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# Corporate annual reports: towards a non-reductionist approach

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## **Abstract**

*During the 20<sup>th</sup> century, numerous philosophers of science highlighted several problems afflicting scientific communication. Communication in accounting is also problematic. In both cases (science and accounting) there seems to be a tension between objectivism and subjectivism. The former emphasizes the objects of knowledge, while the latter tends to rely on the human subject. In science one of these approaches seems to prevail in different periods. In accounting there seems to be an oscillation or ambiguity between the two tendencies (subjectivism and objectivism) which remain side by side. A polarity seems to emerge as statutory disclosures are mainly influenced by objectivism, while contextual disclosures are inclined towards subjectivism. With reference to the philosophy of Herman Dooyeweerd, subjectivism and objectivism are interpreted as emphasizing certain modal aspects to the detriment*

*of others. Although this problem can be regarded as the cause of many challenges in preparing annual reports, this article focuses on communication problems. It is suggested that a better (non-reductionist) approach can be adopted by paying attention to all the modal aspects, in particular to those which tend to be neglected under a certain approach (objectivism or subjectivism). The final sections of this article provide a few concrete examples to improve communication.*

## **Keywords:**

**Communication; Statutory financial reporting practices; Contextual financial reporting practices; Objectivism; Subjectivism; Dooyeweerd's theory of modal aspects.**

## **Opsomming**

### ***Korporatiewe jaarverslae: op weg na 'n nie-reduksionistiese benadering***

*Gedurende die 20<sup>ste</sup> eeu het talle wetenskapsfilosowe, verskillende probleme rakende wetenskapskommunikasie uitgewys. Kommunikasie in die rekeningkunde is ook problematies. In beide gevalle (wetenskap en rekeningkunde) blyk daar 'n spanning tussen objektivisme en subjektivisme te wees. Eersgenoemde lê die klem op die objekte van kennis, terwyl laasgenoemde verkies om op die menslike subjek te steun. In die rekeningkunde blyk dit dat 'n polariteit te voorskyn tree, aangesien statutêre openbaarmaking hoofsaaklik deur objektivisme beïnvloed word, terwyl kontekstuele openbaarmaking tot subjektivisme geneig is. Met verwysing na die filosofie van Herman Dooyeweerd word subjektivisme en objektivisme vertolk as die beklemtoning van sekere modaliteite of aspekte tot die nadeel van andere. Alhoewel hierdie probleem as die oorsaak van baie probleme in jaarverslae beskou kan word, fokus hierdie artikel op kommunikasieprobleme. Dit word voorgestel dat 'n beter benadering gevolg kan word, deur aandag te skenk aan al die modaliteite, veral daardie wat onder 'n sekere benadering (objektivisme of subjektivisme) afgeskeep word. Die finale gedeeltes van die artikel voorsien sommige konkrete voorbeelde van hoe kommunikasie in jaarverslae verbeter kan word, deur ook die afgeskeepte modaliteite of aspekte in ag te neem.*

## Sleutelwoorde:

**Kommunikasie; Statutêre finansiële verslagdoeningspraktyke; Kontektuele finansiële verslagdoeningspraktyke; Objektivisme; Subjektivisme; Dooyeweerd se teorie van modaliteite.**

## 1. Introduction

### *1.1 Philosophy, accountancy and communication*

During the 20<sup>th</sup> century, the initial optimism concerning the possibility of effective communication in science gradually diminished and the threat of incommunicability was seriously debated (Popper, 1970:56; Kuhn, 1970a:150; Feyerabend, 1975:269). Communication in accounting is also a problem and in the following pages we would like to argue that it is related to a tension between objectivism and subjectivism.

Objectivism emphasizes the objects of scientific investigation, while subjectivism anchors itself in the knowing subject (which can be individual or communal)<sup>1</sup>. The objectivist believes that there is a firm grounding for knowledge, something we can appeal to in determining the nature of reality, rationality and truth (Bernstein, 1985:8). The subjectivist, on the other hand, claims that what is taken to be foundational, true or right is at best only culturally stable, certainly not eternal, indubitable, ultimate or necessary. In other words, everything is *related* (hence relative) to people, time-periods and cultures. This is why Bernstein (1985) identifies subjectivism and relativism.

In accounting, there seems to be an oscillation or ambiguity between the two tendencies which remain side by side. As far as the most important information products of accounting, namely corporate annual reports are concerned, a polarization seems to emerge. In fact, the statutory financial reporting practices (that produce statutory disclosures) seem to be influenced mainly by objectivism, while the contextual financial reporting practices (that produce contextual disclosures) seem to be inclined towards subjectivism. This creates a dis-balance or tension with several negative consequences on different levels (for example, at the ethical, economic and social levels). For the purpose of this article, however, we will limit our focus to the content and manner of communication in corporate annual reports, addressed to heterogeneous users.

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1 For this reason, subjectivism should not be confused with individualism.

