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The Future of Business Reporting: A Review Article

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ABSTRACT

Significant changes in the corporate external reporting environment have led to proposals for fundamental changes in corporate reporting practices. Recent influential reports by major organisations have suggested that a variety of new information types be reported, in particular forward-looking, non-financial and soft information. This paper presents a review and synthesis of these reports and provides a framework for classifying and describing suggested information types. The existence of academic antecedents for certain current proposals are identified and the ambiguous relationship between research and practice is explored. The implications for future academic research are discussed and a research agenda is introduced.

<u>Keywords</u>: *Business reporting; corporate reporting; events accounting; financial reporting; research-practice link.*

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INTRODUCTION

In recent years, a fundamental reappraisal of the nature and content of corporate external reporting has occurred outside the academic accounting community. Prompted by changes in the reporting environment and in business practices, many professional accountancy bodies, regulators and other interested organisations have re-examined, in whole or in part, aspects of the reporting package. Although this re-examination is occurring throughout the developed world, the fundamental review of company law that is underway in the UK brings these issues to the forefront. A recent interim consultative document has indicated a willingness to introduce any legal changes necessary to facilitate desirable changes in company reporting (DTI, 1999). Regulatory reform in this area will enable significant change in UK corporate reporting to take place in the near future.

Perhaps surprisingly, this debate surrounding corporate reporting has occurred without significant comment by, or contribution from, the academic community. However, the relationship between research and practice is complex and not well understood (Lee, 1989). On close inspection, several of the changes currently being debated can be traced to ideas which first emerged in the academic literature several decades ago. These ideas, however, failed to develop and influence practice at that time.

The primary purpose of this article is to provide a readily accessible descriptive overview of the proposals contained in recent non-academic reports concerning the nature and content of corporate external reporting. The common themes to emerge from these reports are synthesised into a coherent framework for conceptualising these proposals. It is intended that this overview will provide both educators and academics interested in pursuing research in the area with a useful gateway to the relevant professional literature. There are two secondary objectives. The first is to identify the academic antecedents of certain proposals and discuss the ambiguous relationship between research and practice. The second is to introduce an agenda for future academic research.

The remainder of this paper is structured as follows. The second section comments on the evolutionary nature of corporate reporting, describes the recent forces driving the proposed fundamental changes in corporate reporting practices, and identifies the weaknesses of the traditional corporate reporting model. The following section reviews recent influential reports on the future of corporate reporting produced by significant organisations in the US and the UK. A synthesis of these reports is presented in section four, where five distinct aspects of proposed developments in corporate reporting are identified. The last major section, section five, traces the historical academic antecedents of current proposals, discusses the research-practice link, and comments on the implications for future academic research. A final short section concludes.

RECENT FORCES DRIVING FUNDAMENTAL CHANGE

Throughout its history, financial reporting has evolved continuously. As a service activity, the practice of accounting must respond to changes in the context in which it operates. Changes in manufacturing industry brought about by the Industrial Revolution (especially the rapid increase in the scale of business activity) were responsible for much of the early development of financial accounting in the UK. Related significant influences include the emergence of the corporate form (and hence the divorce of ownership from control), the development of active markets for shares, the formation of professional accounting associations, and the regulation of accounting and auditing practices (Ryan, Scapens and Theobald, 1992, pp.67-68). In recent times, the professional bodies have sought to monitor the environment, identify key changes, and develop strategies to accommodate these changes. Changes in accounting practice are highly pragmatic, drawing upon academic research in a selective manner.

However, the pace of change has not been uniform. It is possible that the Technological Revolution may mark a further period of intense change in the course of development of corporate reporting practices. The rapid developments in information and communications technology, in particular, have led to the transformation of the global infrastructure. We now have global capital markets, widespread electronic commerce, and short-term strategic corporate alliances. Business is increasingly flexible and consumer-driven, rather than producer-driven.

Allied to this there has, since the late 1980s, been a steep rise in the market value of companies relative to the book value of their assets (i.e., the valuation ratio) (Higson, 1998, p.142). This appears to be due, in large part, to the growing importance of service and knowledge-based companies relative to traditional manufacturing companies.[1] 'Soft' assets, in particular human capital and intellectual property, are critical to these companies. In recent years, management practices have embraced the use of a balanced scorecard, which recognises that corporate value depends on a range of critical success factors, with accounting measures lagging behind non-financial performance indicators (Kaplan and Norton, 1996).

In relation to business information, there is no longer any significant technological or cost constraint on the amount of information that can be disseminated. Moreover, sophisticated, user-friendly software agents provide the user with effective decision-support facilities.[2] The Internet provides an efficient means of electronic information dissemination to external parties, potentially on a real-time basis.

Given these far-reaching changes in the general environment, business practices, and business information technology, it is not surprising that the relevance of the traditional corporate reporting model is being called into question. Five key features of the traditional corporate reporting model are coming under attack. The arguments being presented by critics (for example, in many of the reports considered in the next section) are as follows. First, the fundamental entity and going-concern assumptions upon which the current reporting model is based are undermined by short-term strategic alliances. This is because companies are no longer relatively stable groupings of the factors of production. The term 'virtual organisation' is increasingly used to refer to such transient organisations comprising 'soft' assets. Second, the periodic nature of current reporting sits uncomfortably with the real-time nature of modern information flows. Third, the high degree of information aggregation is no longer necessary or desirable, since large quantities of information can now be conveyed cheaply and reliably. Moreover, sophisticated software agents support search and analysis by users, thus reducing the problem of information overload. Fourth, the historical, backward-looking perspective of the traditional model is not fully consistent with the manufacturing and commercial flexibility now required for company survival and success. As the pace of change quickens, the past becomes a less useful predictor of the future. This signals the need for more forward-looking, strategic information. Finally, the traditional model, rooted in financial information, is shown to be incomplete and partial when set against the broad range of financial and non-financial performance measures now widely accepted as useful indicators of corporate success. Non-financial information relating to critical success factors such as customers, employees, and products is needed. These disparities are summarised in **Table 1**.

[Table 1 about here]

SUMMARY OF RECENT INFLUENTIAL REPORTS

As a consequence of this misfit between the traditional corporate reporting model and the modern business world, various organisations around the world have begun to examine the future of corporate external reporting. The two countries that have been at the forefront of this debate are the US and the UK. The American Institute of Certified Public Accountants (AICPA) (1994) report represents a significant point in the development of this debate. Although not a turning point, this report marks the start of the latest phase in the ongoing discussion.[3] This phase has, to date, received little attention in the academic literature.

