BEBR

FACULTY WORKING
PAPER NO. 1370

Corporate Reporting and the Accounting Profession: An Interpretive Appraisal

Pekin Ogan
David Ziebart
Serge Matulich

College of Commerce and Business Administration
Bureau of Economic and Business Research
University of Illinois, Urbana-Champaign

BEBR

FACULTY WORKING PAPER NO. 1370

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

June 1987

Corporate Reporting and the Accounting Profession: An Interpretive Appraisal

Pekin Ogan
Indiana University

David Ziebart, Assistant Professor
Department of Accounting

Serge Matulich
Rollins College

CORPORATE REPORTING AND THE ACCOUNTING PROFESSION: AN INTERPRETIVE APPRAISAL

ABSTRACT

In this paper we examine the enhanced responsibility and full disclosure issues of corporate reporting from the various perspectives of the constituent groups. These issues are significant for the accounting profession as it is the linkpin between the corporation and its constituencies. Our approach is to provide an overview of corporate reporting by relating our ideas regarding constituency group information needs to those in the existing literature. The overriding orientation is that of a pluralistic approach in which corporate constituencies compete for influence and accounting information and system resources.

The constituency groups we define are: society, owners, creditors, government, employees, and customers. We provide an overview of corporate reporting to these groups, holding in abeyance the current balance of power and influence among the various interest groups. We conclude that the profession will have to rise to the challenges created by the explosion in information technology in this particular market in order to avoid upheaval and/or imposed regulations.

CORPORATE REPORTING AND THE ACCOUNTING PROFESSION: AN INTERPRETIVE APPRAISAL

In this paper we examine the enhanced responsibility and full disclosure issues of corporate reporting from the perspectives of the constituent groups. We contend that the accounting profession must assume a more active role in discerning the information needs of the constituents and act as leaders for enhanced responsibility in the markets for information. Public accounting firms have started to recognize this challenge and Price Waterhouse has been the first to call for broadened audit responsibilities (Berton [1986]).

Real or perceived malfunctions in this market place could have substantial adverse effects on the efficient allocation of scarce resources. According to Arthur Young [1985],

> the credibility of the accounting profession and of accounting itself are of paramount importance to the effective functioning of the capital market...Loss of public confidence in either accountants or accounting will inhibit the free flow of capital and greatly increase the cost of raising funds.(p.6)

These issues are important because, due to advances in information technology, we are now experiencing a new problem with regard to corporate statements; the problem of addressing the question of <u>need for</u>, rather than the <u>availability</u> of information (Burton [1984] p.2) (emphases added). According to Elliot,

> As information becomes the linchpin of our economy, there will be increasing marketplace pressures for it to be measured and communicated in the most usable form and, most important, for it to be credible. Accountants and auditors, as the information people, are sitting astride this challenge. They can enormously enhance the quality and value of this new information for the public--but <u>only if</u> they <u>broadly</u> view their powerful skills and <u>actively participate</u> in this dawning revolution (<u>World</u>, Peat Marwick [1984], p.21, emphases added).

In addition, the public accounting profession finds itself embroiled in conflict because its position of public trust with regard to the completeness and integrity of corporate financial statements is being questioned. In an unanimous opinion, the U.S. Supreme Court [1986] describes the auditor's role as follows:

> By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client....This "public watchdog" function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust. (p. 2) (emphasis added)

Touche Ross [1985] says,

> The public accounting profession is under scrutiny. Almost daily we read business-press allegations of audit failures, competitive excesses and commercialism. This criticism, in itself a matter of serious concern, is magnified by lawsuits claiming extensive damages, by Congressional hearings and by SEC investigations. (p.i)

Deloitte, Haskins and Sells [1985]: "The litigation and claims experience of the profession as a whole has been somewhat alarming." (p. 1) For instance, Berton [1985A] says that currently, investors--with the help of the litigant bar--are seeking scapegoats to blame for stock and investment losses. If the company in which they've invested goes belly up, lawyers and their clients are looking for a "deep pocket" in the person of the auditor. (p. 24).

The public accounting profession can rise to these challenges by appraising corporate information from the perspective of the information needs of the various constituencies and by anticipating increased requests for corporate information.

Purpose of this study

This paper is an attempt to provide an overview of corporate reporting using an interpretive approach which explicitly recognizes the critical constituencies of a corporation. Our frame of reference is the corporate reports of western, capitalistic societies (as opposed to a developing nation with a labor-intensive economy). We focus on the relationships between the corporation, its critical constituencies and the accounting profession regarding the need for and use of information disclosed in corporate reports.

The current status of corporate reporting is the result of a process in which various constituent groups exercise their power and influence in order to mold corporate reporting to their own perspective. One way to study the corporate information market would be to take as given the traditional (status quo) division of power and influence among the constituencies where a study of prices, efficiency, and costs could be undertaken. An alternative framework is to rearrange the division of power and influence so that one can study the impact of various wealth and power distributions on the accounting system. A third approach, an interpretive paradigm, is to suppress temporarily, for discussion's sake, the division of power and influence among the constituencies and concentrate on their information needs (Please refer to Chua [1986], Macintosh [1986] and Mathews [1985]). We approach the issues from the interpretive paradigm perspective and focus our attention on the types of information we believe each of the constituencies would request. An attempt is made to provide a taxonomy of enhanced responsibility for the accounting profession.

The rest of the paper is organized as follows. In the first section we discuss the market for corporate information where critical corporate constituencies and the diverse needs of corporate information users are presented. In the second section corporate reports are appraised from an interpretive paradigm perspective. Section three contains the summary and concluding comments.

I. THE MARKET FOR CORPORATE INFORMATION

Consider Figure 1 where we depict the market for corporate information and identify the users of corporate information as security analysts, public accountants and corporate constituents.

