

CHAPTER 11

Research results – questionnaires for designers

11.1 Introduction

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

The purpose of the statements in the questionnaires was to determine the extent to which CARs are the information products of accounting practices in transition and to research the contribution of all relevant role players. This chapter covers the responses from the designers of CARs. Chapter 9 deals with the responses of the preparers of CARs and chapter 10 deals with the responses of the users of CARs.

The layout of this chapter consists of an introduction, research results of designer respondents of CARs and a conclusion.

11.2 Questionnaire for the designers of CARs

11.2.1 Introduction

Larger companies increasingly use external agencies in the preparation of CARs (Stanton & Stanton, 2002:479). As external agencies become important role players in the outcome of CARs, questionnaires aimed at designers were electronically distributed by e-mail to obtain information on their contribution to the CARs preparation process. The research results reveal notable propositions. As with the questionnaires for the users and the preparers, e-mail questionnaire distribution for designers once again meant that

convenience sampling was the most effective sampling method. Since only a limited number of responses were obtained from the designers – owing to a limited number of designers in the field – trends discussed in the following sections should be regarded as purely exploratory and could be further investigated in similar future studies.

11.2.2 Research results

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

Statement 1a: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Corporate communications.* The aim of this statement was to determine which department in a company instructs graphic designers with regard to the design of CARs. Table 11.1a reflects the following:

Table 11.1a: Statement 1a

Rating scale	%
Strongly disagree	14.3
Disagree	0.0
Unsure	14.3
Agree	14.3
Strongly agree	57.1
Total	100.0

As per table 11.1a, 57.1 percent of the respondents strongly agreed and 14.3 percent agreed that the corporate communication department instructs them regarding the design of CARs. The research results indicate that the corporate communications departments of companies play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS.

Statement 1b: *The company representatives that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Finance.* Table 11.1b reveals the following:

Table 11.1b: Statement 1b

Rating scale	%
Strongly disagree	0.0
Disagree	28.6
Unsure	0.0
Agree	14.3
Strongly agree	57.1
Total	100.0

Respondents gave the same rating for the “agree – and strongly agree category” (14.3 percent and 57.1 percent respectively) for tables 11.1a and 11.1b. This is because the same respondents of this limited sample of designers indicated that they agree and strongly agree with the statements of both tables 11.1a and 11.1b. Table 11.1b reflects that the financial departments of companies also play an important role in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS.

Statement 1c: *The company representative/s that instruct/s and consult/s you regarding the design of CARs is/are normally from the following department(s): Other.* Table 11.1c shows that there are more than one party involved.

Table 11.1c: Statement 1c

Rating scale	%
Strongly disagree	0.0
Disagree	0.0
Unsure	40.0
Agree	0.0
Strongly agree	60.0
Total	100.0

Sixty percent of the respondents strongly agreed with the statement that other parties instruct them regarding the design of CARs. A respondent replied: “Usually there are three and sometimes more parties involved – management (top executive), marketing and

communication and then the finance department with the actual financial results.” Table 11.1c indicates that other departments also instruct designers with regard to the design of CARs. These other departments could include the marketing department and the department concerned with sustainable review matters. If the research results of tables 11.1a to 11.1c are compared, the indication is that different departments are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS. No one department plays a major role.

Statement 2: *Designers generally have some training/experience in impression management, that is, a technique to present something in as favourable a light as possible (Lee, 1994:223-224).*

Table 11.2: Statement 2

Rating scale	%
Strongly disagree	14.1
Disagree	0.0
Unsure	0.0
Agree	71.4
Strongly agree	14.3
Total	100.0

The majority of respondents (85.7 percent) agreed and strongly agreed with the statement that designers generally have some training/experience in impression management. A respondent commented: “The art of graphic design is undoubtedly to provide the best possible rendition of any subject matter – that’s the nature of the business – whether it’s an annual report, a brochure or a brand concept. No designer would want to produce something that is poor in concept or design.”

Another respondent remarked:

When we design a CAR we are led in terms of a concise and to the point brief on

the various aspects that influenced a business over a previous financial year. All design should position the end result so as to best portray the character of the product or company to a defined target audience. It is not the task of the designers to "manage the impressions" a target audience might derive from a design.

The designer respondents indicated that they have undergone some training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible. Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures in CARs.

Statement 3: *By making use of photos, graphics and graphs, negative aspects of a company can be converted into positive messages* (Stanton et al., 2004:58). Table 11.3 indicates a general contradictory response to the statement.

Table 11.3: Statement 3

Rating scale	%
Strongly disagree	28.6
Disagree	28.6
Unsure	0.0
Agree	14.2
Strongly agree	28.6
Total	100.0

57.2 percent of designer respondents disagreed and strongly disagreed with the statement that negative aspects of a company can be converted into positive messages making use of photos, graphics and graphs, while 42.8 percent agreed and strongly agreed.

One respondent stated:

This is a difficult question to answer either negatively or positively. Pictures and graphics can be used purely for decorative purposes or as an overall theme to ake a graphic analogy. Pictures can also objectively portray various aspects of the

company's business such as industrial plants or products, which are neither negative nor positive – only informative.