A few of the reports that follow The Jenkins Report have little original empirical content or analysis and serve principally to endorse (perhaps with some slight variation) the recommendations of earlier reports. Others attempt to drive out more specific recommendations from original empirical evidence and therefore are characterised by a greater degree of independent thinking. Even in the former case, however, the official endorsement of views and recommendations by an organisation is of significance in itself, even if no new knowledge is added. The scale of this significance depends upon the esteem and influence of the organisation.

In the US, the most significant organisations engaging in the debate about the future of business reporting are the AICPA, Wallman (a commissioner of the Securities and Exchange Commission), and the Financial Accounting Standards Board (FASB). The international accountancy firm Price Waterhouse (now PricewaterhouseCoopers) has also produced reports in this area. In the UK, the most significant organisations are the Royal Society of Arts (RSA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS), the Foundation for Performance Measurement (FPM), and the Department of Trade and Industry (DTI). A list of the principal reports, giving references, is provided in **Table 2**.

[Table 2 about here]

US reports

One of the most influential documents worldwide has been the report of The Special Committee on Financial Reporting set up by the American Institute of Certified Public Accountants (AICPA, 1994), known as The Jenkins Report, and formally titled *Improving Business Reporting – A Customer Focus.* This report proposes a 'comprehensive' model of business reporting that includes a 'broader, integrated range of information'. The principal information categories are: financial and non-financial data; management's analysis of this data; forward looking information; information about management and shareholders; and background company information. These five broad categories encompass ten distinct elements, as shown in **Figure 1**.

[Figure 1 about here]

Flexible auditor involvement with business reporting is recommended, whereby the elements of information on which auditors report, and the level of auditor involvement with those elements, are mutually agreed by the company and the users of its business reporting. It is recognised that a different (lower) level of assurance will be appropriate for some elements.

Wallman (1995) proposes a piecemeal, partial solution to the critical issues faced by financial reporting, including additional reporting of soft assets and business risks and on-line access to large sections of the company's management information system. Subsequently, Wallman (1996) proposed an integrated, comprehensive solution to these problems. **Figure 2** provides a visual interpretation (developed by the present author) of Wallman's 'colorized' model. This model, to be contrasted with the current 'black and white' model, defines a spectrum of disclosure based on the extent to which items meet existing recognition criteria, i.e., whether an item: meets the definition of the element; is measurable with reliability; and is relevant. The core would broadly correspond to current financial statements. Information in the layers outside the core would increasingly raise definitional, reliability and measurement concerns (e.g., regarding intellectual capital) and be subject to a lesser degree of attestation. To fully exploit developments in information technology, Wallman (1997) proposes a disaggregated, user-controlled 'access' model.

[Figure 2 about here]

The AICPA set up The Special Committee on Assurance Services (The Elliott Committee) in 1994, with a final report appearing in late 1996 (AICPA, 1996). A new concept of professional service was developed (assurance services) to serve as the foundation for new opportunities for the accountancy profession. Assurance is defined broadly as 'independent professional services that improve the quality of information, or its context, for decision makers', a definition which embraces both the reliability and relevance of information. Based on this definition, assurance services encompass, but are not confined to, attestation services. Attestation services require the issuance of a written report that expresses a conclusion about the reliability of a written assertion made by another party (SSAE No.1, AICPA, 1993). The level of service in attestation engagements is currently limited to audit examination, review, and the application of agreed-upon procedures. Thus, the traditional financial *audit* is but one form of *attest* service which is, in turn, but one form of *assurance* service. All involve independent verification.

Three of the six main new service opportunities identified by the committee concern external corporate reporting. These are risk assessment, business performance measurement, and information systems reliability. The Elliott Committee's view was that, while external users will eventually demand these new services, demand will initially stem from the company management.

The Financial Accounting Standards Board (FASB), the US standard-setting body, has launched a sample business information reporting package on its website (FASB, 1998a). This illustrates how a company might use the Internet to respond to the information needs of investors and creditors as understood by the AICPA Special Committee on Financial Reporting (The Jenkins Report). Entitled *FauxCom*, this fully integrated web-based package has been specifically designed to exploit the search, selection and analysis capabilities of modern technology. The package allows drilling down to the desired level of detail and provides navigation buttons which allow the user to jump between the financial statements, the related notes, five-year summaries, and the Management Discussion and Analysis (MDA). Graphs are available at the press of a button and information can be downloaded directly to Excel files.

FASB has also established a *Business Reporting Research Project* that follows on from the 1994 Jenkins Report. It expects to report in the year 2000 (FASB, 1998b). It is looking at the voluntary disclosure practices of business information in ten selected industries with a view to generating a set of recommended disclosures for each. It is also considering the implications of electronic delivery of business information.

The international accountancy firm Price Waterhouse (PW) propose enhanced, voluntary disclosure of future-oriented information covering both financial and non-financial performance measures. PW calls its proposed reporting model *ValueReporting*™, and offers an illustrative report (Blueprint Inc.) showing the possible structure and content of corporate reporting in the future (Wright and Keegan, 1997). The chief executive officer's letter includes an overview of the principal financial and non-financial 'value drivers'. Following this, there is a detailed quantification of financial value drivers, customer value drivers, people value drivers, growth and innovation drivers, and process value drivers. Subsequently, as PricewaterhouseCoopers (PwC), they published a series of surveys of preparers and users in Western countries during 1997 and 1998 (Coleman and Eccles, 1997; Eccles, Phillips and Richards, 1998; and Eccles and Kahn, 1998) that confirm the existence of a wide 'information reporting gap'.

UK reports

In the UK, the Royal Society for Arts produced an report in 1995, entitled *Tomorrow's Company* (RSA, 1995), that has received considerable media attention. This inquiry proposed a more inclusive, non-adversarial approach to both business practices and financial reporting, intended to support sustainable success. To achieve this, it is argued that there would need to be relatively greater use of non-financial performance measures.

In 1998, the RSA, under the auspices of the *Centre for Tomorrow's Company*, issued *Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report* (RSA, 1998). This proposes a largely narrative, core document, available on the Internet, for stakeholders, supplemented by detailed reports covering financial, value chain, people, and sustainability issues. **Figure 3** provides an interpretation of the RSA proposals.

