Lessons for progressing narrative reporting

Learning from the experience of disseminating the Danish Intellectual Capital Statement approach

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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.

Keywords: business reporting; Danish Guideline Project; integrated reporting; intellectual capital; Intellectual Capital Statements; narrative reporting;

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 (EFRAG, 2010; ICAEW, 2010; Haslam *et al*, 2012; Leisenring *et al,* 2012; Beattie and Smith, 2013). 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 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 *et al,* 2016, 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, 2017). 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 *et al*, 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 *et al*, 2005, 2011; Cooper and Coulson, 2014).

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 reporting" (Beattie *et al*, 2004: 4).

In so doing they link the promotion of extended narrative reporting with a move to a business reporting model of financial reporting, viewed as a successor to the prevailing corporate reporting model. The argument for a business reporting model dated back a decade to the findings of the Special Committee on Financial Reporting, often referred to as the Jenkins Committee, that proposed a comprehensive reformulation of financial reporting (AICPA, 1994; see also ICAS, 1999). Although generally well-received by many influential stakeholders in the financial reporting arena, the iconoclastic emphases of the Jenkins Report resulted in its implementation being at best slow and quietly (although often successfully) contested by practitioners. However, Beattie *et al* were evidently confident that the next step change was imminent, with their own empirical study a timely, valuable contribution to the debate (see also Beattie *et al*, 2002; Rutherford, 2002).

Looking beyond the understandable enthusiasm of academics who believed that their sincerely held convictions were soon about to be more widely embraced, it would seem that in 2004 there was a growing acceptance that narrative reporting was no

[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.

longer to be viewed as a *useful supplement* to the predominantly quantitative annual report format. Instead it was rapidly gaining credibility as a *valuable complement* to the financial calculus that had served the accountancy profession for several generations. There was growing recognition that what the accountancy profession was engaged in in financial reporting, and much more beyond, was the telling of a story. The point had now been reached at which it was necessary to accept that not only was there a need to recognise that a different story was required as companies found themselves facing an ever more competitive operating environment. The manner in which the story was constituted needed to change too. No longer could it be accepted that it made sense to incorporate only a small number of contextualising, often vague and unaudited narratives within the annual report where words provided the better means of communicating this content. In 2004 it seemed as if there was powerful recognition that words furnished *the* best way of telling what were at least increasingly important parts of the story of successful business performance.

On page 10 of *The Coalition: our programme for government*, under the broad heading "Business", the following commitment is set out:

> "We will reinstate an Operating and Financial Review to ensure that directors' social and environmental duties have to be covered in company reporting, and investigate further ways of improving corporate accountability and transparency" (HMSO, 2010: 10).

This commitment was probably the work of the then Liberal Democrat Secretary of State for Business, Innovation and Skills, Vince Cable, and members of his ministerial team, rather than their Conservative colleagues for whom such adventures are less palatable. The need to reinstate the OFR was the result of it being suddenly abandoned in late 2005 by the then Labour Chancellor of the Exchequer, Gordon Brown. This followed a period of consultation with stakeholders culminating the passage of legislation in March 2005 imposing a statutory regulation requiring companies to incorporate an OFR within their annual financial statements. As Rowbottom and Schroeder (2014) documents, Brown's motivations were largely political in nature, and evidenced a strong degree of miscalculation, with the Labour administration pursuing legislation in 2006 to introduce a requirement for a Business Review, framed in accordance with the detail of the EU Accounts Modernisation Directive, to be effective from 1 October 2007. Like the OFR this was a narrative report that covered much of the same ground as the abandoned enhancement, although accompanied by a less onerous auditing provision than was envisaged in 2005. Much was made of the great similarities between the two narratives, as well as a suggestion that the changes were likely to prove temporary and valuable (see also Roslender and Stevenson, 2009).

Within a couple of months of the Coalition taking office in May 2010, the Department for Business, Innovation and Skills published *The Future of Narrative Reporting – A*

Consultation (BIS, 2010). The perceived importance of narrative reporting is evident in paragraph 1 of the executive summary, which states:

> "Narrative reporting in company annual reports has come a long way over the past 30 years. Good narrative reporting should tell the company's story effectively and in a balanced way that puts financial information into context. The statutory reporting framework is intended to help boards consider material issues facing the business so that they can determine the right strategy for long term company success in the interests of company members. Social and environmental issues should be central to these discussions where they are relevant to the company's strategy and long term success, as should discussion about pay and reward. Companies should then use the narrative in their reports to provide the material information on these issues to their shareholders." (BIS, 2010: 6).