Another respondent remarked:

Generally a CAR serves more than one function, a) to give accurate results of the financial status of a company at year end, b) to also explain and show investors, clients and members the good and bad of the company's business over the year. Naturally more attention should be given to the positive aspects of a company's results to help promote the business over the next year.

Most of the designer respondents (57.2%) disagreed with the statement, while 28.6 percent strongly agreed that photos, graphics and graphs can convert negative aspects of a company into positive messages. Again users of CARs need to develop an awareness of this fact when interpreting the disclosures presented (the statutory disclosures of the MFIS and especially the discretionary disclosures of the DIS) in CARs.

Statement 4: *As far as CARs are concerned, design devices (e.g. photos, graphics, graphs) can be used to influence the perceptions of readers of CARs (Stanton et al., 2004:57).* Table 11.4 indicates that the perceptions of users could possibly be influenced.

Table 11.4: Statement 4

Rating scale	%
Strongly disagree	14.3
Disagree	0.0
Unsure	0.0
Agree	71.4
Strongly agree	14.3
Total	100.0

As per table 11.4, 71.1 percent of the designer respondents strongly agreed and 14.3 percent agreed with the statement that design devices can be used to influence the perceptions of readers of CARs.

A respondent made the following statement:

Yes, a reader could be influenced but unlikely to the point that he will be led to actually change his perceptions. Most annual reports are designed so that at first glance any stakeholder or analyst can observe the state of the company – the first few pages present a clear overview of the company’s financial position, whether it is favourable or not. Graphs are compiled from figures supplied by the company and it is hardly likely that a pretty designed graph showing negative results will unduly influence the reader as to the company’s financial position.

Another respondent replied: “Yes. The same applies to painting a house prior to putting it up for sale.” As indicated in the previous question, photos and graphics may play a small role. Table 11.4 suggests that design devices, for example photos, graphics and graphs, may influence the perceptions of readers (users) of CARs. This is another aspect that CARs users need to be aware of when interpreting the disclosures (the statutory disclosures of the MFIS and the discretionary disclosures of the DIS) in CARs. Clearly this highlights another research opportunity.

Statement 5: *The design of CARs is viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible (Stanton et al., 2004:57).* Table 11.5 reflects mixed responses from designers.

Table 11.5: Statement 5

Rating scale	%
Strongly disagree	42.9
Disagree	0.0
Unsure	14.3
Agree	28.6
Strongly agree	14.3
Total	100.0

42.9 percent of the respondents strongly disagreed with the statement that the design of CARs is an exercise in obfuscation, while 42.9 percent agreed. A respondent commented:

This question is very similar to the second question, so the above response also applies. Undoubtedly a client wants the best possible design and concept. Annual report design has, over the years, become linked very closely to a company's strategic intent, its vision and its mission – we have to think like investor relations experts or analysts – how easily and quickly can vital information be found? Design companies vie with each other, each striving to come up with the best possible "strategic" concepts and clever designs. It's no longer about design for the sake of design. Most of our clients approach us looking for the best possible way in which to present their information – not necessarily only in the most favourable light, but succinctly, interestingly and meaningfully. Companies are willing to spend a lot on annual reports as they are seen as a powerful marketing tool so the design has to be compelling, yet logical and informative.

Another respondent remarked: "Obfuscation, smoke and mirrors, deception ... No! From a design perspective we as a company cannot risk our business on this kind of sleaze. If the company publishing the CAR is corrupt you will find your answers there if they are willing to say so openly ... not with the designers or design consultants."

Table 11.5 reveals that while 14.3 percent of designer respondents indicated that they are unsure whether the design of CARs is an exercise in obfuscation, 28.6 percent indicated agreement and another 14.3 percent indicated strong agreement with this view. 42.9 percent indicated strong disagreement. It seems as though designers of CARs are divided on this issue.

11.3 Summary and conclusion

A questionnaire with five statements, which were formulated making use of the literature review in chapters 1 to 6, were distributed to designers of CARs. The above individual research results will be of value to preparers of CARs in the design process of the

statutory sections of the MFIS and the discretionary sections of the DIS. They will also be important to the users of CARs.

The significant issues flowing from the questionnaires distributed to designers of CARs were firstly that the corporate communications departments of companies (statement 1a) play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS. Secondly, the financial departments of companies (statement 1b) are also important role players in instructing designers with regard to the design of CARs. Thirdly, that there is a strong indication that different departments (statement 1c) are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS and that no one department plays a major role. Fourthly, the designer respondents indicated that they have undergone training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible (statement 2).

Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures of CARs. Fifthly, designer respondents indicated that there is a chance (42.8 percent agreed) that photos, graphics and graphs can convert negative aspects of a company into positive messages (statement 3). Again users need to develop an awareness of this fact when interpreting the disclosures presented in CARs. Sixthly, the designer respondents indicated that design devices, for example photos, graphics and graphs, might influence the perceptions of readers of CARs (statement 4). Lastly, the respondents were divided on the issue of whether the design of CARs can be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible (statement 5). Chapter 12 sets out the conclusions and recommendations of this study.