[Figure 3 about here]

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a number of documents which address specific issues relating to the future of corporate reporting. Most notably, the ICAEW has suggested a framework for the comprehensive reporting of risk (ICAEW, 1997) and has considered the implications of digital technology (ICAEW, 1998a; and Spaul, 1997). At a one-day conference, the ICAEW launched an interactive, prototype annual report structured as a core report with supplementary reports (ICAEW, 1998b). In his opening speech, the President, Chris Swinson, referred to users' dissatisfaction with historical-cost financial information and their consequent interest in alternatives. He cited three reasons why the profession should pay more attention to complaints about the usefulness of traditional reports. These are: the growing importance of assets and risks *not* measured by historical cost accounts as determinants of a business' future success; the growing reliance by *some* users on direct meetings with companies as an information source, raising issues to do with equality of access; and changes in information technology (Swinson, 1998).

In 1999, The Institute of Chartered Accountants of Scotland (ICAS) published a discussion document prepared by its Research Committee entitled *Business Reporting: the Inevitable Change?* (ICAS, 1999). This presents a blueprint for business reporting based on detailed empirical research into interested parties' views about current financial reporting. Four key themes were investigated, arising from exploratory interviews:

- the cyclical nature of corporate communications and users' decision-making;
- the perception of differential user access to company information;
- differing concerns regarding information overload; and
- the need to create and maintain confidence in the company via the provision of assurance relating to business information.

Based on the survey evidence, seven proposals are made regarding the means of dissemination, the structure and content of the information provided, and the nature of related assurance services. Specifically, it is proposed that:

- large sections of the corporate database be made available to external users electronically;
- information within the database be layered, with links to external information sources;
- information be packaged using templates relevant to each stakeholder group to support non-expert users;
- records and minutes of company meetings be accessible electronically;

- additional forward looking, non-financial and soft information be available;
- database be updated more quickly and frequently; and
- multiple levels and forms of assurance be provided. A more detailed statement of these proposals is provided in **Figure 4**.

[Figure 4 about here]

The Foundation for Performance Measurement, was set up by the consulting, skills development and technology group Metapraxis Ltd. Its mission is ‘to extend the scope of enterprise performance measurement beyond the conventional focus on internal, historic, financial numeric and short-term information’ (FPM, 1999a). A recent report, *The Well-Rounded Annual Report*, assesses the extent and quality of disclosures by the top 100 listed UK companies in relation to 19 performance measures covering five themes (financial, activity, development, environmental, and relations). Generally, low levels of disclosure and a lack of benchmarks were found (FPM, 1999b).

The British government launched a major review of company law in March 1998 (DTI, 1998).[4] In February of this year, a further consultation document was issued by the Company Law Review Steering Group (DTI, 1999). This document indicates a willingness to introduce any legal changes necessary to facilitate desirable changes in company reporting. A key issues raised in this context was the relative merits of ‘enlightened shareholder value’ versus ‘pluralist’ approaches to achieving maximum prosperity and welfare for all participants in the enterprise (chapter 5.1). This impacts on whether accountability extends beyond shareholders and creditors. In addition, the implications of information and communications technology (chapter 5.7), and high level reporting and accounting issues (chapter 6) were covered.

The particular reporting and accounting issues addressed include the failure of existing accounting standards to consider future business prospects, business risks and ‘softer’ assets, such as intellectual and human capital; the scope of the auditor’s involvement with annual reports; the growth of non-statutory reporting in the annual report, much of which is non-financial and forward-looking; and the impact of electronic communication.

To address the substantive issues, three Working Groups have already been set up and a further seven are planned (of which one is to consider ‘Accounting, Reporting and Disclosure’). Further consultation is envisaged in December 1999 and September 2000.

ASPECTS OF CORPORATE REPORTING RE-EXAMINED

From the above summary, it can be seen that the current re-examination of corporate reporting embraces five distinct aspects: the parties to whom the company has an obligation (including a reporting obligation), the means of disseminating information, the content of the reporting package, the need for assurance services in relation to new information types, and the need for regulatory reform. Each of these aspects is considered, in turn, in the following sub-sections.

The parties to whom the company has an obligation to report

In the early 1970s, great attention was given to the objectives of financial statements. It became generally accepted that the primary objective of financial accounting should be to aid users in their decisions. In the UK, *The Corporate Report* (ASSC, 1975) identified seven legitimate user groups, such as employees, customers and suppliers. Despite this, investors are currently viewed as the 'defining class of user' (ASB, 1999, para.1.10)

However, the consultation document issued by the Company Law Review Steering Group (DTI, 1999, ch.5) reopens the debate regarding the participant groups in whose interests a company should be run. It distinguishes between the 'enlightened shareholder value approach', in which management run the company with the exclusive objective of maximising shareholder value, and the 'pluralist approach', in which a wider range of interests is valid and has to be balanced. It is the former approach that is currently enshrined in law and, hence, companies' reporting obligations do not extend to stakeholder groups other than shareholders. In proposing an 'inclusive, non-adversarial' approach both to business practices and corporate reporting, the RSA is voicing support for the pluralist approach.

Means of disseminating information

Wallman (1997), FASB (1998a), ICAEW (1998a,b), ICAS (1999), and the company law review (DTI, 1999, ch.5.7) all address explicitly the impact of information and communications technology on corporate reporting. The Internet is generally viewed as the principal means of information dissemination in the future. This technology allows anyone with a telephone line and a networked digital terminal to access any database connected to the network and to download information for their own use. The use of this technology has been growing exponentially over recent years, a trend that is expected to continue. Commercial websites are increasingly being used as a reporting medium, with financial and other corporate information being included in addition to promotional and sales material. A recent study (Hussey and Sowinska, 1999) has shown that, in March 1998, 91 of the FTSE 100 companies had a website, 63 of which included financial disclosures. Fifty-four included detailed accounts, 45 included an interim statement, 17 included their preliminary statement, 12 included a summary statement, and 26 included financial highlights. Yet the Auditing Practices Board (APB) has confirmed that auditors do not currently have any responsibility for financial information on the Web. The Board acknowledges, however, that it would be possible for auditors to offer an opinion on whether a company has controls in place to ensure reliable online information (APB technical director Jon Grant, quoted in Accountancy Age, 21st January 1999). (The issue of assurance generally is considered below.)