With reference to the philosophy of Herman Dooyeweerd (1894-1977) subjectivism and objectivism can be interpreted as emphasizing certain “modal aspects” (also called “modalities” or simply “aspects” – to be discussed below) to the detriment of others (Coletto, 2007:59). This is the case, we will argue, also as far as communication is concerned. This article suggests that, in so far as corporate annual reports are concerned, a better approach can be adopted by paying attention to all the modalities, in particular to those which tend to be neglected under a certain approach (objectivism or subjectivism). The final sections of this article supply several concrete examples of how to improve the content and the manner of communication in corporate reports by taking into account several neglected modal aspects. This is important since shareholders and other stakeholders are increasingly demanding information on how companies manage environmental, social and corporate governance risks.

### ***1.2 Research problem and hypothesis***

The research problem of this article is formulated as follows: Can the communication potential of corporate annual reports be improved by following a non-reductionist philosophical approach?

The hypothesis is the following: Statutory financial reporting practices tend to be created by standard setters using an objectivist approach, while contextual financial reporting practices tend to be created using a more subjective paradigm. A non-reductionist approach could enhance both statutory and contextual financial reporting practices thereby improving the communication potential of corporate annual reports.

### ***1.3 Research plan***

A historical survey is undertaken focusing on the growing awareness of the difficulties challenging scientific communication in the most authoritative contemporary philosophies of science. This is compared with the situation of the accounting sciences, with regard to their information products, namely corporate annual reports. On the basis of Dooyeweerd’s philosophy a “diagnosis” is proposed, identifying in objectivism and subjectivism the roots of the problems affecting communication in statutory and contextual disclosures. The “symptoms” of the disease are pointed out and a “therapy” is suggested by indicating concrete remedies to specific problems.

As this article moves between philosophy and accounting (and will hopefully be read by scholars from both fields) we will occasionally present information

which is quite “basic” for one group of academics, knowing that the other group may not necessarily be acquainted with the specific topics.

## **2. Difficulties associated with communication**

### ***2.1 Communication in science***

In the 20<sup>th</sup> century, science was influenced by philosophical approaches such as positivism, logical positivism, Popper’s philosophy, Kuhn’s and Feyerabend’s innovations. The following historical survey demonstrates how, during the 20<sup>th</sup> century, confidence concerning the possibility of sound scientific communication gradually vanished and a growing awareness of the difficulties replaced a somewhat initial and naive optimism. The purpose of this survey is to show that problems of communication, far from being the concern of a single discipline (in our case: accounting) have been a major theme in 20<sup>th</sup> century philosophy of science. It will also illustrate the growing impact of subjectivism on philosophy of science.

### ***2.2 Positivism***

Positivism was the dominant philosophy of science between 1860 and 1920. It was based on the view that in the social as well as the natural sciences, information derived from sensory experience, and logical and mathematical treatments of such data, are together the exclusive sources of all authoritative knowledge (Naicker, 2012:1). The “father” of the movement, Auguste Comte, argued that society develops by moving through pre-determined stages, much as the physical world is subjected to gravity and other causal laws (Naicker, 2012:1). Positivism is an objectivist movement based on empirical experience and concerned with methods such as verification and induction (Buys, 2010:13). The emphasis falls on measurement, sense-experience and empirical objects, while the person of the scientist (the subject of knowledge) is almost irrelevant. Induction is used here to access the law-like regularities of reality. With induction, facts and objects “come first” and determine theories. The positivists identified verifiability with meaningfulness: linguistic statements that are empirically non-verifiable are hence deemed devoid of meaning (Coletto, 2008:447).

The positivists pursued a purified scientific language, not concerned with the problems implicit in ordinary language as the latter accommodates non-scientific and “metaphysical” notions. In general, it can be said that optimism concerning the possibility of sound communication was still at high levels.

### **2.3 Popper and Kuhn**

For Popper (1970:55) too, communication in science must be possible. Coletto (2008:447) explains Popper's point of view: "if science is characterised by the proposal and critical evaluation of theories, it must be possible to communicate even among scientists of different persuasions". In general, Popper recognizes (more than the positivists) that scientific communication is hampered by many difficulties. Nevertheless, he remains confident that those problems can always be solved. Even if we speak different languages, translation is always possible (Popper, 1970:56). He is confident that critical discussion, refutation, corroboration of theories and finally progress will not be prevented by simple communication problems.

Kuhn introduced the paradigm-concept. A paradigm is established when a scientific community accepts such paradigm. The movement away from positivism is evident, when he (Kuhn, 1970a:63) claims that the notion of truth, at any given moment, cannot be established solely by objective criteria, but is defined by the consensus of a scientific community. In addition, Kuhn asserts that competing paradigms are incommensurable, in that they are competing accounts of reality which cannot be coherently reconciled. As a consequence, science can never rely on full objectivity (as positivism would have it), because we must account for subjective (though communal) perspectives as well.

The term "paradigm change" was introduced by Kuhn (1963:360). He made several notable claims with regard to the progress of scientific knowledge (Kuhn, 1963:353) and asserted that scientific fields undergo paradigm changes or shifts (periodic revolutions), rather than solely progressing in a linear and cumulative way. The direction of scientific inquiry within a particular field is then abruptly transformed (Kuhn, 1963:358-360).