In August 2013 the UK Parliament approved The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which saw a relatively modest change in the requirements on companies despite the introduction of a new Strategic Report as a replacement for the former Business Review. The role of narrative reporting, as evidenced in the August 2010 consultation document and subsequent publications, continued to be affirmed although carefully balanced with a commitment to reduce the overall burden of reporting and kindred requirements on companies.

Beyond the positive rhetoric, there is little evidence in the UK to believe that narrative reporting is held in any higher regard than it was a decade ago[2]. It is interesting to note that while the opening sentence of Beattie and Smith (2013) observes that narrative reporting is now firmly established as a crucial component of an annual report, it is the 2001 IASB *Framework for the Preparation and Presentation of Financial Statements* that is cited in support of this. A further indication that things may actually have regressed to some degree is evident in the following overview of the Management Commentary innovation published on the IFRS Foundation and IASB website:

> "On 8 December 2010 the IASB issued the IFRS practice statement *Management Commentary.* The practice statement provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared in accordance with IFRS.
>
> The practice statement is not an IFRS. Consequently, entities are not required to comply with the practice statement, unless specifically required by their jurisdiction.

[2] Following the return of a Conservative majority administration in the UK in May 2015 concerns were expressed that the provisions enacted in 2013, principally at the behest of their former Liberal Democrat partners in the previous administration, would remain a priority. The political upheaval attendant on the Brexit vote in June 2016 is highly unlikely to change this.

> Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives." (www.ifrs.org/Current-Projects/IASB-Projects/Management-Commentary/Pages/Management-Commentary.aspx).

We find this observation to be somewhat at odds with the assertion that narrative reporting "has come a long way over the past 30 years" (BIS, 2010:6).

Another dimension to the story presented by Beattie *et al* (2004:16-20) is how the challenge of extending narrative reporting became entwined with the rise of IC and intangibles. The failure of the conventional financial reporting model to accommodate the growing stocks of these assets was identified as a further reason why the profession might look very closely at Jenkins' thesis, a view previously expressed in *Business Reporting – The Inevitable Change*? of which Beattie was the editor (ICAS, 1999). During the intervening years the search for robust IC reporting frameworks had continued, giving rise to a range of developments, amongst which was the DGP and its principal output, the ICS.

In the context of the present paper, what is particularly significant about the DGP initiative is that it accorded narrative reporting a level of importance that arguably far outstripped anything discussed in the previous paragraphs. It is no exaggeration to assert that the DGP on IC reporting was, and remains, a leading example of the promise of narrative reporting. Although it may be possible to identify later, larger scale initiatives (Dumay and Roslender, 2013), none has yet attracted the level of critical approval accorded its principal output, the ICS. For these reasons we take the view that the fate of the DGP offers important lessons for anyone attracted to the idea that the future of financial reporting will accord a greater importance to the extension of narrative reporting. Whether in the guise of business reporting, reporting about business models or the currently fashionable IR development (BIS, 2011; IIRC, 2011, 2012, 2013; Beattie and Smith, 2013; Nielsen and Roslender, 2015), such initiatives entail a radical shift in paradigm to manifest parity between narrative and numbers within the annual report and beyond, the case for which remains highly contentious for many within practice.

3. The Danish Guideline Project

In 1997 the Danish Agency for Trade and Industry (DATI) began to fund an IC reporting initiative with a substantial academic presence, directed by Jan Mouritsen and Per Nikolaj Bukh, which continued until late 2002. Unlike the previous wave of IC reporting frameworks such as the Skandia Navigator (Edvinsson, 1997) and the Intangible Assets Monitor (Sveiby, 1997), both of which exhibited similarities with Kaplan and Norton's more generic Balanced Scorecard (Kaplan and Norton, 1992, 1996) (see also subsequent developments including Lovingsson et al, 2000 and Lev, 2001), the DGP sought to fashion an approach that was based in narratives rather than numbers (or a scoreboard). The first phase of the project, involving extensive collaboration with seventeen organisations, resulted in the dissemination of the ICS in 2000 (DATI, 2000). Phase two of the project, which involved working with 100 organisations to demonstrate the utility of the ICS, concluded in December 2002 with the formulation of a refined approach underpinned by a "new guideline" (Mouritsen *et al*, 2003).

An indication of how radical the DGP was from the outset can be seen in the following characterisation of an ICS:

> "[An ICS] forms an integral part of working with knowledge management within a company. It reports on the company's efforts to obtain, develop, share and anchor the knowledge resources required to ensure future results......can contribute to creating value for the company by improving the basis for growth, flexibility and innovation. Its merits lie in expressing the company's strategy for what it must excel at in order to deliver satisfactory products or services." (DATI, 2000: 14).