The Internet is also capable of supporting two-way communication, a feature that is exploited in the ICAS (1999) proposals relating to on-line questioning of management. This facilitates interaction between management and interested parties, thereby enhancing corporate governance structures. ICAS (1999, p.74) suggests that the two principal functions of the Annual General Meeting (the opportunity for questioning of management by shareholders and voting) could be conducted more effectively via the Internet.

Content of the business reporting package

The above summary of key influential reports gives an indication of the broad range of information types that have been suggested as part of the reporting package. It is apparent that there is a degree of overlap between the suggestions, but a detailed comparison is rendered extremely problematic due to terminological differences and variations in both the scope covered and the level of detail provided. This sub-section attempts to synthesise this material by providing a tentative framework for classifying and describing information types.

AICPA (1994), Wallman (1996), RSA (1995), Price Waterhouse (1997), ICAEW (1997; 1999a;b), ICAS (1999), FPM (1999), and DTI (1999) all address explicitly, either in general or specific terms, the content of the business reporting package. Their suggestions are based either on a combination of casual observation and logical argument or, in a few cases, on detailed empirical investigation. This reflects the two approaches that are used in practice to determine the content and presentation of corporate reporting, i.e., the normative approach (what users should know) and the empirical approach (what users want to know).

In general terms, there is a call for *more* information. This is because advances in information technology (in particular, sophisticated software agents) mean that large quantities of data can be searched and analysed based on the user's individual specifications. More specifically, however, there is a call for information that is forward-looking and/or non-financial in nature. This information may be quantitative or qualitative and is intended to augment, and not replace, the existing set of largely historical, financial information contained in the financial statements. There are two main reasons for this shift in the nature of the reportable information set. First, it is recognised that many non-financial performance indicators *lead* financial performance indicators, hence providing more up-to-date information about future prospects. This is important in a world where rapid change means that companies must be adaptable in order to survive. Second, it can be argued that the exclusive reliance on financial performance indicators, which appears to privilege the interests of shareholders, is inconsistent with the pluralist approach to business. Non-financial performance indicators, for example employee turnover and average delivery time, address the specific interests of these stakeholder groups directly.

Several of the reports share the concept of a business having key drivers of success that must be identified and communicated. Unfortunately, the terms used vary. The AICPA refers to 'critical success factors', Price Waterhouse (1997) refers to 'value drivers', while ICAS (1999) refers to 'drivers of company performance'. In the general call for more forward-looking and non-financial information, it is possible to identify four broad issues about which such information is considered desirable. First, there is forward-looking information about strategy. Second, there is information relating to risk. Third, the reports all tend to discuss (although at different levels of detail) value drivers and related non-financial performance measures (or performance indicators). The fourth and final area where additional information is required is background information, principally about the business of the company and the people who manage it. Each of these is now considered in turn.

The AICPA (1994), ICAS (1999) and ICAEW (1999a) explicitly mention the importance of. forward-looking information about strategy. Moving on to risk, while this concept relates to the future, historical information can be very useful in the assessment of certain risks, especially when combined with information on threats and opportunities. The AICPA (1994) discusses risk only generally under the heading 'forward-looking information'. ICAS (1999) identifies a number of specific sources of risk, ranked in a user survey in terms of their importance as drivers of company performance. Among 29 drivers, six risk-related drivers ranked highly as follows: vulnerability to competition ranked second, customer and supplier dependencies ranked tenth, while flexibility to technological change, vulnerability to exchange rate changes, vulnerability to interest rate changes, and vulnerability to changes in government policy all ranked between ten and twenty.

The most detailed proposals in relation to risk are contained in ICAEW (1997).[5] This discussion paper proposes a separate statement of business risk that not only brings together the current piecemeal disclosures required by various accounting standards and guidelines (e.g., SSAP 18, FRS 13, and the Operating and Financial Review), but radically augments them. This statement would identify and prioritise key risks, describe the actions taken to manage each risk, and identify how each risk is measured. The identification of key risks would be based on their likelihood and significance, perhaps using a risk mapping technique. Importantly, *all* types of business risk, rather than only financial risks, would be included. Thus, the statement of business risk would encompass external, environmental risks as well as internal risks, the latter of which could arise from operational, financial or other sources. A variety of possible measurement methods is considered. In a follow-up report, the ICAEW (1999b) rebut concerns regarding directors' legal liability and commercial sensitivity, noting that extensive risk disclosures are made in prospectuses. The need for a separate statement of business risk is, however, played down.

Non-financial performance measures are frequently grouped into 'themes', with the themes sometimes linked to the identified value drivers. For example, Price Waterhouse (1997) identifies four non-financial value drivers, relating to customers, people, growth and innovation, and process. RSA (1998) identifies three non-financial 'themes' as the basis for reports to supplement the core document: value chain, people, and sustainability. FPM (1999b) identifies four non-financial 'themes' around which to group performance measures: activity, development, environment, and relations. In each of these three examples, financial was an additional theme. Allowing for terminological differences, a consensus does seem to emerge from this. Four distinct themes appear to exist in addition to the financial theme: customer/relations/people; growth and innovation/development; sustainability/ environment; and process/value chain/activity.

Finally, 'background about the company' and 'information about management and shareholders' are two of the five broad categories of information proposed by the AICPA (1994). ICAS (1999) identify, through empirical investigation, 'quality of management' as the top driver of company performance and, consequently, recommend that detailed biographical information relating to the top management team be disclosed (pp.76-77).

In conceptualising this expanded information set, it is useful to think in terms of a hierarchy of information items, ranging from the general to the specific. This idea draws upon a framework that is emerging in the specific area of environmental reporting. There, a three level hierarchy has been developed as follows: *category* (highest, most general level), *aspect*, and *indicator* (lowest, most specific level). ‘Category’ refers to a general class or grouping of issues, such as air or energy. ‘Aspect’ refers to the specific issue about which information is reported (e.g., greenhouse gas emissions, energy consumed by source, energy efficiency). ‘Indicators’ refer to the actual quantitative measure of performance (e.g., metric tonnes of emissions, joules from a specific energy source) (FEE, 1999, p.22). It is argued here that this hierarchical concept can be applied equally to other subject areas (i.e., other themes).

It is possible to describe information items based on their character and attributes. In particular, within the literature it has become common to use the following three dichotomous descriptors: forward-looking versus historical; financial versus non-financial; and quantitative versus non-quantitative.