Firstly, there is the pre-paradigmatic phase, which lacks a common paradigm. Then follows "normal science", which puts an end to the uncertainty of the pre-paradigm phase concerning the "fundamentals", when scientists attempt to "articulate" the central paradigm by "puzzle-solving" (Kuhn, 1970c:7). In this phase a paradigm is accepted by all, and "reigns" undisputed for a period. During this specific period one is not supposed to find other paradigms within a disciplinary field. One paradigm dictates the rules, the acceptable answers and suggests the instruments to be used or produced. In other words, it determines (normal) scientific research in all respects. However, as anomalous results accumulate, a scientific discipline might reach a phase of crisis and subsequently might undergo a scientific revolution, at which point a new paradigm comes into existence. The old results are rejected and

paradigm substitution takes place.

As a consequence, Kuhn is of the opinion that while communication is always possible when one paradigm dominates a certain field of study in a certain period, in times of crises or scientific revolutions, communication becomes a serious problem. With Kuhn, the term incommensurability (Kuhn, 1970b) becomes an established concept, indicating (amongst others) incommunicability. The latter remains a problem affecting schools or individuals holding to different paradigms.

#### ***2.4 Feyerabend and other postmodern thinkers***

Feyerabend wants science to be more like “life” itself and consequently follows a more relativistic approach. He is also in favour of pluralism (Feyerabend, 1975), but against rationalism. He uses rationality to undermine rationality (Feyerabend, 1975:33). Feyerabend became famous for his purportedly anarchistic view of science and his rejection of the existence of universal methodological rules. He rejects the dogmatic use of rules, a position at odds with the rationalistic trends still present in the philosophy of science of the day.

Feyerabend (1975) furthers the shift towards relativism and pluralism. Relativism holds that points of view have no absolute truth or validity, having only relative, subjective value according to differences in perception and consideration (Naicker, 2012:1). With Feyerabend, incommunicability becomes an established concept and a real threat, which is faced with different attitudes in postmodern times. Baudrillard (1984:129) asserts, rather pessimistically, that communication becomes mis-information as through its reproductions it creates the “hyper-real”. Lyotard (1984:65), more optimistically, advocates that postmodern science should not seek to create mutual understanding at all costs: it is rather dissensus that keeps the “game” going and makes freedom and debate possible.

#### ***2.5 Evaluation and transition***

The above survey might give the impression that, concerning philosophy of science, communication problems intensified especially during a period dominated by rather subjectivist philosophies. However, objectivism only ignored and evaded such problems, without really tackling them. Its optimism was mainly a result of naivety. In sections 5 and 6 we will see that objectivism too harbours its own problems.

Although philosophy of science deals especially with the natural sciences, it often reflects parallel trends, developments or problems in the social and

human sciences. Accounting is also regarded as a scientific discipline related to mathematics and economics, as well as linguistics, and experiences similar problems with communication. In the next section we will return to accounting by pointing out a few examples of communication problems specifically affecting this discipline. Before doing this, however, a basic explanation of the nature and role of statutory and contextual disclosures in annual corporate reports is provided. This might help philosophers and other scholars who might not necessarily be familiar with accounting practices.

### **3. Communication-vehicles in accounting**

#### ***3.1 Historical background***

Business reporting in the form of statutory disclosures over the centuries was typified by slow, random and reactive growth. Over the centuries, mainly external incidents, for example crashes of stock markets (Zeff, 2005:1) or recent corporate scandals such as Enron and Worldcom, occasionally stimulated its growth. The development focus entailed a top-down approach, with the introduction of accounting principles and standards by accounting regulators, and not a bottom-up approach, such as a consideration of the needs of stakeholders (Cronjé, 2008:24). Contextual disclosures emerged only during the 1990s. The statutory and the contextual disclosures in corporate annual reports may be defined as the information an economic entity provides to help users of that information to make *inter alia* capital-allocation decisions relating to that entity (Cronjé, 2008:23; PRI, 2015).

#### ***3.2 Statutory and contextual disclosures***

The traditional formal communication vehicle between a publicly listed economic entity and its interested constituencies is the corporate annual report (Cronjé, 2008:1). The corporate annual reports of companies consist of statutory disclosures, generated by statutory financial reporting practices, such as International Financial Reporting Standards (IFRSs) as well as contextual disclosures, such as forward looking information and information about risks and strategies of entities, generated by contextual financial reporting practices (Cronjé, 2008), as illustrated in Figure 1.



Figure 1: Statutory and contextual disclosures in corporate annual reports

Statutory disclosures	Contextual disclosures
<p>Created by</p> <ul style="list-style-type: none"> <li>• The Conceptual Framework (IASB, 2012)</li> <li>• International Financial Reporting Standards (IFRS)</li> <li>• Statutory regulations</li> </ul> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Statement of financial position and notes</li> <li>• Statement of comprehensive income and notes</li> <li>• Statement of changes in equity and notes</li> <li>• Statement of cash flows</li> <li>• Directors' report</li> </ul>	<p>Created by</p> <ul style="list-style-type: none"> <li>• Contextual financial reporting practices</li> </ul> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Disclosure of economic, environmental and social aspects of economic entities</li> <li>• Disclosure of key risk areas</li> <li>• Disclosure of strategies</li> <li>• Management commentary (IASB, 2010)</li> <li>• Disclosure of forward-looking information</li> </ul>

**Source:** Adapted from Gouws & Cronjé (2008:110)

Statutory disclosures are generated by statutory financial reporting practices. These practices are based on the rules of measurement of the elements of financial accounting that are embodied in the *Conceptual Framework* of the International Accounting Standards Board (IASB) as well as the IFRSs. The IASB uses the *Conceptual Framework* to develop IFRSs. The *Conceptual Framework* focuses on the following: reporting entity, elements of financial statements (including recognition and derecognition), measurement, presentation and disclosure. Statutory financial reporting practices are therefore based on the *Conceptual Framework* (borrowing Kuhn's terms, we might call the latter the "disciplinary matrix" of accounting).

