheless connected, resulting in powerful communications in CARs.

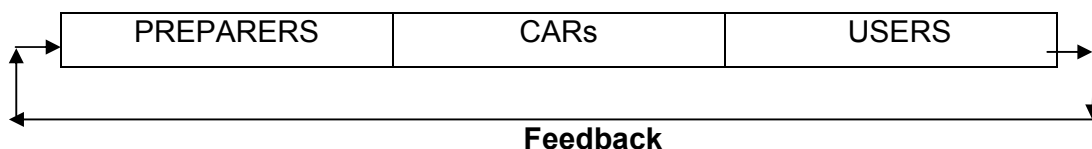
5.2 The process of communication

The process of communication as it relates to CARs is addressed by providing a general background to the topic, followed by a discussion of the conceptual communication dimensions of CARs and the attributes of communication as they relate to the preparers of CARs, CARs as communication documents and the users of CARs in general.

5.2.1 Background

In chapter 4 it was shown how quality information is generated by two systems in CARs, that is, the MFIS responsible for statutory disclosures and the DIS responsible for discretionary disclosures. The aim of this chapter is to explore the way in which this quality information, the lifeblood (primary energy for decision making), of CARs, is to be communicated to stakeholders using the CARs as the communication channel or vehicle. Figure 5.2 illustrates the process of communication.

Figure 5.2 The process of communication



Source: Own observation

The preparers of CARs encode the accounting messages in these reports to convey information to users; while the users decode these accounting messages. In order to enhance the quality of CARs they provide feedback on the information content of CARs. Communication plays a vital role in accounting activity (AAA, 1966:13), and, ideally, entities' CARs, which are their most important communication document and represent a special communication opportunity (Barac, 2003:2), must consist of an information package that will enable all users to create their own reality in terms of their own goals or objectives. The preparers of CARs are faced with immense challenges when attempting to communicate constantly changing information. Curtis (2004:292) points out that "... determining the precise set of relevant information for all users remains an on-going issue ...".

Entities should ideally have an organised disclosure policy procedure (Wolk *et al.* 2000:307), as disclosure is an important function that needs to be carefully managed (Lev 1992; Gibbons, Richardson & Waterhouse, 1992). Entities spend much of their time and effort on the CARs preparation process in recognition of their importance as a communications document, and therefore preparers of CARs need to know what the communication process requires.

The process of communication encompasses the functions of preparing and formulating, or "encoding", a message, sending this message to others and its reception by others who interpret or decode it (Goldburg, 2001:70). Campbell, Shrives & Bohmbach-Saager (2001:68) argue that information is only communicated once it has been read and understood. The preparers thus encode accounting messages, for example numbers and ratios, which are then reflected in the CARs document, usually either as part of the statutory information section or the discretionary information section.

The communication process makes use of the signs and symbols with which humans influence one another, and accounting records consist of symbols that represent some perceived objects or services and this representation may be pictographically or verbally reflected (Goldburg, 2001:14). Pictures, graphs and narratives play an important role in disclosing discretionary information in CARs generated by discretionary accounting practices. Courtis (2004:292) contends that the preparation of information "...encompasses media (e.g. annual reports and the Internet (Laswad, Oylere & Fisher, 2000:40)), layout and format (e.g. general organisation, fonts and margins), and techniques (e.g. photographs, graphics, animation, tables and prose) ...". It is therefore important to use professional designers in the preparation process of CARs. This aspect is further explored in the questionnaire for preparers (chapter 9) as statement 23: *External professionals are used to prepare the photographs, tables and graphs in CARs*. Tuohey (2003:36-37) states that the repeated use of key themes throughout the annual report enhances the readers' comprehension of the material. It is therefore necessary to repeat certain issues in different sections of CARs as users will not necessarily read the entire report. The process of communicating in CARs must be carried out with care, otherwise the message aimed at the users/stakeholders will be distorted and misunderstood and in such cases no communication has actually taken place.

5.2.2 Conceptual communication dimensions of CARs

Entities' CARs are filled with conceptual communication dimensions. Gouws (1997:74-75) refers to accounting communication as consisting of a wide spectrum of interrelated dimensions. This is also true for the business communication process in CARs. Table 5.1 lists some of the conceptual dimensions.

Table 5.1: Conceptual communication dimensions of CARs

<ul style="list-style-type: none"> • The business communication process in CARs entails the verbal interchange of financial messages through symbols.
<ul style="list-style-type: none"> • Business communication is a process by which preparers of CARs understand users and in turn endeavour to be understood by them.
<ul style="list-style-type: none"> • The business information contained in CARs is dynamic and constantly changing in response to the demands of an ever-changing environment.
<ul style="list-style-type: none"> • The business communication process in CARs involves an interaction between stakeholders.
<ul style="list-style-type: none"> • The business communication process in CARs grows from the need to <ul style="list-style-type: none"> ○ reduce uncertainty ○ act effectively and economically ○ defend or strengthen perceptions on the state of affairs
<ul style="list-style-type: none"> • The business communication process in CARs entails the transmission of data, information, ideas, trust etc. by means of words, symbols, graphs, etc.
<ul style="list-style-type: none"> • The business communication process in CARs acquires a sense of participation between the sender and the receiver of the message. Something is transferred from one to the other.
<ul style="list-style-type: none"> • Business communication in CARs is the process by which the peculiar characteristics of the preparers and the users are linked to one another.
<ul style="list-style-type: none"> • The business communication process in CARs is public rather than private. Certain sectors or persons should not be favoured to the detriment of other sectors or persons.
<ul style="list-style-type: none"> • The business communication process in CARs encompasses the conveying of economic and financial messages and represents the channel through which messages flow from the preparer to the user.
<ul style="list-style-type: none"> • The business communication process in CARs allows for the feedback of users.
<ul style="list-style-type: none"> • The main purpose of the business communication process in CARs is to affect and influence the behaviour of the user/reader through economic and financial messages.
<ul style="list-style-type: none"> • Business communication in CARs is the process whereby power is exerted in an uncertain world in order to influence the movement of wealth.

Source: Adapted from Gouws (1997:74-75)

The business communication process in CARs, which entails a wide spectrum of interrelated dimensions, arises from the need to reduce users' uncertainties and risk. CARs also reflect a process through which the peculiar characteristics of the preparers and users are linked to one another. Information, influenced and generated by choices between ever-evolving accounting practices, is communicated to users using CARs as the communication channel.

5.2.3 Attributes of communication with CARs

In general there are three role players in the CARs communication process, that is, the preparers, the CARs documents and the users of CARs.

5.2.3.1 The preparers of CARs

For proper communication to take place, preparers of CARs should constantly ask themselves how the various stakeholders would probably interpret the messages in CARs in order to make the accounting messages in CARs more understandable and meaningful. Preparers need to move away from their traditional approach to reporting. Morgan (1988:484) argues that "... they will see that their ultimate aim should be to develop the art of 'reading' and probing situations to create intelligent, actionable insight, rather than to produce rigid technical statements as ends in themselves...". The statutory section in CARs could for example be complemented with graphs and visual illustrations to make the numbers more meaningful. Belkaoui (1995:41) is concerned that "... the general level of readability of accounting messages is difficult, and the level of understandability of the meaning of accounting messages is less than perfect ...". Preparers need to strive for the enhancement of meaning in CARs. Curtis (1998:460) is of the opinion that "... annual reports are being written at a reading-ease level which is classified as difficult to very difficult ...". Ways need to be found to make CARs more readable.

It would seem that annual reports have however become less readable (Schroeder & Gibson, 1992:28). A probable solution to this concern is that the role players in the CARs preparation process should, ideally, decide on the financial and other disclosures to be made after consultation with likely users. The discretionary information contained in CARs can, to a certain extent, be used to make mandatory information more meaningful/ understandable. Decisions need to be made on which of the entity activities to disclose in CARs and their characteristics should be described in enough detail to ensure that potential users understand the meaning of the resulting disclosures.

Accounting is the language of business (Lawrence, 1992:1-15) and language includes vocabulary. Belkaoui (1995:ix) asserts that “accounting is first a communication tool. Communication is accomplished by a specific language with its own logical and grammatical characteristics ... accounting needs to reach adequate levels of readability and understandability to guarantee the effectiveness of accounting communications”. Narrative disclosures in CARs could supplement the disclosure of numbers to enhance meaning. It is sometimes difficult to communicate because someone might know what is to be conveyed (know its meaning), but finds it difficult to express exactly what he or she means (Goldburg, 2001:78). This is also true for the preparers of CARs.

Goldburg (2001:78) contends that inexpressible experiences and abstract terms are difficult to communicate. Accounting vocabulary is therefore a problem. This difficulty is manifested in the statutory section of CARs where mandatory information is disclosed that is not always understood by users. Another problem might be that some of the stakeholders may not have mastered the specialised terminology used by preparers to communicate various entity activities in CARs or that they do not know the full context of what is being communicated. The DIS is the information system that could provide the contextual information in CARs, making use of discretionary accounting practices. The discretionary information in CARs fills the gap that the statutory disclosures in CARs cannot.

Goldburg (2001:78) refers to a common-language terminology that communicators could use, so that users can obtain an approximate understanding of their messages. The discretionary section of CARs is probably the place to use such a common language. The OFR that is included in the discretionary section of CARs may be more understandable to users than the statutory disclosures. Belkaoui (1995:57) views accounting as a business language that represents phenomena in the business world, just as language represents phenomena in the real world. The risk with accounting as a language is that it can be misunderstood or misrepresented (Belkaoui, 1995:61). One of the greatest challenges in the CARs preparation process is to communicate effectively. Pictures, graphs and visuals may play an important role in enriching the communication process. The use of these CARs reporting practices has increased tremendously over the last few decades.

5.2.3.2 CARs as a communication instrument

The strengths and weaknesses of CARs as a medium of communication to convey understandable and meaningful information to users will now be considered, as the annual report is an entity's most important communication document (Pratt, 1996:13; Stanton *et al.*, 2004:57). The communication channel through which the message is transmitted (i.e. the CARs document) must convey clear messages. The symbols to be used in encoding the messages (i.e. the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS) in CARs must hold the same meanings for both the preparers and the users. In CARs, the use of symbols (e.g. numbers, ratios, graphs, photos, visuals) in the communication process attempts to bring into common agreement the perceptions of different people (e.g. the preparers and users) regarding their understanding of the symbols of the language used between them. Here the discretionary disclosures in CARs generated by the DIS have certain advantages, as ratios, graphs, and so on and common words are more easily applied. Preparers of CARs try to express the meaning that the MFIS and DIS disclosures have for them and invite the users of CARs to agree that they fit their experiences. If such agreement in CARs is possible, then communication can take place; however, if such agreement in CARs is not possible, no communication can take place.

In CARs, for successful communication to take place, the symbols need to approximate the concepts, thoughts or perceptions of the preparers and the users who are in the process of communicating. Goldberg (2001:75) maintains that “[t]hus the world of symbols is a self-perpetuating and inescapable universe by which humanity is surrounded and permeated in almost all its activities”. The symbols in CARs serve as tools, by means of which the preparers can put their perceptions about an entity down on paper so to speak. The communication of information through the CARs represents a process of sharing between the preparers and the users.

5.2.3.3 The user/stakeholder

To improve the quality of communication in CARs, the preparers could obtain an understanding of the users’ characteristics, that is, their level of education, intelligence, communication skills, culture and relevant knowledge (Gelinas, Rama & Skelton, 1996; Gouws, 1997:62-63), because communication will improve if preparers know who their audience is.

An awareness of how users use the information will enhance communication and will ensure that the messages in CARs are clearly understood as, “... theories from the discipline of linguistics ... suggest that language affects the way we (the user) think ...” (Evans, 2004:210). These messages have to mean something to the users, and the conveyance of meaning depends on a common sharing of the appropriate means of encoding and decoding a message by the preparer and the user – there needs to be some commonality of language, that is, the disclosures in CARs must mean the same to preparer and user (Goldberg, 2001:83). Therefore, commonality of language between preparers and users is a prerequisite for understanding. The contextual information disclosed in the discretionary section of CARs has this attribute of commonality of language, while the statutory disclosures perhaps lack the commonality of language and vocabulary. Proper feedback by users (e.g. allowing users to give feedback about the disclosures in CARs to an entity’s corporate communications department) will stimulate

change and enhance better quality messages in the CARs reporting process. The user has to be able to interpret the message correctly, which is an intellectual activity, otherwise improper communication will have taken place.

In this section the process of communication in general was explored. The following paragraphs represent an investigation into CARs as a communication system, distinguishing between the communication features of the system responsible for the statutory disclosures in CARs, namely the MFIS, and those responsible for the discretionary disclosures in CARs, namely the DIS.

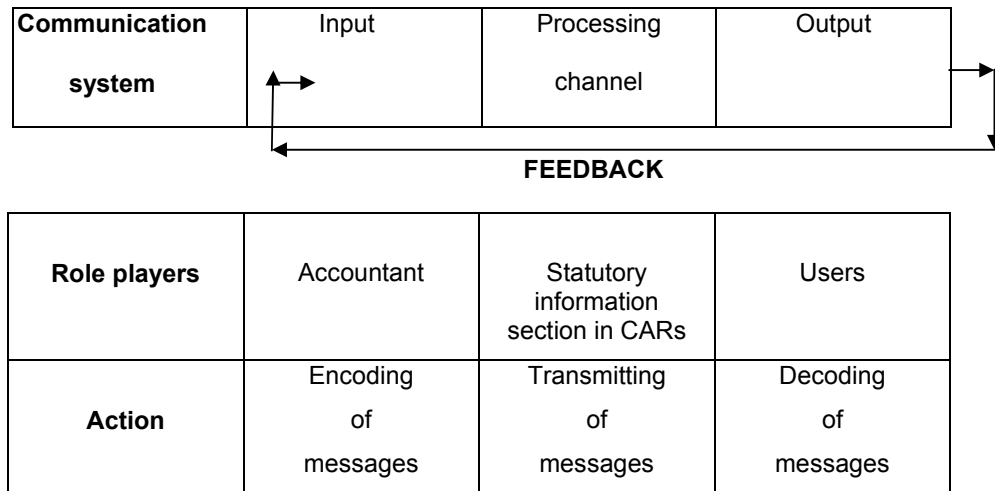
5.3 The CARs communication system

In accordance with systems theory, communication through CARs consists of three functions: input, process and output. Furthermore, two systems are responsible for disclosures in CARs, the first being the MFIS, which is concerned with the generation of statutory information, and the second the DIS, which is concerned with the generation of discretionary information. These two systems combine to form a partnership. The DIS forms the context within which to make sense of the statutory information presented by the MFIS.

5.3.1 The MFIS

The MFIS in CARs is involved with the generation of statutory information where the entity itself plays a major role. Here the most important objective of the accounting system relates to accountability and stewardship; that is, accountability (or stewardship) to the owners, investors and potential investors of the entity is the most important objective of accounting (Schoonraad, 2004:42). The decision needs of users other than owners, investors and potential investors are not necessarily taken into account. Figure 5.3 illustrates the MFIS.

Figure 5.3 Mandatory financial information system (MFIS)



Source: Own observation

In the case of the MFIS in CARs, the communication system consists of three parts: input, processing and output. This system encompasses

- the accountant, who is a preparer of information and is responsible for encoding the messages
- the statutory information section in CARs, which is used as a channel through which the messages are transmitted
- the users (mainly investors and potential investors) who must decode and interpret the messages in order to create their own reality in terms of their goals and objectives

5.3.1.1 The preparers

The preparers of CARs use the MFIS to provide information that will enable principals (owners/investors) to determine how well the agent, that is corporate management, has managed their business and investments. In this regard accounting, as the “language of business” (Belkaoui, 1995:41), communicates statutory information about the entity and

provides statutory concepts and frameworks that structure thought, conversation, perceptions and decision making for the benefit of the owners/investors. The audited statutory information in CARs enhances the accountability of corporate management (Lee, 1993:94). The MFIS in CARs is very selective in its observation of data in the environment; the reason being that generally accepted accounting practices filter the information and allow only certain types to be recorded (input). GAAP is very selective as it only captures that type of data that is measurable.

5.3.1.2 The statutory information section

The information generated by the MFIS using GAAP, the requirements of the Companies Act and JSE regulations is disclosed in the statutory section of CARs. This system has evolved over the centuries from a bookkeeping function to what it is today a complex and multidimensional discipline. Here CARs fulfil the role of transmitter of mandatory messages governed by GAAP. These mandatory messages are communicated to users in accordance with the requirements of accounting standards (the IFRSs and IASs) and are more comparable and reliable than the discretionary messages, which may be more relevant.

5.3.1.3 The users

The users of the statutory information created by the MFIS in CARs include the owners (or principals) of and investors in entities and they use this information to evaluate how well their businesses have been managed, with financial performance for example as one of the main objectives. These users decode and interpret the statutory messages in CARs in order to create their own reality in terms of their goals and objectives. One of the aims of financial reporting is to strike a balance between transparency and simplicity (Sayther, 2004:6).

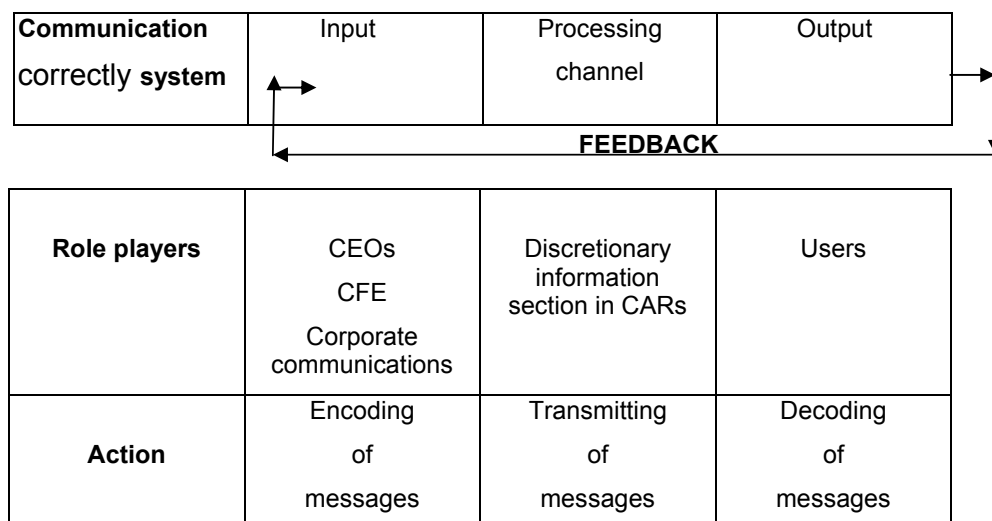
In order to enhance the meaning of statutory disclosures in CARs, complexity in accounting standards needs to be removed and their understandability increased. Feedback from users could be considered in order to make statutory disclosures user-

friendlier. Feedback from users takes place via a formal IASB system of due process and broad international consultation, which involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world (IASB,2005). The achievement of this user feedback is very important.

5.3.2 The DIS

The DIS is the system responsible for disclosing discretionary (contextual) information in CARs, making use of discretionary accounting practices. The discretionary disclosures could be designed with the information needs of users (stakeholders) foremost in mind (Schoonraad, 2004:107). In order to achieve this, the business community, security exchanges, academics and other interested individuals could be given the opportunity to give feedback to the corporate communication departments of entities in order to enhance the discretionary disclosures in CARs. Figure 5.4 illustrates the discretionary financial information system that communicates discretionary disclosures in CARs.

Figure 5.4 The discretionary information system (DIS)



Source: Own observation

In the case of the DIS in CARs, the communication system consists of three parts, namely input, processing and output. This system encompasses

- the preparers, for example management, the corporate communications department and the financial department, who are responsible for encoding the messages.
- the DIS in CARs, which is used as a channel through which the messages are transmitted
- the users (all stakeholders) who need to decode and interpret the messages in order to create their own reality in terms of their goals and objectives

5.3.2.1 The preparers

The preparers of CARs use the DIS to provide all stakeholders with discretionary information. The preparers of the messages in the discretionary section of CARs could always ask themselves who they are trying to reach with their communication. Proper communication is not an easy task, but preparers need to face it as part of their vocational and professional responsibilities (Goldburg, 2001:91). Communication is a team effort and professional designers of CARs may play an important role in this communication. Courtis (2004:292) asserts that "... narrative communication is impaired unless there is clarity in writing ...". Use could be made of language editors to enhance the communication messages in CARs. Other ways of enhancing the communication in CARs may be the use of graphs. Beattie & Jones (2002:546) contend that the communication advantages of graphs are well established. The use of graphic designers, photos and visuals can also enhance communication in CARs. Preparers of the discretionary section of CARs face an enormous challenge to communicate properly and this involves a process that has to be thoroughly managed.

5.3.2.2 The discretionary information section

The information generated by the DIS is disclosed in CARs as discretionary information. The discretionary section in CARs serves as a channel through which messages about discretionary disclosures are transmitted to users. The DIS in CARs creates and reflects the contextual information important to users, which the statutory disclosures of CARs cannot provide. The decision needs of users, which dominate accounting research (Davis, Menon & Morgan, 1982:311), could be taken into account when designing the discretionary section of CARs. Feedback from users, from which one may determine what their needs are, will be an important issue to consider.

Schoonraad (2004:45) reports that accounting has all the attributes of a system: the input of data, the processing of the data and the output of financial information that ends up in a communications document. CARs are such communications documents and any disclosure system should be designed to accommodate the needs of users as well. Gouws (1997:62-63) identifies the fact that users have a need to respond in order to create change, which once again emphasises the need for effective feedback.

An information system that is decision orientated like the DIS in CARs must produce information that addresses the needs of users. The objective of the DIS is thus to provide the contextual information that the statutory disclosures in CARs do not provide, which enables various stakeholders to see the big picture and to make optimal decisions regarding the allocation of their scarce resources.

5.3.2.3 The users

The users of the discretionary information created by the DIS in CARs consist of all those that have a stake in the entity. For proper communication to occur, there should be a common understanding (Goldburg, 2001:91) of the information by preparers and users. Could visual illustrations, graphs and photos perhaps address the need for a common understanding of discretionary disclosures in CARs? A common understanding is difficult

to achieve as language, culture and thought are linked, language and culture mutually influence each other and language predisposes particular ways of thinking and perception (Evans, 2004:239). This is definitely the case in South Africa, a country with eleven different languages. A communication problem currently exists in communicating to users using CARs as a communication channel. On the one hand, some of the users of CARs are not able to understand what is being communicated, as they are technically incapable of creating meaning from the detail in CARs (Courtis, 1998:460). This aspect is further explored in the questionnaire for users (chapter 10) as statement 25: *Users of CARs are not able to understand what is being communicated, as they are technically incapable of creating meaning from the detail in such document.* On the other hand, there are technically proficient users who might be able to create some meaning from CARs but who would be dissatisfied with the number of disclosures that is provided, because they feel they could have been given far more detail. Between these two extremes “there may be an extremely large number of shades of difference in capacity” (Goldburg, 2001:92). Preparers must therefore make assumptions about the needs of different users, which they must address through the CARs. The information in CARs could be structured in such a way that users will access it easily. Helpful navigational aids ensure readers can find the information companies have taken such trouble to publish (Anon 1, 2006:10).

5.4 Summary and conclusion

In this chapter the business communication potential of CARs, was explored to discover ways to bridge the gap between the preparers and users of CARs. CARs represent a continuous escalation of disclosures (Lee, 1994:223). The process of communication was explored in general terms: it encompasses the functions of preparing and formulating, or “encoding”, a message, sending this message to others and its reception by others who interpret or decode it. The business communication process in CARs, which entails a wide spectrum of interrelated dimensions, was also explored and the three role players in the CARs communication process were identified, that is, the preparers, the CARs documents and the users of CARs.

An investigation into CARs as a communication system was undertaken, distinguishing between the communication features of the system responsible for the statutory disclosures in CARs, namely the MFIS and the DIS. Feedback from users on the effectiveness of communication using CARs as a communication channel, and the interpretability and usability for decision making, is absolutely vital. The feedback can be used to enhance the quality of the information presented in CARs.

The conclusion is that CARs should comprise information packages that will enable all users to create their own reality in terms of their goals and objectives. With proper communication messages, CARs, in their role as the most important entity communication channel, will retain their relevance and justify their existence. Users (investors) want clarity, messages backed up by evidence, plain speaking, plain English and a balanced discussion of performance (Anon 1, 2006:8). The discretionary disclosures in CARs that provide the contextual information need to supplement the statutory disclosures for a full understanding of the big picture.

With proper feedback systems in place, CARs stakeholders will play an important role in the communication process such that CARs will be perceived as creators of meaning. As far as the MFIS is concerned, which uses IFRSs and IASs as GAAP to generate statutory disclosures in CARs, feedback from users takes place via a formal IASB system of due process and broad international consultation involving accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. This feedback shapes the generally accepted accounting practices used to disclose statutory information in CARs. As far as the DIS is concerned, proper user feedback on the disclosures in CARs could be made to the corporate communications department of an entity and this would stimulate change and shape discretionary accounting practices and promote better quality messages in the CARs reporting process.

CHAPTER 6

Decision usefulness

6.1 Introduction

The primary driving force in an information product like CARs, which influences the evolution of the accounting practices that generate disclosures in CARs, is the users' need for decision-useful information to optimise returns. The fact that the information presented in annual reports is used for decision-making purposes is widely accepted (Moonitz 1961:4; Objective No 1 of the Trueblood Report [AICPA, 1973]; Kam, 1990:48), for example the equity investor is *inter alia* interested in earning power and in earnings per share, but many other considerations and judgements must be added to these data before an investment decision can be made (Bernstein, 1989:795). Users also need decision-useful information in order to reduce uncertainty. Foster (1986:9) asserts "... there may be uncertainty over future profitability of a firm, the quality of its management ...". Reducing uncertainty is a costly process, and the main aim of CARs is to reduce uncertainty.

Wolk *et al.* (2000:318) point out that the great complexity of business and financial and operating events means that financial statements must be supplemented with an increasing array of disclosures. Users interpret the disclosures communicated to them through the CARs and they in turn could give feedback by completing questionnaires (that could be included in the CARs distributed to stakeholders) to indicate the type of decision-useful information they need. This again influences the evolution of the accounting practices that are responsible for the disclosures in CARs. Where there is no opportunity to provide feedback "the usefulness of annual reports" are in question (Clatworthy & Jones, 1999:43). A benefit that feedback brings is that "... [t]he more that stakeholders participate in the decisions which affect them ... the greater the likelihood that they will be committed to the future of the corporate enterprise ..." (Freeman & Liedtka, 1997:287). As mentioned in chapter 5, as far as the disclosure of statutory information in CARs is concerned, feedback from users takes place via a formal IASB system of due process and broad international consultation. Here there might be room for improvement.

As far as the disclosure of discretionary information in CARs is concerned, users could provide or construct feedback for the corporate communications department of an entity to

enhance the quality of the ~~messages contained~~ in CARs. A questionnaire could, for example, be included in CARs for this purpose. It is therefore important to have an in-depth look to the primary driving force of disclosures in CARs, that is, what is known as decision usefulness. Decision-useful information will reduce the uncertainty and risks of users.

In chapter 5 the business communication potential of CARs was explored in order to discover ways to bridge the gap between the preparers and users of CARs. From the investigation it is evident that feedback from users on the effectiveness of the information that CARs provide in their role as a channel of communication, and the interpretability and usability of the information CARs provide for decision making, is vital. This feedback can be used to enhance the quality of the information presented in CARs. It is further concluded that with proper communication messages, CARs in their role as an entity's most important communication channel, will retain their relevance and justification. The purpose of this chapter is to shed more light on decision usefulness and user decision making.

6.2 User needs drive reporting

6.2.1 Introduction

The demand for accounting information exists because individuals wish to improve their investment decisions (May & Sundem, 1976:763) as well as their decisions regarding the allocation of scarce resources. The objective of financial reporting is to provide decision-useful information (Stainbank & Peebles, 2006:69) and the information disclosed in CARs will also be useful if it can benefit users in the future. Decision usefulness has been the ascendant reporting paradigm in the US and other English-speaking countries since the 1970s (Coy & Dixon, 2004:80). It has therefore been decided to explore the features of a decision-usefulness approach and its influence on the reporting practices of CARs. Figure

6.1 illustrates decision usefulness as the most important qualitative informational characteristic (FASB, 1980 in Belkaoui [2004:186]). Users need decision-useful information in order to make interpretations and decisions regarding the allocation of scarce resources.

Usefulness is a future-orientated concept that gives meaning and insight to the things that might be enjoyed and be of value to users in the future. It therefore governs the future behaviour of users. Figure 6.1 shows how decision usefulness as a qualitative characteristic of information links up with the other qualitative characteristics of accounting information. The qualitative characteristics of accounting information have already been dealt with in chapter 4, and this chapter explores the decision-usefulness characteristic of CARs in more detail.

Figure 6.1: Decision usefulness and other characteristics

Users of accounting Information	Decision makers and their characteristics		
Pervasive constraint	Benefits>costs		
User-specific Qualities	Understandability		
	Decision usefulness		
Primary decision-specific qualities	Relevance	Reliability	
	Timeliness	Verifiability	Representational faithfulness
Ingredients of primary qualities	Predictive value	Feedback value	Neutrality
Secondary and interactive qualities	Comparability (including consistency)		
Threshold of Recognition	Materiality		

Source: FASB (1980) in Belkaoui (2004:186)

The characteristics of the decision-usefulness approach are the following;

6.2.2 Materiality

According to FASB (1980) in Belkaoui (2004:187), the characteristic for the recognition of transactions and events is materiality. Events and transactions must therefore be material before they will be recognised. This characteristic is applicable to both the MFIS that captures and discloses statutory information, and the DIS that captures and discloses discretionary information. Immaterial information will not necessarily be useful to decision makers (users).

6.2.3 Comparability

A further characteristic that contributes to decision usefulness is comparability. Most of the information captured and disclosed by the MFIS is measured, quantified and audited in accordance with the requirements of IFRSs and IASs. The information disclosed in the statutory sections of CARs will therefore be more comparable from year to year and amongst business sectors than the information disclosed in the discretionary sections of CARs. All information captured and disclosed by the DIS is not necessarily measured, quantified and audited. Intellectual capital for example is more difficult to measure and is therefore disclosed in the discretionary sections of CARs. The information disclosed by the DIS could be done in a more structured way if the disclosure guidelines of an OFR were used. However, for discretionary disclosures comparability is more difficult to achieve, as circumstances and context differ from year to year and amongst business sectors.

6.2.4 Predictive value

Predictive value helps users to evaluate past, present and future events. Sayther (2004:6) reports: “Users of financial statements have expressed strong interest in developing reporting standards which enhances predictive value.” Accounting practices therefore need to be developed to produce disclosures with predictive value and information for valuation decisions (bearing in mind that the preparation of CARs may be a very expensive exercise for which the benefits may be difficult and perhaps impossible to determine). Stakeholders are also interested in information about entities’ expectations of future performance and what will drive it (Topazio, 2007:2). The MFIS is concerned with statutory disclosures reports primarily (apart from post balance sheet events and contingencies) on past events and occurrences. The DIS could be used to report on forward-looking information.

Users could do the following to model the future (Topazio, 2007:2):

- Use forward-looking attitudes and language throughout the report.
- Use the group’s strategy (PWC, 2006f:1) as the basis for describing current and future performance.
- Describe the external trends likely to affect the group’s business environment, supported by quantifiable, externally sourced forecast data.
- Give targets for each KPI.

- Identify products in the pipeline and their market potential.
- Provide an outlook section for each operating division.