Little in these sentences resonates with the traditional terminology associated with the corporate reporting approach to financial reporting, although it does align with several of the themes evident in the pages of the Jenkins Report (AICPA, 1994) and later discussions of the attractions of a new business reporting approach to financial reporting, e.g. Wallman (1995, 1996, 1997), ICAS (1999) and Upton (2001).

While IC has not disappeared since 2003, the resources and focus devoted to identifying how best to account for it are not what they once were. There have been major new issues for the financial reporting community to engage since this time, *inter alia* the need to respond to Enron and kindred financial crises, as a result of which it is difficult to identify any significant advances in IC reporting since 2003. A number of recent reviews of IC accounting research (e.g., Alcaniz *et al*, 2011; Guthrie *et al*, 2012; Dumay and Roslender, 2013) observe that the greater part of sustained research interest in the IC phenomenon has focused on documenting extant reporting practice and resulting in a growing body of empirical literature. This has been accompanied by a reduction in theorising about IC, an absence recognised in the latter reviews (and beyond), and accompanied by calls for a more critical engagement with IC in the future (Dumay and Garanina, 2013; see also Roslender *et al,* 2015).

The first guideline, published in 2000, proposed a three element model characterised by an emphasis upon narrative rather than numbers, in contrast to the growing range of IC scoreboard reporting frameworks identified above. The most fundamental element was a *knowledge narrative*, in which a company documents how it intends to utilise its stock of knowledge resources to create the products and services (market offerings) required by its customers. The knowledge narrative should also incorporate the company's mission and values, as in a conventional strategy statement, indicating the implicit strategic underpinnings of any ICS. To a significant extent this emphasis, like the narrative attribute, reflected the role that knowledge management thinking had on key members of the project team. The emergence of the knowledge management field in the mid-1990s (Nonaka and Takeuchi, 1995; Davenport and Prusak, 1997) predates that of IC (management) by a couple of years, and provides a complementary set of insights to those associated with ‘intangibles’. As a result the guideline project was always destined to be rather more inclusive in emphasis that those that immediately preceded it.

The second element of an ICS is termed *management challenges*. These are derived from the knowledge narrative and identify the key activities that are required, involving the utilisation of four generic knowledge resources: employees; customers; processes; and technology, in the pursuit of the successful value creation as identified in the knowledge narrative. It is these activities that are to be continually monitored over time, making use of relevant indicators to report performance. The third element is termed *reporting* and refers to how performance is reported within the ICS. In this context the project team envisaged incorporating a measure of scoreboarding through the use of financial and non-financial indicators to communicate outcomes. However, these data would be complemented by the incorporation of a range of more unfamiliar (to accountants) visualisations, selected for their individual relevance and their contribution to providing as complete a picture of performance as possible. As with many constituents of the new management accounting (Kaplan, 1994, 1995; Roslender, 1995), of which the ICS is a further example, what is being commended by way of ‘accounting’ poses a major challenge to more traditional and conventional examples of that practice.

The second phase of the project began in early 2001, now under the auspices of the Danish Ministry for Science, Technology and Innovation (DMSTI). It involved working with 100 companies (plus two consulting organisations who acted as facilitators) to trial the guideline with the intention of developing a more refined version over the next couple of years. A number of the original seventeen companies continued to participate but most were new to the project. The outcome was the development of a “new” guideline as outlined in *Intellectual Capital Statements – The New Guideline* (Mouritsen *et al,* 2003). The principal advance was that a further element was identified in the form of *initiatives*, being inserted between management challenges and reporting. The project team also took the opportunity to refine their overall thinking, as a consequence of which the knowledge narrative now placed more emphasis on articulating how knowledge resources were to be tailored towards successful value creation and the delivery of use value to users. Management challenges were now represented as identifying the specific knowledge resources required for value creation, especially those that needed to be acquired by the company or strengthened. The new element, initiatives, is concerned with the specifics of meeting recognised management challenges, i.e., more operational actions within the medium to long term projections underpinning the knowledge narrative and management challenges. Reporting became retitled *indicators,* acknowledging that the entire statement was in effect concerned with reporting, with the final element assuming a more conventional character – the identification of relevant metrics that demonstrated how successful (or otherwise) the company had been in meeting its management challenges through action. The contribution of a wider portfolio of visualisations was affirmed, thereby reinforcing the perceived radical nature of the ICS.