(FIGURE 1 GOES ABOUT HERE)

We now focus our attention on the information needs of corporate constituencies, the accounting profession and their relationship with

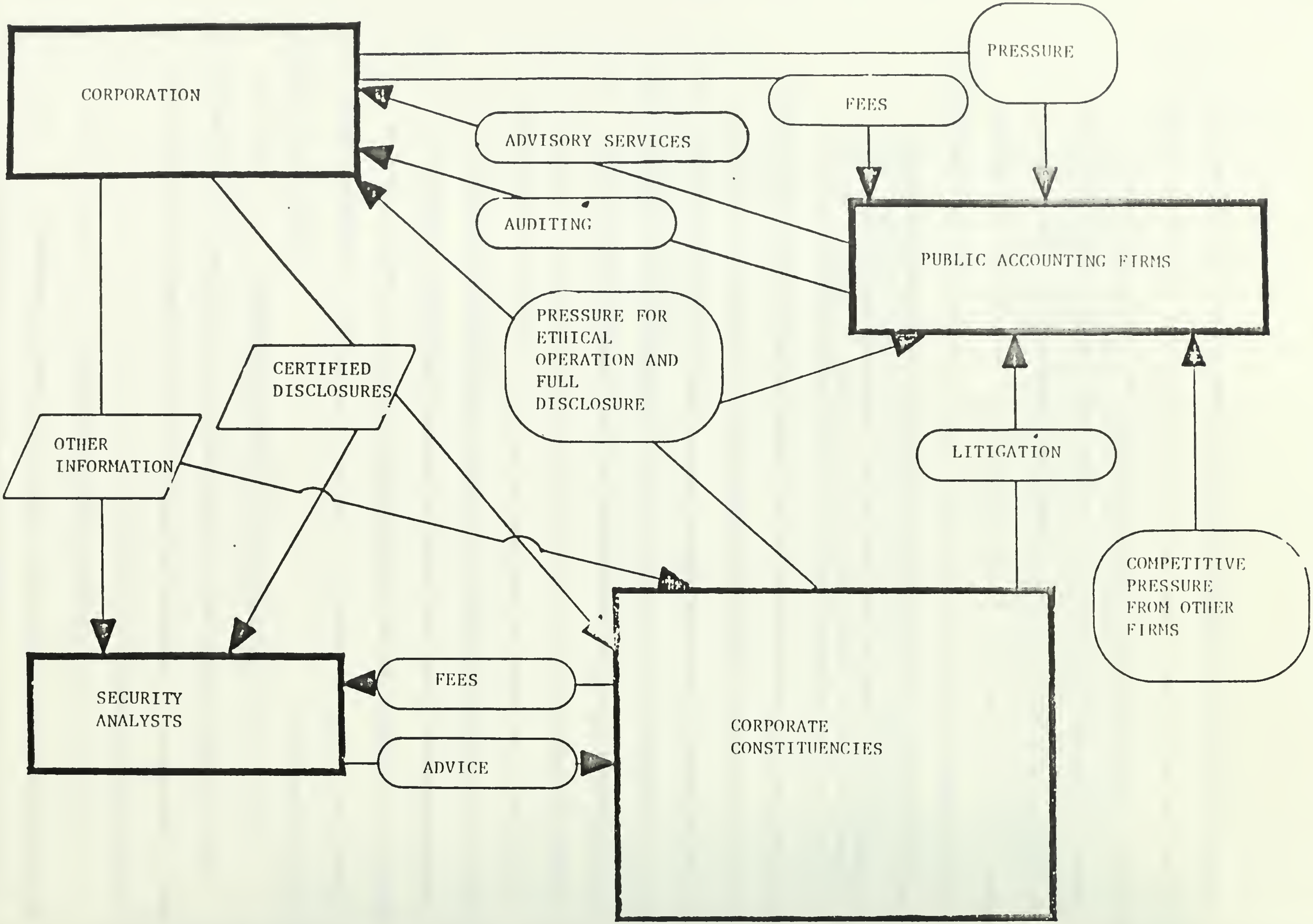


FIGURE 1: THE MARKET FOR CORPORATE INFORMATION

corporate reports.

1. 1. Corporate Constituencies

We believe that a corporation has six critical constituencies[1]. They are: (1) society, (2) owners, (3) creditors, (4) employees, (5) government, and (6) customers[2]. The types of corporate information[3] that pertain to each critical constituency are illustrated in Figure 2.

(FIGURE 2 GOES ABOUT HERE)

Social reporting describes corporate efforts towards fullfilling their obligations to society. Reporting to owners satisfies the disclosure requirements of the stewardship function and allows the owners to make rational, economic decisions. It may be tempting to view the creditors as only concerned with interest income and the eventual repayment of their principal; however, creditors have a stake in the well-being of the corporation. We term communications with this group, reporting to creditors.

Corporate communications with employees is termed reporting to employees even though much of this reporting is paternalistic in tone. Communications with government is labelled mandated reporting because it is generally required by law or regulations. Corporate communications with customers and suppliers is called persuasive because it is primarily directed towards promoting transactions between these parties and the corporation.

