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BOOK REVIEWS

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Developments in New Reporting Models, Information for Better Markets (London, U.K.: ICAEW Financial Reporting Faculty, 2009, ISBN 978-84152-615-7, electronic version downloadable from ICAEW.com website, pp. vii, 98).

Developments in New Reporting Models is a discourse on the process of evolution of business reporting models. A prior publication also produced by the Institute of Chartered Accountants of England and Wales (ICAEW), *New Reporting Models for Business* (2003), assessed the merits of a number of proposed business reporting models. The current publication revisits the proposed models briefly and updates the list (Appendix 2), but its objective is not to evaluate specific models. Instead, the report focuses on the mechanisms of change in business reporting models—the factors that facilitate the process and the factors that hinder it. The principal authors of the report are Brian Singleton-Green and Robert Hodgkinson, who are the senior staff of the ICAEW's Information in Betters Markets thought leadership program.

The central premise of the text is that business reporting models evolve naturally over time as they adapt to changes in environmental factors. The authors conclude that, although calls for revolutionary change in business reporting models are a necessary element of the process of evolution, such calls are unlikely to accomplish their goal of widespread adoption of ostensibly "new" business reporting models.

The authors submit that business reporting is shaped by its environment, which includes a society's regulatory, legal, and market setting, and that business reporting models respond to changes in that environment. Nonetheless, the authors recognize that certain frictions can hinder the natural evolution of the business reporting model. Imprudent regulation, excessive litigation risk, the information needs of regulators supplanting those of users, and frictions in the demand and supply of information can interfere with the proper development of business reporting. They suggest that understanding and addressing the root causes of inadequate business reporting is an important, but often overlooked, element of the process of evolution.

Despite being written by non-academics, the authors are markedly committed to the position that less rhetoric and more reliance on research findings would greatly enhance the debate surrounding the adequacy of business reporting models. This commitment is evident in several respects. First, the authors' discussion incorporates relevant findings from research previously commissioned by the ICAEW. Second, throughout the text, the authors identify areas in which they believe additional research would advance the debate. Appendix 5 of the manuscript summarizes the opportunities for further research which the authors identify.

The bulk of the report is organized as follows. Chapter 1 presents the authors' key conclusions that business reporting evolves over time and is a product of its environment. They also introduce the primary charges leveled at existing business reporting models, and in subsequent chapters they evaluate each charge. The authors consider the charges that business reporting is: (a) fundamentally misleading (Chapter 2); (b) provides insufficient reporting of intangibles (Chapter 3); (c) a factor in causing or compounding the recent financial crisis (Chapter 4); (d) offers insufficient reporting of non-financial information (Chapter 5), and; (e) is excessive in length and complexity (Chapter 7).

In each chapter the authors outline the arguments and research evidence (if any) for and against the given charge. The authors do not attempt nor pretend to conduct a comprehensive review of the relevant literature, but rely primarily on the findings of research previously commissioned by the ICAEW. In addition, they identify areas that they believe are ripe for additional research. In general, the authors conclude that none of the charges leveled at financial reporting is sufficient to yield revolutionary change in existing business reporting models.

Chapter 6 further delves into the development of business reporting, with particular emphasis on the point that business reporting evolves in response to changes within a complex social environment in which business reporting is but one element of a larger informational network. The authors identify factors that might influence the evolution of business reporting in a favorable manner, such as peer pressure and users' demands for information. Nevertheless, the authors note that, if business reporting is indeed broken or breaks in certain respects, it is important to understand and address the factors that interfere with the appropriate evolution of business reporting, and not simply call for dramatic change in the model.

The final chapter of the manuscript outlines a way forward. The authors warn against excessive rhetoric, which they argue can be a distraction. The authors note that rhetoric is often conflicting (e.g., more disclosure is needed but financial statements need to be shorter), and they appeal to those presenting proposed alternative business reporting models to be more firmly grounded in extant research. While I applaud and agree with the authors' plea regarding research, it is important to recognize that various studies' research findings can also be conflicting. Accordingly, it is often necessary to draw conclusions based on the overwhelming weight of the evidence as opposed to relying on the specific findings of a particular study or small group of studies. Moreover, I believe that the authors' plea highlights the importance of collaboration between practitioners, standard setters, and academics.

The authors also consider the role of business reporting within the whole of the information set. They make the point that business reporting is not the only game in town. Other sources of information exist. Moreover, managers suffer from limited information and biases, such that managers might not have a competitive advantage in providing certain types of information. Hence, there is no need for a comprehensive business reporting model, nor would such a model be desirable.

Although the text is quite thorough in its consideration of the issues, at the conclusion of my reading the report, I was left with several questions. First, the authors make the important point that different cultures, rules of law, and legal environments are likely to produce different approaches to business reporting. They do not, however, discuss the implications of this statement for the feasibility of the globalization of accounting standards specifically, which comprise an important component of the business reporting model.

Second, the authors note that the boundaries of "business reporting" and the term "business reporting model" are not well defined, and that the lack of consensus around these terms serves to complicate the debate surrounding the adequacy of business reporting models. While attempting to clarify these concepts is outside the scope of the report, the discussion is subject to a certain amount of slippage with respect to what aspects of reporting are under consideration at various points in the text.

Third, the authors discuss the role of "the invisible hand" in guiding the evolution of business reporting, and note that in certain circumstances regulation might play a beneficial role in overcoming demand or supply frictions that could hinder adequate business reporting. They do not, however, discuss the extent to which regulatory bodies do or do not exist locally or internationally to take on the task of developing standards for business reporting beyond the financial statements and footnotes. Perhaps prior calls for revolutionary change in business reporting have failed in part because no obvious entity exists to take up the cause of implementing the proposed changes.

Finally, the authors discuss the extent to which financial statements can or should be "general purpose." They adopt investors as the primary users of business reporting. I believe that making such a choice is necessary. It is difficult to consider whether the information produced by a business reporting model is useful, without first taking a position on the question: useful to whom? While some might disagree with the authors' decision to focus on investors, I find no reason to quibble with this decision. Nonetheless, having made this choice, the authors, I believe, could have used it to provide additional structure to their discussions in Chapters 2 through 8. For example, if investors' needs consist of understanding the past, predicting the future, and assessing risk, the authors' discussion of the charges leveled against existing models could be couched in terms of the extent to which users' needs are, or are not, met. The chapter on intangibles (Chapter 3), in which the authors discuss the claim that the reporting of intangibles on the balance sheet is insufficient, is an example of where such a framework might have provided additional useful structure to the discussion.

In conclusion, I enjoyed reading this thought-provoking report. I commend the authors for contributing a new, and substantive, twist to the debate on business reporting models, by digressing from the established path of assessing the merits of specific proposed models and instead embarking on a fresh avenue of considering the process of change.

REFERENCES

New Reporting Models for Business. 2003. London, U.K.: Institute of Chartered Accountants in England and Wales.

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