Figure 5 summarises the framework proposed here for the classification and description of information items in the business reporting package. This simple diagram, though underdeveloped, offers one way of organising the various sets of proposals into a coherent framework.

[Figure 5 about here]

Assurance services

Not surprisingly, fundamental changes in the business reporting package necessitate changes to the way in which that information is audited. AICPA (1996) is the seminal work relating to this changed set of practices. This report introduces the term ‘assurance services’ and provides a detailed examination of the issues. It is argued that the traditional attest function provides reliability assurance, with direct assurance on relevance representing a new field for the accountancy profession. Two forms of reliability assurance are distinguished: ‘data assurance’ which relates to specific data items and ‘system assurance’ which relates to the design and operation of an information system. If the anticipated move away from point-in-time to real-time corporate reporting occurs, then system assurance will become of increasing importance to users. Relevance assurances support the various stages of the user’s decision-making process, from problem definition, through information search, selection and analysis stages. Relevance services are more customised, targeted services compared to the highly structured audit services.

Given the importance to users of information about risk and non-financial performance measures in business reporting models (see above), assurance service opportunities relating to risk assessment and performance measures are clearly of direct relevance. They are types of data assurance. Given the move towards allowing external users access to large sections of the corporate database, potentially on a real-time basis, assurances relating to information systems reliability are also of direct relevance. This is system assurance.

ICAS (1999) identifies, based on its empirical research, 'confidence in business information' as one of four important themes relating to the corporate communications process. It proposes a shift towards the assurance of processes in addition to outputs and that multiple levels and forms of assurance be developed (p.79). It suggests that assurance seals could be tagged either to individual information items or to entire web pages, with electronic warnings at the gateways between assurance levels (p.82).

It is, however, clear from the available literature that, although the general direction and nature of future developments in assurance services in relation to business reporting have been mapped out, detailed methods and procedures have yet to be determined.

The need for regulatory reform

The regulations concerning corporate reporting in the UK emanate principally from statute and accounting standards, with the Stock Exchange listing requirements being a further consideration for listed companies. Currently, the information contained in a company's annual report and accounts is a mixture of mandated information (contained principally in the audited financial statements and the directors' report) and voluntary information. Indeed, over the years, the amount of voluntary information (disclosed mainly in the unaudited sections of the annual report) has been rising at a faster rate than the amount of mandated information (Lee, 1994). The auditors' responsibility with respect to other information in documents containing audited financial statements is limited to a review for material inconsistencies (APB, 1995).

The nature and scope of regulatory reform required to accommodate the proposed changes in business reporting depend largely upon whether the changes are made mandatory or not. If, for example, it becomes mandatory to provide information relating to strategy, risk, non-financial performance indicators, and background, then new financial reporting and assurance standards will clearly need to be developed. However, to date, commentators who have discussed regulatory requirements have proposed evolutionary, voluntary, user-driven change in the short-to-medium term (e.g., ICAS, 1999, pp.82-84). Indeed, surveys have shown there to be no significant support for mandating the disclosure of non-financial measures (Eccles and Mavrinac, 1995).

Yet even in this scenario, a degree of regulatory reform is likely. In the UK, the Financial Reporting Council (FRC) has set up a working party to consider extending the remit of the Financial Reporting Review Panel (FRRP) to the 'surrounds' of the annual accounts (FRC, 1999, p.9 and p.13). Moreover, the current company law review is considering the impact of information and communications technology on business reporting and 'high level' reporting and accounting issues. It is likely that regulatory reforms will seek to accommodate gradual change in business reporting, rather than mandate radical change.

HISTORICAL ACADEMIC ROOTS AND THE RESEARCH-PRACTICE LINK

Echoes of certain of the proposals currently being debated can be found in the academic literature of the 1960s and 1970s. In particular, the proposal that companies make larger sections of their corporate database available to the public is redolent of events accounting, where users select their own decision inputs. Also, the proposal for information on intangible assets is consistent with the academic interest in human resource/asset accounting decades before. These observations inevitably raise important questions regarding the nature of the relationship between research and practice. For example, if current proposals are truly 'rooted' in these academic ideas, why have they taken so long to flourish? If, on the other hand, there is no link between the two, what role does research have in the development of the proposals regarding corporate reporting? Historical events have provided an important opportunity to further our understanding of the research-practice link. The implications for future academic research can then be assessed.

Events accounting

In 1969, Sorter published an important article that suggested a radical alternative to traditional accounting, which he criticised for providing standardised inputs to serve a wide range of end users (Sorter, 1969). He proposed an 'events approach' which is 'one level removed in the decision making process ... [allowing] individual users to generate their own input values for their own individual decision models' (p.13). Contrasting the events approach with the traditional 'value approach', Sorter states that 'the real difference ... lies in what level of aggregation and valuation is appropriate in accounting reports and who is to be the aggregator and evaluator'. One year later, Johnson (1970) sought to define events and their reportable characteristics.

Both Sorter and Johnson considered the accounting issues at a conceptual level and did not address the mechanics of implementation. Shortly afterwards, however, a series of articles did investigate the potential of computers (i.e., electronic data storage, retrieval and manipulation) to support a disaggregated, end-user defined, events approach, termed a 'database approach' (Colantoni, Manes and Whinston, 1971; Lieberman and Whinston, 1975).

Since then, academics and commentators have intermittently returned to the subject, as the potential of relational databases, structured query language, and matrix based accounting, together with the wider issues of access and form of attestation, have been explored (Beaver and Rappoport, 1984; Pratt, 1987; Mepham, 1988; and Cushing, 1989). However, allied with modern decision-support software, the advent of the Internet has given fresh impetus to this conceptual model of reporting.

Human resource/asset accounting

Attempts to account for employees (now re-conceptualised as intellectual capital) also have a long tradition. A distinction must be drawn between human *resource* accounting, which is a development in managerial accounting, and human *asset* accounting, which is a financial reporting issue. Flamholtz is the acknowledged leading figure in the area of human *resource* accounting (see, for example, Flamholtz, 1974), while Hermanson (1964) opened up the area of human *asset* accounting. This interest in accounting for employees mirrored a general interest in social reporting during the 1970s and 1980s. The current resurgence is, however, precipitated by economic changes (principally the rise of knowledge-based companies) rather than social concerns.

