



- Research objectives:**
1. To describe the current approach to financial communication, from a theoretical perspective.
 2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.

CHAPTER 3

Financial communication - an accounting perspective

Accounting's influence spans the full range of our life experience, from the mundane to the globally consequential. - Lehman (1992:1)

3.1 Introduction

In Chapter 2 it became evident that the accounting profession and professional play a major role in financial communication. The main objective of this chapter, therefore, is to investigate this role in more detail. The role of accounting can, in the first place, be described in terms of six “images” which have evolved over the years.

Accounting's role in financial communication can also be investigated by looking at two main objectives of accounting (some authors also refer to paradigms), namely the accountability or stewardship objective and the decision-usefulness objective. There are mainly two schools of thought regarding these objectives. According to the first school of thought, accountability (or stewardship) to the owners and investors of a company is the most important objective of accounting. This is the traditional narrow view of accounting and is based on a rights-based philosophy.

The second school of thought regards the objective of accounting as providing information that enables various users to make optimal decisions regarding the allocation of their scarce resources. This objective is broader and also encompasses the accountability objective. Decision-usefulness is based on a utilitarian philosophy, also referred to as the ethics of care. Accounting is seen as playing an important role in the welfare of society as a whole. Critical accounting is a field of accounting research that specifically investigates this role of accounting. A natural result of this train of accounting thought has been the emergence of corporate social accounting.

Not only have perspectives surrounding accounting as discipline broadened in recent years, the profession itself is also expanding beyond the traditional borders of the discipline. Accounting professionals are assuming broader responsibilities every day, including management consulting and investor relations. This expanding role holds important implications for accounting education, as well as for the disciplines subject to this encroachment.

3.2 What is accounting?

Accounting theory has evolved over time. Davis, Menon and Morgan (1982:309) describe accounting as four distinct “images” in an attempt to portray something of the evolution of accounting theory over the years. The four images describe accounting as 1) a historical record, 2) a descriptor of current economic reality, 3) an information system, and 4) a commodity. Belkaoui and Jones (1996:66) add two more images to the list, namely 5) accounting as ideology and 6) accounting as a language. These images should not be seen as one following or replacing the other. Each one emphasises different aspects. For example, the image of accounting as ideology is more philosophical in nature than the other five images. This image is therefore discussed first in the section that follows. The image of accounting as an information system is discussed last, as it provides a logical transition to the sections about the objectives of accounting.

3.2.1 Accounting as an ideological phenomenon

The first image of accounting is that of an ideological phenomenon that sustains and legitimises the current social, economic and political order. Karl Marx criticised accounting for “mystifying rather than revealing” the real nature of the relationships between business and society (Belkaoui & Jones, 1996:66). Lehman (1992:1) refers to accounting as myth maker in this regard. Accounting, with its countless rules and standards, makes it difficult, if not impossible, for most members of society to make sense of accounting information, not to mention using it for decision-making purposes. Accountants, as well as those who can interpret and use the information, are therefore

not only in a privileged position, but also in a very powerful one. Critical accounting represents a body of research that is concerned with the ideological role of accounting in society. A more in-depth discussion of critical accounting follows in Section 3.6.

3.2.2 Accounting as a language

Belkaoui and Jones (1996:66) refer to a second image of accounting as the language of business. This analogy is taken further by comparing the use of accounting language in financial reports to the use of a language, such as English, in newspapers to report events. Using the accounting language holds the same dangers as any other language, namely misunderstanding, or even misrepresentation.

3.2.3 Accounting as historical record

According to the “historical record” image, accounting is seen as recording the history of the organisation in financial terms (Davis *et al.*, 1982:309). These historical records make it possible for owners or shareholders of a company to assess the quality of stewardship of the managers of the company (Belkaoui & Jones, 1996:68; Laughlin & Lowe, 1990:17). The notion of stewardship is central to agency theory and will be discussed in more detail in Section 3.3.

Mautz and Sharaf (1961) and Willmott (1990) provide definitions of accounting that contain elements of the “historical record” image of accounting. Mautz and Sharaf (1961:14) define accounting as the collection, summarisation, and communication of financial data. No explanation of what is meant by “communication” is given in the definition, but could be interpreted as “disclosure”, the more generally used term in accounting. Willmott (1990:315) takes a similar view and states that accounting quantifies and reports the basic facts of economic life - that is, calculating, organising and regulating the processes of production and exchange. Accounting is seen as monitoring past performance and facilitating rational and efficient decision-making regarding the generation and allocation of resources.