Preparers of CARs could therefore make use of the discretionary section to report on this forward-looking information, but need to take care not to speculate about future events and just to report on known future developments.

6.2.5 Feedback value

Feedback value helps users to confirm or correct prior expectations. The statutory disclosures of the MFIS as well as the discretionary disclosures of the DIS could be used jointly to confirm or correct prior expectations. The MFIS however focuses on past performance, while the DIS focuses on past, present and future performance.

6.2.6 Neutrality

Neutrality may be defined as the absence of bias for attaining some desired result. The disclosures of the MFIS and the DIS therefore need to be free from distortion. As the disclosures of the MFIS are audited the likelihood of bias is less than the disclosures of the DIS, which are subject to limited assurance.

6.2.7 Timeliness

Disclosures of the DIS could be prepared in a more timely fashion than the disclosures of the MFIS. The reason is that statutory disclosures generated by the MFIS must first be audited. However, to meet the requirements of the timeliness characteristic of decision usefulness, disclosures brought about by both the DIS and the MFIS need to be available as soon as possible. XBRL real-time business reporting is a probable solution for addressing timeliness. This issue will be further explored as a statement to be included in the questionnaire for preparers (chapter 9) as statement 14: *It would be useful if financial reporting could also be done in digital form making use of “eXtensible Business Reporting Language” [XBRL]* and in the questionnaire for users (chapter 10) as statement 28.

6.2.8 Verifiability

Verifiability relates to the correctness of information. The disclosures created by the MFIS are verifiable as they are disclosed in accordance with the requirements of IFRSs and IASs. The verifiability of disclosures of the DIS is more complex, as some of these disclosures are not measurable, for example intellectual capital.

6.2.9 Representational faithfulness

Representational faithfulness means to portray what something is supposed to represent. As disclosures by the DIS could *inter alia* also boost the corporate image of a company (see table 10.17 in chapter 10) one could argue that the disclosures of the DIS, in general, might portray what they are supposed to represent to a lesser extent than the disclosures of the MFIS.

6.2.10 Relevance

Relevance has been defined as follows: "... for information to meet the standard of relevance, it must bear on or be usefully associated with the action it is designated to facilitate or the result it is desired to produce. This requires that either the information or the act of communicating exert influence ... on the designated actions..." (Belkaoui, 2004:186). The relevance of particular information will vary according to the perceptions of the user and will depend on their needs and on the particular context in which decisions are made (ibid, 2004:186). The disclosures of the DIS, in general, could be more relevant than reliable, compared with the disclosures of the MFIS, which could be more reliable than relevant. The disclosures of the MFIS are more reliable as they focus on the past and are audited. The disclosures of the DIS, on the other hand, are more relevant as they focus on the past, present and future, but are less reliable as they are subjected only to limited assurance.

6.2.11 Reliability

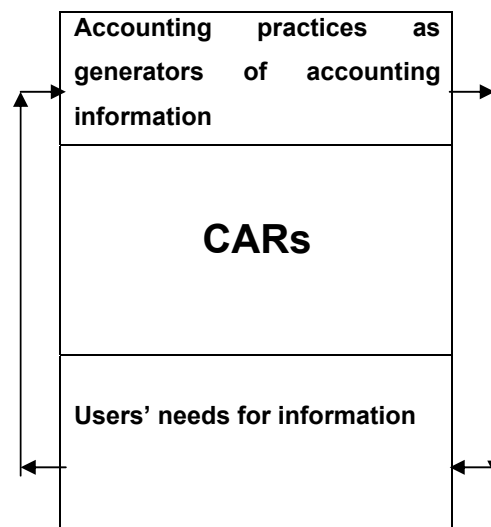
Reliability refers to the "... quality which permits users of data to depend on it with confidence as representative of what it proposes to present ..." (ibid, 2004:186). Whether information is regarded as reliable or not will depend on the extent of the users' knowledge of the rules used to prepare the information (ibid, 2004:186). 91.5 percent of respondents (see table 10.6a of chapter 10) agreed that the disclosures of the MFIS are reliable, while 67.8 percent of respondents (see table 10.6b of chapter 10) were of the view that the disclosures of the DIS are credible. Discretionary disclosures are not audited to the same

extent as statutory disclosures, which explains why the user respondents gave the credibility of discretionary disclosures a lower rating.

If the accounting practices that generate the disclosures of the DIS and the MFIS conform to the above characteristics, they will possess the primary decision-specific qualities. CARs are then the facilitators of the decision-usefulness approach.

Figure 6.2 illustrates the way in which accounting facilitates the process of decision usefulness.

Figure 6.2 The facilitation process of accounting



Source: Own observation

Because we only observe the outcomes of practices, practices are not so readily visible. The generators of the information to be disclosed in CARs are the accounting practices, accounting postulates, assumptions, rules and praxes. The information product disclosed in CARs appears as visible phenomena. Users' needs influence the type of information to be disclosed in CARs. Accounting practices involved in producing this information are not important for the users, but the information product generated by these accounting practices is. This entire process is facilitated by accounting.

The users' need to reduce their uncertainty in decision making drives the type of information disclosures made in CARs that are generated by the MFIS and DIS systems. Certain problems are being experienced with the usefulness of accounting disclosures. Belkaoui (1995:41) comments that the level of readability of accounting messages is troublesome and that the level of understandability of the meaning of accounting is imperfect. The readability of disclosures created by the DIS is less problematic as the accounting messages can be explained with more freedom. The readability of disclosures by the MFIS, on the other hand, is more problematic as technical language is used. The relative usefulness of CARs is therefore still in question. There are a number of possible reasons for CARs' lack of usefulness. One possible reason is that the information in CARs is difficult to understand. This aspect will be further tested in the questionnaire for users (chapter 10) as follows: statement 7: *The information in CARs is difficult to understand*. Another possibility is that preparers of CARs do not fully understand the users' interpretation process.

6.3 Users' interpretation process

User needs influence the types of disclosure included in CARs. Foster (1986:3) argues that shareholders, investors, security analysts and investment advisors can "... act as a pressure group on management and other bodies (e.g. regulatory agencies) that influences the timing or content of information provided to external parties". They need information that can be interpreted. Gouws & Lucouw (1999:108) are of the opinion that the users' need to interpret financial information is out and out the *raison d'être* of accounting. This also holds true for the interpretation of information presented in CARs. The discretionary disclosures of the DIS may help the interpretation process. The statutory and discretionary information in CARs is a human invention, an artefact designed by humans to address certain human needs. As a social activity, CARs have a multipurpose role and influence and are themselves influenced by human needs and behaviour. Although the annual report is used extensively by analysts (Clatworthy & Jones, 1999:43), there are a variety of other users as well. The variety and diversity of CARs users is a result of differences in culture, beliefs, education, perceptions, behaviour and so forth. This variety and diversity of users complicates the task of preparers in providing information in CARs that will address everybody's needs. Lee (1994:219) states that "... the audiences of annual reports extends beyond stockholders and employees ...". New

ways for addressing this change need to be considered. The discretionary section of CARs can be used to address the needs of different stakeholders. Belkaoui (1989:8) recommends a strategy for informing the users of corporate reports better. This strategy entails exposing them to various accounting reports from various sources. This implies that not only could the statutory section in CARs be used, but also the discretionary information section in CARs, which could be used to explain the context so that users understand the statutory disclosures better. The disclosures of the DIS need to fill the gap the statutory disclosures of the MFIS cannot in order to reflect the big picture of a company. Interim financial reports could also be used. The use of interim financial reports will be further explored in the questionnaire for preparers (chapter 9) as follows: statement 19: *Interim financial reports covering the same financial period as CARs are/should be included in CARs* and in the questionnaire for users (chapter 10) as statement 11.

It therefore follows that one accounting report like CARs may have many users. However, the act of examining multiple accounting reports and information takes on a new character in contrast to the activities involved in reading a single “sacrosanct” accounting report such as traditional financial statements. Foster (1986:x) is of the view that “with the increased use of computer based analysis and the availability of large, highly disaggregated data bases, it is likely that much of financial statement analysis will take place without direct access to traditional financial statement ...”. Financial statements are one of many information sources available (Foster, 1986:10). The use of other sources of information will be explored in the questionnaire for users (chapter 10) as follows: statement 24: *CARs are not the only means of obtaining information on listed entities for decision-making purposes. There are other sources of information that can be used.* The disclosures generated by the discretionary accounting practices of the DIS complement the statutory disclosures of the MFIS of modern day CARs. Different reports and different information can be compared, cross-referenced, combined and selected. Much of this information can be included in the discretionary sections of CARs.

The interpretive process of users is a result of an imagined and anticipated future (Gouws & Lucouw, 1999:108). The usefulness of disclosures in CARs is closely related to future expectations. Meaning is continuously shaped by the appearance, observation and interpretation of new knowledge (Littlejohn, 1989 in Gouws & Lucouw, 1999:108) and

knowledge is grounded in a knowing movement. The evolving disclosures in CARs created by accounting practices in transition shape the meaning they have for users.

Gouws & Lucouw (1999:109) report that what make sense in one context can change or even lose its meaning when communicated to users in a different context. The disclosures of the DIS therefore need to provide the contextual information in order to understand the statutory information disclosed by the MFIS. The comprehension process of information by users will be enhanced if users use both types of information, namely that disclosed by the MFIS and the DIS, as these disclosures are complementary. In this way users will grasp the big picture.

The decisions taken by users are a result of an interpretation process. The importance and significance of the statutory information generated by the MFIS in CARs and the discretionary information generated by the DIS in CARs arise from and depend on an appreciation of the business environment context from which the information in CARs is taken. This interpretation process is a process consisting of human actions. Therefore preparers and users from different disciplines and backgrounds have to find each other in order to disclose meaningful information. These preparers and users could negotiate on the types of information to be communicated because "... having the full picture – a true, a fair view of something – depends on people deciding that they have the full picture" (Hines, 1988:253).

The main objective of the interpretation process is to discover meaning. The generation of meaning depends on extracting the tacit and subjective insights, intuitions and beliefs of users (Nonaka, 1998 in Gouws & Lucouw 1999:104). Meaning is generated by the discovery (observing and interpretation) of financial and other data presented in CARs.

Gouws & Lucouw (1999:104) report that knowledge from financial information is formed as a result of the relationship between the known (the information disclosed) and the knower (user). Likewise, meaning is established as a result of the relationship between the disclosures in CARs and the users. Gouws & Lucouw (ibid: 104) contend that it must be borne in mind that any interpretation of reality is strongly influenced and conditioned by subjective, theoretical and cultural forces. Beliefs and values are used to interpret the meaning of business information in CARs and to decide what action to take. Preparers could consider the users' interpretation process when disclosing decision-useful information in CARs. The DIS that discloses discretionary information in CARs has much more freedom to be of value for users in their "meaning creation" process. The MFIS is governed by GAAP and rules of disclosure; meaning creation is therefore more difficult.

6.4 CARs as an instrument in decision making

Two systems are responsible for the disclosures in CARs. The one system, the MFIS, generates statutory disclosures governed by GAAP. This system on its own cannot provide all the information useful to stakeholders, as it only reports events and transactions that are measurable. The other system, the DIS, generates discretionary disclosures, including contextual information, and fills the gap the statutory disclosures cannot provide (e.g. it reports on intellectual capital, which is difficult to measure) in order to reflect the full picture. Analysts in the past have indicated certain measures that they consider valuable that were not adequately reported (Clatworthy & Jones, 1999:44) on in annual reports, namely:

- Market share (36% of analysts considered this deficient)
- Employee productivity (35% deficient)
- New product development (26% deficient)
- Research and development productivity (47% deficient)
- Intellectual property (32% deficient)

These disclosures can easily be dealt with in the discretionary section of CARs.

Research evidence also suggests that discretionary narrative disclosures in annual reports are of great importance even for skilled users, such as financial analysts, who are among the prime users of financial accounting information (Skipper, 1991, in Smith & Taffler, 2000:624). The DIS that generates discretionary disclosures in CARs could fulfil this role. Users create their own reality and must make decisions on the basis of limited data (Bernstein, 1996:73). The MFIS and the DIS need to disclose enough information useful to users.

Traditionally, the financial statements at the top of every analyst's list (Knutson, 1993:16) have shown and are still showing outcomes only – a focus that concentrates entirely on the output of a system. Financial statements seldom inform users on how the results were accomplished. According to Gouws & Lucouw (1999:105), in the interpretation process it is important to disclose information about the various inputs and processes of the accounting and financial information presented, as these will give an indication of the changes in forces, processes and capabilities that determine the numbers (outputs). The DIS that discloses discretionary information in CARs could be used to disclose more useful information about the inputs and processes that produced outputs. CARs is only an instrument in decision making if users use both sources of information, that is, the statutory disclosures created by the MFIS complemented by the discretionary disclosures generated by the DIS.

6.5 Information and perception

Perception reflects the way in which decision makers filter, select and interpret certain types of information. Gouws & Lucouw (1999:108) maintain that users' perceptual frameworks allow them to use their previous experiences, which regulate their perception in selecting and interpreting information.

On their own, perceptions are isolated experiences having little intellectual value, but "perceptions may influence the weights placed upon the presented information" (Rodgers,

1997:39). For the interpretive user, meaning can only be discovered through active participation and observation. Different users see different things in the information streams disclosed in CARs because they use different perspectives and conceptualise them in different ways. Perspective calls for the breadth of outlook necessary to grasp the true and full significance of things in order to make well-grounded judgements about them (Mautz & Sharaf, 1961:11). Users of the information in CARs may therefore mentally construct a whole so as not to lose any information (e.g. consider the information disclosed in CARs as a whole) and only move to the parts (e.g. the statutory disclosures generated by the MFIS and those generated by the DIS) if the interrelationship between the whole and the parts gives rise to enhanced meaning.

6.6 The role of CARs in the enablement of users

Entities in the modern age could adopt a culture of knowledge sharing (Von Krogh, Ichijo & Nonaka, 2000:262). As such the enablement of users *inter alia* is very important. This is confirmed by Cuganesan, Gibson & Petty (1997:433) who maintain that “our goal is to highlight accounting’s potential to serve as an emancipatory technology for the benefit of those people and environments that are presently or potentially colonised, excluded, rendered invisible or exploited by the presently unchallenged operation of the ‘mainstream’ accounting”. Intelligence must be broadly distributed (Wheatley, 1999:110), therefore full disclosure in CARs will be necessary. Full disclosure is defined as the disclosures in CARs generated by the MFIS (the statutory disclosures) and those generated by the DIS (the discretionary/contextual disclosures), as well as disclosures to enable/empower users with “limited authority, ability, or resources” (Objective no. 2 in Trueblood, [AICPA, 1973] in Belkaoui, 2004:169; Wolk *et al.*, 2000:184).

One of the major roles that CARs have to play is in the enablement and empowerment of users. CARs need to provide decision-useful information that could enable (i.e. empower) the users of information to predict future prospects (Objective no. 3, 4, 6 & 10 in Trueblood report [AICPA, 1973] in Belkaoui, 2004:169-172), estimate future prospects (Belkaoui, 2004:195; Saenger, 1993:84; Catrakilis, 1994:1) and make valuation decisions (Belkaoui, 2004:195) about entities. To really understand information, users need to

consult the discretionary disclosures of the DIS that provide contextual information and also the statutory disclosures of the MFIS. In this way they will grasp the big picture of the company.

While forward-looking information is uncommon in the statutory disclosures of the MFIS in CARs, it appears more frequently as part of the discretionary disclosures in CARs generated by the DIS. Forward-looking information would provide users of corporate annual reports with a sound basis on which to construct models for predicting future performance (EBR 360, 2004:4). An abundance of information could still be disclosed in the CARs of entities – Beattie, McInnes and Fearnley (2002:43) feel that a comprehensive business reporting package should be developed (CARs could represent this comprehensive reporting package) to include an analysis by management of (i) past performance (the statutory disclosures of the MFIS and the discretionary disclosures of the DIS can provide this), as well as (ii) forward-looking information (the discretionary disclosures of the DIS); specifically the operating and financial review (OFR) (PWC, 2006d:1) can be used for this purpose), relating to (a) strategy (as part of the discretionary disclosures of the DIS), (b) opportunities (as part of the discretionary disclosures of the DIS), (c) risk (as part of both the statutory disclosures, e.g. risks associated with financial instruments and the discretionary disclosures), (d) disclosure about intangible assets (as part of the statutory disclosures of the MFIS – where intangibles can be measured in accordance with IFRSs and the discretionary disclosures of the DIS, if intangibles are difficult to measure, (e) the value creation process (as part of the discretionary disclosures of the DIS) and (f) nonfinancial performance measures (as part of the discretionary disclosures of the DIS).

The directors' report, as part of the statutory disclosures could also include an enhanced business review. Deloitte (2006:54) describes the aspects that should be covered in Enhanced Business Reviews for Directors' Reports, which should include amongst other things a review of the business of the company; a description of the principal risks and uncertainties facing it and an understanding of the development, performance or position of the business of the company. The EBR will be tested further in the questionnaire for preparers (chapter 9) as follows: statement 18a: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the operating*

results; statement 18b: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the financial situation*; statement 18c: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of forward-looking information* and statement 18d: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of business risks*. This issue will also be included in the questionnaire to users (chapter 10) as statements 9a, 9b, 9c and 9d. The MFIS and the DIS would therefore be able to provide the information to be included in CARs as a comprehensible business reporting package. Information that would enable users to predict future performance would be most valuable. It is acknowledged that this type of information would be difficult to express an audit opinion on.

6.7 Summary and conclusion

In this chapter it was shown that the users' need for decision-useful information for reducing uncertainty and risks and optimising opportunities is the primary driving force that determines the types of ultimate disclosure in CARs. It was demonstrated that decision usefulness is the most important qualitative informational characteristic.

The users' interpretation processes were explored and it was found that their main objective is to discover meaning. It was shown that the users' needs for interpreting financial information are out and out the *raison d'être* for disclosures in CARs. Meaning is generated by the discovery (observing and interpretation) of financial and other data presented in CARs. However, additional research is needed in terms of both users' individual abilities to process the financial in CARs and the 'black box' effect when going from individual users to the aggregated level of the market (Wolk *et al.*, 2000:177). Users must play an active role in extracting the information they need.

The role of CARs as an instrument in decision making was also explored. Two systems are responsible for the disclosures in CARs. The one system, the MFIS, generates

statutory disclosures governed by CAR. This system on its own cannot provide all the information useful to stakeholders, as it only reports events and transactions that are measurable. The other system, the DIS, generates discretionary disclosures, including contextual information, and fills the gap the statutory disclosures cannot provide (e.g. it reports on intellectual capital which is difficult to measure) in order to reflect the big picture.

The role that perception plays in selecting and interpreting information was also explored. Different users see different things in the information streams disclosed in CARs because they use different perspectives and conceptualise them in different ways. In the preparation process of CARs, preparers may need to consider the different perceptions of users.

The role of CARs in the enablement of users was explored. CARs need to provide decision-useful information that could enable (i.e. empower) the users to predict future prospects, estimate future prospects and make value decisions about entities. Forward-looking information would assist users in predicting the future prospects of entities.

The conclusion is that financial statement information is a subset of the many disclosures that entities release to external parties and the content of nonfinancial disclosures can affect the usefulness of financial statement information for external parties (Foster, 1986:45). For entities to provide decision-useful information, it is necessary to obtain feedback from users via proper feedback systems (e.g. questionnaires provided as part of CARs to be completed and returned by users), or users should negotiate with entities (AICPA, 1994:9) to give an indication of what types of information need to be disclosed in CARs. Feedback may result in seismic shifts in the disclosures in CARs. It will be necessary to distinguish between the information needed and non-essential information (AICPA, 1994:11). Non-essential information will only increase the cost of CARs to entities. Decision-useful information should be limited to what is essential for decision making.

CHAPTER 7

Research Methodology

7.1 Introduction

The linking of accounting research with the perspectives of other disciplines may lead to the enrichment of accounting research. At present, accounting research is extending its boundaries well beyond the boundaries presented by the pure normative and empirical research methods of the past decades (Wolk *et al.*, 2000:41).

Nicolescu (1999:1), for example, makes it clear that any topic in accounting will ultimately be enriched by a fusion of perspectives from several disciplines. He comments: "... our understanding of certain phenomena in terms of its own discipline (accounting) is deepened by a fertile multidisciplinary approach." A discipline such as accounting should thus be studied not only from an accountant's point of view, but also with a view to blending accounting with other disciplines, because a multidisciplinary approach brings a "plus" to disciplines. The goal of multidisciplinary research is the understanding of the present world. Transdisciplinary research is not antagonistic, but complementary; it overflows the discipline of accounting, but its goal still remains within the framework of accounting research.

Little research has been conducted from a systems perspective on the changing appearance of CARs over the years. Hopwood (1996:55) contends that the CAR "... is a largely unresearched document". In order to attempt to fill this gap in the literature, this research views CARs as a whole from a systems perspective because, "... the more we study the major problems of our time, the more we come to realize that they cannot be understood in isolation. They are systemic problems, which means that they are interconnected and interdependent" (Capra, 1996:3).

To understand how mandatory information is formed through the use of accounting practices and how discretionary information is formed through the use of discretionary accounting practices, CARs are researched by reviewing the whole inclusive process as a system. Systems thinking is contextual, which is the opposite of analytical (Capra, 1996:29). Analysis means taking something apart in order to understand it; systems thinking means putting it into the context of the larger whole. Because stakeholders interact freely with their environment it is assumed that a CAR is the product of an open system and that CARs can be understood by studying their external environment, their internal environment and their interrelationship.

This perspective with its holistic view is therefore the proper one to use in trying to solve the research problem. Owing to the nonlinear nature of the interconnected networks of systems, the solutions they produce are multiple, or “systemic”, solutions. The combined value created by the whole is always greater than the sum of the values that would be generated by independently operating components (Schoonraad, 2004:90). This study is therefore based on systems theory and a feedback perspective. A system is defined as a set of objects or events that are grouped together by sets of relationships (Baskin & Aronoff, 1988:53). The behaviour of the system can only be understood when viewed in context and when focusing on the relationships between the various parts (Schoonraad, 2004:90). Within a systems-based perspective it is perceived that CARs are the product of information-processing systems.

The results of this research show that one system is responsible for generating discretionary disclosures, which also form the context of CARs. Simultaneously, another system is responsible for generating statutory disclosures. The boundaries of these two systems (areas of activity) sometimes overlap, but both systems are responsible for the disclosure of relevant information in minimising the risks of stakeholders. CARs serve as a spotlight on risks and opportunities. In order to ensure their own survival, systems adapt and adjust to changes in the environment. Paradoxically, open systems constantly have to change in order to stay the same (Cutlip *et al.*, 2002:22). An entity's CAR document is the product of an open system resulting from the interrelationship between the systems that

generate disclosures in CARs. The discretionary information disclosed in CARs created by the DIS, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles (the MFIS). It is evident from the history of CARs, looking in particular at their growth and relationships, that they must be an open system.

The purpose of this chapter is to give an overview of the research methods used for the purposes of this research project. This chapter introduces the empirical component of the study. In terms of content it has therefore deviated from the major themes in the previous chapters (the theoretical component). However, this deviation is necessary to set the scene for the discussions in chapters 8, 9, 10 and 11 (research findings). In order to make sense of the findings of a research project, the reader needs to be fully aware of the research strategy, design, methods and techniques used to obtain the results.

In the discussions of the research findings that follow, the major themes of the theoretical component appear again. In chapter 8 the research findings of the content analyses are reported and interpreted in terms of relevant theory. In chapters 9, 10 and 11 the research findings gleaned from the questionnaires are reported and interpreted in terms of relevant theory. The three methods used in this research are a literature review, a content analysis of CARs and three questionnaires.

7.2 Literature review

A thorough review of relevant literature "... is a crucial stage and the success of the whole enterprise depends on the quality of this step (Ryan, Scapens & Theobald, 2003:165). Mouton (2005:87) reports that the literature review entails "... the most recent, credible and relevant scholarship in your area of interest. For this reason, the term 'scholarship review' would be more accurate ...". The reasons why a review of the existing scholarship is so important include the following (Mouton, 2005:87):

- To ensure that one does not merely duplicate a previous study. This is the first study to view CARs from a systems perspective.
- To discover what the most recent and authoritative theorising about the subject is. The decision usefulness approach has been the ascendant reporting paradigm in the US and other English-speaking countries since the 1970s (Coy & Dixon, 2004:2).
- To find out what the most widely accepted empirical findings in the field of study are. The results of content analysis and of questionnaires were widely accepted in the past.
- To identify the available instrumentation that has proven validity and reliability. The use of content analysis and the distribution of questionnaires showed validity and reliability.
- To ascertain the most widely accepted definitions of key concepts in the field. The most widely accepted definitions of key concepts were dealt with in chapter 1 of this thesis.

To ensure authoritative references use was made of relevant books, articles, theses and dissertations. The reference lists of books and articles were used as a source for additional books and articles to be consulted. To find relevant articles, searches were carried out mostly using the electronic library (i.e. Oasis) of the University of South Africa (UNISA).

7.3 Content analysis

In order to discover how information disclosed in CARs has evolved over time, it was decided to make use of the empirical method termed “content analysis”. Mouton (2005:165) describes content analysis as studies that analyse the *content* of texts or documents (such as letters, speeches, annual reports) and states that “content” refers to

words, meanings, pictures, symbols, themes or any message that can be communicated. The content analysis research method is therefore the ideal method to use to discover certain trends in the disclosure of information in CARs.

The content data was extracted at the Unisa library, the library of the University of Pretoria and the Bureau of Financial Analysis at the University of Pretoria. Any ten companies of the top twenty rated according to market capitalisation were selected on a random basis. Initially only the top ten companies rated according to market capitalisation would have been selected, but due to practical considerations, such as time, cost and manpower, it was decided to select any ten companies from the top twenty. This method was cleared with the statistician consulted for this thesis. Four time periods (1975, 1985, 1995 and 2005) were taken to discover how information had escalated. The *information content* (Smith & Taffler, 2000: 639) of CARs was measured according to the number and/or the number of pages of each disclosure category (refer to table 7.1). Unerman (2000:678) argues that any content analysis study adopting measurement techniques which only capture words and numbers, ignoring pictures and graphics etc. is likely to result in an incomplete representation of the quantum of disclosures in CARs. According to him this is a particularly important issue as one of the key assumptions underlying content analysis is that the volume of disclosure signifies the importance of the items being disclosed. While measurement in sentences may be carried out with greater accuracy than measurement in proportions of a page, the former is likely to give less relevant results than the latter (ibid, 2000:667). It was therefore decided to develop a content analysis of CARs that would analyse disclosure categories in numbers as well as number of pages, for the mandatory information section and the discretionary information section as follows:

Table 7.1: The content analysis

CONTENT ANALYSIS OF CARs

Mandatory information section

Description of disclosures	1975		1985		1995		2005	
	No.	No. of pages	No.	No. of pages	No.	No. of pages	No.	No. of pages
Balance sheet	-		-		-		-	
Income statement	-		-		-		-	
Changes in equity statement	-		-		-		-	
Cash flow statement	-		-		-		-	
Segment information	-		-		-		-	
Accounting policies								
Notes to the financial statements								
Earnings per share note	-		-		-		-	
Directors' report	-		-		-		-	
Photos		-		-		-		-
Graphs		-		-		-		-
Pages covering mandatory information	-		-		-		-	

Discretionary information section

Description of disclosures	1975		1985		1995		2005	
	No.	No. of pages	No.	No. of pages	No.	No. of pages	No.	No. of pages
Chairman's statement	-		-		-		-	
Financial review – management discussion including key figures – financial highlights as well as performance measures and review of operations, businesses and markets and global activities	-		-		-		-	
Sustainable development review	-		-		-		-	
Corporate governance	-		-		-		-	
Value added statement	-		-		-		-	
Visual illustrations		-		-		-		-
Photography		-		-		-		-
Graphs		-		-		-		-
Risk factors	-		-		-		-	
Board of directors	-		-		-		-	
Pages covering discretionary information	-		-		-		-	

The data devoted to each of these categories in the CARs was recorded for each time period. The content data was extracted at the Unisa library, the library of the University of Pretoria and the Bureau of Financial Analysis at the University of Pretoria. Any ten companies of the top twenty rated according to market capitalisation were selected on a random basis. In order to examine how information had escalated over the years, four time periods (1975, 1985, 1995 and 2005) were chosen. The content of CARs in these time periods was measured according to the number and/or the number of pages of each disclosure category (12 and 11). It was decided to investigate the disclosure categories as set out in table 7.1, as these represent the most significant disclosure categories of CARs.

The content of CARs was measured according to the number of each disclosure category and/or the number of pages for each disclosure category. Categories for photos and graphs were also included under the mandatory information section as there was a possibility that they could be included in directors' reports of companies, which form part of mandatory disclosures. At any period, as specified above, 10 companies were sampled. It was argued that although the 10 companies might vary from one period in time to the next, the aim of the study was not to study the underlying trend (growth) within individual companies over time, but to evaluate general CARs content and developmental trends of JSE-listed companies as represented by a sample of 10 such companies. Of importance was whether JSE-listed companies increased the information content within their CARs **in general** – and this reasoning was followed since the research perspective of this study was a holistic approach. From this perspective it was reasoned that the effect of individual companies could be ignored in the research and that the focus should be on the general trend in CARs content of JSE-listed companies.

The issue of whether content information on companies on the JSE increased over time was of importance. The content analysis of this research is divided into two sections. The first section is aimed at the content of the **mandatory section** of CARs and to what extent the information in that section has increased over time. The second section is aimed at the content of the **discretionary section** of CARs and to what extent the information in that section has increased over time.

The nature of the data collected proved to be categorical and ordinal in the sense that the number of disclosures and/or number of pages of disclosures allocated to each section in

CARs over time were recorded. The use of frequency tables and trend tests to present the research results was decided on since **observations over time** were available and made it feasible to study probable/foreseeable trends over time. It was anticipated that **positive** relationships over time would emerge. The research results of the content analysis are discussed in Chapter 8.

7.4 Questionnaires

In order to investigate whether CARs is the information product of interdependent information-processing systems, three questionnaires were developed in MS Word 2000 format. The first questionnaire was aimed at the preparers of CARs, the second at users and the third at designers of CARs. The objectives of the questionnaires were to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all the relevant role players.

The questionnaires were sent by e-mail. The purpose of the study was set out on the cover page and the questionnaire followed on the next page. The following sequence of events was used to prepare, send and analyse the responses to the questionnaires:

7.4.1 Setting up the questionnaires

Statements were compiled on the basis of the literature review. The questionnaires are presented in Appendices A, B and C and the questionnaire results are discussed in chapter 9 (in respect of responses from preparers of CARs), chapter 10 (in respect of responses from users of CARs) and chapter 11 (in respect of responses of designers of CARs). Statements in the various questionnaire items were evaluated on a 5-point agreement Lickert scale rating. Respondents were requested to indicate on a scale rating:

- S/D Strongly disagree
D Disagree
U Unsure
A Agree
S/A Strongly agree

to what extent they disagreed/agreed with each statement. The theme of the statements centred on the hypothesis of the study.

7.4.2 Preparing an electronic mailing list

The populations of the preparers, users and designers of CARs were defined in terms of electronic mailing lists. Returned electronic responses/questionnaires constituted convenience sampling of the relevant groups.

- **Questionnaires for preparers of CARs**

In order to send the questionnaires to all the listed companies, which represented the entire population of CARs preparers, a database from the JSE-listed groups of companies dated 23 November 2006 was used. The list contains the e-mail addresses of 357 groups of companies.