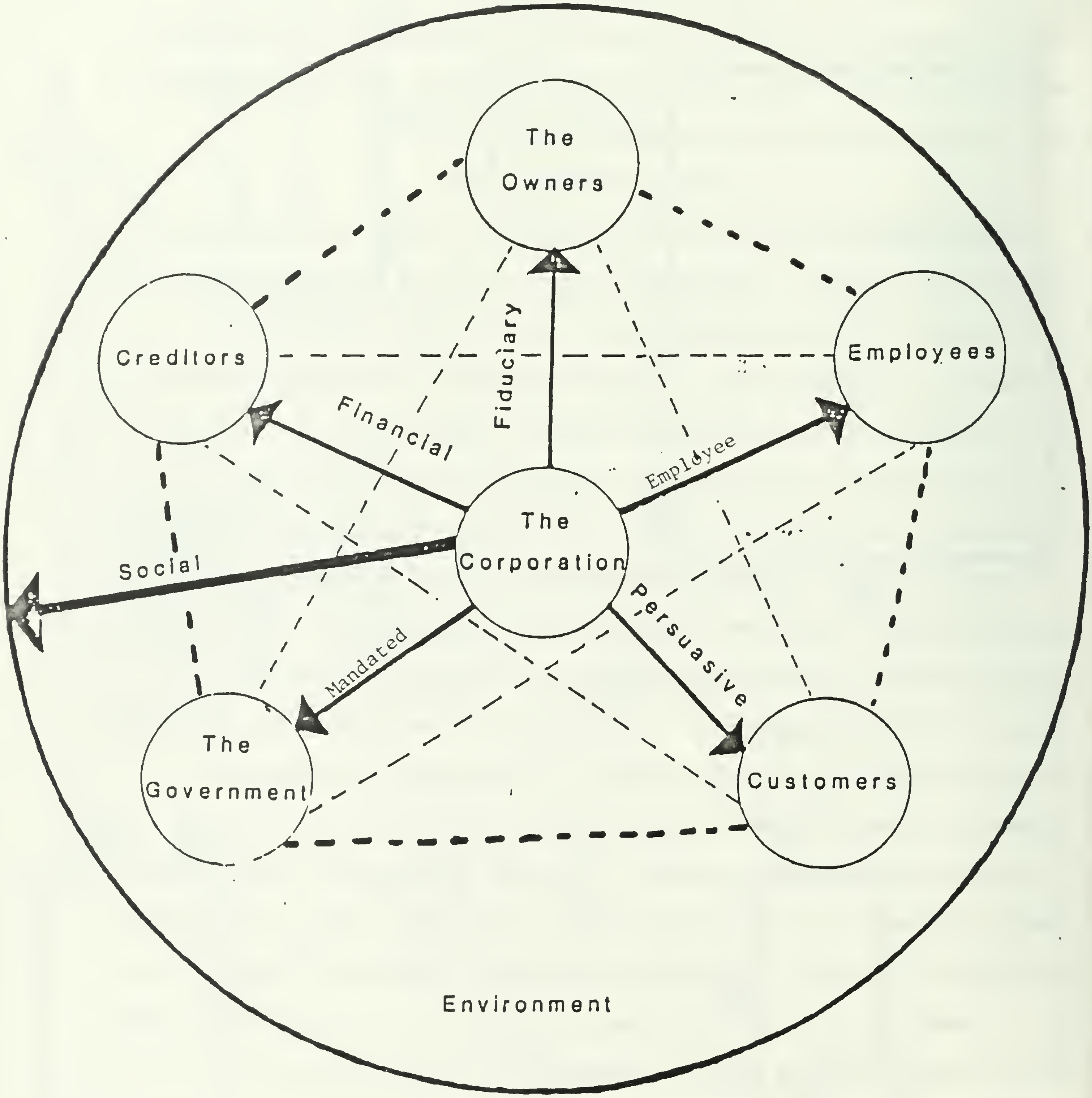
Much of the reporting to owners, creditors and government consists of similar information, although the intended function of the information may be different in each case. In addition, the groups illustrated in Figure 1 are not isolated; they are, in fact, highly interdependent (depicted by the dotted lines) and much overlap exists in terms of their characteristics and information needs.

1.2. Information Needs of Constituencies and the Corporate Information Market

If the following is true; "Financial statements do not give a complete picture of the enterprise. They are limited to events and transactions that

FIGURE 2

STATIC VIEW OF CORPORATE REPORTING



——— Direct relationships and information flow that emanates from the corporation

------- Interrelationships of segments of the ecosystem have taken place and that can be expressed in monetary terms." (Arthur Andersen [1984], p. 5), the question is: what information is relevant and may be desired by each constituency group? The following is a tentative general list of the types of decisions made by the corporate constituencies that use corporate information:

(1) Society--Members of each group are likely to benefit from the information provided to all other groups as most constituents belong to more than one group. Therefore, in addition to reports specifically oriented toward each constituency group, the corporation would seem to have an obligation to distribute information that shows how the company discharged its obligations to society. In many instances, the government constituency is expected to make sure that the parties comply with rules and regulations formulated to protect society's interests. Government, however, to a great extent, is influenced by certain components of society that possess significant amounts of power and property. Therefore, the societal constituent group may be justified in being concerned about corporation activities that are not captured in the regulatory system.

(2) Investors/Owners--Decisions on (a) to buy or sell stock of the company, (b) how to vote for directors, management policies, and auditors, and (c) assessing the long-range profitability and survival of the firm;

(3) Creditors--Decisions on (a) to lend funds to the company (commercial banks, charter bondholders), (b) acquisition of bonds in the market, and (c) disposal of bonds (ability of firm to service debt, changes in risk, etc.).

(4) Employees--Decisions on (a) to accept or leave employment (job security), (b) pay negotiations, (c) safety and health, (d) productivity, and (e) assignments, turnover, fringe benefits.

(5) Government--Decisions on (a) company's compliance with laws and regulations, (b) to legislate new regulations, and (c) economic policy (e.g., value added by the enterprise).

(6) Customers/Suppliers--Decisions on (a) purchasing the company's product or service, (b) contract negotiations, (c) product safety, (d) quantity and quality of after-purchase service, and (e) evaluating product price and quality.

The corporate information marketplace, obviously, is not tranquil. Because of its unique position in the corporate information marketplace as a vendor of confidence in the completeness, integrity and relevance of the attested information, the accounting profession is currently under tremendous pressure. Berton [1985B] summarizes the situation as "accountants are in the kitchen and the heat is rising. It's an exciting place to be, but the accountants may have to get used to wearing asbestos underwear" (p. 25).