3.2.4 Accounting as descriptor of current economic reality

The “historical record” image of accounting has been criticised on the grounds that historical costs are not necessarily reflective of economic reality. This criticism has led to the image of accounting as “descriptor of current economic reality”. This image was initiated by economists, lawyers and accountants and emphasised the measuring of true income - the change in the wealth of a firm over a period of time (Belkaoui & Jones, 1996:69; Davis *et al.*, 1982:310; Laughlin & Lowe, 1990:18). Current and future prices are considered to reflect economic reality more accurately than historical prices. The viewpoint of Gouws (1997:66) that accountants observe realities and assign meaning to what is going on in an entity, corresponds with the image of accounting as “a descriptor of current economic reality”.

3.2.5 Accounting as a commodity

A fifth image depicts accounting information as a commodity (Davis *et al.*, 1982:312; Laughlin & Lowe, 1990:19). Because accounting information has an impact on the welfare of various groups in society, there is a demand for this type of specialised information (Belkaoui & Jones, 1996:69). Therefore, the role of accounting information is investigated in terms of supply and demand analyses, information economics and agency theory.

3.2.6 Accounting as an information system

Gouws and Lucouw (1999:101) contend that accounting can easily be analysed as an information system, a sixth “image” of accounting. According to Davis *et al.* (1982:311), this image currently dominates accounting thought and research. Accounting has all the attributes of a system: input of raw financial data, processing of data and output of financial information in the form of financial reports (Glautier & Underdown, 1995:11-12). This image of accounting is based on decision needs or wants. In other words, the accounting information system should be designed to accommodate the decision needs of its users (Laughlin & Lowe, 1990:18).

Gouws (1997:62-63) identifies seven needs, which are central to an understanding of accounting:

- the need to *record* in order to report;
- the need to *audit* in order to trust;
- the need to *analyse* in order to assimilate;
- the need to *relate* in order to synthesise;
- the need to *compare* in order to discriminate;
- the need to *decide* in order to allocate resources; and
- the need to *respond* in order to create change.

Note that these needs are not only the needs of the external users of accounting information, but also the needs inherent in the design of the accounting information system itself. According to Gouws (1997:63), the role of the accountant is to bridge the knowledge gap between the entity (its accounting system) and the users (their needs). Unfortunately, accountants fail to do this, as they are unable to take accounting further than the financial and other statements. What generally happens is that disclosure is seen as communication. However, disclosure is a one-way process, while communication is ideally a two-way process.

Various stakeholders use accounting information to make decisions about the allocation of scarce resources (Belkaoui & Jones, 1996:29; Glautier & Underdown, 1995:18; Lehman, 1992:21). Because the accounting information system operates in a market economy, stakeholders are free to allocate their scarce resources between competing ends. Therefore, the objective of accounting as information system is to enable stakeholders to make optimal decisions. This objective, commonly referred to as decision-usefulness, has received much attention in accounting literature during the past four decades (Gouws & Lucouw, 1999:101). Prior to this, the objective of stewardship or accountability was dominant.

3.3 Accountability (stewardship) as objective of accounting

Financial disclosure to owners and to the public has developed since the mid-nineteenth century in the context of stewardship (Lehman, 1992:18; Puxty, 1990:350). The concept of stewardship can be explained in terms of agency theory. According to Wolk *et al.* (2001:45), agency theory is based on two main assumptions, namely:

- that the firm is the locus or nexus, or intersection point of various contractual-type (or agency) relationships among management, owners, creditors and government; and
- that individuals act in their own self-interest, which in many instances, is in conflict with the firm's best interests.

Another way to describe agency theory is that it seeks to understand and predict the behaviour of parties involved in agency relationships, and how each of these parties maximise their own utility (Reiter, 1997:302; Wolk *et al.*, 2001:100). An agency relationship consists of a principal and an agent. In legal terms, an agent is someone who is employed to represent the interests of another person (the principal).

The agency relationship is governed by an implicit or explicit contract. This contract is needed to resolve two problems that can occur in agency relationships. The first problem is known as the *agency problem*, arising 1) when the goals of the principal and agent are in conflict, and 2) because it is difficult and expensive for the principal to establish whether the agent is behaving appropriately. The second problem is known as the *problem of risk sharing*. This occurs when the principal and agent have different risk preferences, and as a result, favours different courses of action (Eisenhardt, 1989:58). The focus of agency theory is thus on establishing the most efficient contract, considering, among other things, the risk preferences of the contracting parties.