- **Questionnaires for users of CARs**

Due to the fact that the traditional user of CARs is unknown, it has been decided to use auditors, investment analysts etc. as specified on the questionnaire for users (see appendix B) to reflect the viewpoint of users. Convenience sampling (via returned e-mail responses) was used in respect of the user population (to be completed by users of CARs), as the total population of users of CARs is unknown. This statistical method was cleared with the statistician consulted for this thesis. The electronic mailing lists of the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA), as well as the 2006 Southern African Accounting Association's (SAAA) list of conference attendants, were used to represent the user population.

- **Questionnaires for designers of CARs**

Convenience sampling was (via returned e-mail responses) used in respect of the designer population (to be completed by designers of CARs), as the total numbers of CARs designers is unknown. This statistical method was also cleared with the statistician used for this thesis. An internet-composed electronic list formed the basis of the designer population.

7.4.3 Sending out the questionnaires

- **Questionnaires for preparers of CARs**

A generic message was compiled to direct the mail to the financial director of a company. Electronically returned questionnaire responses represented conveniently sampled preparers of CARs.

- **Questionnaires for users of CARs**

Electronic questionnaires for users were sent out to SAICA's database of members.

The user groups targeted were

- members in public practice
- members in commerce and industry

The members in commerce and industry included financial advisors and investment analysts, corporate financiers, credit and risk managers, corporate strategists, private investors, auditors, government departments and agencies, accountants and taxation directors. The database of the South African Institute of Professional Accountants (SAIPA) was also used and questionnaires were also distributed to members of SAIPA. The 2006 SAAA conference attendance list was used to target academics.

- **Questionnaires for designers of CARs**

The internet was used to obtain e-mail addresses of designers of CARs.

7.4.4 Receiving the responses

- **Questionnaires for preparers of CARs**

Table 7.2 gives a summary of the preparer responses. Of the total population of 357, thirty potential respondents had no e-mail addresses. Forty-five e-mails bounced back because the e-mail addresses, as per the e-mail list, did not exist. Ten companies indicated that they were unable to respond for various reasons (such as that they did not have the time or resources to complete the questionnaire, or that it was not their policy to participate). This left 272 responses that could be expected.

Table 7.2: Summary of preparer responses

Total population	357
Less: Number of potential respondents with no e-mail addresses on the JSE list.	(30)
E-mails that bounced back.	(45)
Companies not prepared to respond.	(10)
Responses that could be expected	272

A total of 45 responses were received, which equates to a response rate of (45/272) 16.5 percent. The low response rate may not guarantee representativeness.

- **Questionnaires for users of CARs**

A total of 118 questionnaires were returned and processed. As the total population of users of CARs could not be determined, use was made of nonprobabilistic convenience sampling. As such, representativeness cannot be guaranteed. However, respondents included in the study in respect of users consisted of users included in electronic mailing lists (see paragraph 7.4.3), all of whom received electronic questionnaires. Since the study was regarded as exploratory it was

argued (Kerlinger, 1986:110) that all respondents included possessed the basic characteristics that the greater population of users would possess and that these were being researched in the study.

As such they are representative of the population in a sense but, since representativeness could not be strictly guaranteed, generalisations about the population as a whole should be approached with caution.

- **Questionnaires for designers of CARs**

A total of seven questionnaires were returned and processed. This is seen as a limitation. As the total population of designers of CARs could not be determined, use was made of nonprobabilistic convenience sampling. As such, representativeness cannot be guaranteed. However, respondents included in the study in respect of designers consisted of designers obtained from the internet. Approximately one hundred e-mails were electronically distributed to designers, but only seven responded. It was not possible to determine whether these designers specialise in annual reports.

7.4.5 Recording the responses

A record of all responses of all three electronic mailing lists was kept for follow-up purposes. In this way companies that did not respond to the first e-mail could be reminded to respond.

7.4.6 Follow up

In respect of the questionnaire for preparers, a number of reminders were sent out. A total of 45 preparers' questionnaires were returned. The returned questionnaires were regarded as the preparers' sample. One hundred and eighteen users' questionnaires and seven designers' questionnaires were returned and processed. All returned questionnaires were entered into the analyses reported on in chapter 9 (preparers),

chapter 10 (users) and chapter 11 (designers). As mentioned in a previous paragraph, this constituted convenience sampling with regard to the preparers, users and designers, as the researcher had no way of determining/estimating the number of questionnaires that would be returned.

7.5 Summary

In this chapter the various research methods used in this study were described. These methods include a literature survey, content analysis and the use of questionnaires. The literature review undertaken in chapters 2 to 6 is *inter alia* necessary in order to formulate the statements of the questionnaires covered in chapters 9, 10 and 11. The content analysis in chapter 8 is undertaken in order to establish whether and to what extent disclosures in CARs escalated over time. The content analysis of this research is divided into two sections. The first section is aimed at the content of the mandatory section of CARs and to what extent the information in that section has increased over time. The second is aimed at the content of the discretionary section of CARs and to what extent the information in that section has increased over time. In total content analyses of 40 companies listed on the JSE were performed.

In order to investigate whether CARs is the information product of accounting practices in transition and to research the contribution of all the relevant role players, three questionnaires were developed, making use of the literature review findings in chapter 2 to 6, in MS Word format.

The first questionnaire is aimed at the preparers of CARs. A generic message was compiled to direct the mail to the financial director of a company. Electronically returned questionnaire responses represented conveniently sampled preparers of CARs.

The second questionnaire is aimed at users of CARs. SAICA's, SAIPA's and the 2006 SAAA conference attendance list were used for this purpose. As the total population of users of CARs could not be determined, use was made of nonprobabilistic convenience sampling. As such, representativeness cannot be guaranteed. Since the study was regarded as exploratory it was argued (Kerlinger, 1986:110) that all respondents included possessed the basic characteristics that the greater population of users would possess and that these were being researched in the study.

The third questionnaire is aimed at designers of CARs. The internet was used to obtain email addresses of designers of CARs. Approximately one hundred e-mails were electronically distributed to designers, but only seven responded. This is seen as a limitation. A total of 170 (45 from preparers, 118 from users and 7 from designers) questionnaires were processed. In the next chapters the empirical research results are analysed and interpreted.

CHAPTER 8

Research results: content analysis of CARs

8.1 Introduction

One of the research questions set out in chapter 1 was: “Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats?” In order to arrive at an answer to the above research question, the aim of the content analysis performed was to evaluate how and to what extent entities’ information disclosure has evolved over time.

8.2 The content-analysis used

CARs are divided into two sections; the first part consists of mandatory disclosures and the second part of discretionary disclosures/information. Content evaluation was addressed according to the mandatory and discretionary information categories as presented in table 7.1 of chapter 7.

8.3 The companies analysed

As part of the process of convenience sampling, ten companies were selected from the top 20 companies listed on the JSE for the various time periods: 1975 year ends, 1985 year ends, 1995 year ends and 2005 year ends. It was argued that although the 10 companies might vary from one period in time to the next, the aim of this research was not to study the underlying trend (growth) within individual companies over time and thus include companies as a probable influential variable in the research, but to evaluate general CARs content and the developmental trends of companies in general. Of importance was whether any 10 companies in the top 20 increased the information content of their CARs **in general** – and this reasoning was followed since the research perspective of this study entailed a holistic approach. From this perspective it was reasoned that the effect of individual companies could be ignored in the research and that the focus should be on the general trend in CARs content. The issue of whether content

information of companies on the JSE in general increased over time was of importance. In the following sections, reference to and comments made on individual companies should therefore be regarded as interesting additional information obtained and reported on, and should not obscure the main research objectives of the content analysis, which aims at identifying trends in CARs content of JSE-listed companies. The same applies to references made to sectors within the JSE-listed companies, for example, mining, manufacturing and financial sectors. This type of informative comment will be included in square brackets. The following companies listed on the JSE were used for the content analysis.

Table 8.1 Companies for the year ended 1975

Company	Year ended
AE & CI	31 December 1975
Barlow Rand Limited	30 September 1975
Highveld Steel and Vanadium Corporation Ltd	30 June 1975
Lonrho	30 September 1975
National Amalgamated Packaging Limited	30 April 1975
OK Bazaars (1929) Limited	31 March 1975
Rembrandt Controlling Investments Ltd	31 March 1975
South African Breweries Ltd	31 March 1975
Tiger Oats and National Milling Company Ltd	31 December 1975
Woolworths Holdings Limited	31 May 1975

Table 8.2 Companies for the year ended 1985

Company	Year ended
Amgold	28 February 1985
Anglo American Corporation of South Africa	28 February 1985
Barlow Rand Limited	30 September 1985
DeBeers	31 December 1985
Gencor	31 December 1986*
Gold Fields	30 June 1985
Lonrho	30 September 1985
Minorco	30 June 1986*
Sasol	29 June 1985
South African Breweries Ltd	31 March 1985

*As the 1985 annual reports of these two companies were not available in the libraries, the 1986 annual reports were used instead.

Table 8.3 Companies for the year ended 1995

Company	Year ended
Anglovaal Industries Limited	28 February 1995
Barlow Limited	30 September 1995
Gencor	30 June 1995
Malbak Ltd	31 August 1995**
Murray & Roberts	30 June 1995
Richement	31 March 1996*
SAPPI Limited	30 September 1995
Sasol	30 June 1995
South African Breweries Ltd	31 March 1995
Tiger Oats Limited	30 September 1995

*As the 1995 annual report was not available in the libraries, the 1996 annual report was used instead.

**As an original copy of the annual report was not available at the Bureau for Financial Analysis, a copy was extracted from the internet.

Table 8.4 Companies for the year ended 2005

Company	Year ended
Anglogold Ashanti	31 December 2005
First Rand	31 June 2005
Implats	30 June 2005
Lonmin Plc	30 September 2005
MTN Group Limited	31 March 2005
Nedbank Ltd	31 December 2005
Remgro Limited	31 March 2005
SAB Miller	31 March 2005
Sanlam	31 December 2005
Standard Bank	31 December 2005

The following section compares the mandatory information with the discretionary information contained in CARs for the 1975, 1985, 1995 and 2005 year ends.

8.4 Mandatory information versus discretionary information

The aim of table 8.5 is to compare the disclosure of mandatory information with discretionary information of companies' 1975 year-end reports.

**Table 8.5 Mandatory versus discretionary information:
1975 year ends**

Company	Pages of mandatory information	Pages of discretionary information	Total pages
AE & CI	17	8	25
Barlow Rand Limited	24	45	69
Highveld Steel and Vanadium Corporation Ltd	19	14	33
Lonrho	20	16	36
National Amalgamated Packaging Limited	15	10	25
OK Bazaars (1929) Limited	16	18	34
Rembrandt Controlling Investments Ltd	12	3	15
South African Breweries Ltd	28	16	44
Tiger Oats and National Milling Company Ltd	17	17	34
Woolworths Holdings Limited	12	6	18
Total pages	180	153	333
Average number of pages	18	15	33

The table indicates, with a range of $28-12 = 16$ for mandatory and $45-3 = 42$ for discretionary disclosures, that discretionary disclosures varied to a greater extent than the mandatory disclosures. The average number of pages of mandatory information was 18 (55%) versus 15 pages (45%) for discretionary information. In 1975, the requirements of the King Report regarding corporate governance were not yet in place and therefore companies made fewer discretionary disclosures. Also, companies were not yet disclosing any information on sustainable development matters and therefore it is understandable that in general more mandatory rather than contextual information was disclosed. [In respect of the 1975 companies reviewed the South African Breweries had the most pages

(28) covering mandatory information, while Voolwerths and Rembrandt had the fewest (12 pages each). The annual report of Barlow Rand covered 45 pages of discretionary information, while Rembrandt only used three pages. Barlows and OK Bazaars disclosed more contextual information (45 versus 24) than mandatory information (18 versus 16). The other companies disclosed more mandatory than discretionary information.]

**Table 8.6 Mandatory versus discretionary information:
1985 year ends**

The aim of table 8.6 is to compare the disclosure of mandatory information with discretionary information of companies' 1985 year-end reports.

Company	Pages of mandatory information	Pages of discretionary information	Total pages
Amgold	10	29	39
Anglo American Corporation of South Africa	25	70	95
Barlow Rand Limited	27	61	88
DeBeers	21	25	46
Gencor	25	38	63
Gold Fields	20	41	61
Lonrho	32	64	96
Minorco	13	21	34
Sasol	12	27	39
South African Breweries Ltd	19	32	51
Total pages	204	408	612
Average number of pages	20	41	61

In 1985 companies disclosed more contextual than mandatory information. The average number of pages of statutory information disclosed by 1985 companies was 20 (33%) and of contextual information 41 (67%). Reporting of information on corporate governance and sustainable development was still in its infancy, but the use of photography had begun to play an important role in the disclosure of discretionary information and contributed to the fact that more contextual than mandatory information was disclosed. Very few photos

were included in the disclosure of mandatory information. [The companies that disclosed the most discretionary information were Anglo American, with 70 pages and Lonrho with 64 pages. Amgold only disclosed 10 pages of mandatory information.]

**Table 8.7 Mandatory versus discretionary information:
1995 year ends**

The aim of table 8.7 is to compare the disclosure of mandatory information with discretionary information of companies' 1995 year-end reports.

Company	Pages of mandatory information	Pages of discretionary information	Total pages
Anglovaal Industries Limited	22	64	86
Barlow Limited	25	38	63
Gencor	35	75	110
Malbak Ltd	19	43	62
Murray & Roberts	20	40	60
Richement	21	50	71
SAPPI Limited	24	52	76
Sasol	19	60	79
The South African Breweries Ltd	34	58	92
Tiger Oats Limited	21	29	50
Total Pages	240	509	749
Average number of pages	24	51	75

In 1995, companies again disclosed more contextual than statutory information. The disclosure of discretionary information varied more amongst the companies when compared to the more stable disclosure of mandatory information. The average number of pages in respect of statutory disclosures was 24 (32%) and that of discretionary information 51 (68%). In 1995 more information was disclosed on corporate governance and sustainable development issues, including information on aspects of remuneration and the management of risk. [With regard to individual 10 companies Gencor disclosed 75 pages of discretionary information followed by Anglovaal with 64. Gencor also disclosed more statutory information (35 pages), with the SAB in second place (34 pages).]

**Table 8.8 Mandatory versus discretionary information:
2005 year ends**

The aim of table 8.8 is to compare the disclosure of mandatory information with discretionary information of companies' 2005 year-end reports.

Company	Pages of mandatory information	Pages of discretionary information	Total pages
Anglogold Ashanti	128	126	254
First Rand	194	156	350
Implats	70	100	170
Lonmin Plc	38	31	69
MTN Group Limited	75	165	240
Nedbank Ltd	101	133	234
Remgro Limited	46	38	84
SAB Miller	60	80	140
Sanlam	99	178	277
Standard Bank	100	96	196
Total pages	911	1103	2014
Average number of pages	91	110	201

Companies in the financial sector on average disclosed more information in CARs. Large range values of 156 for mandatory and 147 for discretionary information indicated that the disclosure of both statutory and contextual information varied markedly amongst the companies. On average 91 pages (45%) of mandatory information was disclosed compared to 110 pages (55%) of discretionary information. The introduction of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) had a major impact on the escalation of mandatory information; while information on risk management and embedded value had a major role to play in the escalation of discretionary information. [Sanlam had 178 pages of contextual information and First Rand disclosed 194 pages of mandatory information.]

**Table 8.9 Mandatory versus discretionary information:
1975 to 2005**

The aim of table 8.9 is to establish how disclosures in CARs escalated from 1975 to 2005.

Year end	Average number of pages of mandatory information	Average number of pages of discretionary information	Total average number of pages
1975	18	15	33
1985	20	41	61
1995	24	51	75
2005	91	110	201

Statutory disclosures on average increased marginally from 1975 to 1995, but in 2005 escalated markedly as IASs and IFRSs were then applicable. More disclosures had to be made in terms of IFRS, for example risk disclosure and the management thereof in respect of financial instruments. It now also became compulsory to include segment reporting, which in earlier years formed part of discretionary disclosures, in mandatory information. Earnings per share disclosure, previously part of discretionary disclosures, now formed part of statutory disclosures and called for expanded disclosure.

Contextual information increased dramatically from 1975 to 2005. Illustrations, photography and graphs contributed to the escalation of discretionary disclosures. Here the introduction of disclosure with regard to corporate governance and sustainable development issues also had an important role to play.

8.5 The escalation of mandatory information

The content analysis of companies' CARs revealed ever-accelerating growth in the disclosure of mandatory information from 1975 to 2005. The main reason for this growth was the introduction of more generally accepted accounting practices in the form of IASs and IFRSs, which require more disclosure of information. New IASs introduced during this period were for example; IAS 19 (Employee Benefits) initially issued in 1993, IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) in 1984,

IAS 24 (Related Party Disclosures) in 1994, IAS 27 (Consolidated and Separate Financial Statements) in 2000, IAS 32 (Financial Instruments: Presentation) in 2000, IAS 34 (Interim Financial Reporting) in 1999, IAS 36 (Impairment of Assets) in 1998, IAS 38 (Intangible Assets) in 1998, IAS 39 (Financial Instruments: Recognition and Measurement) in 2004, IAS 40 (Investment Property) in 2000, IFRS 1 (First-time Adoption of International Financial Reporting Standards) in 2005, IFRS 2 (Share-based Payment) in 2005, IFRS 3 (Business Combinations) in 2004 and IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) in 2005. Since 2005 IFRS 7 (Financial Instruments: Disclosures) and IFRS 8 (Operating Segments) were also introduced. The introduction of new IASs and IFRSs had a remarkable effect on the growth of disclosures of the mandatory section of CARs.

Currently a joint project of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) is underway with the aim to develop a common conceptual framework that is both complete and internally consistent. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that are principles-based, internally consistent, internationally converged, and that can lead to financial reporting that provides the information needed for decision making (FASB, 2007:1). An example of the transition of accounting practices in the public sector is the accounting for heritage assets under the accrual basis of accounting driven by the International Public Sector Accounting Standards Board. Heritage assets are assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them. As well as museum collections such as those of art, antiquities and books the term 'heritage assets' includes assets such as landscape and coastline, historic buildings and archaeological sites (IFAC, 2006:10). These initiatives will influence disclosures in CARs in the future.

8.5.1 The escalation of the number of notes, graphs and photos

Table 8.10 sets out the number of accounting policy notes, notes to the financial statements, graphs and photos disclosed in the mandatory section of the CARs of ten conveniently selected companies with 1975 year ends.

**Table 8.10 The escalation of the number of notes, graphs and photos:
1975 year ends**

Company	Number of accounting policy notes	Number of notes to the financial statements	Number of graphs	Number of photos
AE & CI	6	17		
Barlow Rand Limited	5	20		
Highveld Steel and Vanadium Corporation Ltd	6	12		2
Lonrho	7	25		
National Amalgamated Packaging Limited	8	18	1	1
OK Bazaars (1929) Limited	8	23		
Rembrandt Controlling Investments Ltd	7	14		
South African Breweries Ltd	13	29	3	
Tiger Oats and National Milling Company Ltd	6	31		
Woolworths Holdings Limited	5	15		
Total	71	204	4	3
Average number	7	20	0.4	0.3

The average number of accounting policy notes for 1975 year ends was seven. Apart from the number of accounting policies disclosed by the South African Breweries, the number disclosed by the other companies was fairly constant. [For 1975, South African Breweries Limited disclosed 13 accounting policies, while Barlow Rand Limited and Woolworths Holdings Limited only had five each.]

The number of notes to the financial statements varied between 12 [Highveld Steel and Vanadium Corporation Limited] and 31 [Tiger Oats and National Milling Company Ltd], with an average number disclosed of 20. In 1975, the notes to the financial statements, which shed more light on the numbers disclosed in the balance sheet and income

statement, and the source and application of funds statement, were still very few, as the generally accounting practices of the day did not require excessive disclosure.

In 1975 graphs and photos were infrequently included in the mandatory section of the CARs of the companies investigated. Most of the graphs and photos appeared in the directors' report, which, being in narrative form, gives more information *inter alia* about the business of the company. Better use of graphs in the mandatory section of CARs could play an important role in illustrating relationships between figures disclosed in the balance sheet, the income statement and so on.

The following table (8.11) sets out the number of accounting policies, notes to the financial statements, graphs and photos disclosed in the mandatory section of the CARs of 1985 year ends of 10 selected companies. It will be noted that there was a slight increase in the number of accounting policies and notes to the financial statements.

Table 8.11 The escalation of the number of notes, graphs and photos:
1985 year ends

Company	Number of accountin g policy notes	Number of notes to the financial statements	Number of graphs	Number of photos
Amgold	5	11		
Anglo American Corporation of South Africa	12	24		
Barlow Rand Limited	15	36		
DeBeers	13	20		
Gencor	9	33		
Gold Fields	9	31		
Lonrho	11	34		
Minorco	6	9		
Sasol	9	22		
South African Breweries Ltd	10	29		
Total	99	249		
Average number	10	25		

The number of accounting policy notes disclosed for 1985 varied to a greater extent than those disclosed for 1975. A range of seven in 1975, compared to a range of nine in 1985, attests to this. The average number of accounting policy notes was 10. A slight increase over the number disclosed in 1975 (7) is observable. This represents an increase of 43 percent. This increase shows that accounting practices explained in accounting policy notes were already escalating and in a transition phase. [In 1985 Barlow Rand Limited disclosed 15 accounting policy notes, while Amgold only disclosed five.] The average number of notes to the financial statements disclosed for 1985 was 25. There was therefore a slight increase over the 20 disclosed in 1975. This represents an increase of 25 percent and confirms that accounting practices that required more notes to be disclosed in the financial statements were on the increase from 1975 to 1985. [Apart from Amgold, which only disclosed 11 notes to the financial statements, and Minorco, which only disclosed nine, the remainder of the companies in table 8.11 disclosed fewer numbers of notes. Barlow Rand had the most notes (36).] No graphs or photos were observed in the mandatory section of CARs for 1985 for the companies selected. Graphs could however play an important role in giving meaning to certain relationships between figures in the balance sheet, income statement and so on.

In table 8.12 the number of accounting policy notes, notes to the financial statements, graphs and photos are illustrated for 10 companies with 1995 year ends. It will be noted that there is a sharp increase in disclosures in 1995 compared to 1985.

Table 8.12 The escalation of the number of notes, graphs and photos:
1995 year ends

Company	Number of accounting policy notes	Number of notes to the financial statements	Number of graphs	Number of photos
Anglovaal Industries Limited	21	27		
Barlow Limited	25	44	2	
Gencor	14	49		
Malbak Ltd	17	44		
Murray & Roberts	15	45		
Richement	15	31		
SAPPI Limited	16	35		
Sasol	10	32		
South African Breweries Ltd	14	89		
Tiger Oats Limited	14	34	2	
Total	161	430	4	
Average number	16	43	0.4	

The companies as per table 8.12 disclosed accounting policy notes evenly (with the exception of Anglovaal and Barlow Limited) and the average number disclosed was 16. [For 1995, Barlow Limited disclosed the most accounting policy notes (25), while Sasol disclosed the fewest (10).] There is a remarkable increase if compared to the average number of 1985, that is 10, which represents an increase of 60 percent. The average number of notes to the financial statements was 43. [Here the South African Breweries disclosed 89 notes and Anglovaal Industries Limited 27.] The other companies in table 8.12 disclosed notes fairly evenly. Compared to 1985 (25) there was an increase of 72 percent in the notes. The accelerating growth in accounting practices is therefore apparent. In the case of Tiger Oats Limited, graphs now appeared on the balance sheet and income statement. This confirms the viewpoint of this thesis that information disclosed in CARs is constantly escalating and being presented in different formats.

Table 8.13 displays the number of accounting policy notes, notes to the financial statements, graphs and photos disclosed in CARs of 10 companies for 2005. As a result

of the introduction of IASs and IFRSs that require more disclosure, the number of accounting policies and notes increased conspicuously.

Table 8.13 The escalation of notes graphs and photos:

2005 year ends

Company	Number of accounting policy notes	Number of notes to the financial statements	Number of graphs	Number of photos
Anglogold Ashanti	57	67		
First Rand	88	171		
Implats	55	54		
Lonmin Plc	9	34		
MTN Group Limited	40	53		
Nedbank Ltd	21	44		
Remgro Limited	16	39		
SAB Miller	26	41		
Sanlam	87	39	10	
Standard Bank	30	38		
Total	429	580	10	
Average number	43	58	1	

In 1995 some companies adopted IFRSs early. These required expanded disclosures and therefore a remarkable variation in the number of accounting policies and notes is observable. The average number of disclosures was 43. If this number is compared to that of 1995 (16), there is an increase of 169 percent. This increase confirms the fact that accounting practices and particularly generally accepted accounting practices are in transition and constantly escalating. [Companies in the financial sector of the JSE seemed to disclose more accounting policy notes and notes to the financial statements than companies in other sectors, for example First Rand and Sanlam. First Rand disclosed 88 accounting policy notes. One reason for this is the fact that First Rand conducts several diversified entities and as such disclosed accounting policy notes and notes to the financial statements for each of the diversified entities. Another reason is that companies in the financial sector that adopted IFRSs had to disclose expanded information in respect of financial instruments, the risks involved and the management of those risks. Lonmin Plc disclosed only nine accounting policy notes.]

The number of notes to financial statements increased to an average of 58. [Again First Rand disclosed the most notes to the financial statements, for reasons already mentioned.] The percentage increase over the average number of 1995 (43) is 35 percent. All categories of mandatory information disclosure in CARs have therefore escalated remarkably. [Sanlam used 10 graphs in the notes to the financial statements category of the mandatory section of CARs and is therefore the forerunner in this regard for 2005.]

Table 8.14 summarises the escalation of the number of accounting policy notes, notes to the financial statements, graphs and photos from 1975 to 2005. The escalation of mandatory disclosures is remarkable.

Table 8.14 The escalation of the number of notes, graphs and photos in the mandatory section of CARs

Year end	Number of accounting policy notes	Number of notes to the financial statements	Number of graphs	Number of photos
1975	7	20	0.4	0.3
1985	10	25		
1995	16	43	0.4	
2005	43	58	1	

Table 8.14 shows the escalation in the number of disclosures of accounting policy notes and notes to the financial statements. Accounting policy notes increased from an average of seven for 1975 to 43 for 2005. The number of notes to the financial statements increased from an average of 20 for 1975 to 58 for 2005. This escalation can be attributed to the introduction of IASs and IFRSs, which require enhanced disclosures for the mandatory section of CARs. The number of graphs used in the mandatory section of CARs is still sporadic, although it could be a useful tool for giving meaning to the numbers of *inter alia* the balance sheet, income statement, cash flow statement and notes. Graphs and photos could be used in the directors' report to a much greater extent.

8.5.2 The number of pages covering the notes and the directors' report

Table 8.15 gives an indication of the number of pages covering the accounting policy notes, notes to the financial statements and the directors' report in 1975 year ends of 10 companies.

Table 8.15 The number of pages covering the notes and directors' report: 1975 year ends

Company	Pages of accounting policy notes	Pages of notes to the financial statements	Pages covering the directors' report
AE & CI	1	8	5
Barlow Rand Limited	1	15	2.5
Highveld Steel and Vanadium Corporation Ltd	1	3	10
Lonrho	1	10	6
National Amalgamated Packaging Limited	1	6	4
OK Bazaars (1929) Limited	1	11	1
Rembrandt Controlling Investments Ltd	1	4	4
South African Breweries Ltd	2	15	7
Tiger Oats and National Milling Company Ltd	1	7	4
Woolworths Holdings Limited	1	6	2
Total	11	85	45.5
Average number	1	9	5

The pages of accounting policies were stable (with a range of 1) amongst the companies with an average page number of one. The number of pages covering the notes to the financial statements varied between four and 15 for 1975 with an average of nine. [Barlow Rand Limited and South African Breweries Ltd used 15 pages each for their notes to the financial statements.] The directors' report averaged five pages [with Highveld Steel and Vanadium Corporation Ltd using 10 pages]. Most companies only disclosed the minimum information required by law in their directors' report. For the 1985 year end, with the exception of the directors' reports, there was a slight increase in the number of pages covering accounting policy notes, notes to the financial statements and the directors' report as illustrated in table 8.16.

**Table 8.16 The number of pages covering the notes
and directors' report: 1985 year ends**

Company	Pages of accounting policy notes	Pages of notes to the financial statements	Pages covering the directors' report
Angold	1	4	2
Anglo American Corporation of South Africa	3	17	2
Barlow Rand Limited	2	20	2
DeBeers	1	7	9
Gencor	3	17	2
Gold Fields	2	11	4
Lonrho	2	25	2
Minorco	1	6	1
Sasol	1	7	1
South African Breweries Ltd	2	11	2
Total	18	125	27
Average number	1.8	13	3

The average number of pages covering accounting policy notes was 1.8 compared to the average number of pages for 1985 of one. The average number of pages covering the notes to the financial statements increased from nine in 1975 to 13 in 1985. The directors' reports of the companies still only reflected the minimum information required by law. [Only DeBeers used nine pages.] There was a drop in the number of pages used for the directors' report from an average of five for 1975 to an average of three for 1985.

Table 8.17 sets out the number of pages used for accounting policy notes, notes to the financial statements and the directors' report for 10 companies with 1995 year ends. Again there was a marginal increase in the number of pages used for the accounting policy notes and the notes to the financial statements and a further drop in the average number of directors' report pages.

**Table 8.17 The number of pages covering the notes
and directors' report: 1995 year ends**

Company	Pages of accounting policy notes	Pages of notes to the financial statements	Pages covering the directors' report
Anglovaal Industries Limited	2	13	4
Barlow Limited	2	19	1
Gencor	4	21	3
Malbak Ltd	3	12	1
Murray & Roberts	2	11	3
Richement	3	13	1
SAPPI Limited	2	16	2
Sasol	1	13	2
South African Breweries Ltd	2	27	2
Tiger Oats Limited	2	13	2
Total	23	158	21
Average number	2.3	16	2

For 1995 the number of pages used for the disclosure of accounting policy notes averaged 2.3, which was slightly higher than the average for 1985 of 1.8. The average number of pages of notes to the financial statements increased from 13 in 1985 to 16 in 1995. [Anglovaal Industries Limited used four pages for their directors' report.] Only the minimum information as required by the Companies Act is disclosed in companies' directors' reports.

Table 8.18 shows a sharp increase in the average number of pages covering the accounting policy notes, the notes to the financial statements and the directors' report.

**Table 8.18 The number of pages covering the notes
and directors' report: 2005 year ends**

Company	Pages of accounting policy notes	Pages of notes to the financial statements	Pages covering the directors' report
Anglogold Ashanti	14	97	9
First Rand	23	136	6
Implats	14	36	12
Lonmin Plc	2	27	3
MTN Group Limited	13	36	18
Nedbank Ltd	13	79	4
Remgro Limited	6	27	9
SAB Miller	5	47	3
Sanlam	17	68	1
Standard Bank	19	56	6
Total	126	609	71
Average number	13	61	7

The number of pages for 2005 covering accounting policy notes varied between two [Lonmin Plc] and 23 [First Rand], with an average number of pages of 13. [Companies in the financial sector used more pages, as there were now more disclosure requirements for financial instruments.] The pages used for the notes to the financial statements varied between 27 [Lonmin Plc and Remgro Limited] and 136 [First Rand]. [Again companies in the financial sector used more notes to the financial statements as a result of more disclosure requirements for financial instruments, the risks involved and the management of those risks.] Companies that adopted the IFRSs early used more pages for disclosure. The pages used for directors' reports increased substantially. [MTN Group Ltd disclosed in the directors' report information about the groups' share option and incentive schemes, staff incentive schemes, equity compensation benefits for executives and officers as well as directors' interests, emoluments and related payments.]