Conscious of the challenges of implementing the ICS approach the project team was rather equivocal about how this might be possible. It was certainly understood that at the extreme it might be possible to combine the statement with more conventional reporting approaches that would thereby increase in length. A reduced ICS might be incorporated within the extant financial statement package and be subject to scrutiny by the audit profession, whose representatives had participated in the project from its inception. Alternatively, there was the option of publishing a stand-alone ICS that might include a reduced financial report. There was no appetite in 2002 for introducing a *mandatory* requirement for IC reporting, however, thereby necessitating a voluntary disclosure arrangement. More significantly, what was reported was at the discretion of companies that elected to report, providing whatever information they chose to publish. The 2002 Financial Statements Act did require large private companies to provide information on about their knowledge resources (=IC), where these were adjudged to be important in relation to future earnings. In effect this permitted even large companies to opt out of IC disclosure with a degree of impunity. A second act, in 2005, required those companies that were prepared to acknowledge the importance of IC to provide information on their IC resources in the management commentary section of the annual report, perhaps by means of some form of ICS.

4. A decade of progress?

Despite its various merits as an IC reporting framework, the fate of the ICS approach has attracted little follow-up research, resulting in a significant gap in the IC literature (Rimmel *et al*, 2004, 2012 provide notable exceptions). The authors were conscious that the ICS may not have become the success that its advocates had envisaged but lacked any evidence of this and consequently they were unable to offer informed statements to support or challenge their perceptions. An opportunity to address this situation presented itself in late 2012, a decade after the DGP was terminated. In the present paper it is taken as axiomatic that the fate of the ICS has a broader significance than simply being an interesting development in the history of Danish financial reporting. Such was the promise asserted for the ICS approach, and its narrative credentials in particular, it might legitimately be viewed as providing a major test bed for the prospects for any substantial extension of narrative reporting practices.

The initial step in the research project was to identify and establish contact with as many of the DGP companies as possible. Around 100 companies were known to have participated in one or both phases of the guideline project, including the two facilitator companies. Fifty four companies were eventually identified as existing in a form close to that assumed a decade or so ago. By contrast 16 had either ceased to exist or could not be traced, with the remaining 32 having evolved in some way, 20 having been subject to merger activity. In total it proved possible to make contact, usually by telephone or email, with 128 individuals who had some involvement with ICS activity between 1997 and 2013, half of whom agreed to participate in a full telephone interview relating to this activity. Of these only 18 remained with their employers as between 1997-2002, while 14 had only had some involvement with ICS activity after 2002. Overall, given the technical difficulties entailed constructing such a sample, a notional 63% response rate is adjudged a considerable achievement (see Nielsen *et al,* (2017) for a fuller exposition of the broader research project).

In the case of the most fundamental question, the extent of ICS activity, it proved possible to elicit a larger number of responses, 78 in total of whom 54 indicated that they did not continue to produce ICSs following the termination of their involvement with the guideline project. Fourteen respondents claimed not to have produced a single complete ICS, while overall the average number of statements claimed to have been produced was marginally less than two. On this evidence it would appear that in practice the guideline project was something of a failure. Only seven companies claimed to have produced six or more statements, with four of these at or close to double figures.

When asked about motivations for participating in the project, internal interest was identified as being of more importance than perceptions of external pressure. There was evidence of a recognition that IC reporting might be of use to management in over two thirds of companies, mention being made of the pressing need to engage with knowledge management issues, including human resource management issues. In this context it is interesting to note that human resource professionals formed the single largest grouping among the 64 respondents who agreed to the request for a full telephone interview. The enthusiasm of particular individuals was commonly identified as a key driver of interest in IC and IC reporting practices during the guideline project. By contrast, external pressures seemed to be experienced more in the case of public sector organisations.

Responses to questions on the foci of ICS activity indicate that employees attracted the most attention, by a considerable margin and far in excess of the other three generic knowledge resources identified by the project. This was previously commented on in both Bukh *et al* (2001) and Mouritsen *et al.* (2003). One possible explanation of this finding is that such information might already have existed in a form that made it relatively easy to re-present within the ICS framework.

The responsibility for producing ICSs lay with a variety of different individuals and functions, although over half the responses identified some form of medium sized interdisciplinary group. The finance function (accountants?) did not appear to assume substantial responsibility for these tasks, in contrast to human resource management professionals who were often reasonably active. Forty six per cent of respondents believed that ICS activity was principally for internal purposes, with a third identifying external purposes, the remainder being of the view that it was used for both purposes in their experience.

Despite the very modest impact that the ICS appears to have had at the corporate level, only a quarter of respondents believed the experience, however short lived, was of no benefit. In terms of positive outcomes, it was once again in relation to employees that the ICS proved positive. Other benefits mentioned related to creating a better awareness of resource issues and, more surprisingly, enhanced external perceptions of performance. These impressions were in contrast to the views expressed when respondents were asked whether they believed that the ICS had embedded itself within companies in some way, despite its general disappearance very quickly after the end of the guideline project itself. There seemed to be only limited evidence to suggest that this did occur, being essentially restricted to a small number of cases where companies began to develop their own guidelines.