The implication of agency theory is that the principal needs to invest in information systems in order to monitor agent behaviour and curb opportunism (Eisenhardt, 1989:64). One such an information system is accounting. Wolk *et al.* (2001:46; 101)

observe that many agency relationships are monitored and governed by routine financial reporting. According to Tinker (1985:xvii) this is also known as *stewardship*, or accountability by managers to the owners of the firm.

The evolution of corporate forms and structures has led to a separation between owners and managers. Therefore, today's managers are accountable to absentee owners in terms of how they have utilised the economic resources entrusted to them (Kam, 1990:48;159). It is important to note, though, that agency theory is not only applicable to the contractual relationships between managers and shareholders or investors, but also to explicit or implicit contractual relationships involving other stakeholders such as creditors and employees.

The accountability objective is derived from the rights-based philosophy of individual autonomy (Stanton, 1997:684-5). Accountability is thus concerned with the interests of individuals, and specifically the right to receive information from a reporting entity. Such a right could be legal or moral. Legal rights to information are mostly limited to shareholders, while other stakeholders can only claim a moral right to information.

Gray (1992:402) argues that society at large has a right to information, based on the social contract that exists between a corporation and society. In other words, corporations should be held accountable in terms of their policies that affect non-shareholder groups, as well as for their compliance with the law and other regulations. However, Stanton (1997:686) warns that whether these rights to information will be upheld by the reporting entity, will depend on the political philosophy held by those able to enforce or defend rights.

3.4 Decision-usefulness as objective of accounting

Gouws (1997:66) observes that the objective of financial reporting has moved from the traditional narrow goal of stewardship to a much wider role of providing information to heterogeneous users for decision-making purposes. But Gouws (1997:68) also notes that the decision-usefulness objective has not totally replaced the stewardship objective, but rather encompasses it. When Wolk *et al.* (2001:3) define financial accounting, they refer to the use of accounting information for assessing management performance as well as making decisions. Imam (2000:133) declares that financial reporting should provide information that is useful for making rational investment, credit and other related decisions, while Kam (1990:48) claims that accounting for decision-making begins with the stewardship function. In other words, the objective of accounting is acknowledged as being two-fold.

According to Wolk *et al.* (2001:170) the issue of user needs and objectives started to gain prominence in accounting research during the late 1960s. The first document to recognise the decision-usefulness objective was APB Statement No.4. This document was published by the Accounting Principles Board (APB) in America in 1970 (Puxty, 1990:350). Since this recognition, the decision-usefulness approach has been characterised by an ever-growing body of research, focusing on the users themselves, their decisions, information needs and information-processing abilities. Wolk *et al.* (2001:189) distinguish between a decision-model orientation and a decision-maker orientation to the decision-usefulness objective.

3.4.1 The decision-model approach

The decision-model approach to accounting research focuses on what information is needed to make certain decisions. It is important to note that this approach does not emphasise the information needs of *users*, but rather the information that is needed for particular *decisions* (Kam 1990:48). The rationale behind this approach is that users might not know how to use the information and need to be taught. Wolk *et al.* (2001:41) make it clear that this is a top-down approach, where the firm (or the accountants

employed by the firm) decides what decisions users need to take and what information is needed for these decisions.

The decision-model approach distinguishes between two major types of decisions that users need to make: 1) predicting future cash flows and 2) analysing the stewardship (that is the efficiency and effectiveness) of management (Wolk *et al.*, 2001:43). To aid these decisions, formal investment decision models, such as discounted cash flow, capital budgeting and linear programming are often used. Belkaoui and Jones (1996:610) state that the information requirements for each of these models are well specified. Kam (1990:48) observes that accounting information is used as input data for these models.

3.4.2 The decision-maker orientation

The decision-maker orientation (also known as behavioural accounting research) investigates how *users* of accounting information make decisions, what information they need and how the information is selected and processed. The main assumption of this orientation is that information that is desired must be provided (Belkaoui & Jones, 1996:614; Wolk *et al.*, 2001:44;191). In contrast to the decision-model orientation, the decision-maker orientation can be seen as a “bottom-up” approach and addresses the aspects ignored by the former.

3.4.3 Criticism against the decision-usefulness objective

There are certain problems associated with the decision-usefulness approach. The most prevalent one is that of user diversity. The principal concern is that users are diverse in terms of the decisions they need to make and possibly their information needs as well. There are two views in this regard. The first view is that multiple sets of accounting information are needed to accommodate the diverse decisions and information needs of users. The second view is that data-expansion is not necessarily the solution, as the ability of users to absorb and process additional information might be limited (Wolk *et al.*, 2001:191). It is stated in the Trueblood Committee Report (also

known as the “Objectives of Financial Statements”, published by the American Institute of Certified Public Accountants [AICPA] in 1973) that although there are different user groups, they make similar decisions and therefore have similar information needs. The assumption that user needs are actually heterogeneous still needs to be proved empirically.