Table 8.19 compares the number of pages used for disclosing accounting policy notes, notes to the financial statements and the directors' report from 1975 to 2005.

Table 8.19 The escalation of the number of pages covering the notes and directors' report

Year End	Pages of accounting policy notes	Pages of notes to the financial statements	Pages covering the directors' report
1975	1	9	5
1985	1.8	13	3
1995	2.3	16	2
2005	13	61	7

The content analysis of companies with year ends 1975, 1985, 1995 and 2005 revealed an increase in disclosures as a result of the introduction of new generally accepted accounting practices (IFRSs). Also, segment information was previously disclosed as discretionary information for the year ends 1975, 1985 and 1995. For the 2005 year end, segment information was included in the notes to the financial statements as mandatory disclosure. This covered between five to 21 pages.

Earnings per share disclosures were initially part of discretionary disclosures (for 1975), disclosed either numerically as part of group results at a glance or as part of the ten-year review, or in one instance graphically. The earnings per share note gradually found its way into mandatory disclosures and in 2005 covered one or more pages of the notes to the financial statements. The statement of source and application of funds (1975 and 1985 year ends) became the cash flow statement. The evolution from the statement of source and application of funds to the cash flow statement represents an expansion of reported information (Wolk *et al.*, 2000:437). For the 2005 year end the statement of changes in equity appeared on the scene. Included in the notes to the financial statement for 2005 year ends were disclosures (between eight and 10 pages) on the implementation of IFRSs. From the above it is evident that information initially disclosed as discretionary could become mandatory if proven useful over time, for example segment information and earnings per share information. It is also clear that mandatory disclosures are

continuously escalating as a result of new generally accepted accounting practices being introduced. Mandatory information is also presented in different formats, for example the source and application of funds became a cash flow statement and graphs are occasionally used to illustrate relationships between certain mandatory information better.

8.6 The escalation of discretionary information

A content analysis of the CARs of companies revealed accelerating growth in the disclosure of discretionary information from 1975 to 2005. The main reason for this growth was attempts by companies to give more contextual information against which to better understand mandatory disclosures.

8.6.1 Number of visual aids

Table 8.20 sets out the number of illustrations, photos and graphs disclosed in the discretionary section of the CARs of ten selected companies with 1975 year ends. Illustrations include, for example, graphical illustrations of brands and products, charts, schematics and so on. Photos include black and white and colour photos, big and small. Graphs include bar graphs and pie charts.

Table 8.20 Number of visual aids: 1975 year ends

Company	Number of illustrations	Number of photos	Number of graphs	Total
AE & CI	-	-	5	5
Barlow Rand Limited	-	38	2	40
Highveld Steel and Vanadium Corporation Ltd	-	6	4	10
Lonrho	-	24	4	28
National Amalgamated Packaging Limited	-	5	-	5
OK Bazaars (1929) Limited	-	23	2	25
Rembrandt Controlling Investments Ltd	-	-	-	-
South African Breweries Ltd	-	2	10	12
Tiger Oats and National Milling Company Ltd	1	22	5	28
Woolworths Holdings Limited	-	-	-	-
Total	1	120	32	153
Average number	-	12	3	15

In the 1975 year ends, minimal use was made of illustrations. The use of graphs was also in its infancy. Table 8.21 that follows shows that more use was made of illustrations, photos and graphs in companies' 1985 year ends. [Rembrandt Controlling Investments Ltd did not use any illustrations, photos or graphs, while Barlow Rand Limited used 38 photos.]

Table 8.21 Number of visual aids: 1985 year ends

Company	Number of illustrations	Number of photos	Number of graphs	Total
Amgold	4	8	6	18
Anglo American Corporation of South Africa	6	22	20	48
Barlow Rand Limited	3	36	37	76
DeBeers	3	14	2	19
Gencor	1	32	-	33
Gold Fields	1	28	12	41
Lonrho	9	82	8	99
Minorco	-	-	13	13
Sasol	3	17	5	25
South African Breweries Ltd	4	11	10	25
Total	34	250	113	397
Average number	3	25	11	39

Table 8.21 indicates that although there was a considerable variation amongst companies in 1985 in the use of visual aids (range of nine), the average number of illustrations increased to three, that of photos to 25 and that of graphs to 11. [Lonrho made use of 82 photos, compared to 24 in 1975.] A substantial increase in general terms occurred in the use of illustrations, photos and graphs to enhance the meaningfulness of discretionary disclosures. Table 8.22 shows a further increase in the use of visual aids for 1995 companies.

Table 8.22 Number of visual aids: 1995 year ends

Company	Number of illustrations	Number of photos	Number of graphs	Total
Anglovaal Industries Limited	2	55	17	74
Barlow Limited	1	45	14	60
Gencor	18	33	21	72
Malbak Ltd	-	-	-	-
Murray & Roberts	-	27	27	54
Richement	2	15	4	21
SAPPI Limited	-	35	68	103
Sasol	1	50	13	64
South African Breweries Ltd	-	14	21	35
Tiger Oats Limited	23	7	24	54
Total	47	281	209	537
Average number	5	28	21	54

For 1995, the use of visual illustrations varied greatly among companies. The average number of illustrations increased from three in 1975 to five in 1985. Photos increased from an average of 25 (1975) to 28 and graphs increased from 11 (1975) to 21. [Anglovaal Industries Ltd and Sasol used the greatest number of photos, namely 55 and 50 respectively. Sappi made use of 68 graphs, while Malbak used no visual aids at all.] Table 8.23 gives evidence of meaningful and expanded use of visual aids in companies' 2005 year ends.

Table 8.23 Number of visual aids: 2005 year ends

Company	Number of illustrations	Number of photos	Number of graphs	Total
Anglogold Ashanti	18	63	114	195
First Rand	15	104	52	171
Implats	22	118	40	180
Lonmin Plc	-	1	9	10
MTN Group Limited	8	103	47	158
Nedbank Ltd	18	55	21	94
Remgro Limited	-	-	-	-
SAB Miller	32	92	20	144
Sanlam	24	120	20	164
Standard Bank	5	49	36	90
Total	142	705	359	1206
Average number	14	70	36	120

The average number of visual aids more than doubled from an average of 54 in 1975 to 120 in 2005. [Sanlam used 120 photos for 2005, followed by Implats with 118. Remgro Limited made no use of illustrations, photos or graphs. Anglogold Ashanti used far more graphs (114) than all the other companies in the sample.] Table 8.24 compares the average number of visual aids for companies with 1975, 1985, 1995 and 2005 year ends.

Table 8.24 The escalation of visual aids

Year End	Number of illustrations	Number of photos	Number of graphs	Total
1975	-	12	3	15
1985	3	25	11	39
1995	5	28	21	54
2005	14	70	36	120

Table 8.24 shows a marked increase in the use of visual aids in the discretionary section of CARs and it is evident that discretionary accounting practices for discretionary disclosures, as in the case of generally accepted accounting practices for mandatory information, are in a transition phase. Visual aids are used far more in the discretionary section of CARs than in the mandatory section, where their use is still in its early stages.

8.6.2 Number of pages covering discretionary information

In this section analyses of the discretionary information in CARs are performed for companies with 1975, 1985, 1995 and 2005 year ends. Table 8.25 analyses discretionary information for 1975 year ends. The “review of operations etc category” includes any financial reviews, management discussions including key figures and financial highlights, as well as performance measures and review of operations, businesses and markets and global activities and embedded value reports. As the structure of this category varied from company to company, it was not broken down further. The number of pages covering discretionary information includes illustrations, photos and graphs.

Table 8.25 Analysis of discretionary information: 1975 year ends

Company	Chair- man's state- ment	Board of directors	Review of opera- tions etc.	Risk manage- ment	Sustainable develop- ment review	Corporate governance	Total
	pages	pages	pages	pages	pages	pages	pages
AE & CI	2	1	5	-	-	-	8
Barlow Rand Limited	3	1	41	-	-	-	45
Highveld Steel and Vanadium Corporation Ltd	6	1	7	-	-	-	14
Lonrho	6	1	9	-	-	-	16
National Amalgamated Packaging Limited	2	2	6	-	-	-	10
OK Bazaars (1929) Limited	2	1	15	-	-	-	18
Rembrandt Controlling Investments Ltd	-	2	1	-	-	-	3
South African Breweries Ltd	5	2	9	-	-	-	16
Tiger Oats and National Milling Company Ltd	4	2	11	-	-	-	17
Woolworths Holdings Limited	3	2	1	-	-	-	6
Total	33	15	105	-	-	-	153
Average number	3	1	11	-	-	-	15

For 1975 no disclosures were made about risk management, sustainable development or corporate governance matters for companies. These only appeared later on the scene, as discretionary accounting practices evolved over time as indicated in the tables that follow. The chairman's statement averaged three pages, information about the board of directors averaged one page and the review of operations etc. category averaged 11 pages. [Barlow Rand Limited disclosed more "review of operations etc." information (41 pages) than most other companies.] Table 8.26 shows that as discretionary accounting practices developed further, more discretionary information was disclosed in the CARs of companies.

Table 8.26 Analysis of discretionary information: 1985 year ends

Company	Chair- man's state- ment	Board of direc- tors	Review of opera- tions etc.	Risk manage ment	Sustainable develop ment review	Corporate governance	Total
	pages	pages	pages	pages	pages	pages	pages
Amgold	10	1	18	-	-	-	29
Anglo American Corporation of South Africa	-	2	68	-	-	-	70
Barlow Rand Limited	4	1	55	-	1	-	61
DeBeers	4	1	17	-	3	-	25
Gencor	4	3	31	-	-	-	38
Gold Fields	3	1	38	-	-	-	42
Lonrho	2	1	61	-	-	-	64
Minorco	2	1	18	-	-	-	21
Sasol	4	1	21	-	1	-	27
South African Breweries Ltd	2	1	29	-	-	-	32
Total	35	13	356	-	5	-	409
Average number	3	1	36	-	1	-	41

For 1985 the average number of pages used for the disclosure of information in the chairman's statement and board of directors' categories remained constant compared with companies in 1975. The review of operations etc. category showed an increase from an average number of 11 pages in 1975 to 36 in 1985. [Anglo American Corporation of South Africa disclosed the most (68 pages) and DeBeers the fewest (17 pages).] Here and there

companies started to disclose information on sustainable development, following the example of their international counterparts. Table 8.27 shows that corporate governance information slowly started to make its appearance.

Table 8.27 Analysis of discretionary information: 1995 year ends

Company	Chair- man's state- ment	Board of direc- tors	Review of operations etc.	Risk mana- gement	Sustainable develop- ment review	Corporate gover- nance	Total
	pages	pages	pages	pages	pages	pages	pages
Anglovaal Industries Limited	4	1	58	-	1	-	64
Barlow Limited	4	1	32	-	-	1	38
Gencor	8	1	66	-	-	-	75
Malbak Ltd	9	1	31	-	-	2	43
Murray & Roberts	2	1	36	-	-	1	40
Richement	1	1	48	-	-	-	50
SAPPI Limited	4	2	41	-	4	1	52
Sasol	6	1	49	-	4	-	60
South African Breweries Ltd	5	1	48	-	1	3	58
Tiger Oats Limited	3	1	23	-	-	2	29
Total	46	11	432	-	10	10	509
Average number	5	1	43	-	1	1	51

With the introduction of the requirements of the King Report on corporate governance, companies started to provide information on corporate governance matters. The average number of pages containing corporate governance information for 1995 was one. Companies [like SAPPI and Sasol] increased disclosures concerning sustainable development matters that included their management of the environment. The number of pages for the chairman's statement in 1995 year-end reports increased slightly from an average of three (1985) to five. More information was given in the review of operation etc. category [with Gencor using 66 pages]. Table 8.28 shows that the average number of pages in the review of operations etc. category increased to 68 pages in 2005.

Table 8.28 Analysis of discretionary information: 2005 year ends

Company	Chair- man's state- ment	Board of directors	Review of opera- tions etc.	Risk manage- ment	Sustain- able develop- ment review	Corporate gover- nance	Total
	pages	pages	pages	pages	pages	pages	pages
Anglogold Ashanti	2	4	91	14	5	10	126
First Rand	4	14	97	23	5	13	156
Implats	4	3	83	-	10	-	100
Lonmin Plc	-	1	8	-	17	5	31
MTN Group Limited	7	4	108	14	20	12	165
Nedbank Ltd	8	4	67	22	13	19	133
Remgro Limited	-	2	22	-	7	7	38
SAB Miller	2	3	29	-	38	8	80
Sanlam	7	5	124	-	21	21	178
Standard Bank	4	4	48	22	11	7	96
Total	38	44	677	95	147	102	1103
Average number	4	4	68	9	15	10	110

For 2005 there was a notable increase in the types of discretionary information. For example disclosures were made concerning the management of risks. This aspect is of great importance to users of financial statements who need decision-useful information to, for example, minimise their investment risks. [Fifty percent of the companies in the sample had a specific section on information about the management of risks. Other companies included the management of risks information with their information on corporate governance matters.] Table 8.29 reflects the accelerating growth of discretionary information, driven by the evolution of discretionary accounting practices as summarised over the various year ends.

Table 8.29 Analysis of discretionary information

Year End	Chair- man's statement	Board of directors	Review of operations etc.	Risk manage- ment	Sustain- able develop- ment review	Corporate gover- nance	Total
	pages	pages	pages	pages	pages	pages	pages
1975	3	1	11	-	-	-	15
1985	3	1	36	-	1	-	41
1995	5	1	43	-	1	1	51
2005	4	4	68	9	15	10	110

The information given in the chairman's statement remained fairly constant from 1975 to 2005. The information concerning the board of directors increased in 2005 to four pages on average as more information on company executives was also disclosed. The review of operations etc. section showed a sharp increase from an average of 11 pages in 1975 to 68 in 2005. Segment information formed part of this category for 1975 to 1995. For the 2005 year end, segmental information was disclosed in the mandatory notes to the financial statements. Earning per share information for 1975 and 1985 was also part of the review of operations etc. category; however for the 1995 and 2005 year ends it moved over to the mandatory section of CARs. For 1995 supplementary inflated adjusted information is included in the review of operations etc. section. [For 2005 companies in the financial sector disclosed 'embedded value reports', which varied from five to 12 pages, which is also included in the review of operations etc. category. A ground-breaking issue is the fact that AngloGold Ashanti for 2005 disclosed a one-year forecast (also included in the review of operations etc. category).] In the past, companies were very hesitant about providing forward-looking information, which is of great importance to users. The sustainable development review category analysed included remuneration philosophies and reports.

From the above analysis it is evident that discretionary disclosures are continuously escalating (e.g. forward-looking information is provided) as a result of new discretionary accounting practices being introduced. Discretionary or contextual information is also presented in different formats, for example in the form of illustrations, photos and graphs.

8.7 Summary and conclusion

A content analysis was done on the CARs of ten top companies selected from the top 20 companies listed on the JSE for the various time periods: 1975 year ends, 1985 year ends, 1995 year ends and 2005 year ends. Mandatory disclosures were compared to discretionary disclosures for each of the four time periods. Statutory disclosures on average increased marginally from 1975 to 1995, but in 2005 escalated markedly as IASs and IFRSs were then applicable. The contextual information increased dramatically from 1975 to 2005. Illustrations, photography and graphs contributed to the escalation of discretionary disclosures. Here the introduction of disclosures concerning corporate governance and sustainable development issues also had an important role to play.

The escalation of mandatory information was further analysed into the following categories: number of notes, graphs and photos as well as number of pages covering the notes and the directors' report. The escalation of discretionary information was further analysed into the following categories: number of illustrations, photos and graphs as well as pages covered by the chairman's statement, the board of directors, review of operations, risk management, sustainable development review and corporate governance matters.

The content analysis for companies with year ends 1975, 1985, 1995 and 2005 has proven that accounting practices (generally accepted accounting practices in the case of mandatory information) and discretionary accounting practices (in the case of discretionary information) are in a process of transition.

In the mandatory section of CARs the source and application of funds statement made way for the cash flow statement. A statement of changes in equity was also introduced. Segment information, initially disclosed as discretionary information, is now disclosed as mandatory information. Earnings per share information disclosed in the discretionary section of CARs moved over to the mandatory section. Therefore discretionary information, if proven useful over time, can become mandatory information.

Where certain statements are no longer useful, for example the source and funds statement, they are discarded and replaced with something new, that is, the cash flow statement.

In the discretionary section of CARs new types of disclosure frequently enter the arena, for example embedded value disclosures and forward-looking information. Information on intellectual capital (OECD, 2006) would, until acceptable ways of measuring are found, normally be disclosed as discretionary information rather than mandatory information. The content analyses of CARs have shown that CARs can be visualised as a product of information-processing systems, which are constantly escalating and being presented in different formats.

CHAPTER 9

Research results – questionnaires for preparers

9.1 Introduction

The preparers of CARs are important role players regarding the outcome of CARs. Other important role players are the users and the designers of CARs. Three questionnaires were compiled and distributed to the preparers, the users and the designers of CARs. The questionnaires contained certain statements about CARs as the information products of accounting practices in transition and the respondents had to indicate whether they strongly disagreed, disagreed, agreed, strongly agreed or were unsure about the statements made.

The purpose of the statements in the questionnaires was to determine the extent to which CARs are the information products of accounting practices in transition and to research the contributions of all relevant role players. This chapter covers the responses from the preparers of CARs.

The layout of this chapter consists of the introduction, research results of preparers of CARs and a summary and conclusion.

9.2 Questionnaire for the preparers of CARs

9.2.1 Introduction

The total population of groups of companies listed on the Johannesburg Securities Exchange amounted to 357 on 23 November 2006. Using this database of groups of companies, e-mails containing the questionnaire were sent to the financial directors/managers of all the companies listed. Convenience, nonprobability sampling was used in that all questionnaires returned by companies became part of the sample. The

response rate for this survey was 16.5 percent (see chapter 7). The low response rate may not guarantee representativeness. Not all companies were prepared to participate in the survey; reasons included the following (refer to appendix D for detail):

- Policy not to complete surveys
- Shortage of staff
- Time constraints
- Executives on road shows

The responses of companies that could participate in the survey are presented in the following section.

9.2.2 Research results

The results of the questionnaires will be set out in the following order: a display of the statement, a short motivation, the results set out in a table and a conclusion.

The growth of CARs

Statement 1: *Business reporting evolved over centuries and was typified by slow, random and reactive growth* (Garbutt, 1981:10 -11; Edwards, 1989:14; Mattesich, 2000:13 -14; Belkaoui, 2004:2-30; Vorster, 2007:32). Over the centuries it was shown that external incidents like the stock market crash of 1929 in the US (Zeff, 2005:1) influenced the random and reactive growth of business reporting. Table 9.1 shows that respondents agreed with this statement.

Table 9.1: Statement 1

Rating scale	%
Strongly disagree	0.0
Disagree	22.3
Unsure	13.3
Agree	51.1
Strongly agree	13.3
Total	100.0

51.1 percent of the respondents agreed with statement 1 and 13.3 percent strongly agreed. 64.4 percent of the respondents are therefore in agreement with this statement. The accounting practices that generate statutory disclosures in CARs have shown reactive growth. On the other hand, discretionary accounting practices responsible for discretionary disclosures in CARs have shown proactive growth (refer to the research results of chapter 8). The research result above confirms the fact that accounting practices, which drive business reporting, are in transition. An opportunity exists to improve accounting practices, if proper feedback systems are in place (e.g. in the form of questionnaires included in CARs to be completed and returned by users). Standard setters and preparers could use this feedback for the further improvement of GAAP and discretionary accounting practices.

Statement 2: *Business reporting is in an expansionary phase.* The introduction of IFRSs has resulted in expanded mandatory disclosures and companies disclose ever-increasing discretionary information (see chapter 8). Table 9.2 reflects that the majority of respondents agree with this statement.

Table 9.2: Statement 2

Rating scale	%
Strongly disagree	0.0
Disagree	6.7
Unsure	4.4
Agree	68.9
Strongly agree	20.0
Total	100.0

Only 6.7 percent of the respondents disagreed with this statement, while 4.4 percent were unsure. The opinions of the respondents therefore confirm that business reporting is in an expansionary phase as a result of the fact that accounting practices, which drive business reporting, are in transition. The standard-setting bodies are the major role player in the development of accounting practices to create disclosures in CARs. They carry out their own research and develop and refine the IFRSs and IASs that generate the mandatory

disclosures in CARs. The standard-setting bodies could also take note of the evolving discretionary accounting practices used by the DIS to generate discretionary disclosures in their research, as some of these discretionary accounting practices might have the potential to become GAAP.

Statement 3: *Current and emerging business practices will influence the evolution of accounting practices in the future.* In chapter 8 it was shown that discretionary accounting practices, if found useful, have the potential to become generally accepted accounting practices or IFRSs, for example segment reporting initially was a discretionary reporting practice, however it is currently required to be disclosed as mandatory information in terms of IFRSs. Table 9.3 indicates that a vast majority of the respondents agree with statement 3.

Table 9.3: Statement 3

Rating scale	%
Strongly disagree	2.3
Disagree	4.5
Unsure	4.4
Agree	64.4
Strongly agree	24.4
Total	100.0

A total of 88.8 (64.4 + 24.4) percent of the financial directors/managers agree with the statement that current and emerging business practices will influence the evolution of accounting practices in the future. This is a confirmation that accounting practices are in transition. The accounting practices used by the MFIS, that is GAAP, complemented by discretionary accounting practices used by the DIS, responsible for disclosures in CARs, will be able to meet the information requirements of emerging business practices.

Statement 4: *The information disclosed in CARs is continuously escalating and being presented in different formats.* Lee (1994:223) has shown that information disclosed in

CARs is escalating and being presented in different formats, for example the use of graphs and visual aids and colour. One of the research questions of this thesis was whether CARs can be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats. From table 9.4, it may be seen that 57.8 percent of the respondents agreed and 33.3 percent strongly agreed with statement 4.

Table 9.4: Statement 4

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	4.4
Agree	57.8
Strongly agree	33.3
Total	100.0

The research results in table 9.4 indicate that the information disclosed in CARs is continuously escalating and being presented in different formats. This statement is also confirmed by the research results of the content analysis in chapter 8. The information disclosed in CARs is continuously escalating as it is driven by evolving accounting practices. Information is disclosed in different formats by the DIS in particular, which creates discretionary disclosures as more use is made of graphs, visual aids and colour.

Information systems

Statement 5: *Accounting practices that capture and screen information, generate the statutory and discretionary disclosures in CARs.* One of the research questions formulated in chapter 1 was: “Do CARs generated by the information-processing systems reflect the disclosure of information, captured and screened by accounting practices?” The aim of the question was to establish whether accounting practices, amongst other things, are the drivers of information disclosed in CARs. Table 9.5 shows a variation in the responses.

Table 9.5: Statement 5

Rating scale	%
Strongly disagree	6.7
Disagree	20.0
Unsure	17.8
Agree	48.8
Strongly agree	6.7
Total	100.0

A total of 26.7 (6.7 + 20.0) percent of the respondents disagreed with the statement while 55.5 (48.8 + 6.7) percent agreed. It is unclear why 26.7 percent of the respondents disagreed. The conclusion is that accounting practices that capture and screen information play an important role in the generation of statutory and discretionary disclosures in CARs.

Statement 6: *CARs are normally divided into two sections, that is, the statutorily required financial information and the discretionary disclosures.* This statement was made in 2002 and in 2004 (Stanton & Stanton, 2002:479; Stanton *et al*, 2004:57). This was an important statement to test, as there are people who believe that this is not the case. Table 9.6 illustrates that 13.4 percent of respondents disagreed with the statement, while 2.2 percent was unsure.

Table 9.6: Statement 6

Rating scale	%
Strongly disagree	0.0
Disagree	13.4
Unsure	2.2
Agree	62.2
Strongly agree	22.2
Total	100.0

The majority of respondents agree and strongly agree that the statement is valid and that CARs indeed consist of two sections, that is, the statutorily required financial information as well as the discretionary disclosures.

Statement 7: *CARs can be visualised as the product of information systems, representing an interaction between the entity and stakeholders to generate and share information.* One of the research questions in chapter 1 was: “Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats?” According to Bekaoui (2000:63), “the choice of accounting information and/or accounting technique may have an impact on the welfare of various groups in society”. A business does not exist in isolation, because there is constant interaction between the business and its environment. The perceptions of financial directors/managers set out in table 9.7 confirm this statement.

Table 9.7: Statement 7

Rating scale	%
Strongly disagree	0.0
Disagree	11.1
Unsure	13.3
Agree	68.9
Strongly agree	6.7
Total	100.0

As per table 9.7, 68.9 percent of respondents agree with the statement, while 6.7 percent strongly agree. The research results indicate that CARs can be visualised as the product of information systems representing an interaction between the entity and stakeholders to generate and share information. This product is driven by accounting practices, which are again driven by the needs of users to reduce uncertainty and risks.

Statement 8: *The interdependency of interrelated systems, that is, the system that generates statutory disclosures and the system that generates discretionary disclosures in CARs, results in the disclosure of balanced information in CARs.* This statement links with one of the research questions in chapter 1: “Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also form the context of CARs?” Table 9.8 reveals that the perceptions of respondents match the statement.

Table 9.8: Statement 8

Rating scale	%
Strongly disagree	2.2
Disagree	15.6
Unsure	13.3
Agree	62.2
Strongly agree	6.7
Total	100.0

As illustrated in table 9.8, only 2.2 percent strongly disagreed with the statement, while 15.6 percent disagreed and 13.3 percent were unsure. The majority of respondents go along with the statement that interrelated systems generate balanced information in CARs. The DIS discloses contextual information in CARs and fills the gap that the statutory disclosures of the MFIS cannot, for reasons such as problems with measurement. For example, until acceptable ways of measuring intellectual capital are found it will be disclosed as contextual information. The two systems complement each other and the disclosures of both systems give an understanding of the big picture.

Statement 9: *CARs that are driven by user needs represent inter alia a system responsible for generating statutory disclosures governed by generally accepted accounting practices (GAAP) and a system responsible for generating discretionary disclosures.* The purpose of this statement was to establish with certainty that two systems generate disclosures in CARs. Table 9.9 confirms this viewpoint.

Table 9.9: Statement 9

Rating scale	%
Strongly disagree	0.0
Disagree	8.9
Unsure	11.1
Agree	71.1
Strongly agree	8.9
Total	100.0

Eighty percent (71.1 + 8.9) of the respondents agree with the viewpoint that two systems are responsible for the disclosures in CARs and that user needs drive the disclosures in CARs. User needs are driven by uncertainty.

Statement 10: *There is an interrelationship between these systems (refer 9).* One of the research questions in chapter 1 was: “Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also form the context of CARs?” The aim of this statement was to confirm the viewpoint that the two systems should not be seen in isolation. The subtle difference between statements 8 and 10 should be noted: statement 8 probes whether the acknowledged interrelationship results in balanced information disclosure, whereas statement 10 probes the existence of such an interrelationship. Table 9.10 indicates that the MFIS that generates statutory disclosures and the DIS that generates discretionary disclosures should not be seen in isolation, but should be interpreted in an interrelated context.

Table 9.10: Statement 10

Rating scale	%
Strongly disagree	2.2
Disagree	6.7
Unsure	17.8
Agree	71.1
Strongly agree	2.2
Total	100.0

Table 9.10 reflects that the vast majority of respondents, 73.3 (71.1 + 2.2) percent, confirm the interrelationship between the system responsible for statutory disclosures and the system responsible for discretionary disclosures. The two systems should not be viewed in isolation as the discretionary disclosures form the context of the statutory disclosures.

Statement 11: *Business information created by accounting practices has the potential to become discretionary or statutory information in CARs.* One of the research questions in chapter 1 was: “Has the business information created by accounting practices the potential to become discretionary or statutory information in CARs?” Accounting practices as per this statement should be seen in a broad sense and would include generally accepted accounting practices as well as discretionary accounting practices. Business information formed by all-embracing accounting practices will be further screened by either generally accepted accounting practices or discretionary accounting practices to become statutory or discretionary disclosures respectively. Although the statement was difficult to comprehend fully without the contextual explanation as above, owing to the fact that statements in the questionnaire had to be structured as concisely as possible, the majority of respondents (see table 9.11) agreed with this statement.

Table 9.11: Statement 11

Rating scale	%
Strongly disagree	2.2
Disagree	11.1
Unsure	17.8
Agree	62.2
Strongly agree	6.7
Total	100.0

Table 9.11 show that 68.9 (62.2 + 6.7) percent of the respondents agreed with the statement. This gives a strong indication that business information created by all-embracing accounting practices has the potential to become discretionary or statutory

information in CARs. All events to be transformed into business information will be captured either by the MFIS (using generally accepted accounting practices) and disclosed as statutory information or by the DIS (using discretionary accounting practices) and disclosed as discretionary information in CARs.

Statement 12: *The discretionary information reported in CARs, if proven useful over time, has the potential of being accepted and disclosed as statutory information.* The aim of this statement was to seek confirmation for one of the research questions in chapter 1: “Does the discretionary financial information reported in CARs, if proven useful over time, have the potential of being accepted as statutory information governed by generally accepted accounting principles?” Table 9.12 reflects that the majority of respondents are in agreement with this statement.

Table 9.12: Statement 12

Rating scale	%
Strongly disagree	6.7
Disagree	13.3
Unsure	15.6
Agree	60.0
Strongly agree	4.4
Total	100.0

Table 9.12 reflects that 64.4 (60.0 + 4.4) percent agree that discretionary information can become statutory information. For this to happen new IFRSs will have to be developed. One example is segment reporting, which was initially disclosed as discretionary information in CARs, but is now disclosed as statutory information as part of the notes to the financial statements. This confirms the findings in chapter 8 of this thesis that discretionary information if proven useful over time has the potential of being reported as statutory information.

Statement 13: *GAAP should be rule based as opposed to principles based.* This statement differs from the other statements as it contains two statements in one. The purpose of the statement was to determine which of the two confusing alternatives were seen in practice as the dominant one and to get confirmation that GAAP should not be recipe or rulebook orientated, but rather be based on general principles or criteria. Table 9.13 indicates that 75.6 (20.0 + 55.6) percent disagreed with the statement and therefore are not in favour of GAAP being rule based.

Table 9.13: Statement 13

Rating scale	%
Strongly disagree	20.0
Disagree	55.6
Unsure	8.9
Agree	11.1
Strongly agree	4.4
Total	100.0

The IASB is currently committed to a principle-based approach in standard setting as opposed to a rule-based US approach. The primary benefit of principles-based accounting rests in its broad guidelines that can be applied to numerous situations. Principles-based accounting standards may provide accounting statements that more accurately reflect an entity's actual performance, as an increase in principles-based accounting standards would reduce manipulations of the rules (Shortridge & Myring, 2004:36). On the other hand, a lack of precise guidelines could create inconsistencies and reduce comparability in the application of standards across entities (ibid, 2004:36). A convergence process is currently underway and is laid down in the memorandum of understanding signed in February 2006 by the IASB and the FASB and approved by the US Securities and Exchange Commission and the European Commission. This convergence process will influence accounting practices described in the IFRS of the MFIS responsible for statutory disclosures in CARs.