Examples of contextual disclosures that appeared throughout history are the ones dealing with corporate governance matters including sustainable reporting; disclosure of economic, environmental and social aspects; disclosure of key risk areas; disclosure of strategies; management commentary and disclosure of forward-looking information.

### ***3.3 Communication problems in accounting***

Communication in accounting is also currently problematic. For example, the reporting standards of the United States of America, controlled by the Financial Accounting Standards Board (FASB), often differ from the “disciplinary matrix” of the IASB of the United Kingdom. This has an effect on the comparability of statutory disclosures of economic entities in different countries. Furthermore, the contextual disclosures in corporate annual reports differ from company to company. Of course this hinders comparability and therefore has negative effects on communication.

It would also seem that not all users understand the communication messages compiled by preparers of corporate annual reports in the form of statutory and contextual disclosures, due to their complexity (cf. Belkaoui, 1995:41). As the commonality of language between the preparer and the user of corporate annual reports is a prerequisite for conveying meaning through disclosures in corporate annual reports, there is still room for improving the statutory and contextual disclosures (Cronjé & Gouws, 2011:44). Belkaoui (1995:41) is concerned about the fact that the general level of readability of accounting messages is difficult, and the level of understandability of the meaning of accounting messages needs improvement. This will of course depend on who the readers of the annual reports are. However, a main constraint in achieving the commonality of language goal (to enhance the conveying of meaning) is evident in the lack of feedback by users and stakeholders (Cronjé & Gouws, 2011:56).

Currently, new developments regarding corporate reporting are taking place. The International Integrated Reporting Council (IIRC) consisting of a global coalition of regulators, investors, companies, standard setters and the accounting profession, is of the opinion that corporate reporting needs to evolve. The aim would be to provide a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (IIRC, 2013).

Accounting too, therefore, is affected by problems of communication. In our opinion these problems can be related to a conflict between objectivism and subjectivism. In order to display our diagnosis properly, however, we need to briefly explain some traits of Dooyeweerd’s philosophy, in particular his theory of modal aspects. It is on that basis that our diagnostic analysis (see section 5) will acquire particular depth and solidity.

## 4. Dooyeweerd's theory of modal aspects

The Dutch Christian philosopher Herman Dooyeweerd (1894-1977) developed a non-reductionist<sup>2</sup> ontology of “modal aspects”, concerning diverse kinds of meaning which are disclosed in the analysis of every existing thing. The modal aspects are the fundamental “sides” of (as well as the fundamental ways of observing and explaining) all existing entities (events, processes etcetera). He considers such modalities to be irreducible to each other and yet indissolubly linked. The following example (Figure 2) is used by Basden (2011:1) to list and explain the modal aspects (or modalities) of temporal reality.

*Figure 2: Modal aspects related to scientific disciplines*

Aspects:	Example: writing a letter
15. Certitudinal	Do I believe in what I am writing? Is it important?
14. Ethical	Do I write with goodwill and generosity?
13. Legal	Am I doing justice to the topic? To the readers?
12. Aesthetic	Is my writing interesting or boring?
11. Economic	Do I have to keep to a word limit?
10. Social	What phrasing suits the intended readers better?
9. Lingual/sign	How can I best express what I want to say?
8. Historical	Do I have a plan and structure?
7. Logical	Is it clear what I want to write about?
6. Sensory	How do I feel while writing? Is the light too dim to see what I am writing?

<sup>2</sup> Non-reductionist means that the broad variety of modal aspects which is found in reality is not reduced to a few modalities, as it happens, according to Dooyeweerd, in most philosophical movements. In most cases, in fact, only a few aspects are recognized and some of them are “absolutized”, i.e. regarded as the most important ones or even as the sources of other aspects. From this point of view, for example, it can be said that Marx absolutizes the economic and social aspects, Freud the sensory (psychic) modality and Hitler the biotic aspect (related to blood and race).

5. Biotic	Do I write badly when ill?
4. Physical	Might the writing (ink) fade over time?
3. Kinematic	Is the writing fast or slow?
2. Spatial	How large a sheet of paper is being written on?
1. Numeric	How many words, paragraphs, sections are written?

**Source:** adapted from Dooyeweerd (1984) and Basden (2011)

In Figure 2 each question points towards an aspect of the writing activity (Basden, 2011:1). The same 15 modalities are applicable in looking at any existing entity, activity or event.<sup>3</sup>

Aspects are closely tied to the very structure of temporal reality, as spheres of meaning and spheres of law, which makes both functioning and normativity possible (Basden, 2011:3). Aspects are spheres of meaning, providing different ways in which things in all temporal reality can be meaningful. This is often referred to as aspectual meaning. Aspects are also spheres of law, which are the foundation for functioning and normativity of and in all temporal reality (Basden, 2011:3). This is often referred to as aspectual law.