In contrast to the accountability objective, decision-usefulness is based on the utilitarian philosophy, which concerns the interests of society as a whole (Stanton, 1997:689). Utilitarianism is based on the principle that the rightness or value of an action should be judged by its consequences. Therefore, a right to corporate financial information will be justified if it results in an increase in welfare for society as a whole. The ultimate goal is the efficient allocation of resources.

In Section 3.4 it has been noted that the objective of decision-usefulness has encompassed, rather than replaced, the traditional narrow objective of stewardship or accountability. In other words, the objective of accounting is acknowledged as being two-fold. However, the philosophies underlying accountability and decision-usefulness seem contradictory. This conflict is further highlighted when one considers the ethics of care versus the ethics of rights.

3.5 Accounting and the ethics of care

According to Reiter (1997:300), the ethics of care has developed in a moral/psychological setting. It is based on the idea that women’s responses to moral issues differ from those of men. While male responses are typically characterised by an orientation towards autonomy, objectivity and adherence to universal principles, female responses are more contextual in nature. The typical male responses are labelled as the ethics of rights, while the typical female responses are labelled as the ethics of care.

The ethics of rights has dominated Western thought. Consequently the ethics of care has developed as a feminist critique in an attempt to rebalance this thought structure. The ethics of care concentrates on responsibility and relationships, in contrast to the ethics of rights, which focuses on rules and respect for the rights of others (Reiter, 1997:299; 301). Agency theory, which is based on a contract governing and protecting the rights of the contracting parties, is set within the ethics of rights.

When the ethics of rights and ethics of care are applied to accounting, it becomes clear that the objective of accountability relies on the ethics of rights approach of detailed, if somewhat arbitrary, rules of fair external reporting. The ethics of care, on the other hand, is reflected in the decision-usefulness objective, which emphasises the importance of understanding users of financial information, their unique circumstances and needs and responding to these needs (Reiter, 1997:302-304). The acknowledgment and effective management of relationships is at the centre of the ethics of care.

The theme of relationship management is important for this study. In Chapter 4, several theoretical perspectives, closely related to relationship management, are used to justify the need for an inclusive approach to financial communication. It is important to note though, that the ethics of rights and accountability objective are nevertheless acknowledged as important components of financial communication.

According to Stanton (1997:691) there is currently no generally acceptable method of reconciling the ethics of rights and ethics of care perspectives. There is a body of accounting literature that suggests the adoption of a rights-based conceptual framework for accounting. There is, however, also a body of literature concerned with the role of accounting in society, referred to as critical accounting.

3.6 Critical accounting

According to Gouws (1999:15) accounting is a social science that mimics facts and events. It is also not an exact science, as many would argue, based on universal truths or general laws. Rather, Gouws contends that accounting concepts are formulated against the backdrop of the value system of the society in which they operate. Wolk *et al.* (2001:1) concur by stating that although accounting is frequently viewed as a very cold, precise and analytical discipline with clear cut answers, every accounting construct has a “social reality”.

Critical accounting is especially concerned with social reality and the role of accounting in society. Lehman (1992:17) poses the question whether the accounting profession should actively pursue equity and social welfare, or whether the role of accounting is to achieve efficiency, with equity and social welfare as side effects. Wolk *et al.* (2001:48) are of the opinion that accounting plays a central role in adjudicating conflicts between the corporation and social constituencies such as employees, consumers and the general public.

Tony Tinker, a prominent academic in the field of accounting, is well known for his views on the role of accounting in society. His book, *Paper Prophets*, is filled with vivid descriptions of the role of accounting in society. The following is one of these descriptions:

Members of a society are interconnected through their economic and social interdependencies: employees to investors to consumers to taxpayers to mothers to welfare recipients to students to insomniacs. Accounting information is not merely a manifestation of this myriad of interdependencies; it is a social scheme for adjudicating these relationships. We are all costs and revenues to each other; everyone is potentially a benefactor and a victim in the accounting nexus of social decisions (Tinker, 1985:xx).

According to Tinker (1985:9;81;84), the role of accounting is to help with the allocation of resources and at the same time, determines the distribution of income and wealth. But, in a capitalist economy, this distribution of income is usually not equal. Therefore accounting often has to arbitrate in or resolve social conflict over the production and distribution of income and wealth. Lehman (1992:1) shares this perspective and states that accounting practice has always been afflicted by financial controversies.