Statement 14: *It would be useful if financial reporting could also be done in digital form making use of “eXtensible Business Reporting Language” (XBRL).* In the US companies are faced with extensive costs to *inter alia* comply with the requirements of the Sarbanes-Oxley Act (SOX) regarding corporate governance and transparency. These companies could in future focus on XBRL and the common platform it provides for business information. XBRL provides real-time business reporting *inter alia* through the internet that is instantly available for analysis. It consists in tagging each individual item of data instead of treating information as a block of text. XBRL is set to become the standard way of recording, storing and transmitting business financial and discretionary information (OECD, 2006:18). Table 9.14 discloses that there is currently still great uncertainty about the usefulness of XBRL.

Table 9.14: Statement 14

Rating scale	%
Strongly disagree	2.2
Disagree	11.1
Unsure	40.0
Agree	40.0
Strongly agree	6.7
Total	100.0

Table 9.14 shows that 40 percent of respondents are uncertain about the usefulness of XBRL, while 46.7 percent is of the opinion that it is indeed useful. Forty percent of the respondents indicated that they are not sure whether XBRL would be useful. Is this a reflection of the fact that they are not aware of XBRL, or a belief that the cost of implementation outweighs its benefits? As financial and other business information needs to be available sooner and faster if companies want to compete for capital and investor attention, the benefits of adopting XBRL should become clear. The discretionary disclosures created by the DIS and the statutory disclosures generated by the MFIS could, if XBRL is adopted, be available in XBRL format.

Quality features

Statement 15a: *Although the ultimate responsibility for the preparation of CARs lies with the directors (represented by the Chief Executive) of publicly listed companies, the following department(s) is/are entrusted with the preparation of the following sections of CARs: The **financial department** is entrusted with the accumulation and preparation of the mandatory information section (e.g. the statutorily required financial statements and notes) of CARs.*

The aim of statements 15a to 15e is to research the contribution of all relevant role players. Table 9.15a indicates that the financial department is the one entrusted with mandatory disclosures.

Table 9.15a: Statement 15a

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	0.0
Agree	42.2
Strongly agree	55.6
Total	100.0

Almost all the respondents agreed/strongly agreed with the statement that the financial department is the main role player in preparing mandatory disclosures in CARs. One respondent remarked that the company secretary is also involved with statutory disclosures governed by GAAP and the JSE regulations. The above research results indicate that the financial department is the main role player using the MFIS to generate statutory disclosures in CARs.

Statement 15b: *The **finance department** is entrusted with the accumulation and preparation of the discretionary (voluntary) information section (e.g. including integrated*

sustainability reporting, corporate governance matters and other discretionary [voluntary reporting.] of CARs.

The majority of respondents agree that the financial department is the main role player in the accumulation and preparation of the discretionary information section of CARs, however, 35.6 percent disagree.

Table 9.15b: Statement 15b

Rating scale	%
Strongly disagree	0.0
Disagree	35.6
Unsure	0.0
Agree	42.2
Strongly agree	22.2
Total	100.0

Table 9.15b indicates that 64.4% of the respondents agree that the financial department is the main role player using the DIS to generate discretionary disclosures in CARs.

Statement 15c: *The investor relations department has the opportunity to advise on the types of information that should be disclosed in CARs.* The vast majority of financial directors/managers agreed that this is the case (see table 9.15c)

Table 9.15c: Statement 15c

Rating scale	%
Strongly disagree	2.2
Disagree	11.2
Unsure	8.9
Agree	64.4
Strongly agree	13.3
Total	100.0

It may be concluded that the investor relations departments of companies have the opportunity to give advice on certain types of information that should be disclosed in CARs. They can therefore give advice regarding statutory disclosures in CARs generated by the MFIS as well as discretionary disclosures generated by the DIS.

Statement 15d: *The **finance department** is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).* The financial department is the main role player in the final preparation of CARs (see table 9.15d).

Table 9.15d: Statement 15d

Rating scale	%
Strongly disagree	0.0
Disagree	13.3
Unsure	2.2
Agree	57.8
Strongly agree	26.7
Total	100.0

A large majority (84.5%) of respondents agree (57.8%) and strongly agree (26.7%) that the financial department, after having accumulated all relevant information, is the main role player as far as the final preparation of CARs is concerned. The research results indicate that the financial department is the main role player using the MFIS and the DIS to generate statutory and discretionary disclosures in CARs respectively.

Statement 15e: *The **corporate communications department** is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).* A variety of possible outcomes are offered in table 9.15e.

Table 9.15e: Statement 15e

Rating scale	%
Strongly disagree	13.3
Disagree	35.6
Unsure	4.4
Agree	37.8
Strongly agree	8.9
Total	100.0

The percentage of respondents in disagreement with this statement adds up to 48.9 percent, while 46.7 percent of the respondents entrust their corporate communications departments with the final preparation of CARs. A possible reason in this regard may be that some companies prefer the corporate communications department, while others prefer the traditional financial section of the company.

Statement 16: *The CARs preparation process involves a team effort, where several departments work together.* The overwhelming majority of respondents confirmed this to be the case (refer to table 9.16).

Table 9.16: Statement 16

Rating scale	%
Strongly disagree	0.0
Disagree	6.7
Unsure	2.2
Agree	46.7
Strongly agree	44.4
Total	100.0

While the financial department still has the ultimate responsibility for the final preparation of CARs in most companies (although this is not always the case), the CARs preparation process (using the MFIS for statutory disclosures and the DIS for discretionary disclo-

tures) involves a team effort with several departments working together. 91.1 percent of the respondents confirmed this to be the case. This team effort represents the *sinergos* in the preparation of CARs.

Statement 17: *An operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management, should be incorporated in CARs.* In the UK, during 2005, a mandatory OFR was required from companies effectively for the March 2006 year end onwards. This requirement has since been withdrawn. However, the disclosure of an OFR that captures the whole story of entities' performance and prospects seen through the eyes of management as part of the discretionary information disclosed in CARs of companies listed on the JSE should be incorporated, as can be seen from the research results of table 9.17. This information will be useful to users in their decision-making process.

Table 9.17: Statement 17

Rating scale	%
Strongly disagree	0.0
Disagree	0.0
Unsure	2.2
Agree	51.1
Strongly agree	46.7
Total	100.0

Table 9.17 gives a clear indication that most respondents are in favour of the OFR. This could be introduced as part of the discretionary disclosures of the DIS as a separate section to be identified as the OFR.

Statement 18a: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the operating results.* A discussion includes narrative information, which means *inter alia* a written account of events in the form of a "story" that

explains and complements the annual financial statements (Gouws & Cronjé, 2001:163). Respondents were in favour of a discussion of operating results as can be seen from table 9.18a.

Table 9.18a: Statement 18a

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	2.2
Agree	60.0
Strongly agree	35.6
Total	100.0

95.6 percent of the respondents were in favour of a discussion of the operating results being included as part of the directors' report. It will thus form part of the statutory disclosures of the MFIS.

Statement 18b: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the financial situation.* Again the majority of respondents were in favour of a discussion of the financial situation.

Table 9.18b: Statement 18b

Rating scale	%
Strongly disagree	0.0
Disagree	2.2
Unsure	2.2
Agree	57.8
Strongly agree	37.8
Total	100.0

The research results in table 9.18b give a strong indication that a discussion of the financial situation should form part of the directors' report (95.60% of the respondents

were in favour of such a discussion). This will form part of the mandatory disclosures of the MFIS, as the directors' report is part of financial statements.

Statement 18c: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of forward-looking information.* Forward-looking information is an aspect very important to stakeholders (Saenger, 1993:84-91). A minority of respondents was not in favour with a discussion of forward-looking information (see table 18c).

Table 9.18c: Statement 18c

Rating scale	%
Strongly disagree	2.2
Disagree	8.9
Unsure	2.2
Agree	57.8
Strongly agree	28.9
Total	100.0

The majority of respondents (86.7%) agreed that a discussion of forward-looking information in the directors' report would be useful. This discussion of forward-looking information will be subject to audit and will form part of the statutory disclosures of the MFIS.

Statement 18d: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of business risks.* The research results in chapter 8 have shown that companies are including a discussion on business risks as part of discretionary information. In most of cases this forms part of the corporate governance section (King, 2002b:87-89). The inclusion of a discussion on business risks in the directors' report could result in increased credibility. The disclosure of discretionary information (if proven useful over time) could now become the disclosure of statutory

information, as the directors' report is a statutorily required report and forms part of the statutorily required financial statements. Table 9.18d indicates that most respondents are in favour of a discussion on business risks being included in the directors' report.

Table 9.18d: Statement 18d

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	2.2
Agree	64.4
Strongly agree	28.9
Total	100.0

Table 18d reflects an acceptance of the idea that business risks should be covered in the directors' report. This will then form part of the statutory disclosures of the MFIS.

Statement 19: *Interim financial reports covering the same financial period as CARs are/should be included in CARs.* The majority of respondents are not in favour of the inclusion of the interim financial reports covering the same financial period as CARs.

Table 9.19: Statement 19

Rating scale	%
Strongly disagree	15.6
Disagree	48.9
Unsure	22.2
Agree	11.1
Strongly agree	2.2
Total	100.0

64.5 percent of the respondents were not in favour of such an inclusion. One possible reason for this is that a reconciliation of the interim reports and the final CARs would have

to be performed. Interim reports are useful as they indicate the direction and sustainability of companies' performance and position. As interim financial statements are mandatory for listed companies (IAS 34), they are products of the MFIS.

Statement 20: *An independent analyst's report should be part of CARs.* One of the research questions in chapter 1 was: "Should CARs also provide other competitive financial information (e.g. an analyst's report)?" Table 9.20 reveals that most companies are not in favour of such a report.

Table 9.20: Statement 20

Rating scale	%
Strongly disagree	33.4
Disagree	51.1
Unsure	8.9
Agree	4.4
Strongly agree	2.2
Total	100.0

Table 9.20 indicates that 84.4 percent of the respondents are not in favour of such a report. Reasons for this high percentage of disagreement can be the following; disclosures in CARs are audited in the case of statutorily required information and limited assurance is given in the case of discretionary disclosures, and therefore the information is credible. It could also be seen as competition. Independent analysts' reports may however add comprehensibility and could form part of the discretionary disclosures of the DIS.

Statement 21: *The business information in CARs that is not useful or comprehensible must be discarded or replaced.* This statement was formulated in order to confirm one of the research questions in chapter 1, which was the following: "Should the business information contained in CARs that is not useful or comprehensible be discarded or

replaced?” Capra (2002:202) contends that the goal of optimising instead of maximising information is a fundamental requirement for the proper functioning of systems. Therefore if information is no longer useful or comprehensible it should be discarded or replaced. Complexity should be removed and understandability increased as far as the disclosure of information in CARs is concerned. Table 9.21 reflects that most of the respondents are in favour of this statement.

Table 9.21: Statement 21

Rating scale	%
Strongly disagree	2.2
Disagree	8.9
Unsure	15.6
Agree	51.1
Strongly agree	22.2
Total	100.0

Table 9.21 shows that 73.3 percent of respondents agree that business information in CARs that is not useful or comprehensible should be discarded or replaced. Is this an indication of the continually evolving nature of CARs? Unfortunately, if an IFRS requires certain information (although not useful or comprehensible) to be disclosed in the financial statements, companies will have to comply with its requirements until the IFRS is amended in order to remove the complexity and increase understandability. Proper feedback systems (e.g. in the form of questionnaires included in CARs to be completed and returned by users) could be used to identify the statutory disclosures of the MFIS and the discretionary disclosures of the DIS in CARs that are no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase the understandability of the statutory disclosures of the MFIS.

Statement 22: *Images and colour improve the meaningfulness of the information in CARs and create a playful and relaxed atmosphere.* The creation of a playful and relaxed atmosphere was a bit too much for one of the respondents. It was recommended that the

above phrase be changed as follows: “A colour presentation plays an important role in increasing the usefulness of graphical, tabular or columnar comparisons and displays.” Table 9.22 shows that 20 percent disagreed with statement 22.

Table 9.22: Statement 22

Rating scale	%
Strongly disagree	4.4
Disagree	15.6
Unsure	17.8
Agree	48.9
Strongly agree	13.3
Total	100.0

The majority of respondents are comfortable with the statement that images and colour improve the meaningfulness of information in CARs. Images and colour are primarily found in the discretionary disclosures of the DIS.

Statement 23: *External professionals are used to prepare the photographs, tables and graphs in CARs.* Lee (1994:223-224) came to this conclusion in his research in the UK. Table 9.23 shows that the majority of companies listed on the JSE also make use of external professionals for the photographs, tables and graphs.

Table 9.23: Statement 23

Rating scale	%
Strongly disagree	0.0
Disagree	17.8
Unsure	4.4
Agree	51.1
Strongly agree	26.7
Total	100.0

Although 17.8 percent of respondents disagree and 4.4 percent are unsure, the majority (77.8%) confirm that use is made of external professionals to prepare the photos and graphics in CARs. Photos of directors could be included as part of the directors' report. Graphs may also add value to the disclosures of the directors' report. The majority of photos and graphics appear as part of the discretionary disclosures of the DIS.

Statement 24: *In CARs “good news” is written and presented in such a way that it is easier to read.* This view was expressed in the research performed by Clatworthy & Jones (2001). The results in table 9.24 confirm that the majority of respondents do present good news in such a way that it is easier to read.

Table 9.24: Statement 24

Rating scale	%
Strongly disagree	6.7
Disagree	20.0
Unsure	4.4
Agree	51.1
Strongly agree	17.8
Total	100.0

26.7 percent of the respondents do not agree with the statement that good news is presented in such a way (e.g. in the chairman's letter as part of the discretionary disclosures generated by the DIS) that it is easier to read. However the majority of respondents confirm that this is the case. A possible reason for the agreement is the natural tendency of humans to overplay good news (Cronje, 1998:9) and underplay bad news.

Statement 25: *In CARs “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers' attention.* This statement differs from the other statements as it contains two statements in one. Bad news can often be hidden within the structures of CARs. The user of CARs will be elucidated by high-

lighting the ways in which bad news can be identified. Clatworthy & Jones (2001) found in their research that this was indeed the case. The results from table 9.25 tell a different story.

Table 9.25: Statement 25

Rating scale	%
Strongly disagree	8.9
Disagree	60.0
Unsure	4.4
Agree	22.2
Strongly agree	4.4
Total	100.0

The majority of respondents disagree with statement 25. However, what is frightening is that 26.6 percent agree that bad news is written using long sentences with complex grammatical structures to mask the information and deflect the readers' attention. The presentation of bad news will form part of the discretionary disclosures of the DIS.

Statement 26a: *It is my view that CARs provide credible statutory information.* Table 9.26a illustrates that the majority of respondents agree with this statement.

Table 9.26a: Statement 26a

Rating scale	%
Strongly disagree	0.0
Disagree	4.5
Unsure	0.0
Agree	73.3
Strongly agree	22.2
Total	100.0

Table 26a shows that 73.3 percent of the respondents agree (while 22.2% strongly agree) that CARs provide credible statutory information. It can therefore be concluded that the MFIS that discloses statutory information in CARs provides credible information in CARs.

Statement 26b: *It is my view that CARs provide credible discretionary information.* The level of assurance from the research results (table 9.26b) is lower than in the case of statutory information (see table 9.26a).

Table 9.26b: Statement 26b

Rating scale	%
Strongly disagree	0.0
Disagree	8.9
Unsure	6.7
Agree	77.8
Strongly agree	6.6
Total	100.0

Table 9.26b shows that 8.9 percent of the respondents feel that the discretionary information of CARs is not at all credible compared to 4.5 percent of the respondents as per table 9.26a who states that the statutory information in CARs is not credible. Furthermore, only 6.6 percent of respondents strongly agree that discretionary information is credible compared to 22.2 percent (see table 9.26a) who strongly agree that statutory information is credible. The level of assurance in respect of discretionary disclosures is therefore lower than that for statutory disclosures. A respondent remarked "... the external auditors need to play a role in the verification of the discretionary information and need to play a bigger role by sitting in on management and board meetings ...". The level of assurance for discretionary disclosures is however high (84.4% of respondents agreed and strongly agreed) and therefore it can be concluded that the discretionary disclosures of the DIS are credible.

Statement 27: *The quality of disclosures in CARs results in lower risk premiums* (Wolk *et al.*, 2000:314). The aim of this statement was to establish whether quality disclosures in CARs could influence risk premiums favourably, for example, if companies need finance, whether quality disclosures could lower the interest rate used to calculate repayments of debt. Table 27 reflects great disparity among respondents.

Table 9.27: Statement 27

Rating scale	%
Strongly disagree	6.7
Disagree	17.8
Unsure	28.9
Agree	35.6
Strongly agree	11.0
Total	100.0

Respondents who agreed with the statement totalled $35.6 + 11.0 = 46.6$ percent. In disagreement was $6.7 + 17.8 = 24.5$ percent, while 28.9 percent was unsure. The results of the research (Sengupta, 1998 in Wolk *et al.*, 2000:314) confirm that there is a relationship between quality disclosures and lower risk premiums. A reason for the inconclusiveness of the research results of table 9.27 is that the knowledge of the statement that quality disclosures in CARs result in lower risk premiums is not widely known by preparers of CARs.

Business communication

Statement 28: *The corporate annual report is the primary communication channel of a company.* The annual report is considered to be an entity's most important communications document (Pratt, 1996:13; Stanton *et al.*, 2004:57). The aim of this statement was to establish whether this is still the case in 2007. Table 9.28 confirms this fact.

Table 9.28: Statement 28

Rating scale	%
Strongly disagree	4.4
Disagree	26.7
Unsure	2.2
Agree	48.9
Strongly agree	17.8
Total	100.0

A total of 66.7 percent of the respondents agree that CARs is the primary communication channel. It should be noted that CARs can be made available in hard copy, as well as soft copy through the internet, and can be supplemented with secondary reports and information. CARs, the information product of two interrelated systems, that is, the MFIS that generates statutory disclosures and the DIS that generates discretionary disclosures, is still the primary communication channel of companies in 2007.

Statement 29: *To communicate accounting concepts is a difficult task.* Chapter 5 of this thesis dwells on the problems of communication (Belkaoui, 1995:41; Evans, 2004:210). Table 9.29 shows that the majority of respondents are aware of this difficulty. One of the respondents made the following remark: "... especially with the introduction of IFRS ..."

Table 9.29: Statement 29


Rating scale	%
Strongly disagree	0.0
Disagree	24.4
Unsure	6.7
Agree	53.3
Strongly agree	15.6
Total	100.0

Table 9.29 indicates that 68.9 percent of the respondents is aware that the communication of accounting concepts is a difficult task. The communication of accounting concepts and numbers to users with different understanding levels of accounting phenomena and different objectives will remain a difficult task.

Decision usefulness

Statement 30: *The objective of business reporting in CARs has moved away from a narrow approach to accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.* Table 9.30 confirms that the information disclosed in CARs must now address the needs of heterogeneous users.

Table 9.30: Statement 30



Rating scale	%
Strongly disagree	2.2
Disagree	4.5
Unsure	8.9
Agree	64.4
Strongly agree	20.0
Total	100.0

84.4 percent of the respondents agreed that the disclosure of information in CARs has moved away from an accountability paradigm to a paradigm where the needs of heterogeneous users for decision-making purposes are eminent. It strives to balance a desire for comprehensive accountability while allowing CARs to be understood by a wide range of stakeholders. The statutory disclosures of the MFIS contain mostly attributes of the accountability paradigm, while the discretionary disclosures of the DIS carry mostly attributes of the decision usefulness paradigm.

Statement 31: *The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions. A vast majority of respondents indicated that they agree with statement 31.*

Table 9.31: Statement 31

Rating scale	%
Strongly disagree	2.3
Disagree	4.4
Unsure	4.4
Agree	68.9
Strongly agree	20.0
Total	100.0

Table 9.31 shows that 88.9 percent of the respondents agree that CARs need to reflect all the information for decision-making purposes.

Decision-useful information must conform to certain characteristics (FASB, 1980 in Belkaoui, 2004:185-186). The characteristics and the systems that drive reporting in CARs to which they are most applicable are: (i) materiality (MFIS and DIS), (ii) comparability

(MFIS and DIS), (iii) predictive value (DIS), (iv) feedback value (MFIS and DIS), (v) neutrality (MFIS), (vi) timeliness (DIS), (vii) verifiability (MFIS), (viii) representational faithfulness (MFIS), (ix) relevance (DIS), and (x) reliability (MFIS). For a detailed discussion of the characteristics for decision-useful information and their applicability to the two information systems (the MFIS and the DIS) that drive reporting in CARs, refer to paragraph 6.2 of chapter 6. If the accounting practices that generate the disclosures of the DIS and the MFIS conform to the above characteristics, they will possess the primary decision specific qualities. CARs are then the facilitators of the decision-usefulness approach.

Statement 32: *CARs provide users with enough information about future benefits for their decision making.* A question still unanswered is whether CARs provide decision-useful information that could enable the users of information to estimate future prospects (Saenger, 1993:84; Catrakilis, 1994:1; Belkaoui, 2004:195)). According to table 9.32, the respondents indicate a variety of opinions.

Table 9.32: Statement 32

Rating scale	%
Strongly disagree	11.1
Disagree	26.7
Unsure	26.7
Agree	26.7
Strongly agree	8.8
Total	100.0

The variety of opinions does not give a clear-cut indication as to whether CARs provide users with enough information on future benefits for their decision making. Forward-looking information relating to future benefits remains an important issue. The discretionary disclosures generated by the DIS particularly can include forward-looking information relating to future benefits, for example as part of the operating and financial review (OFR).

Statement 33: *The CARs objective is to enable users to predict the future prospects of the entity.* The prediction of future prospects by users is one of the main issues emphasised by the Trueblood report (AICPA, 1973). The results as per table 9.33 are disappointing, as the majority of respondents shy away from the forward-looking objective/predictive objective.

Table 9.33: Statement 33

Rating scale	%
Strongly disagree	11.2
Disagree	44.4
Unsure	13.3
Agree	24.4
Strongly agree	6.7
Total	100.0

55.5 percent of the respondents replied that they are not in agreement with the statement that the CARs objective is to enable users to predict the future prospects of the entity. According to Wolk, *et al* (2000:175) reports such as CARs do not make predictions: rather, users must make predictions employing inputs from reports such as CARs as data in their decision models. This information could form part of the discretionary disclosures, for example the OFR in CARs, generated by the DIS.

Statement 34: *CARs are not intended for the average layman.* Users must play an active role in extracting the information they need. Therefore CARs are not intended for the average layman. The majority of respondents as per table 9.34 agreed with this statement.

Table 9.34: Statement 34

Rating scale	%
Strongly disagree	2.2
Disagree	40.0
Unsure	2.2
Agree	35.6
Strongly agree	20.0
Total	100.0

As per table 9.34, a majority of respondents, that is 55.6 percent, confirms that CARs are not intended for the average layman. Although CARs are knowledge-sharing documents, users need to develop some skill in extracting the information they want. It is difficult to understand why respondents believe CARs are not intended for the average layman and then refuse to endorse an analyst's report (see statement 20), which could decode information and add to comprehensibility.

Statement 35: *CARs must also provide for feedback from users.* For entities to provide decision-useful information, it would be necessary to obtain feedback from users via proper feedback systems, or users should negotiate with entities (AICPA, 1994:9) to give an indication of what types of information they need to be disclosed in CARs. While carrying out the content analysis of companies listed on the JSE (see chapter 8), it was found that one company includes a questionnaire with a prepaid envelope in its annual report, which the user can make use of to provide feedback. Table 9.35 shows that the majority of respondents are in favour of this idea.

Table 9.35: Statement 35

Rating scale	%
Strongly disagree	11.1
Disagree	28.9
Unsure	6.7
Agree	48.9
Strongly agree	4.4
Total	100.0

Table 9.35 reflects that 53.3 percent of respondents are in favour of the idea that CARs must also provide for feedback from users. Currently there are virtually no processes in place to take care of feedback from users. The feedback regarding the statutory disclosures of the MFIS needs to be channelled back to the preparers of CARs, and ultimately to standard setters. The feedback regarding the discretionary disclosures of the DIS needs to be channelled back to the preparers of CARs and ultimately to bodies such as the Global Reporting Initiative (GRI) and SAICA.

9.3 Summary and conclusion

A questionnaire with 35 statements which was formulated in terms of information gleaned from the literature review in chapters 1 to 6 were distributed to preparers of CARs. The significant issues flowing from the questionnaires distributed to the preparers of CARs were firstly that the financial departments of entities, in the majority of cases, claim responsibility for CARs preparation (statement 15d), but admit that the CARs preparation process involves a team effort, that is a *sinergos*, where several departments work together (statement 16). Secondly, with regard to the format and content aspect of CARs, respondents were in agreement that CARs are usually divided into two sections, that is, the statutorily required financial information and the discretionary disclosures, and that the two sections are interrelated (statements 6, 8 & 10). Thirdly, respondents were uncertain about the usefulness of XBRL (statement 14). If financial and other business information needs to be available sooner and faster and if companies want to compete for capital and investor attention, the benefits of adopting XBRL will become clear. Fourthly, 97.8 percent of respondents (statement 17) were in favour of an operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management. Fifthly, a majority of 86.7 percent was in favour of a discussion of forward-looking information as part of the directors' report (statement 18d). Sixthly, preparers objected to the introduction of an independent analyst report to form part of CARs (statement 20). Finally, preparers agreed that the communication of accounting concepts is a difficult task (statement 29).

The above research results are in accordance with all of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future CARs content and compilation research and use in their CARs preparation process. Overall, the research results give validity to the hypothesis of this study that CARs are the information products of accounting practices in transition.

In chapter 10 the research results of the questionnaires distributed to users of CARs are analysed.

CHAPTER 10

Research results – questionnaires for users

10.1 Introduction

Users are important role players, who influence the outcome of CARs. As such, questionnaires were distributed to users to obtain their views on certain statements. Altogether three questionnaires were compiled and addressed to the preparers, the users and the designers of CARs. The questionnaires for users contained certain statements about CARs and the respondents had to indicate whether they strongly disagreed, disagreed, agreed, strongly agreed or were unsure about the statements made.

The purpose of the statements in the questionnaires was to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players. This chapter covers the responses from the users of CARs. Chapter 9 deals with the responses of preparers of CARs and chapter 11 deals with the responses of designers of CARs.

The layout of this chapter consists of an introduction, research results of users of CAR as well as a summary and conclusion.

10.2 Questionnaire for the users of CARs

10.2.1 Introduction

The questionnaire aimed at users was distributed electronically via e-mail. Not all user groups were prepared to allow the use of their electronic databases of members in the survey, as it was their policy not to do so (refer to appendix E for detail). Due to the fact that the traditional user of CARs is unknown, it has been decided to use auditors, investment analysts etc. as specified on the questionnaire for users (see appendix B) to

reflect the viewpoint of users. Convenience sampling (via returned e-mail responses) was used in respect of the user population (to be completed by users of CARs), as the total population of users of CARs is unknown. This statistical method was cleared with the statistician consulted for this thesis. The electronic mailing lists of the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA), as well as the 2006 Southern African Accounting Association's (SAAA) list of conference attendants, were used to represent the user population.

Questionnaires were distributed by e-mail and the sample of 118 represents the total of completed replies that were actually received back from respondents. The response rate is not given for the total population of users as it is unknown (refer to paragraph 7.4.4).

10.2.2 Research results

The results of the questionnaires are set out in the following order: a display of the statement, a short motivation, the results displayed in a table and a conclusion.

The growth of CARs

Statement 1: *Information in CARs is constantly escalating and being presented in different formats* (Lee 1994:223-224). In chapter 8 of this thesis, with the aid of content analysis over various time periods, strong indications were found that information in the statutory and the discretionary section of CARs is constantly escalating and evolving as a result of new accounting practices and discretionary accounting practices being used to generate these disclosures. Indications were also found that information is evolving and being presented in different formats, for example illustrations and graphs. Table 10.1 shows that user respondents agreed with this statement.

Table 10.1: Statement 1

Rating scale	%
Strongly disagree	0.8
Disagree	5.1
Unsure	1.7
Agree	59.3
Strongly agree	33.1
Total	100.0

59.3 percent of the respondents agreed with statement 1 and 33.1 percent strongly agreed. 92.4 percent of the respondents are therefore in agreement with this statement. The introduction of IFRSs has resulted in expanded mandatory disclosures and companies disclose ever-increasing discretionary information (see chapter 8). The above research result also indicates the evolving/transitional nature of accounting practices that drive business reporting. Information is especially disclosed in different formats by the DIS that generates discretionary disclosures, as more use is made of graphs, visual aids and colour.

Information systems

Statement 2: *I mainly use the statutory information (e.g. the financial statements) presented in CARs because it is more reliable and standardised.* The objective of this statement was to confirm the perception that many users mainly use the statutory section of CARs for their decisions as opposed to the discretionary section. Table 10.2 reflects that the majority of respondents agree with this statement.

Table 10.2: Statement 2

Rating scale	%
Strongly disagree	0.8
Disagree	15.3
Unsure	8.5
Agree	62.7
Strongly agree	12.7
Total	100.0

62.7 percent of the respondents indicated that they agree and 12.7 percent indicated strong agreement with the statement that they mainly use the statutory section for their information needs. The statutory disclosures in CARs are generated by the MFIS, making use of generally accepted accounting practices.

Statement 3: *I mainly use the discretionary information presented in CARs because it is more flexible and relevant.* The objective of this statement was to determine the extent to which respondents mainly use the discretionary section of CARs for their information needs. The research results indicate that respondents do not mainly use the discretionary information disclosed in CARs.

Table 10.3: Statement 3

Rating scale	%
Strongly disagree	1.7
Disagree	40.8
Unsure	22.0
Agree	34.7
Strongly agree	0.8
Total	100.0

40.8 percent of the users as indicated by table 10.3 state that they do not mainly use discretionary information for its relevancy and flexibility in decision making. In conjunction with this, only a 35.5 percent agreement was reported, which indicates that user respondents regard the discretionary section of CARs as not being their main source of information in their decision-making processes. The 22 percent undecided responses should be noted. This could indicate an underlying effect not addressed by the comment. Respondents might use the discretionary section for other purposes, for instance as being generally informative, or as contextual information. Although statement 3 could not provide a clear-cut indication as to which aspect of decision-making information users obtain from the discretionary part of CARs, table 4 that follows indicates that users use the information in both the statutory section and discretionary section of CARs.

Statement 4: *As the statutory and discretionary information in CARs complement each other, I make use of both these sources of information.* The objective of this statement was to establish the degree to which respondents use both sections of CARs, that is, the statutory and the discretionary disclosures. Table 10.4 confirms the fact that the majority of users use both sections of CARs for their information needs.

Table 10.4: Statement 4

Rating scale	%
Strongly disagree	0.8
Disagree	11.9
Unsure	9.3
Agree	60.2
Strongly agree	17.8
Total	100.0

An analyst focusing on companies' sustainability and credit strength remarked, "I use CARs as only a small portion of my analysis process". Of the users that use CARs the vast majority, 78.0 percent (60.2+17.8), use both sections of CARs. The reason why they use both sections is because the statutory and discretionary information in CARs complement each other.

Statement 5: *Narrative disclosures in CARs are more understandable than numbers and ratios.* The aim of this statement was to establish the degree to which users are in agreement with the statement that narrative disclosures (e.g. a description of events) are more understandable than just the output of events (in the form of numbers and ratios). Table 10.5 shows a varied response.