It is important to note that no aspect can be reduced to others in terms of its meaning and law, nor can any modality be satisfactorily explained in terms of others. Dooyeweerd conceptually distinguishes the aspects in order to discuss them, but he also stresses their coherence because all aspects work together (Basden, 2011:3). In fact, each aspect contains “echoes” of all the others, and each is involved in a mutual inter-dependency with others (Basden & Burke, 2004:357). In other words the different aspects are interconnected and woven together. Although the aspects are diverse, they show coherence with each other (Hart, 1984:164). The meaning of each one of the aspects only comes to expression in the coherence with the other aspects (Strauss, 2009:76). A few more notes on the relationships among modal aspects are displayed in the scheme (Figure 3) below.

3 It might be objected that while the activity of writing a letter “functions” in all the aspects, if we observe a cat or a flower they do not seem to function in the (e.g.) linguistic or juridical aspect. In other words cats and flowers do not speak to or sue anybody! It should be noted, however, that in these modal aspects they have a “passive function”: for example they still have a name and might belong to someone. Human beings function actively in all modal aspects.

*Figure 3: Inter-aspectual relationships*

Type	Description
Order	The aspects form a sequence, not a hierarchy, because Dooyeweerd held that all aspects are equally important, but some must be present before others (for example there must be organic life to experience emotions). In this sequence, aspects refer both to earlier (foundational) aspects, and to later (ante-cipating) aspects.
Dependency	Here aspects 'need' each other, differently in the anticipatory and foundational directions. In the foundational direction the functioning in an aspect depends on good functioning in earlier ones. For example social functioning depends on good lingual functioning. In the anticipatory direction an aspect's meaning is not fully realised without reference to meaning of later aspects; for example the lingual aspect is rather, though not entirely, sterile if not used to enable social functioning.
Analogy	The meaning of each aspect is echoed in the others. For example, we say an economy 'grows' (biotic analogy in the economic aspect).
Reaching out	Functioning in one aspect always involves at least another aspect as target or object; for example we can have a feeling of space.

**Source:** Adapted from Basden (2011:4)

According to both Dooyeweerd and Basden (2011: 5), there is an order of succession amongst the modal aspects (cf. Hart, 1984:190-198). The suggested order does not amount to a hierarchy, but reflects an increasing complexity of functions.

The first three – quantitative, spatial and kinematic – are what Dooyeweerd called mathematical aspects because they are based on the numerical. The next three – physical, biotic and psychic/sensitive – govern material, plants and animals, though they also apply to humans. The next three – analytical, formative and lingual – govern individual human cognition. The next three – social, economic and aesthetic – are aspects of our living together. The final three aspects – legal, ethical and pistic/faith – are especially important for the good functioning of society (Basden, 2011:5).

In the next section the theory of modal aspects is related to objectivism, subjectivism and to the problems that these two approaches create in accounting.

## 5. Objectivism and subjectivism in relation to accounting

Objectivism and subjectivism can be interpreted as emphasizing certain modal aspects to the detriment of others.<sup>4</sup> In particular, the objectivist seems to emphasize the modalities characterizing the (natural) objects of empirical experience. This is the case also as far as communication is concerned.

For the objectivist, the source of all regularity and order is located in the objects of experience (even though that source may not be directly experienced – Clouser, 2005:247). The objectivist relies on the “facts”, which are supposed to lead to credible and certain statements. When science is considered, for example, the knowing subject must stay as far as possible out of the picture. In this case no personal or group “prejudices” (for example “metaphysical” convictions) are allowed to interfere with scholarship. The objectivist therefore is inclined to focus on the first five or six modal aspects (see Figure 2) which are supposed to support more reliable, credible or certain forms of knowledge.

The statutory disclosures of corporate annual reports are for example affected by the following consequences of objectivism. The information appears especially in *numerical* form and is structured and classified. Due to its reliance on the “external world”, the development of standards often seems to be stimulated especially by external incidents, events or changes. The same emphasis on the *objects* (the “elements”) of economic activity causes the focus of statutory reports to be mainly on resources, materials, assets (or liabilities) and so forth. Insistence on the first aspects of the modal order creates an over-estimation of the foundational direction (see Figure 3, about “order”). As a consequence, the emphasis is especially on the past. Finally, not much use is made of graphics, colour and other forms of representation (thus underplaying the signifying and aesthetic aspects). Some of these issues will be explored in the various concrete examples provided in section 6.

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4 Objectivism and subjectivism can also be interpreted as focusing on what is subjected to the law/norms (either objects or subjects) while bypassing or overlooking the normative side of each aspect. Even from this point of view, however, a “return” to the modal aspects as sources of modal *laws* and norms (as this article proposes to do) will be regarded as beneficial.

With subjectivism, by contrast, scientific knowledge is anchored in the knowing subject (and not in the objects) of knowledge. The subject is regarded as the new *locus ordinis* (the foundation of order) for reality, leading (according to Feyerabend) to a more “humanitarian” type of science. Kant maintained that the mind of the knower or “subject” is the source of all the order of experience. Accordingly, the subjectivist locates the source of order in (the mind, in the language, or in the social constructs of) the knowing subject (Clouser, 2005:247). The subjectivist therefore focuses on the “higher” modal aspects (see Figure 2) which in his view are more rich and promising being especially related to the cultural activities of the human subject.

