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Lessons for progressing narrative reporting: Learning from the experience of disseminating the Danish Intellectual Capital Statement approach

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ABSTRACT

The case for the greater use of narrative disclosures within the annual report package continues to attract support from accounting academics. After a decade of comparatively limited attention, the topic of narrative reporting has returned to the accounting research agenda, in part in association with integrated reporting and a growing interest in accounting for business models, as well as a resurgence of intellectual capital research. In the light of a continuing optimism that narrative reporting will eventually assume its rightful place within financial reporting, the paper reports and reflects upon the findings of a study of the outcome of the Danish Guideline Project in the decade following its conclusion in late 2002. This initiative placed a heavy emphasis on the extension of narrative reporting in its principal output, the Intellectual Capital Statement, still widely regarded as a highly promising intellectual capital reporting framework. Based on insights derived from the study, the paper identifies a number of major obstacles that confront the advocates of narrative disclosure practices, the persistence of which is rooted in the contestable jurisdiction that characterises the accountancy profession itself.

1. Introduction

The topic of narrative reporting has recently returned to the accounting research agenda, following a short period of less attention. Its re-emergence is closely related to the growing interest in integrated reporting (IR) (BIS, 2010; IIRC, 2011, 2012, 2013), within which narrative reporting has a major role to play, including in connection with the business model that is identified as being central to this approach to business reporting (Beattie & Smith, 2013; EFRAG, 2010; ICAEW, 2010; Haslam, Andersson, Tsitsianis, & Yin, 2012; Leisenring, Linsmeier, Schipper, & Trott, 2012). Narrative reporting also played a significant role within the intellectual capital statement (ICS) reporting framework that emerged from the Danish Guideline Project (DGP) (1997–2002) (DATI, 2000; Mouritsen et al., 2001, 2003). The ICS continues to attract critical acclaim within sections of the intellectual capital (IC) research community, although until recently virtually no attention had been paid to documenting its fate during the intervening years.

The accounting academy's enthusiasm for narrative reporting is not difficult to understand. Comfortably removed from the challenges of actually having to report, the benefits of extending the role of narratives in financial statements continue to be self-evident to many academics. The absence of a reciprocal attitude among practitioners is both well-documented and understood. Its advocates sincerely believe that, in due course, a greater emphasis on narratives will prevail, and to the benefit of all stakeholders. In

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this scenario it may be that IR will be the initiative that provides the crucial turning point. According to the same logic, this might have previously been asserted in connection with the ICS. However, in the absence of much empirical evidence on the fate of the ICS since 2002, it has been possible for those promoting extended narrative reporting to remain very positive about its future trajectory, whether within IR or some subsequent development. The availability of such insights is therefore of significance to the narrative reporting debate

In this paper we seek to document the failure of the ICS during the decade following the termination of the DGP. To date there has been no previous study of how the ICS fared during this period. A study of those companies that participated in the DGP initiative indicated that it had been at best only a very modest success, with only a small number of companies persevering with the ICS approach (see Nielsen, Roslender, & Schaper, 2016; Nielsen, Roslender, & Schaper, 2017; Schaper, 2016). Our explanation is framed in the spirit of the political economy of accounting (PEA), as outlined in the seminal paper by Cooper and Sherer (1984), and is intended to be understood as a contribution to the tradition of critical accounting research. The lessons adduced from this explanatory exercise are advanced as a salutory reminder to advocates of narrative reporting of the deep seated obstacles that such developments face from an accountancy profession that is widely committed to furthering the interests of capital as principal stakeholder. In the interests of promoting beneficial change, attention is also devoted to how it might be possible to promote narrative reporting, whether in the context of IR or IC, or indeed other counter-mainstream initiatives.

The choice of Cooper and Sherer's PEA as the framing theory for this paper is appropriate on a range of grounds. Initially it might be recalled that their paper, written as an early contribution to the embryonic critical accounting research literature, was itself focused on "corporate accounting reports", which we understand would encompass both IR and the ICS. By contrast, a labour process perspective would not seem to offer the appropriate purchase, being concerned with how accounting, and management accounting in particular, is principally implicated in the social organisation of work (Roslender, 2016). A second alternative, in the guise of Critical Theory, is arguably more relevant to understanding the potential of more radical forms of 'accounting' such as intellectual (human) capital self-accounts, as characterised by Roslender and Fincham (2001, 2004) (see also Roslender, Marks, & Stevenson, 2015). Beyond this set of critical perspectives there is a further number of framing theories, including structuration theory, governmentality theory and actor network theory, whose critical designation continues to be hotly debated. Their utility for this particular paper is regarded as being extremely limited, although appropriate for other enquiries, as is evident in Nielsen et al. (2017).

In principle we are committed to the extension of narrative reporting within financial reporting, and indeed beyond it as appropriate. Unlike many others who advocate its extension, however, our motivation is not that of promoting 'better' accounting and reporting. We take it to be axiomatic that increased use of narrative holds out the promise of contributing to a better society or social betterment, if only in a relatively modest way. In this respect we view narrative reporting in a well-rehearsed way, through the lens of social accounting, understood as accounting to society as opposed to accounting to shareholders or accounting to managers. While acknowledging that a considerable part of the extant social accounting canon is only minimally critical in orientation or intent, the possibility of a more critical social accounting has been explored, for example, in the recent work of Cooper and her co-authors (Cooper & Coulson, 2014; Cooper, Coulson, & Taylor, 2011; Cooper, Taylor, Smith, & Catchpole, 2005).

The paper is organised as follows. The continuing interest in narrative reporting in the UK context is briefly reviewed in the following section, which also documents the current reaffirmation of its potential. In section three the DGP and its principal output, the ICS approach are discussed. The fourth section reports the key findings of a recent study of the fate of the ICS in the decade following the conclusion of the guideline project. These findings are understood here as having major significance for any initiative to extend narrative reporting and are subjected to a brief appraisal in section five. The concluding section embraces the three imperatives of critical accounting research identified in Cooper and Sherer (1984) to frame a critique of the prospects of extending narrative reporting practices within the prevailing social order.

2. The continuing case for narrative reporting

In an influential report on the development of narrative reporting practice in the UK,[1] Beattie et al. (2004) present an optimistic picture suggesting that the breakthrough for which its advocates had been lobbying was imminent. They note that while UK public companies had provided narrative introductions to the annual report package for many years, an important step change was evident in the Accounting Standards Board's 1993 recommendation that companies incorporate a narrative Operating and Financial Review (OFR) within the package. A decade of successful OFR experimentation had informed a revised and extended set of OFR best practice guidelines (ASB, 2003). Complementing this were proposals from the UK government (DTI, 2004) designed to modernise company law, which included the incorporation of a greater extent of qualitative and forward-looking content within financial disclosures as a necessary addition to the predominantly quantitative, historical information that had predominated within corporate financial reporting. Beattie et al. briefly document similar narrative statements that have been successful elsewhere, including the Management Discussion and Analysis (MD & A) popular in North America, as well as drawing attention to an European Union initiative to require listed companies to file an Annual Registration Document.

Beattie et al. (2004) continue by noting that:

> "Given these developments, it seems fair to conclude that the narratives contained in corporate annual reports are now viewed by many influential organisations and groups as sharing (alongside traditional financial statements) the leading role in business

[1] The UK is widely regarded as being in the vanguard of attempts to promote increased narrative reporting practice, hence the predominant UK-centric focus of this section of the paper.