CHAPTER 12

Conclusions and recommendations

12.1 Introduction

CARs are the traditional formal communication vehicle between publicly listed entities and stakeholders. CARs of entities in South Africa have undergone significant change and are still in a process of transition. The main goal of this thesis was to obtain an understanding of the way in which accounting practices that are constantly in transition generate the information that is disclosed in CARs.

The purpose of this chapter is to report on the research questions formulised in chapter 1, give a summary of the research findings of the previous chapters, draw conclusions and make certain recommendations.

In this study the research problem is to understand how mandatory information is generated through the use of mandatory accounting practices and discretionary information through the use of discretionary accounting practices. CARs are the product of information-processing systems. One system, which also contextualises CARs, is responsible for generating discretionary disclosures, while another system is responsible for generating statutory disclosures. Understanding of the real meaning of the statutory information contained in CARs can only be achieved when contextual information supplements the statutory information. The research problem addresses the lack of understanding of the interrelated information-processing systems of which CARs are the product, which results in the underutilisation of CARs' creative and innovative potential.

12.2 Research problem, questions and findings

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

In chapter 1 the research questions were formulated. The research findings reveal that CARs are the information products of accounting practices in transition, driven by two interrelated systems, that is, the mandatory financial information system (MFIS), responsible for generating statutory disclosures through the use of generally accepted accounting practices and the discretionary information system (DIS), responsible for generating discretionary disclosures through the use of discretionary accounting practices. The research questions and findings are presented as follows:

- Do CARs generated by the information-processing systems reflect the disclosure of information, captured and screened by accounting practices, that rests on a firm foundation supporting a logical body of practice (Herrick, 1944:49)?

The research findings of preparer respondents in chapter 9 (statement 5) reveal that accounting practices capture and screen information and play an important role in the generation of the statutory and discretionary disclosures in CARs. The discretionary accounting practices of the DIS generate discretionary disclosures in CARs, whereas GAAP of the MFIS drive statutory disclosures in CARs. Furthermore, generally accepted accounting practices (GAAP) represented by accounting standards and IFRSs are developed by standard setters, for example the IASB and FASB. They therefore rest on a firm foundation supporting a logical body of practice. Certain best practices do exist regarding discretionary accounting practices, which are in a developing phase.

- Can CARs be visualised as a product of information-processing systems, representing an interaction between entities and stakeholders to generate and share information that is constantly escalating and being presented in different formats?

The research findings of the content analyses in chapter 8 have proven that accounting practices (generally accepted accounting practices in the case of mandatory information) and discretionary accounting practices (in the case of discretionary information) are in a process of transition. As a result, information disclosed is constantly escalating and being presented in different formats. The research findings of preparer respondents (statement 4 of chapter 9) and of user respondents (statement 1 of chapter 10) reveal that information is disclosed in different formats by the DIS in particular, which creates discretionary disclosures, as more use is made of graphs, visual aids and colour. The research findings of preparer respondents (statement 7 of chapter 9) show that CARs can be visualised as the product of information systems representing an interaction between the entity and stakeholders to generate and share information. This product is driven by accounting practices, which are again driven by the needs of users to reduce uncertainty and risks.

- Has the business information created by accounting practices the potential to become discretionary or statutory information in CARs?

Accounting practices, with regard to this question, should be seen in a broad sense and would include generally accepted accounting practices as well as discretionary accounting practices. Business information formed by all-embracing accounting practices will further be screened by either generally accepted accounting practices or discretionary accounting practices to become statutory or discretionary disclosures respectively. The research findings of preparer respondents (statement 11 of chapter 9) indicate that business information created by all-embracing accounting practices has the potential to become discretionary or statutory information in CARs. All events to be transformed into business information will be captured either by the MFIS (using generally accepted accounting practices) and disclosed as statutory information or by the DIS (using discretionary accounting practices) and disclosed as discretionary information in CARs.

- Is there a relationship between the processing information system that generates the statutory disclosures in CARs and the processing information system that generates the discretionary disclosures in CARs, which also contextualise CARs?

The research findings of preparer respondents (statement 10 of chapter 9) confirm the interrelationship between the system responsible for statutory disclosures and that responsible for discretionary disclosures. The two systems should not be viewed in isolation as the discretionary disclosures form the context of the statutory disclosures.

- Does the discretionary financial information reported in CARs, if proven useful over time, have the potential of being accepted as statutory information governed by generally accepted accounting principles?

The research results of preparer respondents (statement 12 of chapter 9) reflect that discretionary information can become statutory information. For this to happen new IFRSs will have to be developed. One example is segment reporting, which was initially disclosed as discretionary information in CARs but is now disclosed as statutory information as part of the notes to the financial statements. This also confirms the findings of the content analyses in chapter 8 of this thesis that discretionary information if proven useful over time has the potential of being reported as statutory information.

- Is the mandatory financial information system (MFIS) that generates statutory disclosures in CARs a semi open system?