Tinker warns that accountants should not be seen as “harmless bookkeepers, but as arbiters in social conflict, as architects of unequal exchanges, as instruments of alienation, and as accomplices in the expropriation of the life experiences of others” (1985:xvi). In other words, accounting information has the potential to create distributional instabilities. Those who have access to and/or are able to interpret and use accounting information have the power to make decisions to their own advantage, and possibly to the detriment of others.

Tinker’s arguments might seem extreme, but there are several authors holding similar, although not as dramatically stated, views. Willmott (1990:325) acknowledges Tinker’s views and refers to the historical role of the accounting profession in defending capitalism and the structures of social relations within which accounting is constituted and practised. Cooper (in Macintosh, 1990:153-154) points out that the ideology behind current accounting theories and accounting information legitimises the way in which funds are distributed by organisations, supports the currently powerful groups in society and discourages enquiry into the social desirability of society as we know it.

Hopper and Cooper (1990:5) observe the trend in accounting research to question the taken-for-granted in accounting thought and practice, and the recognition of accounting’s role in prevailing structures of power and domination. Although they acknowledge the importance of conventional research that concentrates on the technical and procedural aspects of accounting, they state that analyses of accounting’s role and position in society are also important. Macintosh (1990:154) remarks that

research into the ideological function of accounting could also help with the design of new accounting systems which would meet the needs of an entire society.

According to Laughlin and Lowe (1990:37), the designers of accounting systems (accountants by implication) should critically analyse the current state of the organisation and society of which they are part and identify the necessary changes that would aid development and emancipation of the social world. These designers are free to change the design of the accounting system. In the process, they shape the users of the system's views of what is important (set the agenda) and determine how institutions function (Macintosh, 1990:153). It is against this background that certain accounting scholars began to explore the concept of corporate social accounting.

3.7 Corporate social accounting

Jones (1990:272) reports that interest in news forms of corporate reporting, that consider wider audiences and content, can be traced back to the 1970s. It took some time, however, for the accounting profession to acknowledge this new school of thought. Kam (1990:50), for example, reports that both the Accounting Principles Board (APB) and Financial Accounting Standards Board (FASB) ignored society as a user of accounting information. In 1977 a special committee of the American Accounting Association (AAA) was one of the first to acknowledge society as an indirect user of accounting information. In an article published in 2000, Imam (2000:133) comments that financial reporting still, to a certain extent, ignores exchanges between a firm and its social environment.

Kam (1990:50) argues that, since all members of society are affected by reported accounting information, society can justifiably be considered as a user of this information. Bailey (1990:193) states that accounting should expand its horizons by paying more attention to society in general, rather than playing a larger and larger role within the business firm itself. Supporters of corporate social accounting claim that the modern business enterprise has responsibilities beyond legal obligations to

shareholders, namely obligations to other “stakeholders”. These stakeholders include equity investors, loan creditors, employees, analyst-advisors, business contacts, the government, consumers and the community or neighbourhood and are actual or potential users of accounting information (Jones, 1990:272). It can therefore be argued that corporate social accounting is based on the ethics of care, as described in Section 3.5.

But what is the motivation behind corporate social accounting? Jones (1990:273) identifies three views that express the need for new forms of accounting: a moral imperative, external pressure and internal change.

Advocates of the *moral imperative* view are of the opinion that businesses are not sufficiently aware of, and unwilling to be held accountable for, the social consequences of their activities. They propose that accountants should take the lead in changing the views of management and incorporating a more socially responsible framework within which the firm should operate (Jones 1990:273). In Section 3.3.1, reference was made to the rights-based philosophy underlying the accountability objective of accounting. It was also mentioned that rights could be legal or moral. Stanton (1997:686) suggests that the political philosophy of those in power will determine whether moral rights will be upheld. It is therefore open to debate whether accountants will be able, or willing, to persuade corporate management to consider the idea of corporate social accounting.

According to the *external pressure* view, business managers are well aware of an already high level of social pressure, demanding a higher level of social responsiveness from firms (Jones, 1990:273). Stakeholders are pressuring business enterprises to report to what extent their interests have been protected (Imam, 2000:133). Proponents of this view believe that any social institution, business included, operates in society via an expressed or implied social contract. This contract stipulates that the firm should deliver economically, socially and politically desirable benefits to those groups in society from which it derives its power and infrastructure. According to Imam (2000:134) and

Jones (1990:273), social accounting helps to assess how well a firm is fulfilling this social contract.