Deloitte, Haskins and Sells [1985] is concerned about the environment in which it practices and the apparent widening of the gap between the expectations of the public and the performance of its profession (p. 1). The number of recent business failures and allegations of management fraud has raised concerns about the system of corporate accountability and the effectiveness of independent audits (Arthur Andersen [1985], p. 2). Coopers & Lybrand [1986] put it this way:

> Today there is a difference between what the public or financial statement users expect from accountants and auditors, and what accountants and auditors believe they are responsible for. Referred to as the "expectations gap," it challenges accountants to retain public confidence in financial statements and audit opinions. To do this, it may be necessary to make changes in financial statements, auditor responsibilities and auditor communications (p. 4, emphases added).

In fact, Jennings, Kneer and Reckers [1986] empirically found that auditors do not always agree with users as to the approximate level of disclosure. The expectations gap is not surprising since accountants and auditors seem to regard investor/creditors as the principal constituency. One must question the propriety of a service profession committed to the public interest when it declares in advance that it serves a specific constituency[4].

The public accounting profession needs to maintain its flexibility and keep its distance from specific groups if it desires to shift its credibility as social conditions change. Brummet [1985]:

> ...accountants should <u>measure</u> and <u>report</u> more important and crucial information about corporations rather than being concerned about the improvement of their <u>conventional information</u> that is not very important anyway. I insist that the accounting profession is still tied up on their definition of assets and liabilities and they continue to pay homage to the double-entry system that is more than five centuries old. (emphases added.)

Consequently, the accounting profession must become even more sensitive to the ways that corporate information can be improved. Therefore, given the morass of interlocking relationships in the market place for corporate information, it is essential that we examine the particular information needs of the various groups as well as the role of the accounting profession in the production and distribution of corporate information.

II. AN APPRAISAL OF THE CURRENT STATE OF CORPORATE REPORTING

In this appraisal of corporate information we rely strongly on the interpretive paradigm. Since the impact of the corporation's activities and reporting are felt across the spectrum of all of its constituencies, social reporting by corporations is discussed first.

2. 1. <u>Social Reporting</u>

The increased interest in corporate social reporting regarding responsibilities to society can be traced to a change in perspective of corporate performance. Anshen [1980] states that the long-run interests of business in a reasonably open, flexible, and pluralistic society are better served when business organizations are perceived to adopt an activist posture toward society's problems and discontents than when they are perceived to behave negatively or with indifference.(p.18)

In the United States there is an increasing number of groups that are becoming more concerned and involved with corporate behavior. Society is not content merely with the idea that management should be maximizing shareholder wealth, and that corporations are being closely scrutinized as to their social obligations. In addition, several studies contend that disclosure of social responsibility information is, at the very least, advantageous for management and the other constituents of the corporation.[5] Corporate disclosures of social impacts (unless they are mandated) in the United States show little improvement since companies do not seem to be supplying more and better data to society. In fact, as several studies[6] indicate, the number of corporations issuing social reports in Australia, France, Germany, Holland, New Zealand and Australia has increased at a faster rate than it has in the United States. (Refer to Ullman [1985] for an excellent review of studies in this area.)

Mathews [1985] contends that the increased quantity of information would serve to make the market more efficient. However, the production and distribution of the incremental information will have a cost, and the burden of this, at least initially, would have to be borne by the corporation and eventually passed on to the users.

2. 2 Reporting to Owners

The fiduciary reporting function of corporations has developed over a long time and has traditionally focused on transactions of historical nature. Theoretically, owners are entitled to know the accomplishments of business and the ways managers are discharging their fiduciary responsibilities. However, from the very inception of public reporting, there has generally been a reluctance to be completely open about the results of operations.[7]. Worse, some managers may even distort or withhold information from the stockholders in an effort to protect their own interests in such areas as job security, salaries, bonuses, and perks.[8]

There are many types of information that are not reported in financial statements that would be beneficial to owners. For example, companies issuing stock provide information in a prospectus that is far more detailed than an annual report and includes details about the remuneration of officers and directors, shares granted to them in stock option plans and the number of shares held by them. Owners would also be interested in how the corporation gathers information and the assumptions behind the numbers (Bowie [1985] p.15). In addition, corporations should be requested to assure the shareholders that corporate operations are devoid of illegal activities.

2. 3 Reporting to Creditors

Secondary creditors such as individuals or institutions that purchase bonds do not seem to have the immediate working working relationships with a corporation as do direct creditors. The direct creditors such as commercial banks and other lending institutions generally demand and receive vitually any information they need or want. In contrast, the secondary creditors find that when bonds are issued, the corporation typically discloses the information required by a registration prospectus. However, once the bonds have been sold, the company's obligation to provide information is met; bondholders do not even receive an annual report.

In theory, owners and creditors are sophisticated enough to obtain the information they need from a variety of sources, including financial analysts and the audited financial reports. In the past, however, some owners and creditors found themselves in situations that were unpredictable from their sources of information. Recall that collapses like Penn Central, Braniff International, Drysdale Securities, ESM Government Securities, INC., and Continental Illinois National Bank and Trust Co. of Chicago caught most creditors and investors by surprise when the first indication of any problem was the default on an interest payment. Regarding Penn-Central, Barrett [1986] notes that the cash hemorraging was hidden, the financial statements provided confusing signals, and while insiders had time enough to bail out, more than 100,000 small investors held onto what they believed to be a safe investment (p. 171).

2. 4. Reporting to Employees

Most corporations have traditionally given the impression that they view employees merely as another factor of production, an expense that must be minimized like others in order to maximize profits. Generally, in the United States, management's attitude toward the labor force and even the lower-level executives is very hierarchical (Morita [1986] p. 181). Because of this attitude, most management and employee relationships have developed into adversarial positions (also see Craft [1984]). Corporations generally do not disclose information about the contribution that a particular employee group has made toward a particular year's profits. Little attempt is made by management to disclose information on sales projections, demand for the corporation's products, or the need to retrain certain segments of the work force whose skills have (will) become obsolete.