The research findings of chapter 4 indicate that the MFIS is a semi open system. External incidents, for example the stock market crash of 1929, can lead to the introduction of broad principles of accounting (Zeff, 2005:1). In 1970/71 criticism led to the establishment of the Wheat Study Group on “the establishment of accounting principles” and the Trueblood Study Group on the “objectives of financial statements”

(Zeff, 2005:13). Criticism has also led to the transition of accounting practices. The MFIS responsible for statutory disclosures utilises these accounting practices, which form part of a closer system, as it *inter alia* changes through cataclysmic events. The discretionary information system of CARs on the other hand is an open system as it interacts and reacts freely with the feedback from user groups.

- Should CARs also provide other competitive financial information (e.g. an analyst report)?

The research findings of preparer responses (statement 20 of chapter 9) show that preparers were not in favour of an analyst's report. The findings of user responses (statement 10 of chapter 10) indicate that 38.1 percent of users was in favour of such a report. As there is some need amongst users for such a report, users and preparers could negotiate its introduction, which may enhance comprehensibility and could form part of the discretionary disclosures of the DIS.

- Do CARs provide enough information for users on the benefits they hold for users' future decision making?

The variety of opinions for preparer respondents relating to statement 32 of chapter 9 does not give a clear-cut indication as to whether CARs provide users with enough information on future benefits for their decision making. Forward-looking information relating to future benefits remains an important issue. The discretionary disclosures generated by the DIS could include forward-looking information relating to future benefits in particular, for example as part of the operating and financial review (OFR).

- Is one of the objectives of CARs to enable users to predict the entity's future prospects?

The prediction of future prospects by users is one of the main issues emphasised by the Trueblood report (AICPA, 1973 [Objective nr 10] in Belkaoui, 2004:171). The research findings of preparer respondents relating to statement 33 of chapter 9 show

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

- Do the systems that generate disclosures in CARs allow for feedback from users?

The findings of preparer respondents relating to statement 35 of chapter 9 reveal that the majority of preparers of CARs are in favour of the idea that CARs should also provide feedback from users. 48.5 percent of user respondents as per statement 26 of chapter 10 agreed (34.2 percent were unsure) that feedback is an important issue. Currently there are virtually no processes in place to take care of feedback from users. The feedback regarding the statutory disclosures of the MFIS needs to be channelled back to the preparers of CARs, and ultimately to standard setters. The feedback regarding the discretionary disclosures of the DIS needs to be channelled back to the preparers of CARs and ultimately to bodies such as the Global Reporting Initiative (GRI) and SAICA. Feedback would enhance future disclosures in CARs.

- Has CARs' potential in the education of accountants been recognised?

70.3 percent of academics (statement 29a of chapter 10) is of the opinion that the curriculum for accounting students makes adequate provision for the study of the statutory section in CARs. There is however room for further improvement in the curriculum for accounting students regarding the study of and research into the statutory section of CARs, generated by the MFIS.

Only 18.5 percent of academics (statement 29b of chapter 10) agreed that the curriculum for accounting students makes adequate provision for the study of and research into CARs in respect of the discretionary section. While they are content with the curriculum regarding the statutory section of CARs, it is certainly not the case for the discretionary/contextual section of CARs. If financial directors claim that CARs are still their domain, then academics need to expand the accounting

curriculum for students to also include the study of and research into CARs in respect of the discretionary/voluntary section created by the DIS.

- Should the business information contained in CARs that is not useful or comprehensible be discarded or replaced?

The research findings of preparer respondents (statement 21 of chapter 9) and of user respondents (statement 27 of chapter 10) show that business information in CARs that is not useful or comprehensible should be discarded or replaced. Proper feedback systems (e.g. in the form of questionnaires included in CARs to be completed and returned by users) could be used to identify the statutory disclosures (of the MFIS) and the discretionary disclosures (of the DIS) in CARs that are no longer useful or comprehensible. Standard setters could take note of this feedback to remove complexity and increase the understandability of the statutory disclosures of the MFIS.

- What new dimensions can be added to CARs?

The following dimensions of CARs arose from the study, which can add to accounting's body of knowledge and encourage challenging fields for accounting research:

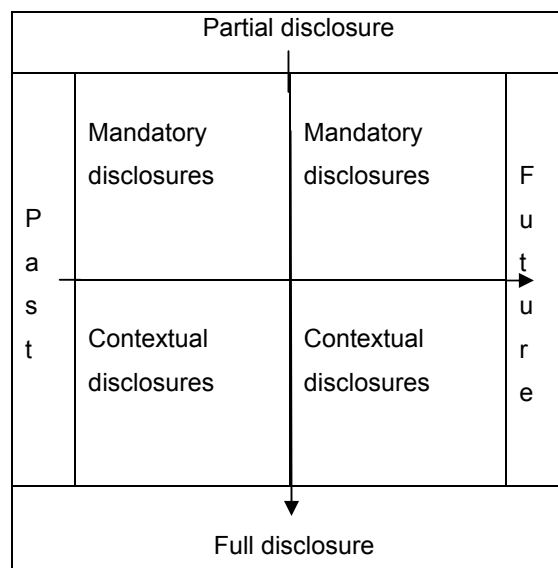
- The research has shown that a contextual dimension has been added to CARs. The real meaning of the statutory information can only be accessed when contextual information supplements the statutory information. A view of the big picture is therefore necessary.
- In CARs a future dimension can be observed. Backward-looking information is important as it lies within the paradigm of accountability and informs the user about what happened in the past. On the other hand, this research has shown that future-oriented information is just as important, as it may be beneficial to users in so far as

predicting the future is concerned. It gives an indication to the decisions that users have to make regarding the management and allocation of scarce resources. CARs therefore need to give time-orientated perspectives.