Sustained ICS activity

Seven companies were identified in the course of the first round of interviews as having continued to work with the ICS concept for a relatively lengthy period after the termination of the guideline project. Three were publicly owned companies, two privately owned with one having moved from being publicly owned into private ownership in 2008, the seventh company moving in the opposite direction in 2005. Five of the seven intimated that they were still involved in producing ICSs, one having ceased to do so in 2010, the other as recently as 2012. One of the companies, a public sector IT provider privatised in 2008, provided two respondents, one who had been involved since 2000, the second having exited the company's programme after five years, in 2004, although remaining within the corporate communications department (see Nielsen *et al*. 2016 for a fuller account of the activities of these seven companies).

In response to questions about why these companies initially became involved in the guideline project, there was a general consensus that they did not feel unduly pressurised to do so by external forces. Affirming a point made previously about the role of individuals in promoting the project, three respondents identified themselves as having assumed an enthusiastic championing role. In addition, and again reinforcing previous observations, two respondents commented on the value that the publication of IC information had in respect of recruiting the type of employees that the company was more interested in. The information in question also extended beyond that on human resource issues to matters of sustainability and corporate social responsibility. There was also a measure of confirmation that, despite the accountancy profession having representation within the guideline project team, this did not translate to a local level, as evidenced previously by the dispersion of ICS practice across a range of management functions in the broader sample.

For the most part, similar motivations seemed to explain why this group had persevered with IC reporting over time. Several respondents raised the idea of the ICS being an example of a management fashion, although not in a negative way. This would seem to suggest that such practices worked for them if not the generality of companies, whose experiences there seemed to be a general unawareness of (or little concern for).

Further questioning provided evidence that ICS practice had evolved in a variety of ways over time. Five of the companies had refined their ICS activity, particularly in respect of the human capital component. A consulting engineering company had continued to incorporate a reduced ICS within its annual report that was now principally focused on employee information, while two companies had rebranded their ICS: a utilities company now provided a “Knowledge and Organization” statement, which it continued to incorporate in its annual report and which again was predominantly concerned with human capital information; and an administration services company had also reconceptualised its ICS as its “Strategy Plan”, in which it documented a range of employee matters including investment in human capital. A municipality followed the project guidelines for a couple of years before moving towards the development of a report that focused solely on employee matters. Working with external consultants, a turbine manufacturer had revitalised its ICS activity in 2006, now publishing a detailed statement of IC resources that also appeared in a reduced form within the annual report, with emphasis on technology and employees. A second utilities company had also persevered with the ICS, presented as a stand-alone document for a number of years, before deciding to combine IC reporting with environmental reporting in the new mandatory corporate social responsibility report.

Of the seven companies, it is an IT provider that has continued to embrace the spirit of 2002 most closely, initially publishing a range of IC information while linking managerial rewards to success in growing stocks of IC. After several years the company moved towards a strategic annual reporting approach that retained many of the attributes of narrative based IC reporting, all of which was subject to the scrutiny of the audit profession, as intended within the guideline project. It may not be without significance that this company attracted critical acclaim for its IC-related practices in the early days, nor that it was this company that provided the two respondents for interview. Many within the original project guideline team will appreciate the continued evolution of their ideas and objectives, even on such a modest basis as seems to be evident from this study. Equally, the evidence that a focus on employees/human capital seems to have become firmly intertwined with the pursuit of IC reporting also brings its own rewards perhaps. Although not all contributors to the early body of IC literature from the mid-1990s sought to privilege the human capital component, some were less inclined to disguise their allegiances, including Edvinsson (1997) and Roslender and Fincham (2001). For them, any coherent attempt to account for people, however modest, holds out the prospect of a realisation that in the last analysis it is employees that provide the key to the sustained creation and delivery of value to customers, society and shareholders alike.

5. Contextualising ‘failure’

By any criterion, these findings indicate that the DGP was only minimally successful, a finding at odds with the acclaim that the ICS continues to attract among some sections of the IC community. The decision to abruptly terminate the initiative late in 2002 might suggest it was already faultering, although a sizeable number of respondents commented that in their own experience companies were not subjected to undue pressure to participate in the project, which was recognised to have exhibited many merits at the time, some of which still pertain. Conversely, there is some substance to the possibility that a loss of advocacy on the part of enthusiastic champions for the ICS played a crucial role in the project’s failure. Irrespective of their commitment to the initiative, these individuals possibly had insufficient time to ensure that the ICS, or some related development, became firmly embedded within companies and/or too little opportunity to train their own successors before they themselves progressed in their own careers.