It seems that the greater the stress between management and employees, the higher management's perception of the importance of employee-related information (see, for example, Lewis, et al. [1984] p. 281)[9] As the attitudes with respect to employee/management relationships undergo change, more corporations have begun to disclose relevant employee-related information. In Europe, social reports, which are in effect reports to employees, are increasing (see, for example, Jaggi [1980], Schreuder [1978] and [1979], and Most [1977]).

We believe that in the United States there is tremendous room for improvement in this area. The public accounting profession has an opportunity to make a strong contribution in developing criteria for employee reporting. One should be cautioned, however, about the problem of credibility of management as a critical variable in assessing corporate reports to employees (Ogan [1976], p. 317). If management's credibility is low, then the disclosure of the additional information would have the potential to cause more dissension and discontent within the employees than if management did nothing (also see Craft [1984], p. 108).

2. 5. Mandated Reporting

Mandated reporting to government agencies by corporations is a complex area to assess because of its constantly changing environment. As a result, business is faced with increasing requirements of compliance with several laws and regulations intended to protect the parties involved (society, in many cases). For example, Jaggi [1980] says that social disclosures are mandated in France (p. 36)[10] A recent example of the pressure to mandate public accounting performance in the United States is the Wyden proposal.[11] Mandated regulations in the United States, while increasing the firms' required disclosure, appear to have curtailed the accounting alternatives (Ernst & Whinney [1986], pp. 5-11 and Chow [1983], p.485). While government agencies may have reduced the reporting flexibility of firms, most corporations have not entirely acquitted themselves of the charge that they look after their own interests and little else. In this regard, Williams [1980] says:

> During the past decade, the ability of business to shape the issues and limit the governmental response to that which is logical and consistent with the continuation of a healthy and vital private sector has been limited, at best. And, at the same time, there has come to be a growing public sense that business no longer attempts to balance its interest and the public's, but rather focuses entirely on its narrow objectives. (p.2)

Reporting to governments and other users of accounting information by major corporations clearly needs improvement and the accounting profession needs to take the lead. According to a former chairman of the SEC, Harold Williams [1979], the role of the accounting profession should be to maintain standards that

> ... match not merely what the law requires, and not simply what government officials advocate, but also the <u>needs</u> and <u>expectations of the users</u> of financial information. In the last analysis, it is in the service of the investing public and other users of financial information to which the accounting profession has been conscripted (p. 15). (emphasis added.)

To the extent that mandated reporting requirements are promulgated to fill the information needs of the various constituencies, any improvement in reporting to these groups has the potential to decrease the pressure on government agencies. This shift wwould probably result in information being provided directly to constituencies rather than indirectly through government mandated regulations.

2. 6 Disclosure Costs

Two issues arise regarding the costs of providing the disclosure that we propose. The first is an analysis of the cost versus the benefit of the additional information disclosed. The second is more involved and concerns the question of who should pay for the incremental costs of disclosure. A substantial part of the solution to the question of who bears the increased costs may be found in the spectacular advances in information technology. Burton and Davidson [1982] state that the dramatic reductions in cost of new technology have led to substantial changes in the cost accumulation, processing, and delivery of data within corporations and that technological changes of such magnitude should also have a profound effect on the reporting of results outside the corporation to its external constituencies (p.58). New technology now permits the dissemination of information through computer networks, by satellite, and other electronic means. We feel that most of the information that should/will be demanded by the critical constituencies is already being produced in some form but not generally distributed.

With the proliferation of low-cost micro computers, the information disclosure problem may be simplified somewhat by capturing relevant information on data bases that are magnetically stored. We envision the additional information to be distributed by computer diskettes accompanying the printed financial statements or by electronic data networks. This way, the information may be displayed in various levels of aggregation and the user(s) would be able to choose the levels of information content from several menus. Thus, the users would be able to evaluate, interpret and use the information at their own financial-abstractness pace, reducing the confounding effects of information overload.[12]

In situations where the information and its use is excludable (minimal cost to limit use or consumption) we envision the development of a market mechanism for the production and dissemination of corporate information. Under this approach, individuals would purchase the information based on their perception of the cost-benefit relationship. Information not deemed useful and thus not worth the cost would not be demanded and, accordingly, would not be produced.

However, for many of our suggestions, the information and its use may be a public good. Accordingly, the information can be jointly consumed by more than one individual. This issue of joint consumption arises both between constituency groups as well as within a constituency. In most instances, the inability to exclude consumption by others may lead to a free rider problem both among and within the constituency groups. Once the information is purchased by one member of the group, the remaining members would choose to be free riders. Likewise, once one constituency group purchases some information relevant to other groups, these groups may attempt to use the information without paying for it. In addition, individuals or groups may not reveal their preferences for information voluntarily if the information is to be coercively priced or taxed. This problem may preclude the use of a traditional market mechanism to provide the types of information that we advocate. Public sector intervention may eventually become necessary to allocate resources for the production of this public good.

2. 7. The challenge for the accounting profession

The changing environment of the market for corporate information led Burton [1984] to state that auditors could assume a far more interpretive role and be available as outside experts to users of financial information, to present the data that they--as outside observers with full access to the firm--believe are most important in understanding the operations of the business. This is already done in part as an audit procedure related to analytical review and audit risk analysis.(p.3) He further suggests that accountants have a great opportunity if they accept the imperatives of the new world they face. Accountants and auditors start with an advantage in the area of information technology and a strong institutional position. If they see the profession's business as information and communication, their prospects are excellent, since that is where the action in database reporting will be.

The manner in which corporations and the accounting profession respond to calls for enhanced responsibility will indicate the degree of their committment to be leaders (rather than reactors to pressure) in providing fully-disclosed, reliable and relevant information. As a SEC commissioner, Peters [1986], says, the extent to which the profession is willing to devise and implement far-reaching solutions...will reflect the importance we attach to the reliability of the financial disclosure process and the seriousness with which we view the current crises (p. 17).