The contextual disclosures of corporate annual reports are for example affected by the following consequences of subjectivism. They are presented in narrative form, (not always in measurable or quantifiable terms) characterised by interpretive and hermeneutical skills. Information is also presented in a rather “spontaneous” form, not strictly subjected to rules of objectivity and precision. As the emphasis falls on the *subjects* of the economic activity contextual disclosures insist mainly on the strategies, future plans, expectations of the subjects of a particular economic entity. Emphasis on the “higher” aspects of the modal order creates an over-estimation of the anticipatory direction (see Figure 3, about “order”). As a consequence, emphasis is placed on the future, for example on predictions and anticipations. Some of these issues will be explored in the various concrete examples provided in section 7.

At this point one might even wonder which of the two types of (mutually exclusive) disclosures can be regarded as giving a true picture.

One could also ask whether the tension will not vanish if the two types of disclosures are simply unified in a single disclosure product, such as an integrated report. In our opinion the tension will not simply disappear as the statutory disclosures, for example, deal with topics like statement of financial position, statement of changes in equity, statement of comprehensive income and statement of cash flows. The contextual disclosures, by contrast, deal with topics that are not reflected by the statutory disclosures. They cater for 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 strategy. In other words, the two types of disclosures deal with different subject matters.

Integrated reporting initiated by the IIRC is a step in the right direction, but needs to further evolve by taking all the aspects (see section 4) into account.

Currently, only certain information is communicated to providers of capital in the form of a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (IIRC, 2013).

In the following section we still work with the hypothesis that separate disclosures (statutory and contextual) are provided. The picture would of course change if unified reports are presented. However, the examples provided below can be useful for all types of disclosures.

## **6. Statutory disclosures**

### ***6.1 Counteracting objectivism***

The following section tries to identify some of the present key-characteristics of statutory disclosures of corporate annual reports that are affected by objectivism (see section 5 above) and therefore create some communication problems. It also tries to identify some of the modalities that have been neglected in order to suggest specific "remedies". It is relevant to note that we find these neglected modalities especially in the middle-upper section of the modal sequence (see Figure 2).

### ***6.2 The information appears in numerical form***

The problem with information provided only in numerical form (therefore only providing outputs – Cronjé, 2008:42-43), is that only one aspect is referred to. More practically, property, plant and equipment are for example reflected at monetary values on the statement of financial position at the end of the current and the previous years, without an explanation of how the economic circumstances of an economic entity changed. The economic circumstances for the current and the previous years, relating to property, plant and equipment could be expressed in narrative form, so that users of information could make better informed comparisons from one year to the next. Comparisons could then be made not only of the outputs (numbers), but also of the inputs and processes.

In this case reference must be made to the lingual modal aspect as a remedy. The entire modal structure of this aspect may simply be designated as the sign mode (Strauss, 2009:95-96). We experience the lingual aspect intuitively in expressing, recording and interpreting (Basden, 2011:13). A possibility that the lingual aspect introduces into temporal reality is externalisation of our intended meaning (Basden, 2011:13).



Statutory financial reporting practices could therefore make use, for example, of narrative disclosures in order to enhance understandability. Disclosures should be such that stakeholders can make meaningful decisions with ease. Statutory numerical data could benefit if more use is made of descriptions and explanations in order to faithfully represent financial phenomena and to increase the understandability of numbers and ratios.

### ***6.3 Information is only for investors, lenders and creditors***

In this specific case (IASB, 2012), due to an objectivist approach, social norms are under-appreciated, or accepted in a limited form. Social interaction within human society gives expression to phenomena such as courtesy, tact and politeness (Strauss, 2009:97). We experience the social aspect intuitively as we, us and them: associating, agreeing and appointing (Basden, 2011:15).

The social aspect introduces the possibility of company, which is togetherness, respect and courtesy (Basden, 2011:15). The social functioning of business is qualified by the economic aspect. Nevertheless, economic entities have a “social contract” with different user groups.

As entities have social responsibilities (Buys, 2008:503; Roberts, 1992:599) towards stakeholders, financial reporting practices need to be developed to ensure that disclosures of relevant information are useful to heterogeneous users, for example by providing disclosure of environmental aspects. This includes the effects that an entity’s products and/or services may have on the environment, which may be important to environmental pressure groups. The social aspect encompasses relationships with stakeholders other than just the shareholders, specifically employees, customers and local communities.

Statutory reporting therefore needs to be done in such a way as to ensure appropriate and sensitive engagement of stakeholders with the business environment, taking into account their special needs for meaningful information through proper feedback systems. Entities must know who their user groups are and this can be established through tactful, emotionally intelligent engagement with all the various role-players. Integrated reporting could also play a major role in achieving an interactive engagement with stakeholders, as the financial, environmental and social impact of economic entities are displayed to different stakeholders.

Furthermore, the juridical modality could be referred to. For Basden (2011:18), we experience the juridical aspect as pointing towards the “appropriate and due”. The legal functioning depends on the earlier aspects, for example the aesthetic aspect in so far as there must be a “well-balanced harmony of a

multiplicity of interests” (Dooyeweerd, 1984, 2:135). Legal functioning is also related to responsibility (Basden, 2011:18).