The third argument in favour of corporate social accounting, *internal change*, refers to changes that have taken place within the firm itself, which demand a new approach to accounting. The main change that has taken place is the decline in the power of ownership and therefore, the reduced importance of profit as a corporate goal. Profitability is now seen as only one of many corporate goals (Jones, 1990:274). Traditionally, the role of accounting was seen as presenting information to the proprietors (shareholders and other investors) to show how their funds have been used to generate profit. In view of this third argument in favour of corporate social accounting, this role should be expanded in order to reflect a firm's performance in areas other than profitability.

In general, criticism against corporate social accounting has been based on the technical difficulties involved in developing social reports and the question whether accountants have the relevant skills to prepare such reports (Jones, 1990: 274; 290). Kam (1990:51) remarks that it is extremely difficult to identify a given activity as a social benefit or cost, and even more difficult to quantify these benefits and costs. He adds, though, that it is not necessary to quantify these benefits and costs, as they can be described in words or other qualitative terms.

In this chapter so far, the accounting discipline has been discussed in terms of various images, objectives, philosophies and roles. The question that now arises is: is the accounting profession, and more specifically the accounting professional, ready and equipped for the opportunities and challenges described previously?

In Chapter 2, empirical evidence suggests that in most cases, the financial executive and his or her department managed and conducted investor relations programmes (Marston, 1996; McGrath, 1974; Petersen & Martin, 1994). This is significant, especially

when one considers the fact that investor relations was traditionally seen as a public relations function. Indeed, the public relations literature generally still considers investor relations as a public relations function. The section that follows investigates the extent to which the accounting profession is expanding into other disciplines and the concomitant implications for accounting education.

3.8 The expanding role of the accounting profession

A dramatic shift in expectations of the accounting profession has occurred during the last 20 years. In response, the accounting profession is expanding, assuming a broader role within organisations and within society (Bedford & Shenkir, 1987:85; Williams, 1993:76). The following quote provides a vivid description of this phenomenon:

The Big Eight [accounting firms] are, among other things, auditors, accountants, executive headhunters, merger-makers, tax specialists, consultants, attorneys, lobbyists, expert witnesses, financial planners, actuaries, engineers. They do everything from planning urban medical centres to designing Third World transportation systems. Name a white-collar service and chances are that the Big Eight provide it or will find a way to do so (Stevens in Hines, 1987:82).

Atkinson (2002:213) reports that in 2000 these firms were making 40% of their revenue from consulting, in contrast to 21,6% in 1989. This dramatic shift can, in part be attributed to the fact that computer technology is making auditing services less valuable. Accounting firms are therefore forced to seek new sources of revenue. According to Bedford and Shenkir (1987:90), the expansion of the accounting profession is characterised by two main aspects:

- Accounting services are becoming broader in scope, which in turn, require an extremely high level of professional competence from accountants.
- Various types of decisions and decision makers require, and are provided with, accounting services that need to be more creative and innovative than traditional financial reporting processes.

But it is not only accounting firms that have to deal with new opportunities and expectations. The Chief Financial Officers (CFOs) of companies are also facing new challenges.

3.8.1 The expanding role of the Chief Financial Officer (CFO)

Traditionally, the role of the accountant in a company was seen as keeping record of the flow of money in and out of the company, interpreting this information and reporting it to the Board of Directors, senior management and the investment community. Few, if any, Chief Financial Officers (CFOs) assumed any responsibilities outside purely financial domains such as tax, auditing, financial reporting and investor relations (Favaro, 2001:4,6). The CFO's main responsibility was providing information about what had happened in the past.

This scenario, however, is rapidly changing. The CFO no longer only oversees accounting and finance functions within the company, but also advises the CEO on the most important decisions that need to be taken (Favaro, 2001:8). A whole new job description for CFOs has evolved. According to Favaro (2001:4,5), CFOs who stand a good chance of being promoted to the position of Chief Executive Officer (CEO), are those who are not only financial specialists, but play dynamic roles in four crucial areas: strategic planning, information management, investor relations and organisational leadership.

As strategist, the CFO needs a thorough understanding of the economics of the business and how this can be linked to strategic opportunities. Information management encompasses the utilisation of information technology to create a fact base that provides detailed, real-time information essential to strategy development and implementation. As leader, the CFO is expected to contribute to and improve the quality of strategic decision-making, take the lead in change management and develop and maintain strong relationships with fellow executives (Favaro, 2001:5).