- This research added a transition dimension to CARs. Everything is changing at an accelerated pace and therefore accounting practices also have to move through a process of conversion and changeover in order to deliver meaningful and useful information. Other inputs, subject to modification and change, used to construct CARs are numbers, words, terminology, vocabulary, graphs, photos, visual representations and colour. CARs are therefore meaning-creating documents.
- In this research a feedback dimension was observed. Users need information that will reduce their uncertainties and risks and therefore they need to provide standard-setting bodies and preparers of CARs with feedback. Users could negotiate with entities to give an indication of what types of information need to be disclosed in CARs. CARs therefore invite further stakeholder development and enquiry.
- A “for all stakeholders” dimension came to the fore in this research. CARs should consist of an information package that will enable all users to create their own reality in terms of their own goals and objectives. CARs are therefore not only for shareholders and investors, but should also meet the ever-changing needs and expectations of external stakeholders.

- A strategy dimension was also identified. CARs now need to provide information on companies' uncertainties, risks, opportunities, strategies and objectives. This would provide direction for decision making.
- A very important dimension that has been added to CARs is that nonfinancial performance indicators need to be identified and communicated. Information on intellectual capital and discretionary disclosures needs to complement statutory information in order to obtain an enhanced understanding of the full value of entities.
- Access to and comprehension of CARs can determine the movement of wealth and the allocation of resources.
- A reality dimension enhances the meaningfulness of CARs. Statutory information can only express a part of the reality. Modern CARs include information on the past, present and future and encompass mandatory as well as contextual disclosures. Table 12.1 illustrates the reality dimension of CARs.

Figure 12.1 The reality dimension of CARs



Source: Own observation

As far as modern CARs are concerned, disclosures are both mandatory as well as contextual and are moving in such a direction that they also include future events. The *pneuma* of the disclosures in CARs is uncertainty. If more disclosures are included, the uncertainty of the risks that stakeholders are faced with in their decision making will be reduced. The aim of CARs is to assist users with their decision-making needs by providing risk reducing information.

- CARs create the environment within which to interpret performance. As value and performance change all the time, in the future CARs in whatever form will have to have their proverbial fingers on the pulse of activities. Ideally, some time in the future, they will need to give information on a real-time basis.
- CARs help to facilitate learning and enabling, as well as reader understanding and meaning.
- Apart from being an institutional reporting process, CARs also now reflect a voluntary multistakeholder process. They have moved from an institutional to an unconstrained host.
- CARs could represent a conceptual theme covering, for example, the diversity and value-added integrity of an entity. This theme represents, "... the enterprise's interpretation of ... a core issue or challenge – that relates in some way to all dimensions of sustainability" (Bennett & James, 1999:485). This interpretation of the challenge will give direction to the entity.
- With proper communication, CARs as the dominant communication channels of entities will retain their relevance and justification. CARs are channels for sharing knowledge-creating data.

- Intellectual capital is a significant driving force in the value creation, prosperity and sustainability of any going concern. As such, CARs need to disclose the value of intellectual capital. Until acceptable ways of measuring are found, intellectual capital should be disclosed as part of the discretionary disclosures of the DIS.
- CARs are now virtual products and are therefore available in electronic as well as hard copy form.
- The discretionary information in CARs (DIS) discloses those post-balance sheet events not captured by the statutory disclosures (MFIS).
- CARs now disclose more information than merely that contained in double-entry records.
- CARs contain three types of information:
 - information that relates to actual past and present events and transactions.
 - information about artificial events, for example book entries.
 - forward-looking information.
- CARs serve as a generator and producer of new forms of disclosure and varieties thereof.
- In order to decrease uncertainty, CARs produce an ever-increasing amount of information. However, this in itself may contribute to an increase in uncertainty instead of having the opposite effect. The challenge is to produce a simpler document. The aim should be to reduce complexity and overload to a limited number of indicators covering movement, direction and flexibility (Gouws & Lucouw, 2000:39).

- CARs are becoming rather than being; they are the result of a continuous process that is ever changing.

12.3 Summary of research findings

Conclusions from each of the chapters of this study now follow.

12.3.1 Chapter 1

An important aspect stated in chapter 1 is that this study will contribute to the body of accountability theory, to the knowledge of preparers, users and designers, as well as students, standard setters and auditors. This study shows that in order to obtain a complete picture of an entity, the generally accepted accounting practices that generate statutory disclosures should not be seen in isolation, but must be studied together with the contextual accounting practices that generate contextual disclosures.

12.3.2 Chapter 2

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

An interpretation of the two systems that generate disclosures in CARs was undertaken. It was assumed that CARs, the development of which is driven by the needs of the users to reduce uncertainty and risks, represent a larger system (the DIS) in which statutory disclosures governed by GAAP form a subsystem (the MFIS) and that there is an interrelationship between this subsystem and the larger system.