Stakeholders (including disadvantaged stakeholders – Cronjé 2010), have a legal right to relevant and credible statutory information, faithfully represented and reported on time, taking into account factors such as the cost of providing such information.

#### ***6.4 The development of reporting standards is prompted mainly by external incidents***

As from 2003/2004 there have been vast improvements in financial reporting practices (Cronjé, 2008:24). However over the years these improvements have been mainly influenced by external incidents (Cronjé, 2008:41-43) such as stock market crashes and, for example, the credit crunch in 2008/2009.

In this case reference could be made to the cultural-formative modality. Basden (2011:12) contends that we experience the formative aspect as pointing to the deliberate creative shaping of culture, usually with some end in mind. This includes the shaping of concepts into conceptual structures, words into sentences, as well as activities such as forming, designing, processing and innovating. A possibility that the formative aspect introduces is cultural achievement and innovation (Basden, 2011:12). This aspect refers to achievement, purpose, mastery and goal. According to Strauss (2009:95) the meaning-nucleus of the cultural-historical aspect is designated as “formative control” or simply as “power”.

Deliberate creative shaping of financial reporting practices to enhance decision usefulness, is an on-going process. Much progress has been made with the growth of information in corporate annual reports, for example, concerning the section on management commentary (IASB, 2010). The introduction of integrated reporting is another achievement for making information available to heterogeneous users. Many of the financial reporting practices that are formed by the accounting profession have symbolic value, but this cannot be understood from the point of view of the formative aspect. For this purpose, the perspective of the lingual aspect is required (Basden, 2011:13).

#### ***6.5 Not much use is made of graphics or colours***

In corporate annual reports not much use is made of graphic or colors (Cronjé, 2008:165, 205), but a colour presentation could play an important role in increasing the usefulness of graphical, tabular or columnar comparisons and displays (Cronjé, 2008:205). In this instance the aesthetic modality could be

referred to. According to Basden (2011:17), we experience life in its aesthetic aspect primarily in harmonising, balancing, enjoying, playing and beautifying. Seerveld (1979:284ff.) introduced words such as allusivity and imaginativity to explain the meaning-nucleus of the aesthetic modal aspect.

In order to make the aesthetic expression of statutory disclosures interesting, use can be made of the expertise of graphic designers to prepare the photographs, tables and graphs in corporate annual reports (Cronjé, 2008:205). The art of graphic design is to provide the best possible view of any subject matter – whether it is an annual report, a brochure or a brand concept (Cronjé, 2008:249). Care should be taken, of course, not to create smoke and mirrors to deflect some of the negative figures and also not to waste money un-necessarily. However, proper use can be made of colour, photos, graphics and graphs in order to portray various aspects of the company's business such as industrial plants or products. By means of imaginative ways, information can be provided succinctly, interestingly and meaningfully to ensure that all information flows harmoniously and is structurally sound.

Better use of graphs in the statutory section of corporate annual reports could play an important role in illustrating relationships between figures disclosed in the statement of financial position, the comprehensive income statement and so on (Cronjé, 2008:161). The use of graphs, pie charts, illustrations, visual representations, colour (an anticipation of the aesthetic aspect) and photos and so on will enhance the meaning of financial reporting practices, though it should not be overdone.

## **7. Contextual disclosures**

### ***7.1 Counteracting subjectivism***

The following section tries to identify some of the present key-characteristics of contextual disclosures of corporate annual reports that are affected by subjectivism (see section 5 above) and therefore create some problems related to the disclosure of information. It also tries to identify some of the modalities that have been neglected and to suggest several specific "remedies". It is interesting to note that we find these neglected modalities especially in the bottom section of the modal sequence (see Figure 2).

### ***7.2 The information is not always provided constantly***

The problem with this rather "spontaneous" approach is that contextual disclosures could become inconsistent (Cronjé, 2008:42) and unstable and

deflect negative sides by smoke and mirrors. Constancy of contextual financial reporting practices is necessary, so that contextual financial disclosures can be compared from year to year and also amongst different entities. Unstable and inconsistent financial disclosures should be avoided (Buys, 2008:504). Quite often, the meaning of these disclosures gets lost in the details. Constancy or consistency of contextual financial reporting practices makes comparability of financial disclosures possible. With this purpose in mind, the kinematic aspect could be examined, which is described by Basden (2011:7) as an intuitive experience of on-going, continuous flowing, implying constancy. Strauss (2009:88-89) asserts that constancy (uniform motion) is rooted in the kinematic aspect. Rubrics (reporting frameworks) of contextual disclosures could be developed in order to enhance comparability. There are some of these already, for example the framework of the Global Reporting Initiative (GRI:2015) and work done by the Social Return on Investment network (SROI:2005).

### ***7.3 All information is not necessarily measured, quantified and audited***

The problem with information that is not measured, quantified and audited (Cronjé, 2008:43) is that such information is often less reliable and credible. Disregarding precision and objectivity might lead to disclosures that appeal too much to emotional responses and too little to rational decision. In this case the quantitative modality can for example be referred to. Basden (2011:5) asserts that we experience the quantitative aspect (as a sphere of meaning) most intuitively and directly as “one, several and many” (cf. Strauss, 2009:82), and “comparisons of less and more”. The quantitative aspect introduces a fundamental structure that enables temporal reality to exist (and mathematics to be foundational), namely reliable amount and order.