The research-practice link

It is interesting to consider why the academic models of events accounting and human asset accounting so clearly failed to impact upon corporate reporting practices at the time of their development. This is especially the case, given that it is the profession (i.e., practice) that is now, twenty to thirty years later, at the forefront of the debate to introduce essentially the same concepts into modern business reporting.

A number of writers (academics and practitioners) have considered the nature of the relationship between research and practice in accounting (e.g., Baxter, 1988). Research is viewed normatively as a necessary companion to practice, capable of resolving practical problems (or at least providing *ex post* rationales for existing practices), providing authority to practitioners, and serving to legitimise professional practices. A distinction is usually made between basic research (of either a normative or positive nature) and applied research (concerned with practical problem-solving).

A clear gap between basic research and practice is observed to exist. Some argue that this is due to a failure to communicate (implying that the gap is capable of closure) (e.g., Zeff and Hofstedt, 1974). Others, however, provide a compelling argument that, whilst the existence of basic research in general is welcomed by practitioners (because, as argued above, it supports the profession), the specific outputs of basic research are consistently rejected. This is because basic research has the propensity to change existing practice radically, which in turn has the potential for upsetting the well-rewarded status quo. Thus, the specific outputs of basic research are seen as a serious threat (Lee, 1989).

The reports summarised in section three of this paper make little or no reference to the academic literature on events accounting or human asset accounting. It can be inferred that this literature had little (if any) impact on the content of these reports. While technology was a constraint on the immediate implementation of Sorter's events accounting, it was not the critical one. Lee's (1989) thesis explains why practice has taken so long to evolve along the path first discussed decades ago by academics. Until now, the incentive to embrace the academic concepts and models of events accounting and human asset accounting simply did not exist. When originally suggested, these ideas were perceived as a threat – there was no apparent demand for this type of new information and so to introduce it would upset the status quo. In today's environment, however, the absence of such information is bringing criticism upon the profession. The demand is there, and the technology to satisfy this demand exists, so the profession is now inclined to make changes. In other words, the profession has been forced to respond to the significant changes in the environment in which it operates, to seek to preserve its reputation and rewards in the provision of corporate information.

Thus, it is not surprising that the profession, and not the academic community, has spearheaded the recent proposals for change in business reporting.

Implications for academic research

It is, therefore, likely that the academic community's immediate role in developing these proposed new business reporting practices will be confined largely to research of an applied nature, designed to solve short-term, practical problems.[6] Out of all the reports reviewed above, only ICAS (1999) considers the implications of its proposals for future research and encourages academic contribution. Eleven areas are identified, of which three are general, five relate to the expanded information set, and three concern related assurance services. These eleven areas are summarised in **Figure 6**. A more detailed discussion of the research questions to be addressed can be found in ICAS (1999, pp.89-93).

[Figure 6 about here]

A great deal of academic research already exists concerning some of these areas (in particular, studies of corporate reporting practices, behavioural studies of users and capital-market studies of various disclosures). However, the need is for up-to-date research that permits *changes* to be identified and the impact of these changes examined. Moreover, the scope of such research must increasingly extend beyond the financial reporting package of the 1990s to the business reporting package of the next decade.

CONCLUSION

The modern corporate report is the product of financial accounting's gradual evolution into financial reporting. The former was concerned almost exclusively with the financial statements and related notes, while the latter refers to an expanded package containing a great deal of narrative, graphical, and photographic material. It appears that we are now on the brink of a further metamorphosis, as financial reporting evolves into business reporting. 'Business reporting' is the term used by both the AICPA (1994) and ICAS (1999) to signal the end of a focus on purely *financial* information. Allied to this, the traditional audit function (a market experiencing stagnant fee income) is now conceived as part of a broader range of assurance services.

Some changes have already occurred, while others are anticipated. These changes have been driven by external changes and are not research-led. Yet research now has a crucial role to play in the development of these new practices and procedures. The purpose of this article has been to provide a readily accessible descriptive overview of the proposals contained in recent non-academic reports concerning the nature and content of business reporting and offer a coherent framework for conceptualising these proposals.

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NOTES

[1] For example, recent changes in the composition of the FTSE 100 bring in Emap, the media group, Energis, the telecommunications group, and Misys, the software company (Accountancy, 1999, p.22).

[2] For example, I/B/E/S International Inc. recently launched *Active Express*™, a software product that can integrate any type of content, from almost any database irrespective of physical location. It incorporates a proprietary 'meta-data' architecture and a 'query-generator' program that uses artificial intelligence to retrieve data from any database, producing seamless integration (I/B/E/S, 1999).

[3] Key reports prior to 1994 include ASSC (1975), ICAS (1988) and ICAEW (1991).

[4] In Ireland, the Gallagher and McDowell Reports to the Irish government on company law raise similar issues.

[5] Earlier discussions of risk reporting published by professional bodies include Boritz (1990) and Accounting Standards Executive Committee (1994).

[6] The issue here is not the inherent *value* of both types of research; rather, it is the likely *impact* of each type on practice in the short-term.

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Table 1: Features of the Traditional Corporate Reporting Model Compared with Features of the Current Business Environment

Traditional corporate reporting model	Current business environment
Entity and going-concern concept	Prevalence of strategic, short-term alliances
Periodic	Real-time information flows
Highly aggregated	Disaggregated information
Historical, backward-looking perspective	Requires flexibility and hence forward-looking, strategic information
Focus on financial information	Focus on a broad range of performance measures as indicators of success

Table 2:Listing of Key Recent Reports on the Future of Corporate Reporting

Country	Organisation/Author	Report title(s)[1]	Year(s) of publication
US	American Institute of Certified Public Accountants (AICPA)	Improving Business Reporting – A Customer Focus: Meeting the Information Needs of Investors and Creditors (*The Jenkins Report*)	1994
US	Wallman	The Future of Accounting and Disclosure in an Evolving World: The Need for Dramatic Change; The Future of Accounting and Financial Reporting Part II: The Colorized Approach; The Future of Accounting and Financial Reporting Part IV: "Access" Accounting	1995; 1996; 1997
US	American Institute of Certified Public Accountants (AICPA)	The Report of the Special Committee on Assurance Services (*The Elliott Committee*)	1996
US	Financial Accounting Standards Board (FASB)	'Business Reporting Research Project'	Expected 2000
US/UK	Price Waterhouse, subsequently PricewaterhouseCoopers (authored by Wright and Keegan)	Pursuing Value: The Emerging Art of Reporting on the Future	1997
UK	Royal Society for Arts (RSA)	Tomorrow' Company; Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report	1995; 1998
UK	Institute of Chartered Accountants in England and Wales (ICAEW)	Financial Reporting of Risk: Proposals for a Statement of Business Risk; Performance Measurement in the Digital Age; The 21st Century Annual Report Inside Out: Reporting on Shareholder Value No Surprises: The Case for better Risk Reporting	1997; 1998a; 1998b 1999a 1999b
UK	Institute of Chartered Accountants of Scotland (ICAS)	Business Reporting: The Inevitable Change?	1999
UK	Foundation for Performance Measurement (FPM)	The Well-Rounded Annual Report	1999b
UK	Department of Trade and Industry (DTI)	Modern Company Law for a Competitive Economy; the Strategic Framework	1999