As communicator (with specific reference to investor relations), the CFO should be able to articulate the company's current financial and strategic position and future direction and decide when and how to communicate this information to investors, the media and the community. Furthermore, the CFO should understand the implications of these announcements for all the major stakeholders of the company, not only the shareholders. In other words, the CFO should also possess public relations knowledge and skills (Favaro, 2001:5;7). This seems a lot to expect, but even professional accounting bodies acknowledge that today's professional accountants need more than accounting skills and knowledge.

According to the Education Committee of the International Federation of Accountants (IFAC), accountants need skills in order to be entrepreneurs, financial analysts, sales persons, good communicators, negotiators, public relations specialists and managers (IFAC, 1996 Par 8). These skills include communication, negotiation, intellectual, interpersonal, accounting and personal skills. Donovan (1995:7) suggests that communication skills are important in the new millennium for the following reasons:

- the business world will become more and more interdependent;
- people from different backgrounds and disciplines within the organisation will become more interdependent in order to complete whole tasks; and
- there will be a greater number of users of accounting information to which the accountant will have to respond.

The question is: are accountants equipped, especially in terms of education, to fulfil their expanded role in organisations? According to Favaro (2001:8), accountants will need extensive educational as well as professional experience before they would be able to take up the position of CFO. According to Bedford and Shenkir (1987:91) the accounting profession is ideally suited to provide in the ever increasing demand for higher quality information, but add that this will only be possible if a reorientation of accounting education takes place to better equip its members for their expanded role.

3.8.2 Implications for accounting education

The expanding role of the accounting profession has led to the question whether the status quo in accounting education sufficiently equips accountants for this role. In order to investigate this issue, the American Accounting Association (AAA) appointed a committee in the mid 1980s. The committee compiled a report entitled "Future Accounting Education: Preparing for the Expanding Profession", also known as the Bedford Report (Donovan, 1995:1).

In general, the Bedford report concludes that the current state of accounting education does not meet these new expectations and should therefore be reassessed and redirected (Bedford & Shenkir, 1987:85). It recommends that educators should approach accounting as an information development and distribution function with the focus on information identification, measurement, analysis and communication.

Considering the growing role of information in society, accountants should be prepared for the broadening of information use. Accountants need to know how to design and implement information systems in order to meet the needs of various decision makers (Bedford & Shenkir, 1987:88;90). According to Donovan (1995:11), the Education Committee of the International Federation of Accountants (IFAC) made similar suggestions.

The Bedford Report also states that accounting education should be extended beyond technical skills. Accounting students' capabilities in terms of interaction with others, logical as well as creative thinking and communication should also be enhanced (Bedford & Shenkir, 1987:90). The Accounting Education Change Commission (1990:307) and a 1996 IFAC International Education Guideline (IFAC, 1996 par 33) suggest similar actions. Organisational and business education will equip accounting students with knowledge of the environments in which they operate, macro-and micro-economics, the application of statistics to business problems, interpersonal and group dynamics in organisations, marketing and international trade and finance, which in turn,

will aid them in the accomplishment of strategic objectives. During the assessment of their professional competence, students should be able to demonstrate that they have a sound technical knowledge of the subjects included in the accounting curriculum. However, as with the Bedford Report, it is also recommended that students should be assessed on their ability to communicate effectively with users of financial information (IFAC, 1996:48).

One central theme in these reports and guidelines is the need to improve communication skills of accountants, especially their interpersonal and business communication skills. According to Williams (1993:80), accounting curricula have traditionally paid little attention to these skills. The result is that accountants are often surprised to find that communication skills play such a fundamental role in their work and future career prospects. The IFAC International Education Guideline (1996 par 19) lists various components of communication skills, such as the ability to present, discuss and defend views, listening and reading skills, and the ability to locate, organise, report and use information from various sources. According to Donovan (1995:7), all these skills must be taught.

Figuratively speaking, the accountant is expected to be Superman. This expectation is not only extremely demanding but also totally unnecessary. Why is it necessary to train accountants to be experts in communication and public relations, when there is an oversupply of people specifically trained in these fields?

The solution seems deceptively simple: combine the expertise of the accountant and the public relations practitioner. However, in an earlier study, the author found that the public relations practitioners surveyed more readily accepted the idea of co-operation between the two disciplines, than the accountants (Schoonraad, 1998). The reason for this might be that accounting is recognised as an established profession, while public relations is still struggling to gain that recognition. A telling example of this phenomenon is the presence of accountants, and the absence of public relations

practitioners, in corporate boardrooms. However, despite the stronghold that the accounting profession has on financial communication, it has several shortcomings.

