Making sense of multiple meanings: Finding clarity in accounting transparency

Academic accountants must expand their horizons when attempting to develop solutions to calls for greater transparency and accountability in financial reporting. That's because their solutions are too "narrow and technical in nature" when compared to the broader understanding of transparency and accountability deployed by other market participants during financial crises, such as investors, senior managers, regulators and financial analysts.

That's the findings from authors Mitchell J. Stein, Steven E. Salterio and Teri Shearer, who examined past financial crises to better understand the interplay between calls for greater transparency in financial reporting and the impact that has on public accountability and the actions of those impacted by such crises.

The study

The authors sought to empirically document and analyze public discourse of the term accounting transparency to confirm the inconsistency of meanings associated with the term and to lay an empirical basis to investigate further how such meanings are constructed and mobilized.

They did so by examining North American business newspaper coverage involving two periods of the financial crises, January 2001 to June 2007, and July 2007 to June 2011. The former coincided with the peak period of public discourse regarding transparency, which began shortly before the Enron case became public and before the financial crisis. The latter coincided with the period covering the financial crisis of 2008-2009 and the resulting fall out.

They conducted a comprehensive search of the National Post, The Globe and Mail, Toronto Star, The Wall Street Journal, and The New York Times for the first period and The Globe and Mail and The New York Times, for the second period

They searched for instances where the words "transparent" or "transparency" were used in the text of the same article as one of the following terms: "corporate accounting," or "corporate reporting," or "financial accounting," "financial reporting," or "financial statements."

The articles were then coded according to their apparent usages in order to understand the types of meaning ascribed to transparency, leading to 151 unique coding that the authors then grouped into seven families.

In the second step of their research, the authors employed the theoretical approaches of sensemaking and sensegiving to understand how different groups shape their accountability by mobilizing different meanings of transparency at times of crisis.

Results

The researchers found that the calls for more transparency were "widely disparate and potentially even contradictory" among various key stakeholders – such as senior managers, directors, regulators and institutional investors. Moreover, there was little agreement on what constituted "transparent" financial information. That resulted in an ambiguous and divergent view of what transparency meant to the various market participants.

Despite these limitations, the researchers probed deeper and found that transparency is a necessary and key ingredient in corporate public accountability.

The authors note that calls for transparency are part of the process of sensemaking and sensegiving that arise during accounting scandals and financial crises.

By applying sensemaking and sensegiving theory, they were able to show that transparency acts as an umbrella concept and provides a shared or collective meaning among the different groups during a financial crisis. This allowed participants, such as senior managers, to develop a narrative to bridge the disparity between the expectations of financial reporting and understanding what actually happened during a financial and accounting crisis.

By mobilizing transparency, market participants, such as senior managers, can make sense of unfolding events and take appropriate action by redefining the notion of public accountability as it applies to their sphere of influence.

Senior managers, for example, are able to shape their public accountability in relation to such crises by mobilizing and even redefining the notion of transparency.

The study further found the difficulty individuals face in articulating a clear meaning of transparency when it comes to accounting and financial information means that simply increasing the visibility of information, as suggested by current academic literature, may not improve the meaning of such information, or lead to greater public accountability.

Implications

Academic accountants have a “much more uniform and focused view” of what accounting transparency means than other market participants, such as managers, investors, regulators and analysts. However, academic accountants’ answers to the problem of increasing transparency flow from that limited definition, resulting in “solutions” that are “overly narrow and technical in nature in the eyes of some user groups. We believe that thicker (i.e., deeper and more elaborate) understandings of transparency are more consistent with many of the diverse meanings we found, and that they offer a way forward in understanding and researching related policy implications.”

That means attempts to make information more transparent need to consider more deeply the nature of users of such information and transparency must be viewed in a broader discursive and social context.

Simply increasing the visibility of information – as much of the academic financial accounting literature suggests – may not improve the meaning of such information or lead to greater public accountability.

We contend that what we might best achieve in making financial and accounting information more transparent are processes involving mediating institutions and bodies that aid in making sense of accounting and financial information. In the end, we conclude that, when carrying out research or taking part in standard setting or public discourse, all groups, including users, regulators, standard setters, academic accountants, and other researchers, need to explicitly acknowledge the diversity of meanings given to transparency, including their internal inconsistency.

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