Note 1: The items by Wallman were published as articles in the academic journal *Accounting Horizons*. Because of Wallman's position as SEC Commissioner they have, for the purposes of this review, been included with reports published by organisations.

Figure 1: Information Categories Proposed by AICPA (1994)

Financial and non-financial data:

- Financial statements and related disclosures
- High level operating data and performance measurements that management uses to manage the business

Management's analysis of financial and non-financial data

- Reasons for changes in the financial, operating, and performance-related data, and the identity and past effect of key trends

Forward-looking information

- Opportunities and risks, including those resulting from key trends
- Management's plans, including critical success factors
- Comparison of actual business performance to previously disclosed opportunities, risks, and management's plans

Information about management and shareholders

- Directors, management, compensation, major shareholders, and transactions and relationships among related parties

Background about the company

- Broad objectives and strategies
- Scope and description of business and properties
- Impact of industry structure on the company

Source: AICPA (1994) *Improving Business Reporting– A Customer Focus*, p.136.

Figure 2: A Visual Representation of Wallman's (1996) Colorized Model of Financial Reporting

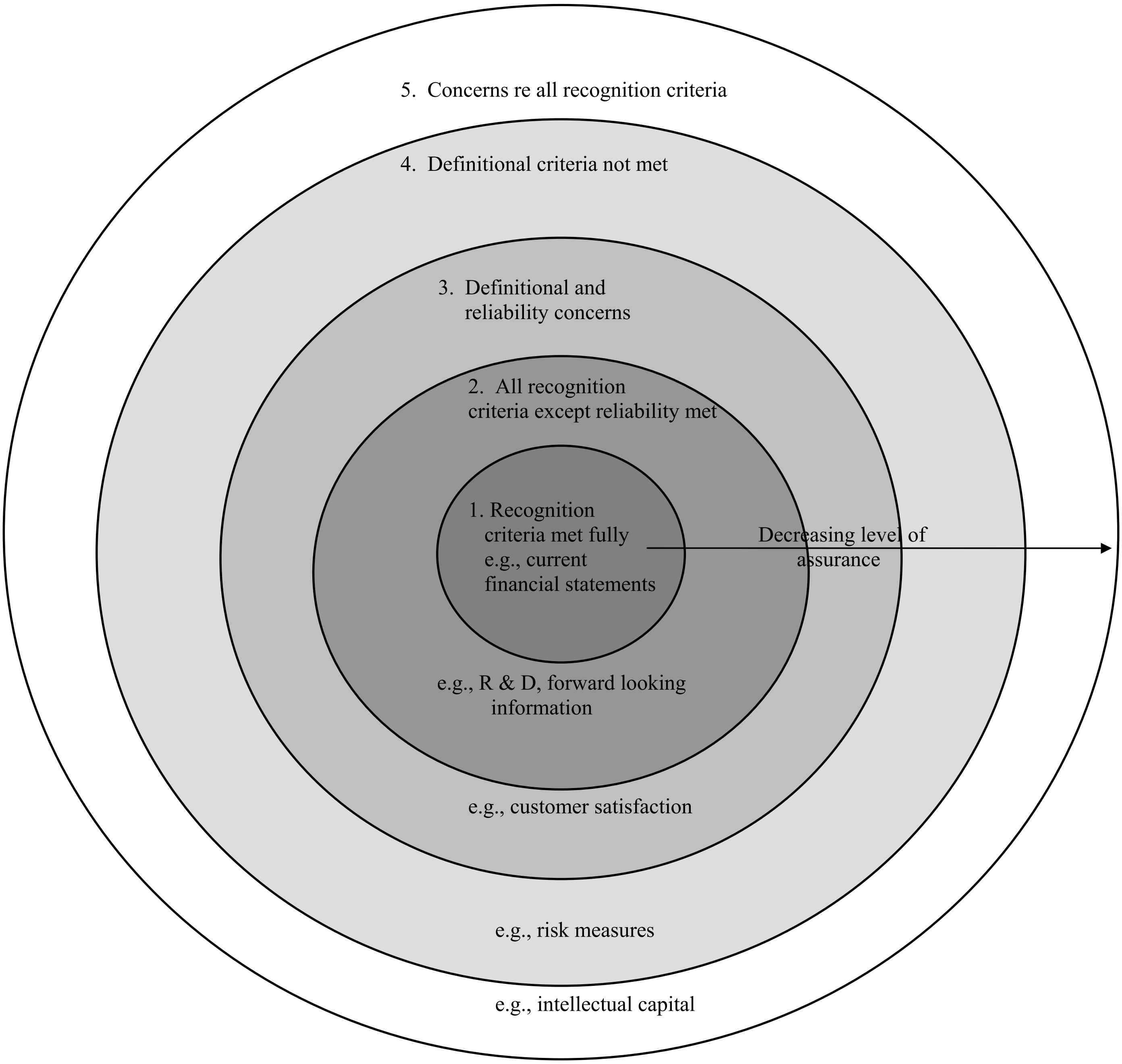

Figure 3: A Visual Representation of the RSA's (1998) Model of the Annual Report

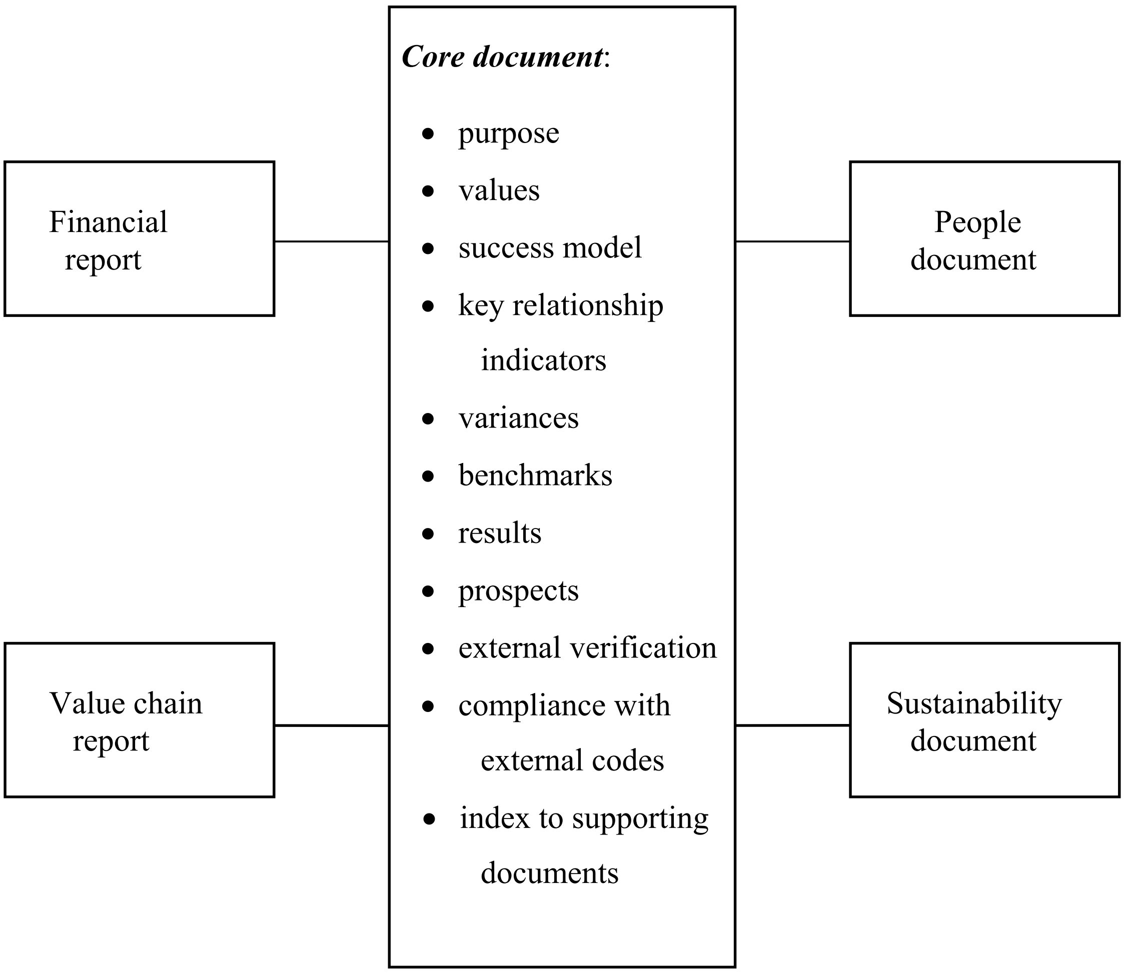

Figure 4: Blueprint for Business Reporting Proposed by ICAS (1999)

1. Provision of an electronic library-type resource, based on the corporate database, to external users.
2. Exploitation of existing technology to layer and link information, to provide direct links to non-company databases, and to maintain a facility for free search.
3. Provision of a range of pre-packaged information, based on a standardised template for each stakeholder group.
4. Extension of access to general company meetings via live broadcast, with records being placed in the library; extension of access to one-to-one meetings by placing minutes in the library; provision of a facility for on-line questioning of management via the electronic library.
5. Provision of additional forward-looking, non-financial and soft information where there is a clear external demand. In particular, at three to five yearly intervals, selected prospectus type information be provided; certain non-financial information currently captured by management information systems be provided (e.g., performance indicators); and certain information *not* currently captured by management information systems be provided (e.g., intellectual capital, biographical information on directors).
6. Retention of regular, periodic reporting, with a moderate increase in frequency being effected as users adapt to changing practice.