A less sympathetic assessment of the fate of the guideline project is that it provides further evidence for the need to be sceptical about the enthusiasm that academics regularly display for matters that are of a fundamentally practical nature. Beyond a cluster of academic papers, upon which careers were built or advanced (or both), what remains of the guideline project a decade or so later? In the process valuable resources, both financial and of time, have been squandered, not least by those companies who, in good faith, were prepared to participate in it. A more pointed observation might be that the project team took a new product to the market and, on the basis of evidence collected in this study, found it wanting. Indeed, the initiative proved so unsuccessful that there has been little or no enthusiasm in the interim to develop a further improved approach, which tells its own story.

Johanson and Henningsson (2007) documents the widespread alarm and concern evident in middle 1990s in a number of global agencies attendant on the continued increase in the “hidden value” within organisations, by that time largely attributable to IC or intangibles (Edvinsson, 1997). The inability of the prevailing financial accounting and reporting paradigm to accommodate this was recognised as having the potential to seriously disrupt the smooth workings of the global capital market, giving rise to the prospect of widespread, inefficient utilisation of scarce financial resources. At the limit, although not always articulated, was the possibility of a serious challenge to the continued reproduction of the capitalist order, at that time rapidly beginning to move into a globalisation phase. At a local level, the Danish government was conscious of the need to fully exploit its potential as a knowledge society. Beyond the rhetoric associated with this and similar notions such as the information society or economy, was the fact that such societies were likely to be even more reliant on their *intellectual* capital assets than larger, currently more successful societies, in the medium to long term. Consequently there was a double pressure to identify reliable ways of accounting for IC and to do so quickly. The establishment of the guideline project team was a necessity as much as it was a bold initiative, the investment in its activities between

1997 and 2002 one that it would have been a dereliction of the Danish government's duty to have declined to pursue.

In parallel, the IC phenomenon was recognised to have major significance in the context of the debate about the benefits of moving from a corporate reporting to a business reporting model of financial reporting. Following the publication of the findings of the Jenkins Committee's deliberations on this question (AICPA, 1994), enthusiasm for the development of a more inclusive emphasis within financial disclosure practice began to gather pace. The failure of corporate reporting to satisfactorily accommodate the growth of IC, principally on the grounds of the difficulties these assets posed for the financial valuation calculus, something already evident for intangible assets but now magnified many times, was invoked as a further reason to begin to pursue the search for a new paradigm. The English Institute's *New Reporting Models for Business* (ICAEW, 2003) provides a comprehensive overview of the debates to that time. A key point of contact between the business reporting and the IC reporting debates was that both largely took for granted the necessity to develop and report information that was characterised more by its relevance for users, whose numbers were also growing, rather than its reliability, previously the most critical attribute of financial information. The emergence of a growing portfolio of scoreboard frameworks for IC reporting further emphasised the utility of information characterised more by its relevance than its reliability. Equally, the rise of IC underlined the importance of seeking to emphasise a measure of future orientation within business reporting, something evident within the ICS.

While the challenge posed by IC had not disappeared by 2002, the financial environment had become less volatile and thereby less worrying. Some of the heavy turbulence experienced in the later 1990s had subsided following the bursting of the dot.com bubble around the millennium. Equally, there was evidence that despite the absence of any mandatory IC reporting requirements, companies had begun to develop mechanisms for communicating information about the IC-related activity to analysts and the broader financial community, who were thereby able to meet many of the needs of their client portfolios (Holland, 2009, 2006, 2003; Barker *et al.* 2012; Roberts *et al.* 2006). Taking a broader view, and with the benefit of hindsight, it would appear that the calm conservatism for which the accountancy profession is widely renowned had once again shown itself to be a safe option, albeit perhaps only fleetingly given the looming threat posed as a consequence of its involvement in the Enron and related financial scandals.

A decade later the accountancy profession has largely restored its collective credibility, suitably chastened by the Sarbanes-Oxley Act 2002. The profession fared well during the global financial crisis, which saw bankers cast as the villains of the piece (Laux and Leuz, 2009). Having ridden out the storm, the time to revisit the case for a greater role for narrative reporting within financial statements may have come around again, with advocates from within the academy, government, the accountancy bodies and sections of industry and commerce prepared to promote the requisite debates. In this milieu the paper by Beattie and Smith (2013) might be recognised as demonstrating that things have returned to what they were a decade ago, with the accountancy profession now being in a better position to make the necessary progress in extending the role for and significance of narrative reporting.