Table 10.5: Statement 5

Rating scale	%
Strongly disagree	6.8
Disagree	39.8
Unsure	21.2
Agree	28.8
Strongly agree	3.4
Total	100.0

A total of 46.6 percent (6.8+39.8) of the respondents disagreed with the statement while 32.2 percent (28.8+3.4) agreed. 21.2 percent of the respondents were unsure. Although the results indicate a tendency to the belief that numbers and ratios are more meaningful than narrative disclosures, balanced disclosure making use of both narrative disclosures and the disclosure of numbers and ratios is perhaps the desired outcome. (This aspect could be further investigated in future research.)

Statement 6a: *It is my view that CARs provide credible statutory information.* The aim of this statement was to establish the degree to which users perceive statutory information to be credible. Table 10.6a, along with table 10.6b, indicate that the sampled users perceive statutory information as being more credible than discretionary information.

Table 10.6a: Statement 6a

Rating scale	%
Strongly disagree	0.0
Disagree	1.7
Unsure	6.8
Agree	70.3
Strongly agree	21.2
Total	100.0

The majority of respondents, 91.5 percent, agree or strongly agree that statutory information disclosed in CARs is credible. These disclosures are subject to external auditing, which contributes to their credibility. However, a respondent remarked,

“[s]ometimes management do not agree that compliance with GAAP/IFRS is ‘fair presentation’, but have to comply anyway (or be qualified and annotated on the JSE). CARs should have separate managements view on the financial position in the CARs with their own presentation (and a reconciliation between the two)”. 91.5 percent of respondents agreed with statement 6a that the MFIS that discloses statutory information in CARs provides credible information in CARs.

Statement 6b: *It is my view that CARs provide credible discretionary information.* The objective of this question was to establish the degree to which users perceive the discretionary disclosures as being credible. Table 6b indicates that 22.9 percent of users are unsure about whether discretionary disclosures are credible.

Table 10.6b: Statement 6b

Rating scale	%
Strongly disagree	0.0
Disagree	9.3
Unsure	22.9
Agree	61.0
Strongly agree	6.8
Total	100.0

Users are more confident about the credibility of the statutory disclosures in CARs than the discretionary disclosures. Table 10.6a shows that 91.5 percent of users felt that statutory information is credible. Table 10.6b reflects that 67.8 percent of the respondents agreed with statement 6b. The reason why respondents give the credibility of discretionary disclosures a lower rating is probably because the discretionary disclosures are not audited to the same extent as statutory disclosures. Some of the discretionary disclosures are only subject to limited assurance. The level of assurance for discretionary disclosures is however high, bearing in mind that they are not audited (67.8 percent of respondents agreed).

Quality features

Statement 7: *The information in CARs is difficult to understand.* The objective of this statement was to determine the degree to which user respondents perceived information in CARs to be difficult to understand. Table 10.7 reflects that users had different viewpoints on this issue.


Table 10.7: Statement 7

Rating scale	%
Strongly disagree	5.9
Disagree	53.4
Unsure	8.5
Agree	26.3
Strongly agree	5.9
Total	100.0

32.2 percent of respondents feel that the information in CARs is difficult to understand, while 8.5 percent were unsure. A respondent remarked, “[c]omparability between companies is not adequately addressed – there are too many ‘options’ and alternatives available in IFRS – which management ‘optimise’ to put the best foot forward for the company (their job!), but that reduce comparability between companies”. Standard setters and preparers of CARs should strive to make the disclosures in CARs more meaningful and lower these perception levels regarding the difficulty of CARs. The statutory disclosures in CARs generated by the MFIS may be more difficult for users to understand than the discretionary disclosures in CARs generated by the DIS, as IFRSs have become very technical.

Statement 8: *An operating and financial review (OFR), which captures the whole story of entities’ performance and prospects seen through the eyes of management, should be incorporated in CARs.* The five areas for improving corporate reporting (Topazio, 2007:1), that is, value creation, forward-looking orientation, business environment, strategy and key performance indicators, could be included in the OFR as part of the disclosures generated by the DIS.

Table 10.8: Statement 8



Rating scale	%
Strongly disagree	2.6
Disagree	5.9
Unsure	13.6
Agree	52.5
Strongly agree	25.4
Total	100.0

77.9 percent (52.5+25.4) of user respondents agree that an OFR should be incorporated in CARs. Table 9.17 in chapter 9 also indicates that 97.8 percent of the company respondents listed on the JSE are in favour of an OFR. The OFR structures certain discretionary information and therefore makes a comparison of discretionary information between companies easier.

Statement 9a: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of operating results.* The purpose of this statement was to establish whether the directors' report should be expanded to include an enhanced discussion of operating results. Information disclosed in the directors' report is subject to audit.

Table 10.9a: Statement 9a

Rating scale	%
Strongly disagree	0.8
Disagree	3.5
Unsure	4.2
Agree	59.3
Strongly agree	32.2
Total	100.0

91.5 percent of users are in favour of such an enhanced discussion of operating results in the directors' report. This is in line with the 95.6 percent agreement of the company respondents listed on the JSE (see table 9.18a). This discussion of operating results will thus form part of the statutory disclosures of the MFIS.

Statement 9b: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of the financial position.* Again a majority of respondents were in favour of an enhanced discussion of the financial position in the directors' report, as reflected in the following table.

Table 10.9b: Statement 9b

Rating scale	%
Strongly disagree	0.8
Disagree	2.5
Unsure	3.4
Agree	63.6
Strongly agree	29.7
Total	100.0

Table 10.9b reflects that the vast majority of users, 93.3 percent (63.6+29.7), confirm the need for an enhanced discussion of the financial position in the directors' report. User and JSE-listed company reaction (95.60 percent) to this issue corresponds (see table 9.18b). Both indicated that they favour an enhanced discussion of the financial position. This would form part of the mandatory disclosures in CARs generated by the MFIS, as the directors' report is part of the financial statements.

Statement 9c: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of forward-looking information.* Forward-looking information is an aspect that is very important to stakeholders (Saenger, 1993:84-91). Forward-looking information deals with information about a company's expectations of

future performance and what will drive it (Topazio, 2007:2). If forward-looking information were disclosed in the directors' report it would have to be audited. Directors' liability in this regard will have to be reconsidered, as predicting future events is difficult. The majority of users were in favour of an enhanced discussion of forward-looking/forecasting information in the directors' report.

Table 10.9c: Statement 9c

Rating scale	%
Strongly disagree	0.0
Disagree	3.4
Unsure	5.1
Agree	51.3
Strongly agree	40.2
Total	100.0

According to table 10.9c, a total of 91.5 percent (51.3+40.2) of the users agreed in comparison to 86.7 percent (table 9.18c) of company respondents listed on the JSE. This is an indication that forecasting/predicting forward-looking information is vital for enhancing the information covered in directors' reports. This discussion of forward-looking information will be subject to audit and will form part of the statutory disclosures of the MFIS.

Statement 9d: *The directors' report should include an Enhanced Business Review (EBR) covering, inter alia, a discussion of business risks.* The research results in chapter 8 indicate that business risks are discussed by the majority of companies as part of their discretionary information in the corporate governance section (King, 2002b:87-89). The disclosure of this discretionary information (the business risks) could now as a result of its usefulness become part of statutory information in CARs, as the directors' report is a statutorily required report and as such forms part of the statutorily required financial statements. A discussion of business risks in the directors' report could ensure increased credibility. Table 10.9d indicates that most respondents are in favour of a discussion of business risks as part of the directors' report.

Table 10.9d: Statement 9d

Rating scale	%
Strongly disagree	0.0
Disagree	3.4
Unsure	3.4
Agree	53.4
Strongly agree	39.8
Total	100.0

Table 10.9d reflects that 93.2 percent (53.4+39.8) of users compared to 93.3 percent of company respondents listed on the JSE (see table 9.18d in chapter 9) agree that an enhanced discussion of business risks be incorporated in the directors' report. The current disclosure of business risks as part of discretionary information in CARs, because of its usefulness, could now be disclosed as statutory information of the MFIS.

Statement 10: *An independent financial analyst's report should form part of CARs.* One of the research questions in chapter 1 was: "Should CARs also provide other competitive financial information (e.g. an analyst report)?" Table 10.10 reveals that the ratings amongst users varied to a great extent.

Table 10.10: Statement 10

Rating scale	%
Strongly disagree	13.6
Disagree	27.1
Unsure	21.2
Agree	23.7
Strongly agree	14.4
Total	100,0

38.1 percent of users were in favour of such a report, with 40.7 percent against. 21.2 percent of the users were uncertain about whether such a report could be useful. There is a marked contrast when the research results of users are compared to the research results of the preparers of CARs. In chapter 9, table 9.20 reveals that no company was in

favour of such a report. However, as 38.1 percent of users indicated a need for a financial analyst's report, preparers and users could negotiate the introduction of such a report. Independent analysts' reports may add comprehensibility and could form part of the discretionary disclosures of the DIS.

Statement 11: *Interim financial reports covering the same financial period as CARs should be included in CARs.* Interim reports are useful as they indicate the direction and sustainability of companies' performance and position. A minority of respondents is in favour of the inclusion of the interim financial reports covering the same financial period as CARs.


Table 10.11: Statement 11

Rating scale	%
Strongly disagree	9.3
Disagree	42.4
Unsure	26.3
Agree	18.6
Strongly agree	3.4
Total	100.0

Both the preparers (see table 9.19) and users of CARs are against the inclusion of such interim financial reports. Preparers and users of CARs could probably negotiate the usefulness and feasibility of providing reconciliations in summary form instead for the interim reports and the final figures as disclosed in CARs. The question to be raised is whether interim reports are useful for decision making if they are not included in CARs. As interim financial reports are mandatory for listed companies (IAS 34), they are products of the MFIS.

Statement 12: *Monthly averages of working capital should be included in CARs.* The aim of this statement was to determine whether the users of CARs were interested in trends in working capital on a monthly basis throughout the financial year (forward-looking information) in order to monitor cash flow risk. Table 10.12 shows that there was a mixed response from users.

Table 10.12: Statement 12



Rating scale	%
Strongly disagree	7.6
Disagree	29.7
Unsure	22.0
Agree	33.9
Strongly agree	6.8
Total	100,0

37.3 percent of the users indicated that they were not in favour of such information, while 40.7 percent indicated that such information would be useful. Twenty-two percent indicated that they are uncertain, which might imply that they have not given much thought to its usefulness. A user remarked, “[t]ime-weighted monthly averages, not simple averages – especially for cash, inventory and receivables, but also for trade and similar short-term payables”. As accounting practices are in transition and evolve all the time, it might be an indication of a transition that might require the inclusion of this type of information as part of the discretionary disclosures of the DIS in the future.

Statement 13: *In CARs photographs add value to the company profile.* Table 10.13 reflects that respondents had different views regarding the statement that photographs add value to the company profile.

Table 10.13: Statement 13

Rating scale	%
Strongly disagree	8.5
Disagree	20.3
Unsure	22.9
Agree	40.7
Strongly agree	7.6
Total	100.0

48.3 percent of the users indicated that photographs add value (more information is given, and in different formats, and the monotony of numbers is broken) to a company’s profile, while 22.9 percent were unsure. The research findings in chapter 8 show that the use of

photographs in the annual reports of companies has escalated over time. Photos of directors could be included as part of the directors' report. The majority of photos appear as part of the discretionary disclosures of the DIS.

Statement 14: *In CARs graphs enhance the interpretation of numbers.* Visual aids like graphs enhance the meaning and interpretation of numbers in CARs. This statement was confirmed by the research results displayed in table 10.14.

Table 10.14: Statement 14

Rating scale	%
Strongly disagree	1.7
Disagree	5.1
Unsure	9.3
Agree	57.6
Strongly agree	26.3
Total	100.0

A majority of users (83.9%) favours the use of graphs in CARs. This finding is in line with the research results in chapter 8, which show that the use of graphs escalated over time. Users and preparers of CARs are in agreement as far as the use of graphs in CARs is concerned. Graphs may add value to the disclosures of the directors' report. The majority of graphs appear as part of the discretionary disclosures of the DIS.

Statement 15: *The disclosure of bad news regarding environmental and social issues is often avoided in CARs* (Cronje, 1998:9-10; Beattie & Jones, 1999:46; Stanton *et al.* 2004:59). The perception of users is that this is indeed the case (see table 10.15).

Table 10.15: Statement 15

Rating scale	%
Strongly disagree	0.8
Disagree	3.4
Unsure	12.7
Agree	65.3
Strongly agree	17.8
Total	100.0

One user replied: “‘Avoided’ is in my view too strong a word: downplayed would be more accurate.” Research studies on environmental disclosure by companies in Australia, as well as research on corporate annual reports in the US, reveal that, in the absence of compelling measures such as legislation, companies tend to disclose only information on environmental matters that signals a favourable message to stakeholders, that is, self-congratulatory publicity material (Cronje, 1998:9). This is further confirmed by 83.1 percent of users who feel that the disclosure of bad news regarding environmental and social issues is often avoided in CARs. There is a perception by the majority of users that companies downplay the disclosure of bad news. This means that the preparers of CARs should take special care. The presentation of bad news will form part of the discretionary disclosures of the DIS.

Statement 16: *I would like to see more disclosure on intellectual capital.* The problem with the disclosure of intellectual capital (and other intangible assets) in CARs lies in its difficulty of measurement (Clark, 2006:17). OECD (2006:7) contends that the most important factors of production are invisible. “These intangible assets, also referred to as intellectual assets or intangibles – brand, reputation, trademarks, software, research and development, patents, staff skills, strategy, process quality, supplier and customer relationships, etc. – are delivering a fast-growing contribution to corporate competitiveness” (OECD, 2006:7). Users need this information in their decision making as evidenced by the research results of table 10.16. Topazio (2007:1) contends that

[a]round 25 years ago, it was estimated that 80% of the market value of the S&P 500 was reflected on the balance sheet. The remaining 20% covered intangibles and future growth opportunities. Today the ratio is roughly reversed. It therefore falls to

narrative reporting for directors to set out and explain the remaining contextual information. This includes the business environment, strategy, forward-looking information and key performance indicators (KPIs) (PWC, 2006a:1).

As intellectual capital is difficult to measure it could form part of the discretionary disclosures of CARs.

Table 10.16: Statement 16

Rating scale	%
Strongly disagree	0.0
Disagree	5.1
Unsure	18.6
Agree	61.9
Strongly agree	14.4
Total	100.0

76.3 percent of users indicated that they need information on intangible assets such as intellectual capital in order to attach a ‘true’ value to an entity. Standard setters and all related interested parties could call for further research in this regard. Although there are suggestions how to measure intellectual capital (e.g. market capitalisation minus total shareholder equity), a generally accepted measure has not been agreed upon. Intellectual capital cannot be disclosed, as part of the statutory disclosures of the MFIS, until more acceptable ways of measurement is found. Therefore it should then be disclosed as part of the discretionary disclosures of the DIS so that users can attach a “true” value to an entity.

Statement 17: *I perceive that corporate executives use CARs to boost the image of the company* (Stanton *et al.*, 2004: 57-69). Respondents unanimously confirmed this to be the case (refer to table 10.17).

Table 10.17: Statement 17

Rating scale	%
Strongly disagree	0.0
Disagree	5.2
Unsure	2.5
Agree	68.6
Strongly agree	23.7
Total	100.0

92.3 percent of the users perceive corporate executives as using CARs to boost the image of the company. A respondent replied: “CARs should not be a sales document compiled by the directors, but an independently verifiable document, providing the reader with both historical and future information. This information should be relevant and concise and future information/predictions should err on the conservative side.” Stanton *et al.* (2004:57) are of the view that the design of CARs could be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible. Image boosting forms part of the discretionary disclosures of the DIS. Preparers of CARs could take note of this indication of the importance of CARs. CARs should not be used as artificial marketing tools.

Statement 18: *Positive messages in CARs are highlighted, whereas negatively valued messages are avoided* (Beattie & Jones, 1999:46; Stanton *et al.*, 2004:59). Table 10.18 reflects that users tend to agree with statement 18.

Table 10.18: Statement 18

Rating scale	%
Strongly disagree	0.0
Disagree	5.2
Unsure	9.3
Agree	68.6
Strongly agree	16.9
Total	100.0

From table 10.18 it can be deduced that 85.5 percent of users are of the opinion that positive messages in CARs are highlighted, whereas negatively valued messages are

avoided. This finding is in contrast with the research results reflected in table 9.25 where the preparers of CARs disagreed that, in CARs, “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers’ attention. However 26.6 percent of the preparers indicated this to be the case. These findings show that companies should take cognisance of this issue. The disclosure of information using accounting practices would only be relevant to users who are assessing their risks to make sound business decisions if the disclosure in CARs conveys both good and bad news – except if there is only good news or only bad news to report. Positive and negative messages form part of the discretionary disclosures of the DIS.

Statement 19: *The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions.* Table 10.19 illustrates that the majority of users feel that the main objective of CARs is/should be to represent in all material respects all the information for decision-making purposes.

Table 10.19: Statement 19

Rating scale	%
Strongly disagree	0.0
Disagree	4.2
Unsure	5.1
Agree	57.6
Strongly agree	33.1
Total	100.0

A total of 90.7 percent of users agree with statement 19, which is in line with the results of table 9.31 in chapter 9 where company/preparer respondents listed on the JSE indicated an 88.9 percent agreement with the statement that all the information necessary for users to make proper decisions should be displayed in CARs.

A respondent remarked that, “[s]ubjectivity is always an issue that has to have a place to be tabled. Auditors cannot express an opinion on very subjective information. Directors do not want to put in negative subjective information – so users are denied this in all the reports issued on a company”. Preparers could strive to represent in all material respects all the information for decision-making purposes. CARs are then the facilitators of the decision-usefulness approach.

Statement 20: *The objective of business reporting in CARs has moved away from a narrow approach of accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.* Table 9.30 in chapter 9 shows that 84.4 percent of the company respondents listed on the JSE are aware that the disclosure of information in CARs has moved away from an accountability paradigm to a paradigm where the needs of heterogeneous users for decision-making purposes are eminent. The research results depicted in table 10.20 show the same trend.

Table 10.20: Statement 20

Rating scale	%
Strongly disagree	0.8
Disagree	5.9
Unsure	15.3
Agree	62.7
Strongly agree	15.3
Total	100.0

A user replied, “[w]hile CARs should provide information useful to all users, the focus of CARs should no doubt centre on those who are making financial decisions (credit, investment, etc)”. However, users include the government, environmental pressure groups, the public (IASB 2005) and those with limited authority, ability and resources (Objective no. 2 in the Trueblood report [AICPA, 1973]). Table 10.20 indicates that users of CARs are of the opinion that the disclosure of information in CARs has moved away from an accountability paradigm to a paradigm where the decision-making needs of heterogeneous users are eminent (78% of the users agreed with the statement). The

statutory disclosures of the MFIS mostly contain attributes of the accountability paradigm, while the discretionary disclosures of the DIS mostly carry attributes of the decision usefulness paradigm.

Statement 21: *Various stakeholders make demands on the information in CARs, and these should be provided for on an equal basis.* The stakeholders include investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public (IASB, 2005). The results in table 10.21 reflect the fact that most users agree with this statement. One user replied, “[t]he word ‘equal’ raises concern for me, since it is difficult to support or achieve, and definitely to measure. Acknowledge and meet, yes”.

Table 10.21: Statement 21

Rating scale	%
Strongly disagree	1.7
Disagree	15.3
Unsure	13.6
Agree	59.3
Strongly agree	10.1
Total	100.0

The majority of respondents (69.4%) agreed that the heterogeneous users of CARs should be provided with multipurpose information on an equal basis. The discretionary disclosures of the DIS must also complement the statutory disclosures of the MFIS.

Statement 22: *CARs as an information carrier should provide stakeholders with information that would help to minimise the risks (e.g. investment risks) they are faced with.* The board of a company is responsible for disclosures in relation to risk management (King, 2002b:89). Uncertainty and risks can be reduced with proper information. Table 10.22 shows the extent to which users are in need of information in CARs that reduces the uncertainty and risks they are faced with.

Table 10.22: Statement 22

Rating scale	%
Strongly disagree	0.0
Disagree	2.5
Unsure	1.7
Agree	58.5
Strongly agree	37.3
Total	100.0

Table 10.22 shows that 95.8 percent of user respondents indicated the need for risk-reducing information. Preparers of CARs could take this aspect into account in the CARs preparation process.

Statement 23: *CARs are knowledge-sharing documents into which stakeholders can tap into for investment risk-reducing information.* This statement complements statement 22 and table 10.23 reveals that users agree that CARs are knowledge-sharing documents.

Table 10.23: Statement 23

Rating scale	%
Strongly disagree	1.7
Disagree	7.7
Unsure	9.4
Agree	59.8
Strongly agree	21.4
Total	100.0

81.2 percent of the user respondents agree that CARs are knowledge-sharing documents into which stakeholders can tap for investment risk-reducing information.

Statement 24: *CARs are not the only means of obtaining information on listed entities for decision-making purposes. There are other sources of information that can be used.* The other sources include information on the internet, press conferences, shareholders

meetings, information in XBRL format (see statement 28), press releases and so on. Table 10.24 confirms that most users are aware of this.

Table 10.24: Statement 24

Rating scale	%
Strongly disagree	0.0
Disagree	6.0
Unsure	12.0
Agree	55.6
Strongly agree	26.4
Total	100.0

Table 10.24 reflects an awareness level of 82 percent amongst user respondents that CARs are not the only means of obtaining information on listed entities for decision-making purposes.

Statement 25: *Users of CARs are not able to understand what is being communicated, as they are technically incapable of creating meaning from the detail in such documents* (Courtis, 1998:460). According to Table 10.25, 42.7 percent of respondents agreed with this statement.

Table 10.25: Statement 25

Rating scale	%
Strongly disagree	5.1
Disagree	30.8
Unsure	21.4
Agree	33.3
Strongly agree	9.4
Total	100.0

Table 10.25 shows that 42.7 percent of the users agree that there is a problem with comprehending some of the disclosures of CARs. A user commented: “I have serious concerns about the information that is required in terms of the new IASs and IFRS. All the

adjustments required make the information in CARs difficult to interpret for the normal user of CARs.” As such the users’ interpretation process is distorted. Table 9.29 indicates that 68.9 percent of the company respondents/preparer respondents listed on the JSE are aware that the communication of accounting concepts is a difficult task.

Another user commented:

Statutory information has become highly technical and is not useful for non-financially educated users. The cost of preparing and auditing additional information should, however, be taken into consideration when deciding on whether or not to include additional information. A good suggestion might be for the preparers to include discretionary information based on their knowledge of the users of the CAR (feedback). The financial burden on companies might be too heavy if additional information becomes a requirement.

Another respondent remarked: “Difficult to see what is meant here. AFS or CARs are not for uninitiated persons, nor is investing in companies.” This research however calls for full disclosure which is defined as the disclosures in CARs generated by the MFIS, that is, the statutory disclosures, as well as those generated by the DIS, that is, the discretionary/contextual disclosures, as well as disclosures to enable/empower users with “limited authority, ability, or resources” (Objective no. 2 in Trueblood, [AICPA, 1973]; Wolk *et al.*, 2000:184). The disclosures in CARs are also for the benefit of users with limited authority, ability and resources.

Statement 26: *CARs should provide an observable feedback section for users.* For entities to provide decision-useful information, it would be necessary to obtain feedback from users via proper feedback systems, or users should negotiate with entities (AICPA, 1994:9) to give an indication of what types of information they need to be disclosed in CARs. While carrying out the content analysis of companies listed on the JSE (see chapter 8), it was found that one company includes a questionnaire with a prepaid envelope in their annual report, which users could make use of to provide feedback.

Table 10.26: Statement 26

Rating scale	%
Strongly disagree	5.1
Disagree	17.9
Unsure	34.2
Agree	36.8
Strongly agree	6.0
Total	100.0

Table 10.26 reveals that 42.8 percent of users agree that feedback should be provided, while 23.0 percent believe that it is not necessary. The high response rate of the unsure category indicates uncertainty about feedback. This can be the result of not understanding what feedback entails or in what format feedback could voluntarily be provided. As in the case with disclosures in CARs the emphasis is rather to comply with what is compulsory than with what is voluntary. Because it is optional it is not regarded as necessary. Feedback accounting is necessary for communication.

Statement 27: *Information in CARs that is not useful or comprehensible should be adapted or replaced.* This statement was formulated in order to evaluate one of the research questions in chapter 1, namely: “Should the business information contained in CARs that is not useful or comprehensible be discarded or replaced?” Capra (2002:202) contends that the goal of optimising instead of maximising information is a fundamental requirement for the proper functioning of systems. Therefore, if information is no longer useful or comprehensible is should be discarded or replaced. Complexity should be removed and understanding/comprehensibility increased as far as the disclosure of information in CARs is concerned. Table 10.27 reflects that most of the respondents are in favour of this statement.

Table 10.27: Statement 27

Rating scale	%
Strongly disagree	1.0
Disagree	8.5
Unsure	8.5
Agree	63.2
Strongly agree	18.8
Total	100.0

Eighty-two percent of users are in agreement with statement 27 and table 9.21 (in chapter 9) shows that 73.3 percent of preparers of CARs agree that business information in CARs which is not useful or comprehensible should be discarded or replaced. Unfortunately, as has already been stated in chapter 9, if an IFRS requires certain information (although not useful or comprehensible) to be disclosed in the financial statements, companies will have to comply with its requirements until the IFRS is amended to remove complexity and increase comprehensibility/understanding. Proper feedback systems (e.g. in the form of questionnaires included in CARs to be completed and returned by users) could be used to identify the statutory disclosures (of the MFIS) and the discretionary disclosures (of the DIS) in CARs no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase understandability of the statutory disclosures of the MFIS.

Statement 28: *It would be useful if financial reporting were also to be done in digital form making use of “eXtensible Business Reporting Language” (XBRL).* As was mentioned in chapter 9, in the US companies are faced with extensive costs in *inter alia* complying with the requirements of the Sarbanes-Oxley Act (SOX) for corporate governance and transparency. These companies could in future focus on XBRL and the common platform it provides for business information. XBRL provides real-time business reporting, *inter alia* through the internet, that is instantly available for analysis.

One respondent was concerned about the timeliness of CARs and remarked: “In our continuing efforts to get more information out of companies (in the CARs) we miss the

point that they take longer to get out and 100% disclosure too late is almost as useless as incorrect information.” Could XBRL solve the problem of timeliness? Table 10.28 discloses that the majority of users consider XBRL useful.

Table 10.28: Statement 28

Rating scale	%
Strongly disagree	2.6
Disagree	6.0
Unsure	39.3
Agree	30.8
Strongly agree	21.3
Total	100.0

According to table 10.28 a total of 52.1 percent of users expressed the view that it would be useful if financial reporting were also done electronically making use of XBRL. Financial analysts, for example, could then extract comparable information from companies to calculate ratios and so on. 39.3 percent of users were uncertain as to whether it would be useful to them. Is this an indication that they are not aware of the existence of XBRL, or whether the cost of implementation outweighs its benefits? Table 9.14 (in chapter 9) shows that 40 percent of company respondents listed on the JSE is uncertain as to the usefulness of XBRL, while 46.7 percent is of the opinion that it is indeed useful. As financial and other business information needs to be available sooner and faster, if companies want to compete for capital and investor attention, the benefits of adopting XBRL will become clear. If XBRL is adopted, the statutory disclosures generated by the MFIS and the discretionary disclosures created by the DIS could be available in XBRL format.

Statement 29a: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the statutory section.* This statement was directed only at academics. Academics agree that the curriculum for accounting students is on par as far as the study of and research into the statutory section of CARs is concerned. Table 10.29a shows the degree to which academics as users of CARs agree.

Table 10.29a: Statement 29a

Rating scale	%
Strongly disagree	0.0
Disagree	11.2
Unsure	18.5
Agree	40.7
Strongly agree	29.6
Total	100.0

A total of 70.3 percent of academics is of the opinion that the curriculum for accounting students makes adequate provision for the study of the statutory section in CARs. However, based on the disagreement of 11.2 percent and the uncertainty of 18.5 percent, there is indeed room for further improvement in the curriculum for accounting students regarding the study of and research into the statutory section of CARs, generated by the MFIS.

Statement 29b: *The curriculum for accounting students makes adequate provision for the study of and research into corporate annual reports in respect of the discretionary/voluntary section.* This statement was directed at academics only. The research results shown in table 10.29b are distressing.

Table 10.29b: Statement 29b

Rating scale	%
Strongly disagree	7.4
Disagree	55.6
Unsure	18.5
Agree	14.8
Strongly agree	3.7
Total	100.0

Only 18.5 percent of academics as user respondents agree with statement 29b. While they are content with the curriculum regarding the statutory section of CARs, it is certainly not the case for the discretionary/contextual section of CARs. If financial directors claim

that CARs are still their domain, then academics need to expand the accounting curriculum for students to include the study of and research into CARs in respect of the discretionary/voluntary section created by the DIS.

10.3 Summary and conclusion

A questionnaire with 29 statements, formulated making use of the literature review in chapters 1 to 6, were distributed to users of CARs. The significant issues flowing from the questionnaires distributed to users of CARs were firstly that an operating and financial review (OFR) should be incorporated in CARs (statement 8). Secondly, the directors' report should include an enhanced business review (EBR) covering, *inter alia*, a discussion of operating results (statement 9a), the financial position (statement 9b), forward-looking/forecasting/predictive information (statement 9c) and business risks (statement 9d). Thirdly, users prefer the use of graphs (statement 14). Fourthly, users would like to see more disclosure on intellectual capital (statement 16). Finally, CARs potential in the education of accountants has been recognised and academics – as represented by a proportion of the CARs user respondents – pointed out that, although the curriculum for accounting students makes adequate provision for the study and research of corporate annual reports in respect of the statutory section (statement 29a), this was not the case for the discretionary/contextual section (statement 29b).

An issue that should be noted is that 52.1 percent of users expressed the view that it would be useful if financial reporting were also to be done in digital format making use of XBRL (statement 28). Financial analysts, for example, could then extract comparable information from companies for analytical purposes in real time (implying immediately).

The above research results confirm many of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future research and for use in the CARs preparation processes. Overall, the research results support the hypothesis of this study that CARs are the information products of accounting practices in transition.

In chapter 11 the research results of the questionnaires distributed to the designers of CARs are analysed.

CHAPTER 11

Research results – questionnaires for designers

11.1 Introduction

Designers are important role players who influence the outcome of CARs and, as such, questionnaires were distributed to designers of CARs to obtain their views on certain statements. Altogether three questionnaires were compiled and addressed to the preparers, the users and the designers of CARs. The questionnaires for designers contained certain statements on CARs and the respondents had to indicate whether they strongly disagreed, disagreed, agreed, strongly agreed or were unsure about the statements made.

The purpose of the statements in the questionnaires was to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players. This chapter covers the responses from the designers of CARs. Chapter 9 deals with the responses of the preparers of CARs and chapter 10 deals with the responses of the users of CARs.

The layout of this chapter consists of an introduction, research results of designer respondents of CARs and a conclusion.

11.2 Questionnaire for the designers of CARs

11.2.1 Introduction

Larger companies increasingly use external agencies in the preparation of CARs (Stanton & Stanton, 2002:479). As external agencies become important role players in the outcome of CARs, questionnaires aimed at designers were electronically distributed by e-mail to obtain information on their contribution to the CARs preparation process. The research results reveal notable propositions. As with the questionnaires for the users and the preparers, e-mail questionnaire distribution for designers once again meant that

convenience sampling was the most effective sampling method. Since only a limited number of responses were obtained from the designers – owing to a limited number of designers in the field – trends discussed in the following sections should be regarded as purely exploratory and could be further investigated in similar future studies.

11.2.2 Research results

The results of the questionnaires are set out in the following order: a display of the statement, a short motivation, and the results displayed in a table and a conclusion.