III. SUMMARY AND CONCLUSIONS

Corporations are artificial entities, created to serve the interests of people. Some have grown so large that they have a pervasive effect on society and on constituencies that extend far beyond corporate shareholders. We believe that corporations have an obligation to keep all constituencies fully informed about their activities. Corporations report information to six constituency groups but much improvement is needed before corporate reporting begins to have optimal information content. Information important for the critical constituencies must be produced and disclosed.

Reporting to shareholders is marginally adequate. Financial reporting to creditors is excellent in a few cases, but virtually nonexistent in others. Employee reporting is inconsequential and consists only of reports that concern individual's private matters rather than corporate matters. Mandated reporting needs to be reevaluated and streamlined so that it will not be voluminous such that it appears to strangle business. Finally, reporting to society has not yet developed into a meaningful practice.

The accounting profession must acquire the attitude and skills in anticipating the information needs of the critical constituencies. In addition, the profession must recognize the inevitability of enhanced responsibility and assume an active role in charting its course of action. The costs of the additional or different format disclosure of corporate information will be of concern to all parties. With the tremendous advances in information technology, the incremental costs of information disclosure, such as those proposed in this paper, may not be as high ultimately as some may believe. Markets for certain information should evolve when the type of information allows an efficient allocation through an exchange mechanism. In situations of market failure, other mechanisms might be explored by considering preferences, rights, and power positions of the constituencies. Only after each party receives complete, relevant and timely information about corporate activities can there exist the necessary conditions for an efficient allocation of resources.

The crucial variable for the success of the type of undertaking proposed in this paper is an overall, pervasive change in attitude by the parties involved in recognizing the delicate balance that exists between the critical constituencies of society and their real or perceived share of the wealth generated--in this case, at least--by corporate activities.

FOOTNOTES

[1]According to Gotlob [1985], the critical constituencies are those groups within the environment of an organization that have the ability to affect the continued well-being (and even survival) of the focal enterprise, either by witholding important resources from the organization or by imposing unilateral sanctions upon it.

[2]Hopwood [1985] suggests employees and customers as groups which should receive corporate information. Also refer to Chua [1986], Dierkes and Antal [1985], Cooper and Sherer [1984], Benston[1982], Herman[1981], Burchell, Clubb, Hopwood, Hughes and Nahapiet[1980], Anshen[1980], Birnberg[1980], Pomerantz [1980], McDonald and Puxty [1979]; Williams [1980]; Pfeffer and Salancik [1978], and Harrison [Dec. 1975-Jan.1976]

[3] When the different constituencies of the corporation agree on the contracts that they enact with the corporation, they do so with the understanding that each party has been provided with all the relevant information about the contract and that there is no moral hazard involved. In addition, if any one of the parties possesses private information and misrepresent this, then problems of adverse selection arise. Since the corporation is the entity that is engaged in both wealth and information production, it is reasonable to contend that the corporation would be more likely to have information about its own transactions than any other party. (See, for example, the literature on insider trading and management versus financial analysts' forecasts and Lambert [1984].) A heroic assumption we make here is that large corporations have the technical ability to collect, process, and disseminate all currently available and relevant information that pertain to their activities.

[4]In addition, the independence of the auditor is being questioned (See, SEC Commissioner, Cox [1986]). Also, Chatov [1985] says,

> If one were starting from point zero today, I think it would be madness to invent a system where the one to be audited hired the auditor, bargained with the auditor as to the size of the fee, was permitted to purchase other management services from the auditor, and where the auditor in turn had the prime responsibility for setting the rules and enforcing them and applying sanctions against themselves.

Empirically, Dykxhoorn and Sinning [1982] found that the users' perceptions of auditors' nonindependence may have a significant negative effect on their investment and loan prospects (p. 345).

[5]See Mathews [1985]; Maunders and Foley [1984]; Shane and Spicer [1983]; Wiseman[1982]; Trotman and Bradley [1981]; Anderson and Frankle[1980]; Belkaoui [1980]; Burchell, Clubb, Hopwood, Hughes and Nahapiet [1980]; ; Spicer [1978]; Watts and Zimmerman [1978]; Bradshaw [1978]; and Estes [1975]and [1973].

[6] Refer to Dierkes and Antal [1985], Davey [1985], Trotman and Bailey [1981], Jaggi [1980], Schreuder [1978] and [1979], Robertson [1978], and Most [1977].

[7]Harrison [1976] reported that fiduciary reporting is still predominantly focused on financial statements that present a limited amount of information about business operations and the financial situation (p. 29). Harrison also reports that the authors of The Corporate Report felt that the present corporate reports have the following drawbacks:

1. Maximization of short term profit is not the sole aim of modern business enterprises. But, by making a profit figure the keynote figure of financial reports, users are encouraged to believe this is the sole aim.
2.The figure of audited profit for the year is presented as being definitive, although it is well known to be subject to many uncertainties.
3.Since users are encouraged on the basis of short term results, management may tend to concentrate on such results rather than on the longer view.
4.The format implies that proprietors are the dominant interest and masks acknowledged responsibilities to other user groups. (p.30)

[8]The literature in agency theory seems to lend credence to this (refer to Chow [1982] and especially Baiman [1982] for a review of research in this area).

[9]Lewis, Parker and Sutcliffe [1984] found that of the aims and reasons for reporting to employees during the period 1956-1979, there were 21 instances of reporting to disseminate management propaganda, 28 out of fear of wage demands, strikes, and competitive disadvantages, and 22 for meeting information requirements peculiar to employees. There may be some concerns on the part of management about disclosing relevant information to employees regarding management actions or their consequences. However, disclosure would serve as a check and balance system for management, as competent managers should have no reasons to worry about employees exploiting the disclosed information. In this regard, Owen [1982] says " For, after all, any decision which cannot be successfully defended in rational discussion must be a pretty poor decision" (p.6).