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

12.3.3 Chapter 3

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

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

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

Finally, the statutory and discretionary disclosures in CARs were explored from a systems perspective. Rule-making bodies are primarily concerned with the MFIS, which generates the statutory disclosures of general purpose financial statements governed by GAAP. Other aspects of statutory reporting that were explored were the objectives of the IASB Framework; the objectives of financial statements; small gaap; the continuous improvement of accounting standards in the IASB's due process, as well as the openness of IASB meetings. Discretionary reporting is also important to users and the following aspects were explored: the Operating and Financial Review (OFR) and discretionary disclosures by Sasol. The statutory information disclosed in CARs needs to be complemented by discretionary disclosures to give users the full picture of entities.

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

12.3.4 Chapter 4

In this chapter the attributes of quality business reporting were identified. The quality of business reporting in CARs affects the integrity of the information being communicated to stakeholders. Business reporting must be adjudged trustworthy and of superior quality

before an investor will decide to invest. The practical constraints on ensuring quality information were discussed (AICPA, 1994:54-57). These constraints are applicable to CARs and have quality implications.

The process of quality information flows, driven by user needs, was also considered. It was shown that events to be transformed into information are screened by four filters. The four filters for statutory information generated by the MFIS are “accounting of the mind” practices, accounting practices, accounting principles and audit. The four filters for discretionary information generated by the DIS are “accounting of the mind” practices, accounting practices, discretionary accounting practices and independent assurance. Filtered information on an entity that is communicated to users reduces the risks and uncertainties that stakeholders are confronted with.

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

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

attributes of good quality discretionary information were considered and if preparers of CARs apply these characteristics in an ethical manner when disclosing information in CARs, then the information presented should be of a high quality.

A balanced scorecard approach may be followed in presenting disclosures in CARs. In the use of a balanced scorecard approach, measurement is done from four perspectives, namely the financial; customer; internal business; and innovation and learning perspectives. The balanced scorecard approach entails broader issues; it retains measures of financial performance, but supplements these with measures regarding customers, internal business processes, and learning and growth. The balanced scorecard approach is in a development phase and will in time gain greater acceptance.

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

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

The conclusion is that quality is the focal point of business information. The disclosure of high quality information results in a lower risk premium for highly evaluated entities, which leads to lower debt costs and therefore an increase in earnings (Wolk *et al.*, 2000:315;

OECD, 2006). Better disclosure in CARs therefore results in a better bottom line. CARs determine the flow of capital; therefore business information must be adjudged trustworthy and of high quality before an investor will decide to invest. Quality should be paramount in producing business information that holds the greatest benefit for stakeholders.

12.3.5 Chapter 5

The issue of significance highlighted in chapter 5 is that, with proper communication messages, CARs as the dominant entity communication channel will retain their relevance and justification. With proper feedback systems in place, CARs stakeholders will play important roles in the communication process such that CARs will be perceived as the creators of meaning. Proper feedback on the disclosures in CARs could be made to the corporate communications department of an entity and this would stimulate change and promote better quality messages in the CARs reporting process.

12.3.6 Chapter 6

In this chapter, it was shown that the users' needs for decision-useful information for reducing uncertainty and risks are the primary driving force that determines the types of ultimate disclosure in CARs. The main objective for users is to discover meaning. It was also found that users must play an active role in extracting the information they need. For entities to provide decision-useful information, it would be necessary to obtain feedback from users via proper feedback systems, or users should negotiate with entities to give an indication of what types of information need to be disclosed in CARs. Decision-useful information should stick to what is essential for decision making.

12.3.7 Chapter 7

In this chapter the various research methods used in this work were described. The methods included a literature review, a content analysis and the use of questionnaires.

12.3.8 Chapter 8

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

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

The content analysis for companies with year ends 1975, 1985, 1995 and 2005 has proven that accounting practices (generally accepted accounting practices in the case of mandatory information) and discretionary accounting practices (in the case of discretionary information) are in a process of transition. As a result, information disclosed is constantly escalating and being presented in different formats.

In the mandatory section of CARs the source and application of funds statement made way for the cash flow statement. A statement of changes in equity was also introduced. Segment information, initially disclosed as discretionary information, is now disclosed as mandatory information. Earnings per share information disclosed in the discretionary

section of CARs has moved over to the mandatory section. Therefore discretionary information, if proven useful over time, can become mandatory information.

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

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

12.3.9 Chapter 9

A questionnaire with 35 statements was formulated making use of the literature review in chapters 1 to 6 and was distributed to preparers of CARs. The significant issues flowing from the questionnaires distributed to the preparers of CARs were firstly that the financial departments of entities, in the majority of cases, claim responsibility for CARs preparation (statement 15d), but admit that the CARs preparation process involves a team effort, that is a *sinergos*, where several departments work together (statement 16). Secondly, with regard to the format and content aspect of CARs, respondents were in agreement that CARs are usually divided into two sections, that is, the statutorily required financial information and the discretionary disclosures, and that the two sections are interrelated (statements 6, 8 & 10). Thirdly, respondents were uncertain about the usefulness of XBRL (statement 14). If financial and other business information needs to be available sooner and faster and if companies want to compete for capital and investor attention, the benefits of adopting XBRL will become clear. Fourthly, 97.8 percent of respondents

(statement 17) were in favour of an operating and financial review (OFR), which captures the whole story of entities' performance and prospects seen through the eyes of management. Fifthly, a majority of 86.7 percent was in favour of a discussion of forward-looking information as part of the directors' report (statement 18d). Sixthly, preparers objected to the introduction of an independent analyst report to form part of CARs (statement 20). Finally, preparers agreed that the communication of accounting concepts is a difficult task (statement 29).