6. Lessons for the future of narrative reporting

In an early seminal contribution to the critical accounting literature, Cooper and Sherer (1984) identify the three imperatives that constitute the kernel of the PEA perspective for critical accounting research. These same imperatives applied (and continue to apply) equally to two alternative generic critical accounting approaches that, in parallel, were attracting the attention of a growing number of UK accounting academics, many associated with the University of Sheffield, namely labour process theory (or analysis) and Critical Theory. The first imperative Cooper and Sherer identify is to be “explicitly normative”, which requires the researcher to reject any pretensions of value neutrality in pursuing research. Critical accounting research is an engaged praxis that requires its proponents to be open about their values, and *inter alia* their political positions. The second imperative is to be “descriptive”, which despite the unfortunate terminology commends the extension of studies of ‘accounting in action’ within a broad social scientific framework, at that time loosely identifiable as being underpinned by an interpretive methodology. The final imperative is that of being “critical”, which translates into a commitment to demonstrate the (then) largely obscured contestable foundations of contemporary accounting theory and practice. Where possible, Cooper and Sherer urge critical accountants to complement the new understanding of accounting practices with alternatives that are more aligned with the priorities of a fundamentally different social order.

As we noted in the introduction, this paper is not motivated by any pretensions of objectivity or value neutrality, being firmly aligned with the normative imperative commended within PEA. The authors are supportive of the various attempts to develop IC reporting frameworks, including the ICS approach, on the grounds that the such initiatives ultimately would seem to hold out the prospect of providing employees with a greater opportunity to develop an emancipatory accounting praxis. After Roslender and Fincham (2001) they recognise that the human capital component of IC constitutes its primary component, thereby meriting the designation of primary IC (see also Roslender and Fincham 2004; Roslender *et al.,* 2015). The challenge to critical accounting researchers is to work in tandem with employees (human capital) in the development and diffusion of its own self accounts in the form of narratives designed to demonstrate the primary role of labour within the value creation and delivery process. It follows by the same logic that the authors are in principle supportive of the initiative to develop the narrative turn in reporting. However, also being motivated by the critical imperative they distance themselves from the position that either or both IC and narrative reporting are to be understood as providing a means to pursue better accounting, and are committed to fashioning interventions that explicitly seek to couple alternative accountings with the promotion of social betterment. In this regard it is viewed as axiomatic that the interests served by the prevailing corporate reporting approach to financial reporting, as practised by the global accountancy profession, are overwhelmingly those of shareholders, and principally institutional shareholders. Although business reporting, envisaged as a desirable successor to corporate reporting by many of its proponents between 1994 and 2003, acknowledged the needs of other interested parties, it did so in a largely unchallenging way. In a similar manner history would seem to be repeating itself in the context of IR, which despite its social reporting underpinnings, not to mention its acknowledgement of the importance of both IC and narrative reporting and disclosure, appears to be very largely the captive of traditional stakeholders (Flower, 2015).

Within the financial reporting community there are many researchers who are sincere in their belief that the promotion of enhanced narrative reporting is both desirable and beneficial to society. Consequently, they are comfortable to invest their time and energy commending it to the accountancy profession. For our own part, it would be short sighted to simply dismiss such developments and initiatives as lacking in any merit for anyone interested in the pursuit of social betterment within the accounting research community. Nevertheless, what the various insights collected in the course of the DGP study, an initiative within which experimentation with narrative reporting was extensive, reaffirmed for us are a number of major obstacles that remain to challenge any extension of narrative reporting practices. It is therefore incumbent on us to contribute these insights to the rejuvenated debate about extending narrative reporting briefly reviewed earlier in the paper. In doing so, we regard the remainder of the paper as enacting Cooper and Sherer’s third, “critical” imperative, albeit largely without recourse to the lexicon that is sometimes enrolled in such analyses.

Securing practitioner buy-in

A key finding of the DGP study was that the accounting and finance function did not appear greatly interested in taking responsibility for ICS activity, in contrast to some of their human resource management colleagues. While it is possible to debate whether the guideline project was an accounting initiative, many involved in driving it between 1997 and 2002 held this view, including representatives from the Danish auditing profession. At the local level different agendas continue to prevail, despite the observation that ‘relevance’, understood as a qualitative characteristic of financial reporting, is now regarded as being of fundamental importance alongside ‘faithful representation’ (IASB, 2010). For most practitioners relevance equates with the added value of an initiative commended to them (in good faith) by third parties. In the absence of any specific requirement to implement changes, the prospects for success of such developments as IC reporting or the generality of narrative reports are likely to remain limited. To some degree this state of affairs demonstrates the power that the ranks of backwoodsmen within the accountancy profession continue to wield. Of more significance perhaps is a characteristic duplicity on the part of the professional accountancy bodies, who readily position themselves as willing participants in the policy debate but less given to leadership in respect of actual implementation. For the very greatest part, the individuals who populate these powerful leadership positions evidence little inclination to challenge the prevailing axiom that the principal purpose of financial reporting is to secure and perpetuate the interests of shareholders. Only those initiatives that promise to enhance these interests are truly desirable and thereby merit commendation to the practitioner community.