[10]. (Also refer to McComb [1982] for a listing of the objectives of the French accounting plan.)

[11]American Banker, "The Week Ahead--Accounting Standards", June 23, 1986.

[12](For a forward looking and insightful discussion of this topic, refer to Burton and Davidson [1982] and Burton [1984].

REFERENCES

American Banker, "The Week Ahead--Accounting Standards," June 23, 1986.

Anderson, John C. and Frankle, Alan W., "Voluntary Social Reporting: An Iso-Beta Portfolio Analysis," The Accounting Review, Vol. LV. No.3, pp.467-479, July 1980.

Anshen, Melvin.,Corporate Strategies for Social Performance,(Macmillan,1980)

Arthur, Andersen & Co., "Accounting News Briefs", Vol. 11, No. 5, August-September 1985.

__________, "Objectives of Financial Statements for Business Enterprises, 1984

Arthur Young, "Financial Reporting & Accounting," 1986 Update

__________, "Financial Reporting & Accounting", 1985 Update

Baiman, Stanley,"Agency Research in Managerial Accounting: A Survey," Journal of Accounting Literature, pp. 154-213, 1982.

Barrett, Michael F. Jr., "The SEC and the Accounting Profession: Issues for Congress," in The SEC and Accounting: The First 50 Years, 1984 Proceedings of the Arthur Young Professors Roundtable, Robert H. Mundheim and Noyes E. Leech, eds. North-Holland, 1986.

Belkaoui, Ahmed "The Impact of Socio-Economic Accounting Statements on the Investment Decision: An Empirical Study," Accounting, Organizations and Society, Vol.5, No.3,pp.263-283, 1980.

Benston, George J.,"Accounting and Corporate Accountability," Accounting, Organizations and Society, Vol 7, No. 2 pp. 87-105, 1982.

Berton, Lee, "Price Waterhouse Head Recommends Expanded Audits," The Wall Street Journal, Wednesday, June 4, 1986.

__________, "Investors Call CPAs to Account," The Wall Street Journal, Monday, January 28, 1985A, p.30

__________, "Ethics-A Financial Journalist's Perspective," Ethics in the Accounting Profession, Proceedings of a conference sponsored by the School of Accounting and the Program in Business Ethics in the School of Religion, University of Southern California, May 10, 1984.,(Touche Ross & Co., New York, 1985B)

Birnberg, Jacob G. "The Role of Accounting in Financial Disclosure," Accounting,Organizations and Society, Vol. 5, No. 1, pp.71-80, 1980.

Bowie, Norman E., "Ethics, Full Disclosure, and Accountants," Ethics in the Accounting Profession, Proceedings of a conference sponsored by the School of Accounting and the Program in Business Ethics in the School of Religion, University of Southern California, May 10, 1984.,(Touche Ross & Co., New York, 1985).

Bradshaw, Thornton F,"One Corporation's View of Social Responsibility," Journal of Contemporary Business, Vol.7, Nol, pp.19-24, Winter 1978.

Brummet, R. Lee [1985], in private correspondence with the authors.

Burchell, Stuart, Colin Clubb, Anthony Hopwood, John Hughes and Janine Nahapiet, "The Roles of Accounting in Organizations and Society," Accounting Organizations and Society, Vol.5, No.1, pp.5-27, 1980.

Burton, John. C., quoted in The Week in Review, Deloitte, Haskins and Sells, October 26, 1984.

Burton, John C. and Davidson, Sidney M., "The Impact of Technology on Corporate Reporting," Technological Change: Its Impact on Accounting, 1982 Proceedings of the Arthur Young Professors' Roundtable, Edward L. Summers,ed.,(The Council of Arthur Young Professors, 1983), pp.57-68.

Chatov, Robert [1985], quoted in The New York Times, February 21, 1985.

Chow, Chee W., "The Demand for External Auditing: Size, Debt and Ownership Influences" The Accounting Review, Vol. LVII, No. 2, pp.272-291, April 1982.

____________, "The Impacts of Accounting Regulation on Bondholder and Shareholder Wealth: The Case of the Securities Acts," The Accounting Review, Vol.LVIII, No.3,pp. 485-520, July 1983.

Chua, Wai Fong, "Radical Developments in Accounting Thought," The Accounting Review, Vol. LXI, No. 4, pp. 601-632, October 1986.

Coopers & Lybrand, "Executive Briefing, Accounting and Auditing Developments", May 1986.

Cooper, David J and Sherer, Michael J., "The Value of Corporate Accounting Reports: Arguments for a Political Economy of Accounting," Accounting, Organizations and Society, Vol.9, No. 3/4, pp.207-232, 1984.

Cox, Charles C., "Public Accounting at the Crossroads," Remarks to 1986 Accounting Conference Sponsored by the New York State Society of Certified Public Accountnats, November 13, 1986.

Craft, James A., "A Reply to Maunders and Foley," Accounting, Organizations and Society, Vol. 9, No. 1, pp. 107-108, 1984.

Davey, H.B., "Corporate Social Responsibility Disclosure in New Zealand: an Empirical Investigation," (Faculty of Business, Massey University), Occasional Paper No. 52, 1985

Deloitte, Haskins & Sells, "A Report for Congress and the Public, September 1985,

Dierkes, Meinholf and Berthoin Antal, "The Usefulness and Use of Social Reporting Information," Accounting, Organizations and Society, Vol. 10, No.1, pp.29-34, 1985

Dykxhoorn, Hans and Kathleen E. Sinning, "Perceptions of Auditor Independence: Its Perceived Effects on the Loan and Investment Decisions of German Financial Statement Users," Accounting, Organizations and Society, Vol. 7, No. 4, pp. 337-347.

Elliott, Robert K, "Accounting's New Horizons," World, Peat Marwick, Vol. 18, Number 4/1984, pp. 18-21.

Ernst & Whinney, Financial Reporting Developments, October 1986.