7. A shift towards the assurance of processes in addition to outputs and the development of multiple levels and forms of assurance.

Source: Based on ICAS (1999) *Business Reporting: The Inevitable Change?* (ch.5)

Figure 5: Framework for Classifying and Describing Information Items in Business Reporting

1. ***Broad subject area (theme):***

- strategy
- risk
- performance measures:
    - financial
    - people
    - growth and innovation
    - sustainability
    - process
- background:
    - business
    - management

2. ***Position in hierarchy***:

- category
- aspect
- indicator

3. ***Attributes*****:**

- forward-looking/historical
- financial/non-financial
- quantitative/non-quantitative

Figure 6: Areas for Future Research

General

Monitoring of corporate business reporting practices to identify general trends and new practices

- *changes in content, in particular the incidence of new information types and new measurement bases*
- *changes in the structure of corporate websites*

The use of business information by stakeholders

- *changes in user search, selection and analysis strategies*
- *studies of user groups other than capital providers*
- *behavioural studies of website navigation strategies*

Conceptual developments of the financial reporting model to suit new business structures

- *exploration of the relevance of the entity concept and the going concern assumption given the increase in short-term strategic alliances and intangible assets*

Additional information

Internal use of non-financial performance indicators

- *changes in the nature and extent*
- *definitions, constructs and measurement bases*
- *assessment of generic vs. industry-specific relevance*

Reporting of intangible assets

- *development of new recognition and measurement criteria*
- *reliability of reporting methods*

Reporting on quality of management

- *operationalisation of concept for reporting purposes*

Relationship between financial and non-financial indicators

- *associative vs. causal*
- *length of lead/lag time*

Market value relevance of additional disclosures

- *capital market based studies of impact of new disclosures of security prices*

Assurance

Extent and nature of demand for related assurance services

- *demand in relation to new components of business reporting package*
- *assurance regarding reliability and/or relevance*

Development of relevant assurance procedures and reporting formats

- *development of new procedures by assurance provider (e.g., online auditing)*
- *development of means of communicating the results of new assurance engagements*

Skills base of professional accountancy firms

- *the structure and dynamics of the market for assurance service providers*
- *changes in the skills base, organisation and governance of accountancy firms*

Source: Based on ICAS (1999) *Business Reporting: The Inevitable Change?*, pp.89-93.