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

12.3.10 Chapter 10

A questionnaire with 29 statements was formulated making use of the literature review in chapters 1 to 6, and was distributed to users of CARs. The significant issues flowing from the questionnaires distributed to users of CARs were firstly that an operating and financial review (OFR) should be incorporated in CARs (statement 8). Secondly, the directors' report should include an enhanced business review (EBR) covering, *inter alia*, a discussion of operating results (statement 9a), the financial position (statement 9b), forward-looking/forecasting/predictive information (statement 9c) and business risks (statement 9d). Thirdly, users prefer the use of graphs (statement 14). Fourthly, users would like to see more disclosure on intellectual capital (statement 16). Finally, CARs potential in the education of accountants has been recognised and academics – as represented by a proportion of the CARs user respondents – pointed out that, although the curriculum for accounting students makes adequate provision for the study and research of CARs in respect of the statutory section (statement 29a), this was not the case for the discretionary/contextual section (statement 29b).

An issue that should be noted is that 52.1 percent users expressed the view that it would be useful if financial reporting were also to be done in digital format making use of XBRL (statement 28). Financial analysts, for example, could then extract comparable information from companies for analytical purposes in real time (implying immediately).

The above research results confirm many of the presuppositions expressed in chapters 1 to 6 and will be of value to entities for future research and for use in the CARs preparation processes. Overall, the research results support the hypothesis of this study that CARs are the information products of accounting practices in transition.

12.3.11 Chapter 11

A questionnaire with five statements, which was formulated making use of the literature review in chapters 1 to 6, was distributed to designers of CARs. The above individual research results will be of value to preparers of CARs in the designing process of the statutory sections of the MFIS and the discretionary sections of the DIS. They will also be important to the users of CARs.

The significant issues flowing from the questionnaires distributed to designers of CARs were firstly that the corporate communications departments of companies (statement 1a) play an important role in instructing designers with regard to the design of the statutory disclosures generated by the MFIS and the discretionary disclosures generated by the DIS. Secondly, the financial departments of companies (statement 1b) are also important role players in instructing designers with regard to the design of CARs. Thirdly, that there is strong indication that different departments (statement 1c) are involved in instructing designers with regard to the design of the statutory disclosures of the MFIS and the discretionary disclosures of the DIS and that no one department plays a major role. Fourthly, the designer respondents indicated that they have undergone training in presenting *inter alia* the disclosures (the statutory disclosures of the MFIS and especially the disclosures of the DIS) in CARs in as favourable a light as possible (statement 2).

Users of CARs therefore should develop an awareness of this fact when interpreting the disclosures of CARs. Fifthly, designer respondents indicated that there is a chance (42.8 percent agreed) that photos, graphics and graphs can convert negative aspects of a company into positive messages (statement 3). Again users need to develop an awareness of this fact when interpreting the disclosures presented in CARs. Sixthly, the designer respondents indicated that design devices, for example photos, graphics and graphs, might influence the perceptions of readers of CARs (statement 4), which highlights another research opportunity. Lastly, the respondents were divided on the issue of whether the design of CARs can be viewed as an exercise in obfuscation, that is, a method to present the company in as favourable a light as possible (statement 5).

12.4 Summary and conclusion

Accounting practices generate accounting information and CARs reflect these practices. The main goal of this thesis was to obtain an understanding of the nature of the accounting practices system as a whole.

The research views accounting practices in a broad sense and includes all accounting practices that generate disclosures in CARs. The study shows that CARs are the products of two main interrelated accounting practices systems, the first being the generally accepted accounting practices system and the second being the contextual accounting practices system. The first system uses accounting practices such as generally accepted accounting principles (GAAP), which include International Financial Reporting Standards (IFRS), International Accounting Standards (IASs), JSE regulations and the Companies' Act requirements, in producing information disclosed in CARs. The second system, in order to provide a complete picture of business entities, uses contextual accounting practices to produce the contextual information contained in CARs. These practices produce the information on the business environment, and provide an operating and financial review, overview of strategy, forward-looking information, key performance indicators and information on corporate governance and transparency, which is necessary to obtain a full understanding of the performance and position of a company. CARs now disclose more information than merely that contained in double-entry records.

The research results make the hypothesis of the study “CARs are the information products of accounting practices in transition” valid.