Estes, Ralph W., Corporate Social Accounting, Wiley-Interscience, New York, 1975.

______________, Accounting and Society, Melville Publishing Company, Los Angeles, CA, 1973.

Gotlob, David, Investor and Creditor Perceptions of Corporate Performance: A Multidimensional Scaling Approach, unpublished Ph. D. dissertation, University of Missouri-Columbia, May 1985

Harrison,R.B., "The Corporate Report: A Critique'" CA Magazine, January 1976, pp.27-33

Herman, Edward S., Corporate Control, Corporate Power(Cambridge University Press,1981)

Hopwood, Anthony G., "The Tale of Committee That Never Reported," Accounting, Organizations and Society, Vol. 10, No. 3, pp. 361-377, 1985.

Jackson-Cox, Jacky, Thirkell, John, E.M. and McQueeny, John, "The Disclosure of Company Information to Trade Unions: The Relevance of the ACAs Code of Practice on Disclosure," Accounting, Organizations and Society, Vol. 9, No. 3/4, pp. 253-273, 1984.

Jaggi, Bikki, "An Analysis of Corporate Reporting in Germany," The International Journal of Accounting Education and Research, Vol. 15, No. 2, 1980.

Jennings, Marianne, Dan C. Kneer and Phillip M. J. Reckers, "A Reexamination of the Concept of Materiality: Views of Auditors, Users and Officers of the Court," Working Paper, Arizona State University, 1986.

Johnson, Orace and Sanford Gunn, "Conflict Resolution: The Market and/or Accounting?", The Accounting Review, Vol.XLIX, No. 4, October 1974, pp.649-663.

Lambert, Richard A., "Income Smoothing as Rational Equilibrium Behavior," The Accounting Review, Vol. LIX, No. 4, October 1984, pp.604-618.

Lewis, N., L. D. Parker and P. Sutcliffe, "Financial Reporting to Employees: The Pattern of Development 1919 to 1979," Accounting, Organizations and Society, Vol. 9, No. 3/4 pp. 275-289, 1984.

Macintosh, Norman B., "A 'Multiple Paradigm' Analysis of IBM's Annual Reports: The Role of Women in the Workplace," Working Paper, School of Business, Queen's University, Kingston, Canada, 1986.

Mathews, M.R., "Towards Multiple Justification for Social Accounting and Strategies for Acceptance," American Accounting Association, Public Interest Working Paper No.11, 1985.

Maunders, K.T., and B.J. Foley,"Information Disclosure and the Role of the Accountant in Collective Bargaining-Some Comments," Accounting, Organizations and Society, Vol.9, No. 1, pp.99-106, 1984.

McDonald, Denys and Anthony G. Puxty, "An Inducement-Contribution Approach to Corporate Financial Reporting" Accounting, Organizations and Society, Vol. 4 No. 42 pp. 53-65, 1979.

Morita, Akio, Made in Japan, E.P. Dutton, New York, 1986.

Most, Kenneth S., "Corporate Social Reporting: 'Model' Report by Deutsche Shell," The Accountant, February 10th, 1977, pp. 164-167.

Ogan, Pekin, "A Human Resource Value Model for Profession Service Organizations," The Accounting Review, pp. 306-320, April 1976.

Owen, L. David,"Social Accountability: A Role for Accountants," Accountants' Record, July 1982

Peters, Aulena L., "A Time of Crisis: Current Issues Facing the Accounting Profession," Address to National Association of Accountants Annual International Conference, Nashville, Tennessee, June 25, 1986.

Pfeffer, Jeffrey, and Salancik, Gerald, R. The External Control of Organizations, (New York: Harper & Row, 1978)

Pomerantz, Felix,"Auditors' Sensitivity to Fraud," Journal of Accounting, Auditing & Finance, (Winter 1980, pp.178-184)

Robertson, John, "Corporate Social Reporting By New Zealand Companies," Journal of Contemporary Business, Vol. 7, No. 1, pp.113-133, Winter 1978.

Schreuder, Hein, "Employees and the Corporate Social Report," The Accounting Review, Vol. LVI, No.2, pp.294-308, April 1981.

______________, "Corporate Social Reporting in the Federal Republic of Germany: An Overview," Accounting, Organizations and Society, pp. 109-122, 1979.

______________, "Facts and Speculations on Corporate Social Reporting in France, Germany and Holland," unpublished working paper (Free University of Amsterdam), 1978.

Securities and Exchange Commission, SEC and Corporate Audits (Part 1) [Washington: U.S. Government Printing Office), 1986.

Spicer,Barry H., "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study," The Accounting Review (January,1978), pp.94-111.

Touche Ross & Co., Ethics in the Accounting Profession, Proceedings of a conference sponsored by The School of Accounting and the Program in Business Ethics in the School of Religion, University of Southern California, May 10, 1984, New York, May 1, 1985.

Trotman, Ken T., and Graham W. Bradley, "Associations between Social Responsibility Disclosure and Characteristics of Companies," Accounting, Organizations and Society, Vol.6, No.4,pp.355-362, 1981.

United States Supreme Court, SEC and Corporate Audits (Part 1), Washington: U. S. Government Printing Office, 1986.

Ullman, Arieh, A., "Data in Search of a Theory: A Critical Examination of the Relationships Among Social Performance, Social Disclosure, and Economic Performance of U.S. Firms," Academy of Management Review, Vol. 10, No. 3, pp. 540-557, 1985.

Williams, Harold M.,"Auditors' Responsibilities and the Public Interest," An Address, Texas Society of Certified Public Accountants, Dallas, Texas, September 18, 1979.

Williams, Paul F., "The Evaluative Relevance of Social Data," The Accounting Review, Vol.LV, No.1, pp.62-77,January 1980.

Wiseman, Joann, "An Evaluation of Environmental Disclosures Made in Corporate Annual Reports," Accounting, Organizations and Society, Vol. 7, No. 1, pp. 52-63, 1982.