Statement 1a: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Corporate communications.* The aim of this statement was to determine which department in a company instructs graphic designers with regard to the design of CARs. Table 11.1a reflects the following:

Table 11.1a: Statement 1a

Rating scale	%
Strongly disagree	14.3
Disagree	0.0
Unsure	14.3
Agree	14.3
Strongly agree	57.1
Total	100.0

As per table 11.1a, 57.1 percent of the respondents strongly agreed and 14.3 percent agreed that the corporate communication department instructs them regarding the design of CARs. The research results indicate that the corporate communications departments of companies play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS.

Statement 1b: *The company representatives that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Finance.* Table 11.1b reveals the following:

Table 11.1b: Statement 1b

Rating scale	%
Strongly disagree	0.0
Disagree	28.6
Unsure	0.0
Agree	14.3
Strongly agree	57.1
Total	100.0

Respondents gave the same rating for the “agree – and strongly agree category” (14.3 percent and 57.1 percent respectively) for tables 11.1a and 11.1b. This is because the same respondents of this limited sample of designers indicated that they agree and strongly agree with the statements of both tables 11.1a and 11.1b. Table 11.1b reflects that the financial departments of companies also play an important role in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS.

Statement 1c: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Other.* Table 11.1c shows that there are more than one party involved.

Table 11.1c: Statement 1c

Rating scale	%
Strongly disagree	0.0
Disagree	0.0
Unsure	40.0
Agree	0.0
Strongly agree	60.0
Total	100.0

Sixty percent of the respondents strongly agreed with the statement that other parties instruct them regarding the design of CARs. A respondent replied: “Usually there are three and sometimes more parties involved – management (top executive), marketing and

communication and then the finance department with the actual financial results.” Table 11.1c indicates that other departments also instruct designers with regard to the design of CARs. These other departments could include the marketing department and the department concerned with sustainable review matters. If the research results of tables 11.1a to 11.1c are compared, the indication is that different departments are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS. No one department plays a major role.

Statement 2: *Designers generally have some training/experience in impression management, that is, a technique to present something in as favourable a light as possible* (Lee, 1994:223-224).

Table 11.2: Statement 2

Rating scale	%
Strongly disagree	14.1
Disagree	0.0
Unsure	0.0
Agree	71.4
Strongly agree	14.3
Total	100.0

The majority of respondents (85.7 percent) agreed and strongly agreed with the statement that designers generally have some training/experience in impression management. A respondent commented: “The art of graphic design is undoubtedly to provide the best possible rendition of any subject matter – that’s the nature of the business – whether it’s an annual report, a brochure or a brand concept. No designer would want to produce something that is poor in concept or design.”

Another respondent remarked:

When we design a CAR we are led in terms of a concise and to the point brief on

the various aspects that influenced a business over a previous financial year. All design should position the end result so as to best portray the character of the product or company to a defined target audience. It is not the task of the designers to "manage the impressions" a target audience might derive from a design.

The designer respondents indicated that they have undergone some training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible. Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures in CARs.

Statement 3: *By making use of photos, graphics and graphs, negative aspects of a company can be converted into positive messages* (Stanton *et al.*, 2004:58). Table 11.3 indicates a general contradictory response to the statement.

Table 11.3: Statement 3

Rating scale	%
Strongly disagree	28.6
Disagree	28.6
Unsure	0.0
Agree	14.2
Strongly agree	28.6
Total	100.0

57.2 percent of designer respondents disagreed and strongly disagreed with the statement that negative aspects of a company can be converted into positive messages making use of photos, graphics and graphs, while 42.8 percent agreed and strongly agreed.

One respondent stated:

This is a difficult question to answer either negatively or positively. Pictures and graphics can be used purely for decorative purposes or as an overall theme to take a graphic analogy. Pictures can also objectively portray various aspects of the

company's business such as industrial plants or products, which are neither negative nor positive – only informative.

Another respondent remarked:

Generally a CAR serves more than one function, a) to give accurate results of the financial status of a company at year end, b) to also explain and show investors, clients and members the good and bad of the company's business over the year. Naturally more attention should be given to the positive aspects of a company's results to help promote the business over the next year.

Most of the designer respondents (57.2%) disagreed with the statement, while 28.6 percent strongly agreed that photos, graphics and graphs can convert negative aspects of a company into positive messages. Again users of CARs need to develop an awareness of this fact when interpreting the disclosures presented (the statutory disclosures of the MFIS and especially the discretionary disclosures of the DIS) in CARs.

Statement 4: *As far as CARs are concerned, design devices (e.g. photos, graphics, graphs) can be used to influence the perceptions of readers of CARs* (Stanton *et al.*, 2004:57). Table 11.4 indicates that the perceptions of users could possibly be influenced.

Table 11.4: Statement 4

Rating scale	%
Strongly disagree	14.3
Disagree	0.0
Unsure	0.0
Agree	71.4
Strongly agree	14.3
Total	100.0

As per table 11.4, 71.1 percent of the designer respondents strongly agreed and 14.3 percent agreed with the statement that design devices can be used to influence the perceptions of readers of CARs.

A respondent made the following statement:

Yes, a reader could be influenced but unlikely to the point that he will be led to actually change his perceptions. Most annual reports are designed so that at first glance any stakeholder or analyst can observe the state of the company – the first few pages present a clear overview of the company’s financial position, whether it is favourable or not. Graphs are compiled from figures supplied by the company and it is hardly likely that a pretty designed graph showing negative results will unduly influence the reader as to the company’s financial position.

Another respondent replied: “Yes. The same applies to painting a house prior to putting it up for sale.” As indicated in the previous question, photos and graphics may play a small role. Table 11.4 suggests that design devices, for example photos, graphics and graphs, may influence the perceptions of readers (users) of CARs. This is another aspect that CARs users need to be aware of when interpreting the disclosures (the statutory disclosures of the MFIS and the discretionary disclosures of the DIS) in CARs. Clearly this highlights another research opportunity.

Statement 5: *The design of CARs is viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible* (Stanton *et al.*, 2004:57). Table 11.5 reflects mixed responses from designers.

Table 11.5: Statement 5

Rating scale	%
Strongly disagree	42.9
Disagree	0.0
Unsure	14.3
Agree	28.6
Strongly agree	14.3
Total	100.0

42.9 percent of the respondents strongly disagreed with the statement that the design of CARs is an exercise in obfuscation, while 42.9 percent agreed. A respondent commented:

This question is very similar to the second question, so the above response also applies. Undoubtedly a client wants the best possible design and concept. Annual report design has, over the years, become linked very closely to a company's strategic intent, its vision and its mission – we have to think like investor relations experts or analysts – how easily and quickly can vital information be found? Design companies vie with each other, each striving to come up with the best possible "strategic" concepts and clever designs. It's no longer about design for the sake of design. Most of our clients approach us looking for the best possible way in which to present their information – not necessarily only in the most favourable light, but succinctly, interestingly and meaningfully. Companies are willing to spend a lot on annual reports as they are seen as a powerful marketing tool so the design has to be compelling, yet logical and informative.

Another respondent remarked: "Obfuscation, smoke and mirrors, deception ... No! From a design perspective we as a company cannot risk our business on this kind of sleaze. If the company publishing the CAR is corrupt you will find your answers there if they are willing to say so openly ... not with the designers or design consultants."

Table 11.5 reveals that while 14.3 percent of designer respondents indicated that they are unsure whether the design of CARs is an exercise in obfuscation, 28.6 percent indicated agreement and another 14.3 percent indicated strong agreement with this view. 42.9 percent indicated strong disagreement. It seems as though designers of CARs are divided on this issue.

11.3 Summary and conclusion

A questionnaire with five statements, which were formulated making use of the literature review in chapters 1 to 6, were distributed to designers of CARs. The above individual research results will be of value to preparers of CARs in the design process of the

statutory sections of the MFIS and the discretionary sections of the DIS. They will also be important to the users of CARs.

The significant issues flowing from the questionnaires distributed to designers of CARs were firstly that the corporate communications departments of companies (statement 1a) play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS. Secondly, the financial departments of companies (statement 1b) are also important role players in instructing designers with regard to the design of CARs. Thirdly, that there is a strong indication that different departments (statement 1c) are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS and that no one department plays a major role. Fourthly, the designer respondents indicated that they have undergone training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible (statement 2).

Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures of CARs. Fifthly, designer respondents indicated that there is a chance (42.8 percent agreed) that photos, graphics and graphs can convert negative aspects of a company into positive messages (statement 3). Again users need to develop an awareness of this fact when interpreting the disclosures presented in CARs. Sixthly, the designer respondents indicated that design devices, for example photos, graphics and graphs, might influence the perceptions of readers of CARs (statement 4). Lastly, the respondents were divided on the issue of whether the design of CARs can be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible (statement 5). Chapter 12 sets out the conclusions and recommendations of this study.

CHAPTER 12

Conclusions and recommendations

12.1 Introduction

CARs are the traditional formal communication vehicle between publicly listed entities and stakeholders. CARs of entities in South Africa have undergone significant change and are still in a process of transition. The main goal of this thesis was to obtain an understanding of the way in which accounting practices that are constantly in transition generate the information that is disclosed in CARs.

The purpose of this chapter is to report on the research questions formulated in chapter 1, give a summary of the research findings of the previous chapters, draw conclusions and make certain recommendations.

In this study the research problem is to understand how mandatory information is generated through the use of mandatory accounting practices and discretionary information through the use of discretionary accounting practices. CARs are the product of information-processing systems. One system, which also contextualises CARs, is responsible for generating discretionary disclosures, while another system is responsible for generating statutory disclosures. Understanding of the real meaning of the statutory information contained in CARs can only be achieved when contextual information supplements the statutory information. The research problem addresses the lack of understanding of the interrelated information-processing systems of which CARs are the product, which results in the underutilisation of CARs' creative and innovative potential.

12.2 Research problem, questions and findings

The research problem addresses the lack of understanding of the interrelated information-processing systems and related accounting practices in transition of which CARs are the product, which results in the underutilisation of CARs' creative and innovative potential.

In chapter 1 the research questions were formulated. The research findings reveal that CARs are the information products of accounting practices in transition, driven by two interrelated systems, that is, the mandatory financial information system (MFIS), responsible for generating statutory disclosures through the use of generally accepted accounting practices and the discretionary information system (DIS), responsible for generating discretionary disclosures through the use of discretionary accounting practices. The research questions and findings are presented as follows:

- Do CARs generated by the information-processing systems reflect the disclosure of information, captured and screened by accounting practices, that rests on a firm foundation supporting a logical body of practice (Herrick, 1944:49)?

The research findings of preparer respondents in chapter 9 (statement 5) reveal that accounting practices capture and screen information and play an important role in the generation of the statutory and discretionary disclosures in CARs. The discretionary accounting practices of the DIS generate discretionary disclosures in CARs, whereas GAAP of the MFIS drive statutory disclosures in CARs. Furthermore, generally accepted accounting practices (GAAP) represented by accounting standards and IFRSs are developed by standard setters, for example the IASB and FASB. They therefore rest on a firm foundation supporting a logical body of practice. Certain best practices do exist regarding discretionary accounting practices, which are in a developing phase.

- Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats?

The research findings of the content analyses in chapter 8 have proven that accounting practices (generally accepted accounting practices in the case of mandatory information) and discretionary accounting practices (in the case of discretionary information) are in a process of transition. As a result, information disclosed is constantly escalating and being presented in different formats. The research findings of preparer respondents (statement 4 of chapter 9) and of user respondents (statement 1 of chapter 10) reveal that information is disclosed in different formats by the DIS in particular, which creates discretionary disclosures, as more use is made of graphs, visual aids and colour. The research findings of preparer respondents (statement 7 of chapter 9) show that CARs can be visualised as the product of information systems representing an interaction between the entity and stakeholders to generate and share information. This product is driven by accounting practices, which are again driven by the needs of users to reduce uncertainty and risks.

- Has the business information created by accounting practices the potential to become discretionary or statutory information in CARs?

Accounting practices, with regard to this question, should be seen in a broad sense and would include generally accepted accounting practices as well as discretionary accounting practices. Business information formed by all-embracing accounting practices will further be screened by either generally accepted accounting practices or discretionary accounting practices to become statutory or discretionary disclosures respectively. The research findings of preparer respondents (statement 11 of chapter 9) indicate that business information created by all-embracing accounting practices has the potential to become discretionary or statutory information in CARs. All events to be transformed into business information will be captured either by the MFIS (using generally accepted accounting practices) and disclosed as statutory information or by the DIS (using discretionary accounting practices) and disclosed as discretionary information in CARs.

- Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also contextualise CARs?

The research findings of preparer respondents (statement 10 of chapter 9) confirm the interrelationship between the system responsible for statutory disclosures and that responsible for discretionary disclosures. The two systems should not be viewed in isolation as the discretionary disclosures form the context of the statutory disclosures.

- Does the discretionary financial information reported in CARs, if proven useful over time, have the potential of being accepted as statutory information governed by generally accepted accounting principles?

The research results of preparer respondents (statement 12 of chapter 9) reflect that discretionary information can become statutory information. For this to happen new IFRSs will have to be developed. One example is segment reporting, which was initially disclosed as discretionary information in CARs but is now disclosed as statutory information as part of the notes to the financial statements. This also confirms the findings of the content analyses in chapter 8 of this thesis that discretionary information if proven useful over time has the potential of being reported as statutory information.

- Is the mandatory financial information system (MFIS) that generates statutory disclosures in CARs a semi open system?

The research findings of chapter 4 indicate that the MFIS is a semi open system. External incidents, for example the stock market crash of 1929, can lead to the introduction of broad principles of accounting (Zeff, 2005:1). In 1970/71 criticism led to the establishment of the Wheat Study Group on “the establishment of accounting principles” and the Trueblood Study Group on the “objectives of financial statements”

(Zeff, 2005:13). Criticism has also led to the transition of accounting practices. The MFIS responsible for statutory disclosures utilises these accounting practices, which form part of a closer system, as it *inter alia* changes through cataclysmic events. The discretionary information system of CARs on the other hand is an open system as it interacts and reacts freely with the feedback from user groups.

- Should CARs also provide other competitive financial information (e.g. an analyst report)?

The research findings of preparer responses (statement 20 of chapter 9) show that preparers were not in favour of an analyst's report. The findings of user responses (statement 10 of chapter 10) indicate that 38.1 percent of users was in favour of such a report. As there is some need amongst users for such a report, users and preparers could negotiate its introduction, which may enhance comprehensibility and could form part of the discretionary disclosures of the DIS.

- Do CARs provide enough information for users on the benefits they hold for users' future decision making?

The variety of opinions for preparer respondents relating to statement 32 of chapter 9 does not give a clear-cut indication as to whether CARs provide users with enough information on future benefits for their decision making. Forward-looking information relating to future benefits remains an important issue. The discretionary disclosures generated by the DIS could include forward-looking information relating to future benefits in particular, for example as part of the operating and financial review (OFR).

- Is one of the objectives of CARs to enable users to predict the entity's future prospects?

The prediction of future prospects by users is one of the main issues emphasised by the Trueblood report (AICPA, 1973 [Objective nr 10] in Belkaoui, 2004:171). The research findings of preparer respondents relating to statement 33 of chapter 9 show

that the majority of preparers of CARs replied that they are not in agreement with the statement that the CARs objective is to enable users to predict the future prospects of the entity. According to Wolk, *et al* (2000:175) reports such as CARs do not make predictions; rather, users must make predictions, employing inputs from reports such as CARs as data in their decision models. This information could form part of the discretionary disclosures, for example the OFR in CARs, generated by the DIS.

- Do the systems that generate disclosures in CARs allow for feedback from users?

The findings of preparer respondents relating to statement 35 of chapter 9 reveal that the majority of preparers of CARs are in favour of the idea that CARs should also provide feedback from users. 48.5 percent of user respondents as per statement 26 of chapter 10 agreed (34.2 percent were unsure) that feedback is an important issue. Currently there are virtually no processes in place to take care of feedback from users. The feedback regarding the statutory disclosures of the MFIS needs to be channelled back to the preparers of CARs, and ultimately to standard setters. The feedback regarding the discretionary disclosures of the DIS needs to be channelled back to the preparers of CARs and ultimately to bodies such as the Global Reporting Initiative (GRI) and SAICA. Feedback would enhance future disclosures in CARs.

- Has CARs' potential in the education of accountants been recognised?

70.3 percent of academics (statement 29a of chapter 10) is of the opinion that the curriculum for accounting students makes adequate provision for the study of the statutory section in CARs. There is however room for further improvement in the curriculum for accounting students regarding the study of and research into the statutory section of CARs, generated by the MFIS.

Only 18.5 percent of academics (statement 29b of chapter 10) agreed that the curriculum for accounting students makes adequate provision for the study of and research into CARs in respect of the discretionary section. While they are content with the curriculum regarding the statutory section of CARs, it is certainly not the case for the discretionary/contextual section of CARs. If financial directors claim that CARs are still their domain, then academics need to expand the accounting

curriculum for students to also include the study of and research into CARs in respect of the discretionary/voluntary section created by the DIS.

- Should the business information contained in CARs that is not useful or comprehensible be discarded or replaced?

The research findings of preparer respondents (statement 21 of chapter 9) and of user respondents (statement 27 of chapter 10) show that business information in CARs that is not useful or comprehensible should be discarded or replaced. Proper feedback systems (e.g. in the form of questionnaires included in CARs to be completed and returned by users) could be used to identify the statutory disclosures (of the MFIS) and the discretionary disclosures (of the DIS) in CARs that are no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase the understandability of the statutory disclosures of the MFIS.

- What new dimensions can be added to CARs?

The following dimensions of CARs arose from the study, which can add to accounting's body of knowledge and encourage challenging fields for accounting research:

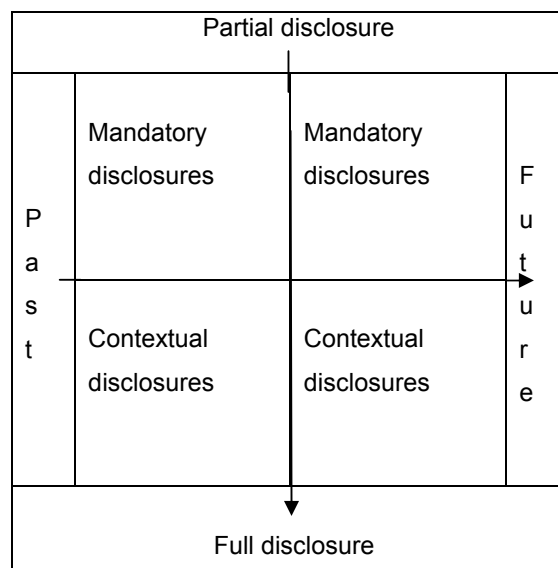
- The research has shown that a contextual dimension has been added to CARs. The real meaning of the statutory information can only be accessed when contextual information supplements the statutory information. A view of the big picture is therefore necessary.
- In CARs a future dimension can be observed. Backward-looking information is important as it lies within the paradigm of accountability and informs the user about what happened in the past. On the other hand, this research has shown that future-oriented information is just as important, as it may be beneficial to users in so far as

predicting the future is concerned. It gives direction to the decisions that users have to make regarding the management and allocation of scarce resources. CARs therefore need to give time-orientated perspectives.

- This research added a transition dimension to CARs. Everything is changing at an accelerated pace and therefore accounting practices also have to move through a process of conversion and changeover in order to deliver meaningful and useful information. Other inputs, subject to modification and change, used to construct CARs are numbers, words, terminology, vocabulary, graphs, photos, visual representations and colour. CARs are therefore meaning-creating documents.
- In this research a feedback dimension was observed. Users need information that will reduce their uncertainties and risks and therefore they need to provide standard-setting bodies and preparers of CARs with feedback. Users could negotiate with entities to give an indication of what types of information need to be disclosed in CARs. CARs therefore invite further stakeholder development and enquiry.
- A “for all stakeholders” dimension came to the fore in this research. CARs should consist of an information package that will enable all users to create their own reality in terms of their own goals and objectives. CARs are therefore not only for shareholders and investors, but should also meet the ever-changing needs and expectations of external stakeholders.

- A strategy dimension was also identified. CARs now need to provide information on companies' uncertainties, risks, opportunities, strategies and objectives. This would provide direction for decision making.
- A very important dimension that has been added to CARs is that nonfinancial performance indicators need to be identified and communicated. Information on intellectual capital and discretionary disclosures needs to complement statutory information in order to obtain an enhanced understanding of the full value of entities.
- Access to and comprehension of CARs can determine the movement of wealth and the allocation of resources.
- A reality dimension enhances the meaningfulness of CARs. Statutory information can only express a part of the reality. Modern CARs include information on the past, present and future and encompass mandatory as well as contextual disclosures. Table 12.1 illustrates the reality dimension of CARs.

Figure 12.1 The reality dimension of CARs



Source: Own observation

As far as modern CARs are concerned, disclosures are both mandatory as well as contextual and are moving in such a direction that they also include future events. The *pneuma* of the disclosures in CARs is uncertainty. If more disclosures are included, the uncertainty of the risks that stakeholders are faced with in their decision making will be reduced. The aim of CARs is to assist users with their decision-making needs by providing risk reducing information.

- CARs create the environment within which to interpret performance. As value and performance change all the time, in the future CARs in whatever form will have to have their proverbial fingers on the pulse of activities. Ideally, some time in the future, they will need to give information on a real-time basis.
- CARs help to facilitate learning and enabling, as well as reader understanding and meaning.
- Apart from being an institutional reporting process, CARs also now reflect a voluntary multistakeholder process. They have moved from an institutional to an unconstrained host.
- CARs could represent a conceptual theme covering, for example, the diversity and value-added integrity of an entity. This theme represents, "... the enterprise's interpretation of ... a core issue or challenge – that relates in some way to all dimensions of sustainability" (Bennett & James, 1999:485). This interpretation of the challenge will give direction to the entity.
- With proper communication, CARs as the dominant communication channels of entities will retain their relevance and justification. CARs are channels for sharing knowledge-creating data.

- Intellectual capital is a significant driving force in the value creation, prosperity and sustainability of any going concern. As such, CARs need to disclose the value of intellectual capital. Until acceptable ways of measuring are found, intellectual capital should be disclosed as part of the discretionary disclosures of the DIS.
- CARs are now virtual products and are therefore available in electronic as well as hard copy form.
- The discretionary information in CARs (DIS) discloses those post-balance sheet events not captured by the statutory disclosures (MFIS).
- CARs now disclose more information than merely that contained in double-entry records.
- CARs contain three types of information:
 - information that relates to actual past and present events and transactions.
 - information about artificial events, for example book entries.
 - forward-looking information.
- CARs serve as a generator and producer of new forms of disclosure and varieties thereof.
- In order to decrease uncertainty, CARs produce an ever-increasing amount of information. However, this in itself may contribute to an increase in uncertainty instead of having the opposite effect. The challenge is to produce a simpler document. The aim should be to reduce complexity and overload to a limited number of indicators covering movement, direction and flexibility (Gouws & Lucouw, 2000:39).

- CARs are becoming rather than being; they are the result of a continuous process that is ever changing.

12.3 Summary of research findings

Conclusions from each of the chapters of this study now follow.

12.3.1 Chapter 1

An important aspect stated in chapter 1 is that this study will contribute to the body of accountability theory, to the knowledge of preparers, users and designers, as well as students, standard setters and auditors. This study shows that in order to obtain a complete picture of an entity, the generally accepted accounting practices that generate statutory disclosures should not be seen in isolation, but must be studied together with the contextual accounting practices that generate contextual disclosures.

12.3.2 Chapter 2

This chapter explored the features that form the context of CARs. Important aspects of the history and development of CARs were presented to link the past with the present and to produce insights for shaping the process of CARs development. It was concluded that the growth in accountability knowledge since 5000 BC has been of great significance. From the basic reporting that characterised its beginnings, it has evolved and grown and today CARs contain the attributes of multiplicity.

An interpretation of the two systems that generate disclosures in CARs was undertaken. It was assumed that CARs, the development of which is driven by the needs of the users to reduce uncertainty and risks, represent a larger system (the DIS) in which statutory disclosures governed by GAAP form a subsystem (the MFIS) and that there is an interrelationship between this subsystem and the larger system.

An investigation into the attributes of the information disclosed in CARs was also undertaken using two different paradigms. It was concluded that the preparers and compilers of CARs need to strike a balance between the two paradigms in order to present meaningful information in CARs as a whole.

12.3.3 Chapter 3

The aim of this chapter was to explore the systems/processes that drive reporting in CARs. Uncertainty plays a major role in the nature of financial reporting and the users' need to reduce uncertainty and risk has an influence on the type of accounting practices that generate the reporting included in CARs. Different users have different levels of uncertainty and users need to manage their risk by having the right type of information available. The ongoing research into user needs has influenced the type of information that is currently being published by the management of entities in CARs. The needs of heterogeneous users, through proper feedback systems, may determine the quality of the information in CARs. A balanced approach should be followed in providing information. The characteristics of users are an important consideration for the preparers of CARs. Users need to use their experience of the information presented in CARs to give feedback on the types of information they need, as this will influence the accounting practices that generate disclosures in CARs.

The internal systems/processes and factors that affect the production of accounting practices for the disclosure of required information were also identified. The MFIS is the system responsible for disclosing statutory information generated by generally accepted accounting practices. The DIS, in contrast, may be regarded as the system responsible for generating discretionary information. Factors that affect disclosures in CARs include the historical development of accounting practices, for example the role of double-entry bookkeeping, the role of standard setters and rule-making bodies, and other role players, for example the corporate communications department, the finance department, the integrated sustainable reporting department, the investor relations department and public relations.

Innovative ideas for new ways of disclosing information could be developed. CARs should be constantly adapted to ensure that the needs of users for understandable and meaningful information are being successfully met. Standard-setting bodies and other role players could use creative skills and innovation for developing accounting practices generating disclosures in CARs to address the information needs of stakeholders.

Finally, the statutory and discretionary disclosures in CARs were explored from a systems perspective. Rule-making bodies are primarily concerned with the MFIS, which generates the statutory disclosures of general purpose financial statements governed by GAAP. Other aspects of statutory reporting that were explored were the objectives of the IASB Framework; the objectives of financial statements; small gaap; the continuous improvement of accounting standards in the IASB's due process, as well as the openness of IASB meetings. Discretionary reporting is also important to users and the following aspects were explored: the Operating and Financial Review (OFR) and discretionary disclosures by Sasol. The statutory information disclosed in CARs needs to be complemented by discretionary disclosures to give users the full picture of entities.

The conclusion is that the users' need to reduce uncertainty influences the type of accounting practices that generate the information that is disclosed in CARs. If, because of a lack of accounting standards (GAAP), data cannot be disclosed as statutory information then it could be disclosed as discretionary information through the development of discretionary accounting practices in other sections of CARs. This chapter has shown that the development of accounting practices is influenced by different systems/processes.

12.3.4 Chapter 4

In this chapter the attributes of quality business reporting were identified. The quality of business reporting in CARs affects the integrity of the information being communicated to stakeholders. Business reporting must be adjudged trustworthy and of superior quality

before an investor will decide to invest. The practical constraints on ensuring quality information were discussed (AICPA, 1994:54-57). These constraints are applicable to CARs and have quality implications.

The process of quality information flows, driven by user needs, was also considered. It was shown that events to be transformed into information are screened by four filters. The four filters for statutory information generated by the MFIS are “accounting of the mind” practices, accounting practices, accounting principles and audit. The four filters for discretionary information generated by the DIS are “accounting of the mind” practices, accounting practices, discretionary accounting practices and independent assurance. Filtered information on an entity that is communicated to users reduces the risks and uncertainties that stakeholders are confronted with.

The qualitative objectives of financial accounting that make the information provided in the statutory section in CARs useful to users were considered. The four principal qualitative characteristics are understandability, relevance, reliability and comparability. The qualitative characteristics of statutory disclosures are also applicable to the discretionary disclosures generated by the discretionary information system in CARs.

As statutory disclosures in CARs may fail on their own to give a complete picture of a company, it is necessary to complement statutory disclosures with discretionary disclosures. In order to assist investors and other stakeholders to ascertain the true value of an entity, several guidelines to aid narrative (discretionary) reporting have been developed that promote the disclosure of contextual information (OECD, 2006:13). These include material, qualitative and forward-looking information about an entity’s value drivers, trends, risks and uncertainties (OECD, 2006:13, PWC, 2006c:1). The King Report advocates an integrated approach to good governance that includes the reporting of good quality information to stakeholders. Information presented by entities must embrace the economic, environmental and social aspects of an entity’s activities (King, 2002a:9). The

attributes of good quality discretionary information were considered and if preparers of CARs apply these characteristics in an ethical manner when disclosing information in CARs, then the information presented should be of a high quality.

A balanced scorecard approach may be followed in presenting disclosures in CARs. In the use of a balanced scorecard approach, measurement is done from four perspectives, namely the financial; customer; internal business; and innovation and learning perspectives. The balanced scorecard approach entails broader issues; it retains measures of financial performance, but supplements these with measures regarding customers, internal business processes, and learning and growth. The balanced scorecard approach is in a development phase and will in time gain greater acceptance.

The further development of discretionary disclosures was considered. A comprehensive framework is currently being developed (OECD, 2006:17) for discretionary reporting that will contribute to (i) improved capital market efficiency, (ii) a lower cost of capital, (iii) a lower bid/ask spread and (iv) reduced share price volatility. In October 2005 the IASB released a reporting framework called Management Commentary to encourage forward-looking and contextual information for investors (OECD, 2006:17). Another role player that reviews best practices is the International Corporate Governance Network (ICGN). South African companies could make use of an OFR, such as that already in use by UK companies to structure their discretionary disclosures in CARs.

Consideration was also given to the fact that accounting practices need to be used in an ethical way to generate disclosures in CARs. A holistic focus on ethics could, but would not necessarily, enhance the quality of business information in CARs.

The conclusion is that quality is the focal point of business information. The disclosure of high quality information results in a lower risk premium for highly evaluated entities, which leads to lower debt costs and therefore an increase in earnings (Wolk *et al.*, 2000:315;

OECD, 2006). Better disclosure in CARs therefore results in a better bottom line. CARs determine the flow of capital; therefore business information must be adjudged trustworthy and of high quality before an investor will decide to invest. Quality should be paramount in producing business information that holds the greatest benefit for stakeholders.

12.3.5 Chapter 5

The issue of significance highlighted in chapter 5 is that, with proper communication messages, CARs as the dominant entity communication channel will retain their relevance and justification. With proper feedback systems in place, CARs stakeholders will play important roles in the communication process such that CARs will be perceived as the creators of meaning. Proper feedback on the disclosures in CARs could be made to the corporate communications department of an entity and this would stimulate change and promote better quality messages in the CARs reporting process.

12.3.6 Chapter 6

In this chapter, it was shown that the users' needs for decision-useful information for reducing uncertainty and risks are the primary driving force that determines the types of ultimate disclosure in CARs. The main objective for users is to discover meaning. It was also found that users must play an active role in extracting the information they need. For entities to provide decision-useful information, it would be necessary to obtain feedback from users via proper feedback systems, or users should negotiate with entities to give an indication of what types of information need to be disclosed in CARs. Decision-useful information should stick to what is essential for decision making.

12.3.7 Chapter 7

In this chapter the various research methods used in this work were described. The methods included a literature review, a content analysis and the use of questionnaires.