3.9 Shortcomings of the accounting approach to financial communication

According to Gouws and Terblanché (1998:91), new definitions of accounting consider it to be a communication discipline. Gouws (1997:62), to the contrary, remarks that a traditional shortcoming of accountants is that they are unable to take information further than the financial and other statements. In other words, accountants consider disclosure to be a form of communication. This would have been true if disclosure processes made provision for feedback from recipients or users. However, disclosure is in most cases a one-way process and can therefore not be seen as communication.

Another shortcoming of accounting is its narrow focus. Lehman (1992:22) contends that the belief that the maximisation of shareholder wealth will lead to the maximisation of societal wealth, is problematic. Shareholders' interests are not necessarily representative of the interests of society. In Chapter 2 it was also noted that investor relations efforts are predominantly focused on the financial community, ignoring other stakeholders' needs. This is not surprising in view of the fact that the accounting profession currently dominates investor relations practice.

A serious shortcoming of accounting is its emphasis on historical data. Both Lehman (1992:2) and Lundholm (1999:316) warn that accounting is losing its relevance. By the time that annual or quarterly financial reports are published, the information they contain has long been available from other sources, and has already been "absorbed" into share prices. The historical reporting model may have been appropriate for the industrial economy, but fails to capture wealth creation in the current information and knowledge-based economy. Wright (2001:17) uses a striking analogy: accounting must change from a succession of snapshots taken once a month, quarter or year, to a movie

that continuously changes as the circumstances change. In other words, accounting should become a dynamic process.

A closely related problem is the fact that the accounting profession continuously inundates itself with new accounting standards (Healy & Palepu, 1993:1). This proves to be burdensome and prevents accounting to become the dynamic process it needs to be. In the process, accounting is also becoming increasingly complicated. This, in turn, has the side effect that accounting information is becoming less accessible and therefore even narrower in focus.

Finally, expectations of the accounting profession and professional are broadening all the time. The Bedford Committee, among others, found that current accounting education is not adequate to meet the requirements of an expanding profession (Bedford & Shenkir, 1987:85). This places immense pressure on the profession as well as on accounting educators.

3.10 Conclusion

There is no doubt that the accounting discipline has far-reaching consequences for society as a whole. It is furthermore backed by a powerful and influential profession, which is assuming broader roles and responsibilities every day.

Accounting's "claim to fame" lies primarily in the fact that it has developed a system that captures people's and companies' decisions regarding the allocation of resources in a concrete way. In other words, accounting provides a record of what has happened in the past in order to assist people to anticipate the future. However, the "historical record" image has been criticised for its lack of relevance in today's information and knowledge-based economy.

Accounting has also been described as an information system, which developed in reaction to users' needs. This image of accounting might lead to the impression that accounting *creates* information that is useful to various groups of users. This is not accurate - the accounting information system only serves as an intermediary that *observes* information and puts it into a certain format. This observation process is also extremely selective. Information regarding the allocation of *financial* and *tangible* resources is observed with meticulous care. However, information about the allocation of *non-financial* and *intangible* resources such as time and knowledge has been ignored to a large extent. The discipline has only recently begun to pay attention to intangible resources such as intellectual capital.

The objective of accounting is two-fold. First, it fulfils a stewardship role by reporting how a firm's managers (the agents) have utilised the resources entrusted to them by investors (the principals). Note that the concept investment is understood here in the narrow sense of purely financial or economic investment. It will be argued in Chapter 4 that investment can, and should, be understood in a broader sense.

The second objective of accounting, which encapsulates the first, is that of decision-usefulness. Accounting facilitates various users' decisions regarding the allocation of their resources. It has been noted by critical accounting scholars that these allocations are not necessarily equitable and that those who can access and interpret accounting information are in a very powerful position. The corporate social accounting movement is an attempt to hold these powerful parties (mostly firms) accountable for their actions that have an impact on society and the environment.

It has been noted that the objective of decision-usefulness is based on the ethics of care, a utilitarian philosophy. The ethics of care emphasise the importance of responsibility and relationships. This theme is taken further in Chapter 4. Many public relations scholars have recently begun to explore the application of relationship management as a general theory of public relations.

In Chapter 4 it will be argued that a broader, inclusive approach to financial communication is needed. This will be justified by referring to the shortcomings of both the investor relations and accounting approaches to financial communication. The argument will be contextualised within the themes of corporate governance, corporate social responsibility, stakeholder management and relationship management.

The conceptualisation of an inclusive approach to financial communication holds implications for the management and organisation thereof. It is suggested in Chapter 5 that the turf war between public relations and accounting is counterproductive and that financial communication should rather be seen as an interface (or grey area) between the disciplines. This necessitates a fully integrated approach to the management and organisation of financial communication.