12.5 Recommendations

Some constructive suggestions are made as areas for improvement, rather than complete solutions to shortcomings. This work shows that CARs may be visualised as a product of two main interrelated information-processing systems, the first being the MFIS and the second the DIS. A better understanding of the interdependency of these interrelated systems, of which CARs is the product, would result in the full utilisation of CARs’ creative and innovative potential. Although this research reveals the communication of accounting concepts to be a difficult task (see chapter 9, par. 9.2.2, statement 29), CARs should be used as a communication tool for enhancing understanding; as a mechanism for explaining the economic reality (big picture) of a company: and as a vehicle for reducing the distance between disclosures and the users and their uncertainties and risks. An effective communication structure could be introduced in CARs. “Clear and logical structuring helps readers to retain more of the story – and to be convinced by it ... e.g. clear linkage from markets to strategy to key performance indicators to future goals” ... (Anon 1, 2006:6).

This research indicated that the main objective of CARs is to represent in all material respects all the information that is necessary for users to make proper decisions (see chapter 9, par 9.2.2, statement 31). The importance of communication is therefore further underlined, as CARs is the mechanism by means of which an interaction between entities and users occurs to generate and share information that is constantly escalating and being presented in different forms. CARs should be compiled in such a user-friendly way that users can get what they want from them without having to turn to an accountant for advice (ICAS, 1988). Preparers of CARs have an obligation to increase the comprehensibility of disclosures (FASB, 1978). CARs need not be prepared for either the layman or the financially illiterate person, but disclosures should be comprehensible to a reasonable person (Gouws & Cronjé, 2001:170). CARs should also represent the big picture of a company. Here an operating and financial review (OFR) (see chapter 9, par.

9.2.2, statement 17) that captures the whole story of entities' performance and prospects seen through the eyes of management could be incorporated in CARs.

This research has shown that, as accounting practices are in transition, the discretionary financial information reported in CARs, if proven useful over time, has the potential of being accepted as statutory information governed by generally accepted accounting principles. Standard setters and preparers of CARs could take note of this essential feature when creating future accounting practices. It could happen, for example, that the value-added statement that currently still forms part of discretionary information could become statutorily required information in the future. In order to brighten up the boring nature of statutory disclosures, the use of graphs and visual displays, currently underutilised, could in the future play an enhanced role in the mandatory sections of CARs.

As hindsight is not the only instrument for judging a company's future potential (Anon 1, 2006:14), the disclosure of forward-looking information is essential. This research highlighted the importance of forward-looking disclosures (see chapter 9, par 9.2.2 statement 18c) (chapter 10, par 10.2.2 statement 9c). Anon 1 (2006:14, 16) suggests the following:

- A medium-term picture made up of
 - an explanation of market trends and prospects
 - an explanation of long-term objectives
 - an understanding of short-term strategic priorities to deliver on the objectives
 - key performance indicators used to measure strategic success, complete with targets
 - principal risks and uncertainties that may impact on long-term prospects
 - forecasts of market trends and factors likely to impact on the business
 - an understanding of how previous views on market trends and prospects compared with reality

The directors' report could be the ideal vehicle for a discussion on forward-looking information.

Feedback from users was an important issue flowing from this research. Companies could insert a questionnaire with a self-addressed envelope in the annual report for users to complete and return. If desired disclosures cannot be made in the statutory sections of CARs, because of regulatory burdens, they could always be disclosed in the discretionary sections of CARs, which is an open system that freely interacts with innovative new ideas. These disclosures would, sooner or later, if proven useful over time, be introduced into the statutory section of CARs as accounting practices, which are constantly in transition.

Finally, it is recommended that the curriculum of accounting students be expanded to cater for a complete study of the interrelated systems that drive reporting in CARs. This research has shown that knowledge of the DIS is currently a weakness in the curriculum of accounting students. The contributions of this study to the accounting sciences now follow.

12.6 Contributions of this study to the accounting sciences

From this study it may be concluded that, firstly, information is generated by a diversity of accounting practices, which are therefore worthy of research. Secondly, this research leads to an enhanced comprehension of the fact that these practices are driven by two systems that provide the information included in CARs. This shows that practices peripheral to traditional accounting practices also have an important role to play for educational institutions and accounting bodies. Thirdly, accounting practices should not be seen in isolation (i.e. only from an accounting perspective); but also as multidisciplinary. Fourthly, environmental practices and information, social practices and information, ethical practices and information, as well as management accounting practices and information, together with financial accounting practices and information, form the context within which reporting in CARs takes place. Fifthly, this study opens up

further research opportunities to see CARs in a new light and to research the quality, growth and adjustments of accounting practices that generate information in CARs. Sixthly, this study will further contribute to the body of accounting knowledge. Seventhly, the research reveals that the stepchild (discretionary accounting practices and information) of CARs is actually on the same level as statutory accounting practices and information. Eighthly, the research shows that statutory information cannot be meaningfully interpreted without contextual disclosures. Finally, this research will also be of assistance to entities in their CARs preparation process.

These contributions to the accounting sciences add to the full utilisation of CARs' creative and innovative potential. As statutory disclosures in CARs may, on their own, fail to give a complete picture of a company, it is necessary to complement statutory disclosures with discretionary disclosures. Therefore, in order to obtain a complete picture of an entity, the generally accepted accounting practices that generate statutory disclosures should not be seen in isolation, but must be studied together with the contextual accounting practices that generate contextual disclosures.