12.3.8 Chapter 8

A content analysis was conducted on the CARs of ten top companies from the top 20 companies listed on the JSE for the following time periods: 1975 year ends, 1985 year ends, 1995 year ends and 2005 year ends. Mandatory disclosures were compared to discretionary disclosures for each of the four time periods. Statutory disclosures on average increased marginally from 1975 to 1995 but in 2005 escalated markedly as IASs and IFRSs were then applicable. The contextual information increased dramatically from 1975 to 2005. Illustrations, photography and graphs contributed to the escalation of discretionary disclosures. Here the introduction of disclosure with regard to corporate governance and sustainable development issues also had an important role to play.

The escalation of mandatory information was further analysed into the following categories: number of notes, graphs and photos as well as number of pages covering the notes and the directors' report. The escalation of discretionary information was further analysed into the following categories: number of illustrations, photos and graphs as well as pages covered by the chairman's statement, the board of directors' review of operations, risk management, sustainable development review and corporate governance matters.

The content analysis for companies with year ends 1975, 1985, 1995 and 2005 has proven that accounting practices (generally accepted accounting practices in the case of mandatory information) and discretionary accounting practices (in the case of discretionary information) are in a process of transition. As a result, information disclosed is constantly escalating and being presented in different formats.

In the mandatory section of CARs the source and application of funds statement made way for the cash flow statement. A statement of changes in equity was also introduced. Segment information, initially disclosed as discretionary information, is now disclosed as mandatory information. Earnings per share information disclosed in the discretionary

section of CARs has moved over to the mandatory section. Therefore discretionary information, if proven useful over time, can become mandatory information.

Where certain statements are no longer useful, for example the source and funds statement, they are discarded and replaced with something new, that is, the cash flow statement.

In the discretionary section of CARs new types of disclosure frequently enter the arena, for example embedded value disclosures and forward-looking information. Information on intellectual capital (OECD, 2006) would, until acceptable ways of measuring are found, normally be disclosed as discretionary information rather than mandatory information. The content analyses of CARs have shown that CARs can be visualised as a product of information-processing systems, which are constantly escalating and being presented in different formats.

12.3.9 Chapter 9

A questionnaire with 35 statements was formulated making use of the literature review in chapters 1 to 6 and was distributed to preparers of CARs. The significant issues flowing from the questionnaires distributed to the preparers of CARs were firstly that the financial departments of entities, in the majority of cases, claim responsibility for CARs preparation (statement 15d), but admit that the CARs preparation process involves a team effort, that is a *sinergos*, where several departments work together (statement 16). Secondly, with regard to the format and content aspect of CARs, respondents were in agreement that CARs are usually divided into two sections, that is, the statutorily required financial information and the discretionary disclosures, and that the two sections are interrelated (statements 6, 8 & 10). Thirdly, respondents were uncertain about the usefulness of XBRL (statement 14). If financial and other business information needs to be available sooner and faster and if companies want to compete for capital and investor attention, the benefits of adopting XBRL will become clear. Fourthly, 97.8 percent of respondents

(statement 17) were in favour of an operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management. Fifthly, a majority of 86.7 percent was in favour of a discussion of forward-looking information as part of the directors' report (statement 18d). Sixthly, preparers objected to the introduction of an independent analyst report to form part of CARs (statement 20). Finally, preparers agreed that the communication of accounting concepts is a difficult task (statement 29).

The above research results are in accordance with many of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future CARs content and compilation research and use in their CARs preparation process. Overall, the research results give validity to the hypothesis of this study that CARs are the information products of accounting practices in transition.

12.3.10 Chapter 10

A questionnaire with 29 statements was formulated making use of the literature review in chapters 1 to 6, and was distributed to users of CARs. The significant issues flowing from the questionnaires distributed to users of CARs were firstly that an operating and financial review (OFR) should be incorporated in CARs (statement 8). Secondly, the directors' report should include an enhanced business review (EBR) covering, *inter alia*, a discussion of operating results (statement 9a), the financial position (statement 9b), forward-looking/forecasting/predictive information (statement 9c) and business risks (statement 9d). Thirdly, users prefer the use of graphs (statement 14). Fourthly, users would like to see more disclosure on intellectual capital (statement 16). Finally, CARs potential in the education of accountants has been recognised and academics – as represented by a proportion of the CARs user respondents – pointed out that, although the curriculum for accounting students makes adequate provision for the study and research of CARs in respect of the statutory section (statement 29a), this was not the case for the discretionary/contextual section (statement 29b).

An issue that should be noted is that 52.1 percent users expressed the view that it would be useful if financial reporting were also to be done in digital format making use of XBRL (statement 28). Financial analysts, for example, could then extract comparable information from companies for analytical purposes in real time (implying immediately).

The above research results confirm many of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future research and for use in the CARs preparation processes. Overall, the research results support the hypothesis of this study that CARs are the information products of accounting practices in transition.

12.3.11 Chapter 11

A questionnaire with five statements, which was formulated making use of the literature review in chapters 1 to 6, was distributed to designers of CARs. The above individual research results will be of value to preparers of CARs in the designing process of the statutory sections of the MFIS and the discretionary sections of the DIS. They will also be important to the users of CARs.

The significant issues flowing from the questionnaires distributed to designers of CARs were firstly that the corporate communications departments of companies (statement 1a) play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS. Secondly, the financial departments of companies (statement 1b) are also important role players in instructing designers with regard to the design of CARs. Thirdly, that there is strong indication that different departments (statement 1c) are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS and that no one department plays a major role. Fourthly, the designer respondents indicated that they have undergone training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible (statement 2).

Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures of CARs. Fifthly, designer respondents indicated that there is a chance (42.8 percent agreed) that photos, graphics and graphs can convert negative aspects of a company into positive messages (statement 3). Again users need to develop an awareness of this fact when interpreting the disclosures presented in CARs. Sixthly, the designer respondents indicated that design devices, for example photos, graphics and graphs, might influence the perceptions of readers of CARs (statement 4), which highlights another research opportunity. Lastly, the respondents were divided on the issue of whether the design of CARs can be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible (statement 5).

12.4 Summary and conclusion

Accounting practices generate accounting information and CARs reflect these practices. The main goal of this thesis was to obtain an understanding of the nature of the accounting practices system as a whole.

The research views accounting practices in a broad sense and includes all accounting practices that generate disclosures in CARs. The study shows that CARs are the products of two main interrelated accounting practices systems, the first being the generally accepted accounting practices system and the second being the contextual accounting practices system. The first system uses accounting practices such as generally accepted accounting principles (GAAP), which include International Financial Reporting Standards (IFRS), International Accounting Standards (IASs), JSE regulations and the Companies' Act requirements, in producing information disclosed in CARs. The second system, in order to provide a complete picture of business entities, uses contextual accounting practices to produce the contextual information contained in CARs. These practices produce the information on the business environment, and provide an operating and financial review, overview of strategy, forward-looking information, key performance indicators and information on corporate governance and transparency, which is necessary to obtain a full understanding of the performance and position of a company. CARs now disclose more information than merely that contained in double-entry records.

The research results make the hypothesis of the study “CARs are the information products of accounting practices in transition” valid.

12.5 Recommendations

Some constructive suggestions are made as areas for improvement, rather than complete solutions to shortcomings. This work shows that CARs may be visualised as a product of two main interrelated information-processing systems, the first being the MFIS and the second the DIS. A better understanding of the interdependency of these interrelated systems, of which CARs is the product, would result in the full utilisation of CARs’ creative and innovative potential. Although this research reveals the communication of accounting concepts to be a difficult task (see chapter 9, par. 9.2.2, statement 29), CARs should be used as a communication tool for enhancing understanding; as a mechanism for explaining the economic reality (big picture) of a company: and as a vehicle for reducing the distance between disclosures and the users and their uncertainties and risks. An effective communication structure could be introduced in CARs. “Clear and logical structuring helps readers to retain more of the story – and to be convinced by it ... e.g. clear linkage from markets to strategy to key performance indicators to future goals” ... (Anon 1, 2006:6).

This research indicated that the main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions (see chapter 9, par 9.2.2, statement 31). The importance of communication is therefore further underlined, as CARs is the mechanism by means of which an interaction between entities and users occurs to generate and share information that is constantly escalating and being presented in different forms. CARs should be compiled in such a user-friendly way that users can get what they want from them without having to turn to an accountant for advice (ICAS, 1988). Preparers of CARs have an obligation to increase the comprehensibility of disclosures (FASB, 1978). CARs need not be prepared for either the layman or the financially illiterate person, but disclosures should be comprehensible to a reasonable person (Gouws & Cronjé, 2001:170). CARs should also represent the big picture of a company. Here an operating and financial review (OFR) (see chapter 9, par.

9.2.2, statement 17) that captures the whole story of entities' performance and prospects seen through the eyes of management could be incorporated in CARs.

This research has shown that, as accounting practices are in transition, the discretionary financial information reported in CARs, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles. Standard setters and preparers of CARs could take note of this essential feature when creating future accounting practices. It could happen, for example, that the value-added statement that currently still forms part of discretionary information could become statutorily required information in the future. In order to brighten up the boring nature of statutory disclosures, the use of graphs and visual displays, currently underutilised, could in the future play an enhanced role in the mandatory sections of CARs.

As hindsight is not the only instrument for judging a company's future potential (Anon 1, 2006:14), the disclosure of forward-looking information is essential. This research highlighted the importance of forward-looking disclosures (see chapter 9, par 9.2.2 statement 18c) (chapter 10, par 10.2.2 statement 9c). Anon 1 (2006:14, 16) suggests the following:

- A medium-term picture made up of
 - an explanation of market trends and prospects
 - an explanation of long-term objectives
 - an understanding of short-term strategic priorities to deliver on the objectives
 - key performance indicators used to measure strategic success, complete with targets
 - principal risks and uncertainties that may impact on long-term prospects
 - forecasts of market trends and factors likely to impact on the business
 - an understanding of how previous views on market trends and prospects compared with reality

The directors' report could be the ideal vehicle for a discussion on forward-looking information.

Feedback from users was an important issue flowing from this research. Companies could insert a questionnaire with a self-addressed envelope in the annual report for users to complete and return. If desired disclosures cannot be made in the statutory sections of CARs, because of regulatory burdens, they could always be disclosed in the discretionary sections of CARs, which is an open system that freely interacts with innovative new ideas. These disclosures would, sooner or later, if proven useful over time, be introduced into the statutory section of CARs as accounting practices, which are constantly in transition.

Finally, it is recommended that the curriculum of accounting students be expanded to cater for a complete study of the interrelated systems that drive reporting in CARs. This research has shown that knowledge of the DIS is currently a weakness in the curriculum of accounting students. The contributions of this study to the accounting sciences now follow.

12.6 Contributions of this study to the accounting sciences

From this study it may be concluded that, firstly, information is generated by a diversity of accounting practices, which are therefore worthy of research. Secondly, this research leads to an enhanced comprehension of the fact that these practices are driven by two systems that provide the information included in CARs. This shows that practices peripheral to traditional accounting practices also have an important role to play for educational institutions and accounting bodies. Thirdly, accounting practices should not be seen in isolation (i.e. only from an accounting perspective); but also as multidisciplinary. Fourthly, environmental practices and information, social practices and information, ethical practices and information, as well as management accounting practices and information, together with financial accounting practices and information, form the context within which reporting in CARs takes place. Fifthly, this study opens up

further research opportunities to see CARs in a new light and to research the quality, growth and adjustments of accounting practices that generate information in CARs. Sixthly, this study will further contribute to the body of accounting knowledge. Seventhly, the research reveals that the stepchild (discretionary accounting practices and information) of CARs is actually on the same level as statutory accounting practices and information. Eighthly, the research shows that statutory information cannot be meaningfully interpreted without contextual disclosures. Finally, this research will also be of assistance to entities in their CARs preparation process.

These contributions to the accounting sciences add to the full utilisation of CARs' creative and innovative potential. As statutory disclosures in CARs may, on their own, fail to give a complete picture of a company, it is necessary to complement statutory disclosures with discretionary disclosures. Therefore, in order to obtain a complete picture of an entity, the generally accepted accounting practices that generate statutory disclosures should not be seen in isolation, but must be studied together with the contextual accounting practices that generate contextual disclosures.

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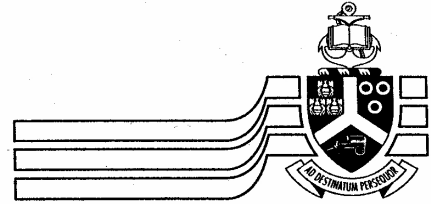
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University of Pretoria

Appendix A

Department of Financial Management

27 November 2006

Consent for participation in an academic research study

CORPORATE ANNUAL REPORTS (CARs):

ACCOUNTING PRACTICES IN TRANSITION

QUESTIONNAIRE TO PREPARERS OF CARs

Dear respondent

You are invited to participate in an academic research study conducted by Christo Cronje, a doctoral student in accounting sciences under the supervision of Professor Daan Gouws of the Department of Financial Management at the University of Pretoria.

The purpose of this study is to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players.

Some of the questions in the questionnaire are statements made by other researchers extracted from research literature. Relevant questionnaires have been sent to users and designers of CARs in order to elicit their opinions and perspectives.

The responses obtained from the individual questionnaires aimed at the preparers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

Your participation in this study is very important. You may, however, choose not to participate and you may also stop participating at any time without any adverse consequences.

An electronic copy of the final research study will be made available to all participants as soon as the research is completed. Please complete the questionnaire electronically if possible, which should take approximately 15 to 20 minutes and return it via e-mail as an attachment or fax or post the completed questionnaire before 16 January 2007 to the address below.

Should you require any further information, please do not hesitate to contact Christo Cronjé at:

Telephone:	082 920 7160
Fax:	(012) 429 3424 (Please mark for my attention)
E-mail:	cronjici@unisa.ac.za
Postal address:	AJH van der Walt Building Room 2-55 UNISA P O Box 392 Pretoria

Your responses to the enclosed questionnaire would be greatly appreciated. Thanking you in anticipation for your kind cooperation and assistance with this research project.

Yours sincerely,
Christo Cronje

I understand that the information I provide will only be used for the purposes of this research project and that I will remain anonymous. I confirm having participated under informed consent.	Please tick	
Consent: I give permission that the information I provide below may be used for research purposes (which will not in any way be to my disadvantage or detriment).	Yes	
	No	

Your participation is very important. However, you may at any point in the survey cease your participation without being negatively affected. Please confirm that you are aware of this.

P			
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The main sector in which the company operates is: (Please select one option only)	Sector	Please tick	Official	
	1. Basic Materials			
	2. Oil & Gas			
	3. Industrials			
	4. Consumer Goods			
	5. Health Care			
	6. Consumer Services			
	7. Telecommunications			
	8. Financials			
	9. Technology			
	10. Development Capital			
	11. Venture Capital			
	12. Additional			
	13. Alternative Exchange			

Questionnaire for the financial director to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all the relevant role players

The following rating scale is used:

- S/D** Strongly disagree
D Disagree
U Unsure
A Agree
S/A Strongly agree

NB: Please first read through all the statements carefully and then answer using a ✓ to indicate your choice in **each** case.

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
The growth of CARs:							
1	Business reporting evolved over centuries and was typified by slow, random and reactive growth.						(18)
2	Business reporting is in an expansionary phase.						(19)
3	Current and emerging business practices will influence the evolution of accounting practices in the future.						(20)
4	The information disclosed in CARs is continuously escalating and being presented in different formats						(21)
Information systems:							
5	Accounting practices, that capture and screen information, generate the statutory and discretionary disclosures in CARs						(22)

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
6	CARs are normally divided into two sections, i.e. the statutorily required financial information as well as the discretionary disclosures.						(23)
7	CARs can be visualised as the product of information systems, representing an interaction between the entity and stakeholders to generate and share information.						(24)
8	The interdependency of interrelated systems, i.e. the system that generates statutory disclosures and the system that generates discretionary disclosures in CARs, results in the disclosure of balanced information in CARs.						(25)
9	CARs that are driven by user needs represent <i>inter alia</i> a system responsible for generating statutory disclosures governed by generally accepted accounting practices (GAAP) and a system responsible for generating discretionary disclosures.						(26)
10	There is an interrelationship between these systems (refer 9).						(27)
11	Business information created by accounting practices has the potential to become discretionary or statutory information in CARs.						(28)
12	The discretionary information reported in CARs, if proven useful over time, has the potential of being accepted and disclosed as statutory information.						(29)
13	GAAP should be rule based as opposed to principles based.						(30)
14	It would be useful if financial reporting could also be done in digital form making use of "eXtensible Business Reporting Language" (XBRL).						(31)

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
Quality features:							
15	Although the ultimate responsibility for the preparation of CARs is the directors (represented by the Chief Executive) of publicly listed companies, the following department(s) is/are entrusted with the preparation of the following sections of CARs:						
a	The financial department is entrusted with the accumulation and preparation of the mandatory information section (e.g. the statutorily required financial statements and notes) of CARs.						(32)
b	The finance department is entrusted with the accumulation and preparation of the discretionary (voluntary) information section (e.g. including integrated sustainability reporting, corporate governance matters and other discretionary [voluntary] reporting.) of CARs.						(33)
c	The investor relations department has the opportunity to advise on the types of information that should be disclosed in CARs.						(34)
d	The finance department is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).						(35)
e	The corporate communications department is entrusted with the final preparation of CARs using the mandatory information as in a) and the discretionary information as in b) and the information as in c).						(36)

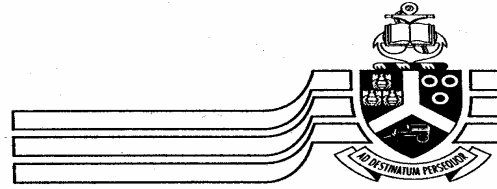
		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
16	The CARs preparation process involves a team effort, where several departments work together.						(37)
17	An operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management, should be incorporated in CARs.						(38)
18	The directors' report should include an 'Enhanced Business Review' (EBR) covering, <i>inter alia</i> , a discussion of –						
a	the operating results						(39)
b	the financial situation						(40)
c	forward-looking information						(41)
d	business risks						(42)
19	Interim financial reports covering the same financial period as CARs are/should be included in CARs.						(43)
20	An independent analyst's report should be part of CARs.						(44)
21	The business information in CARs that is not useful or comprehensible must be discarded or replaced.						(45)
22	Images and colour improve the meaningfulness of the information in CARs and create a playful and relaxed atmosphere.						(46)
23	External professionals are used to prepare the photographs, tables and graphs in CARs.						(47)

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
24	In CARs “good news” is written and presented in such a way that it is easier to read.						(48)
25	In CARs “bad news” is written using long sentences with complex grammatical structures in order to mask and deflect the readers’ attention.						(49)
26	It is my view that CARs provide –						
a	credible statutory information						(50)
b	credible discretionary information						(51)
27	The quality of disclosures in CARs results in lower risk premiums.						(52)
Business communication							
28	The corporate annual report is the primary communication channel of a company.						(53)
29	To communicate accounting concepts is a difficult task.						(54)
Decision usefulness							
30	The objective of business reporting in CARs has moved away from a narrow approach to accountability to a much wider portrayal by providing information to heterogeneous users for decision-making purposes.						(55)



		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
31	The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions.						(56)
32	CARs provide users with enough information about future benefits for their decision making.						(57)
33	The CARs objective is to enable users to predict the future prospects of the entity.						(58)
34	CARs are not intended for the average layman.						(59)
35	CARs must also provide for feedback from users.						(60)

Feel free to add any comments on a separate page with reference to the statements above.



University of Pretoria

Appendix B

Department of financial management

18 January 2007

Consent for participation in an academic research study

CORPORATE ANNUAL REPORTS (CARs):

ACCOUNTING PRACTICES IN TRANSITION

QUESTIONNAIRE TO USERS OF CARs

Dear respondent

You are invited to participate in an academic research study conducted by Christo Cronje, a doctoral student in accounting sciences under the supervision of Professor Daan Gouws of the Department of Financial Management at the University of Pretoria.

The purpose of this study is to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players.

Some of the questions in the questionnaire are statements made by other researchers extracted from research literature.

Relevant questionnaires have been sent to preparers and designers of CARs in order to elicit their opinions and perspectives.

The responses obtained from the individual questionnaires aimed at the users of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

Your participation in this study is very important. You may, however, choose not to participate and you may also stop participating at any time without any adverse consequences. An electronic copy of the final research study will be made available to all participants in this study as soon as the research is completed.

Please complete the questionnaire electronically if possible, which should take approximately 10 to 15 minutes, and return it via e-mail as an attachment or fax or post the completed questionnaire before 7 February 2007 to the address below.

Should you require any further information, please do not hesitate to contact Christo Cronjé at:

Telephone:	082 920 7160
Fax:	(012) 429 3424 (Please mark for my attention)
E-mail:	cronjci@unisa.ac.za
Postal address:	AJH van der Walt Building Room 2-55 UNISA P O Box 392

Pretoria
0003

Your responses to the enclosed questionnaire would be greatly appreciated. Thanking you in anticipation for your kind cooperation and assistance with this research project.

Yours sincerely

Christo Cronje

I understand that the information I provide will only be used for the purposes of this research project and that I will remain anonymous. I confirm having participated under informed consent.	Please tick	
	<input type="checkbox"/>	<input type="checkbox"/>
Consent: I give my permission for the use of the information I provide below to be used for research purposes (which will not in any way be to my disadvantage or detriment).	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

Your participation is very important. However, you may at any point in the survey cease your participation without being adversely affected. Please confirm that you are aware of this.

U	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5

As a user of corporate annual reports, I fall into the following category: (please select one option only)	User	Please tick	Official	
	1. Financial advisor and investment analyst	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	2. Stockbroker	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	3. Portfolio and asset manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	4. Corporate financier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	5. Credit and risk manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	6. Corporate strategist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	7. Private investor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	8. Market researcher	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	9. Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	10. Government department and agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Academic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	12. Other: (Please identify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16-17

**Questionnaire for users to determine
the extent to which CARs are the information products
of accounting practices in transition and to
research the contribution of all the relevant role players**

The following rating scale is used:

S/D Strongly disagree
D Disagree
U Unsure
A Agree
S/A Strongly agree

NB: First read through all the statements carefully and then answer using a ✓ to indicate your choice in **each** case.

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
The growth of CARs:							
1	Information in CARs is constantly escalating and presented in different formats.						(18)
Information systems:							
2	I mainly use the statutory information (e.g. the financial statements) presented in CARs because it is more reliable and standardised.						(19)
3	I mainly use the discretionary information presented in CARs because it is more flexible and relevant.						(20)
4	As the statutory and discretionary information in CARs complement each other, I make use of both these sources of information.						(21)
5	Narrative disclosures in CARs are more understandable than numbers and ratios.						(22)

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
6	It is my view that CARs provide –						
a	credible statutory information						(23)
b	credible discretionary information						(24)
Quality features:							
7	The information in CARs is difficult to understand.						(25)
8	An operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management, should be incorporated in CARs.						(26)
9	The directors' report should include an 'Enhanced Business Review' (EBR) covering, <i>inter alia</i> , a discussion of –						
a	operating results						(27)
b	the financial position						(28)
c	forward-looking information						(29)
d	and business risks						(30)
10	An independent financial analyst's report should form part of CARs.						(31)
11	Interim financial reports covering the same financial period as CARs should be included in CARs.						(32)
12	Monthly averages of working capital should be included in CARs.						(33)

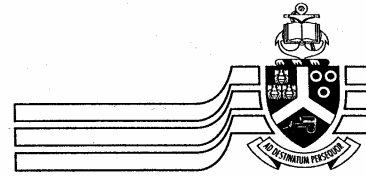
1	2	3	4	5	
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		S/D	D	U	A	S/A	
13	In CARs photographs add value to the company profile.						(34)
14	In CARs graphs enhance the interpretation of numbers.						(35)
15	The disclosure of bad news regarding environmental and social issues is often avoided in CARs.						(36)
16	I would like to see more disclosure on intellectual capital.						(37)
Business communication:							
17	I perceive that corporate executives use CARs to boost the image of the company.						(38)
18	Positive messages in CARs are highlighted, whereas negatively valued messages are avoided.						(39)
Decision usefulness:							
19	The main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions.						(40)
20	The objective of business reporting in CARs has moved away from a narrow approach of accountability to a much wider portrayal, by providing information to heterogeneous users for decision-making purposes.						(41)
21	Various stakeholders make demands on the information in CARs, and these should be provided for on an equal basis.						(42)

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
22	CARs as an information carrier should provide stakeholders with information that would help to minimise the risks (e.g. investment risks) they are faced with.						(43)
23	CARs are knowledge-sharing documents into which stakeholders can tap into for investment risk-reducing information.						(44)
24	CARs are not the only means of obtaining information of listed entities for decision-making purposes. There are other sources of information that can be used.						(45)
25	Users of CARs are not able to understand what is being communicated, as they are technically incapable of creating meaning from the detail in such document.						(46)
26	CARs should provide an observable feedback section for users.						(47)
27	Information in CARs that is not useful or comprehensible should be adapted or replaced.						(48)
28	It would be useful if financial reporting were also to be done in digital form making use of “eXtensible Business Reporting Language” (XBRL).						(49)
29	Only for academics: The curriculum for Accounting students makes adequate provision for the study and research of corporate annual reports in respect of –						
a	the statutory section						(50)
b	the discretionary/voluntary section						(51)

Feel free to make comments on a separate page.



University of Pretoria

Department of Financial
Management

27 November 2006

Appendix C

Consent for participation in an academic research study

CORPORATE ANNUAL REPORTS ("CARs"):

ACCOUNTING PRACTICES IN TRANSITION

QUESTIONNAIRE TO DESIGNERS OF CARs

Dear respondent

You are invited to participate in an academic research study conducted by Christo Cronje, a doctoral student in accounting sciences under the supervision of Professor Daan Gouws of the Department of Financial Management at the University of Pretoria.

The purpose of this study is to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players.

Some of the questions in the questionnaire are statements made by other researchers extracted from research literature. Relevant questionnaires have been sent to preparers and users of CARs in order to elicit their opinions and perspectives.

The responses obtained from the individual questionnaires aimed at the designers of CARs will be analysed and statistically processed into the final results. The information from the respondents will at all times be treated as confidential and will not be made available to any entity or third party. Neither your name nor that of your company will be linked to your contributions to this study. The data obtained from the questionnaires will be used for academic research purposes only.

Your participation in this study is very important. You may, however, choose not to participate and you may also stop participating at any time without any adverse consequences. An electronic copy of the final research study will be made available to all participants as soon as the research is completed.

Please complete the questionnaire electronically if possible, which should take approximately 5 to 10 minutes, and return it via e-mail as an attachment or fax or post the completed questionnaire before 25 January 2007 to the address below.

Should you require any further information, please do not hesitate to contact Christo Cronjé at:

Telephone:	082 920 7160
Fax:	(012) 429 3424 (Please mark for my attention)
E-mail:	cronjci@unisa.ac.za
Postal address:	AJH van der Walt Building Room 2-55 UNISA P O Box 392 Pretoria 0003

Your responses to the enclosed questionnaire would be greatly appreciated. Thanking you in anticipation for your kind cooperation and assistance with this research project.

Yours sincerely
Christo Cronje

I understand that the information I provide will only be used for the purposes of this research project and that I will remain anonymous. I confirm having participated under informed consent.	Please tick	
Consent: I give permission that the information I provide below may be used for research purposes (which will not in any way be to my disadvantage or detriment).	Yes	N o

Your participation is very important. However, you may at any point in the survey cease your participation without being negatively affected. Please confirm that you are aware of this.

Questionnaire for the designers of CARs to determine

the extent to which CARs are the information products

of accounting practices in transition and to research

the contribution of all the relevant role players

The following rating scale is used:

- S/D** Strongly disagree
- D** Disagree
- U** Unsure
- A** Agree
- S/A** Strongly agree

NB: First read through all the statements carefully and then answer using a ✓ to indicate your choice in **each** case.

		1	2	3	4	5	Official use
		S/D	D	U	A	S/A	
1	The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s):						
a	Corporate communications						(5)
b	Finance						(6)
c	Other						(7)
2	Designers generally have some training/experience in impression management i.e. a technique to present something in as favourable a light as possible.						(8)
3	By making use of photos, graphics and graphs, negative aspects of a company can be converted into positive messages.						(9)
4	As far as CARs are concerned, design devices, (e.g. photos, graphics, graphs) can be used to influence the perceptions of readers of CARs.						(10)
5	The design of CARs is viewed as an exercise in obfuscation i.e. a method to present the company in as favourable a light as possible.						(11)

Feel free to make any comments. Please use a separate page and refer to the above statements.

Appendix D

Responses of companies not prepared to partake in the survey

Not all companies were prepared to partake in the survey. Some responses received read as follows:

“... We thank you for the confidence in which you have approached us, but regret to inform you that we cannot assist you in this regard. The various companies in our group regularly receive requests of this nature, addressed either to the company for a corporate view or to individual directors and senior officials for a personal view. Requests range from scholars working on a theme, post-graduate students busy with doctoral theses through to questionnaires and surveys from different institutions. We appreciate the importance of such projects to the individual and in instances to the community but the various topics mostly include areas of sensitivity regarding philosophy, our business methods and management information what we regard as [being] of a confidential nature. Very often straightforward answers cannot be given because of the complexity of things and I am sure you would agree that the very quick answer often given “just to clear one’s desk” does not enhance the value of your research. It is furthermore difficult to decide which merit the time and attention required and which do not. It would also give offence to those who are refused if others are replied to. It is therefore our policy not to complete surveys and we hope that you appreciate our point of view. We do though wish you every success with your project ...”.

“... The study you are contemplating is noted with interest. However, we are being inundated with questionnaires of this nature issued by educational authorities, organisations doing research and post-graduate students over and above the compulsory questionnaires called for by government departments. These questionnaires all require the attention of senior personnel and we found that too much time of senior officials would be taken up if these questionnaires were all to be replied to. It would also be an invidious and in fact an impossible task to make a selection according to merit and importance. In view of the foregoing it has been decided not to participate in studies requiring the attention of senior officials and we consequently regret that your request to complete the questionnaire can unfortunately not be met ...”.

“... We regret that we are not able to participate in your survey as our available staff are currently engaged on another project ...”.

“... Due to work/time constraints we are unable to assist at this point in time ...”.

“... We unfortunately are inundated by requests from students in both South Africa and internationally to provide information. We unfortunately just do not have the time or the resources to comply with your request and we trust that you understand our position in this regard ...”.

“... We refer to the above subject and wish to advise that we decline to participate in this survey ...”.

“... Unfortunately our executives are currently on Road shows all over the country and will be unable to complete the survey ...”.

“... our FD is a very busy person, and it is not easy to find the time to respond to unsolicited questionnaires/surveys – which we receive on a frequent basis ...”.

Appendix E

Responses of users not prepared to partake in the survey

Investment Analyst's Society of SA (IASSA):

"... I would like to forward the attached questionnaire to members of the investment analyst society for their valued input ... Sorry can't help with this. I hope you have a representative sample from the others you have contacted ...".

Independent Regulatory Board of Accountants (IRBA):

"... I'm sorry. I know the cost of the labels is high. Unfortunately, this is the Board's policy. As a regulator we have to be very careful about making the information of our RA's available. For this reason we do not make any details available electronically, nor do we send e-mail out on behalf of other parties ...".

Mcgregor BFA:

"... Mcgregor BFA is owned by MWEB Business and as such is governed by certain codes of conduct and good practice surrounding our position as a leading ISP. Within these codes we are restricted in what we may send out to our client base. With this in mind we, unfortunately, will not be able to send your survey onto our user groups ...".