A challenge to accountancy's jurisdiction

For the greater part of its history accounting has evolved, or has been developed, as a practice firmly based on 'counting', understood in a broader sense that we identify with the term quantitative. Consequently, it is possible to characterise accounting as the generic practice of telling the story of enterprise performance using numbers. In the case of financial accounting and reporting, these are for the most part financial numbers, reflecting the monetary measurement convention. This also extends to cost accounting and some aspects of management accounting, although over the past three decades managerial accounting, identified as the provision of accounting information to management, as agents of the owners, has seen a progressive decoupling of the financial from the quantitative. Such moves in the direction of *recounting* have often attracted the support of accounting academics, particularly where they have resulted in a greater degree of relevance within accounting information and understood to advance the interests of shareholders. From a jurisdictional perspective, however, developments such as the ICS or extended narrative reporting promote concern or alarm, since they threaten the exclusivity of the profession's traditional value proposition. A longstanding facility with and mastery of numbers is now under threat of dilution as greater credibility is afforded telling the story of business performance using both words and numbers, a process that portends an increased inclusivity of practice. Human resource management specialists were not alone in assuming an active role in the, admittedly limited, diffusion of the ICS. The accountancy profession is likely to work to secure its own interests every bit as enthusiastically as it can be relied upon to promote those of its principal patrons.

Combatting continuing myths

Few advocates for increased narrative reporting would dispute that it will result in reduced disclosures. Information overload has long been part of the repertoire of the financial reporting community when faced with calls for further disclosures, as a consequence of which many, if not most, practitioners are likely to be predisposed to reject the case for narrative reporting. While a commonsense case might be advanced to substantiate information overload in relation to individual shareholders, it overlooks the fact that analysts have long made use of their own information sets, customised and finely tuned to complement publicly available information. Indeed it might be argued that analysts would welcome further disclosures, at least those with some substance, since they promise to make their own work less onerous. Herein may lie the hidden agenda of the information overload objection: a lack of enthusiasm for pursuing new disclosure pathways that will inevitably require challenging new learning and increased risk, and a preference for institutionalised occupational conservatism (cf Holland and Johanson (2003)).

Complementing the information overload objection is the claim that further disclosures, whether narrative or numerical, threatens to compromise the competitive position of the firm. This is often argued to be especially pertinent for disclosures that are forward-looking in content, an attribute that would seem to resonate with the implicit nature of narrative disclosures. This argument is premised on the contestable assumption that competitors continue have very little information about or insights on each other. In the case of large companies, however, not to be well apprised of the activities of competitors nowadays makes commercial bad sense. The benchmarking literature, for example, highlights the existence of cooperative activity designed to assist competitors to learn from each other, not least in order that an industry as a whole is better able to offer ever higher levels of customer service (Boxwell, 1994). Finally, the identification of a tendency to 'boilerplating' as a response to unnecessary (=unwelcome) extensions of disclosure activity says rather more about the accountancy profession than third parties who seek to modernise its outlook.

The imperative of making action mandatory

The decision to not make the use of some form of ICS after 2002 mandatory is a further episode in the failure of regulatory authorities to embrace a 'strong' stance on promoting change in the financial reporting space. The decision to allow smaller companies to opt out completely was justified on familiar grounds, namely the disproportionate cost of such an exercise for relatively modest enterprises. In the case of larger entities, the DGP provision that allowed senior management to assert that such disclosures are an inappropriate imposition gifted a license to behave disingenuously should they so choose. The prospects for the effective policing of such misrepresentations were inevitably extremely limited, with the regulatory agency and their government sponsors operating on a basis of trust, for which there seems to be limited supportive historical evidence. Mandatory disclosure complemented by a rigorous enforcement and monitoring regime would have signalled serious intent, as would not tolerating the pursuit of a 'tick box' mentality on the part of practitioners. The traditional model of reliance on goodwill in response to voluntary models of disclosure, *inter alia* in the case of those that promise/threaten to advance the interests of a much wider set of stakeholders, remains inherently and unconscionably flawed.

These are not new observations. Unfortunately, most advocates of extended narrative reporting, like their counterparts around the ICS, would appear to wish to cling to the assumption that those whose role it is to breathe life into self-evident improvements to practice will be swayed by arguments advanced by well-informed and equally sincere third parties, among whom accounting academics number many. This seems to be an unlikely proposition given the continuing imbalance of power that exists within the global accountancy profession, however. The more fruitful strategy would seem to be to install and lobby radical governments, since they alone have the power to put into place mandatory reporting requirements with which the accountancy profession will be required to comply. A formidable challenge without doubt but one that the critical accounting community should continue to embrace.

Acknowledgements

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