Users need to understand the disclosures being depicted in corporate annual reports. For this purpose use needs to be made of numerical contextual data, although numerical data need to be complemented with descriptions and explanations (related to the lingual mode in the anticipatory direction).

In the process, of course, the necessary precautions must be adopted. As Basden (2011:14) clarifies, a negative direction in the lingual aspect is caused by anything that prevents adequate expression and understanding of what was meant, which includes unintentional problems like the inability to express oneself and lying, obfuscation and equivocation. Misrepresentation of events, for example where “bad news” is reported using long sentences with

complex grammatical structures to mask and deflect the readers' attention (Cronjé, 2008:206) should therefore be avoided in corporate annual reports.

#### **7.4 *The information is often future oriented***

Statutory disclosures insist on certainty and accountability, cater for concrete events, and occurrences and transactions that are matter-and-resource-flow oriented. Contextual disclosures on the other hand, possess features which are more uncertain. They cater for "artificial" (non-) events, simulated happenings, predictions and contingencies which are mind (i.e. *subject*) oriented. At the same time, the accent is placed on the *future* plans, strategies and expectations of the economic subjects. Yet, there are risks in reporting mainly future oriented and forward-looking information (Cronjé, 2008:79). For example, when users base their decisions on forecasts that reflected a brighter outcome than the actual outcome, companies may be held liable for those improper decisions (Cronjé, 2008:80).

In philosophy of science there has been an extended controversy on whether theories should have only the task of predicting or also of explaining phenomena. Interestingly, the "prediction-only" position is defended by subjectivist authors holding to an instrumentalist view of theories.<sup>5</sup> From a Dooyeweerdian perspective, Stafleu (1987:41 ff.) suggests that explanation should not be opposed to but should integrate prediction. This can be applied to contextual disclosures as well and would be excellent medicine for the problems mentioned above.

As it might be expected, explanation is also founded in one of the first modalities in the modal order: the physical aspect (analogically related to the rational or logical modality). In fact, explanation depends on the (logical) "force" and "weight" of its arguments (Stafleu, 1987:51). The *Explanans* (what explains a situation or phenomenon) and the *explanandum* (what is to be explained) are arranged in a sequence of irreversible cause and effect (typical of physical interactions) and this is what allows for the effectiveness of an explanation (Stafleu, 1987:41-42).

When explanation integrates prediction, contextual disclosures would not be exclusively oriented to the future and would acquire a more balanced scope. At the same time they would be more "grounded" on concrete reality without placing excessive emphasis on the subjects of economic activities.

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<sup>5</sup> Instrumentalism is an antirealist approach to philosophy of science that holds that theories are not true or false but are merely tools for deriving predictions from observational data.

## 8. Conclusive remarks

In this article it was shown that in contemporary philosophy of science, pessimism concerning the possibility of sound communication in science increased during the gradual shift from positivism to the subsequent subjectivist philosophy of science. Likewise it was shown that communication in accounting is also problematic. In both cases (science and accounting) there is a tension that we have diagnosed as a conflict between objectivism and subjectivism. In science, the predominance of one of the two approaches takes place in different historical periods. In accounting there seems to be an oscillation or ambiguity between the two tendencies (subjectivism and objectivism) which remain side by side. As far as the information products of accounting, namely corporate annual reports, are concerned, a polarization seems to exist as statutory financial reporting practices are influenced by objectivism, while the contextual financial reporting practices are inclined towards subjectivism.

It was argued that subjectivism and objectivism can be interpreted as emphasizing certain aspects to the detriment of others and that a better communicative approach can be reached by paying attention to all the modalities, in particular to those which tend to be neglected under a certain approach (objectivism or subjectivism).

The strategies proposed in this article constitute only one possibility among many others in which Herman Dooyeweerd's philosophy could be used to improve the problems discussed. We therefore recognise the tentative and introductory character of the attempts made in this article. They are also limited in so far as our focus was only on communication. The same holds for the concrete examples and strategies indicated in the final sections (6 and 7). Such examples are not proposed as exhaustive or conclusive, but as pointing the way towards a new approach. On this basis other scholars are invited to conduct further research on this topic.

It should be noticed, however, that our identification of lacunae and neglected needs in corporate reports is based on an ontological analysis. The use of proper ontological categories aims at avoiding arbitrariness and a fragmentary understanding of the needs and problems. In fact, the selection of problems and the proposed strategies are not based on individual or arbitrary preferences. On the contrary, a philosophical analysis in tune with the normative traits holding for reality was supplied.

Finally, one important question would be whether the strategies suggested in this article might deal mainly with the "symptoms" and not with the causes of

the problem. After all, in Dooyeweerdian terms, objectivism and subjectivism are themselves produced by the “ground motive” of modern culture. The latter is based on the antithesis between “nature and freedom” (or “nature and culture”) which posits a conflict between the human subject (looking for autonomy and creative freedom) and an “outside world” imposing its laws, constraints and “objective facts”. The ultimate liberation from objectivism and subjectivism might be possible only through the rejection of such polarized “paradigm” and its substitution with a radically new one.

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