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**FAC016                      Using a balance between Neoliberalism and Stewardship to  
develop Disclosures for Strike Actions**

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**ABSTRACT:**

Strike action is a major threat to profitability of all businesses around the world. It is an inevitable concomitant in the production of income for entities – almost an unavoidable and recurring factor, especially in South Africa. This paper investigates the need for unique accounting disclosures for effects of strike action in the integrated report. This has been established by using a survey targeting forty-two practitioners in the accounting field. The disclosure is based on three underlying principles in the International Financial Reporting Framework (IFRS) and stewardship accounting and neoliberalism paradigms within the Conceptual Framework: (1) period of focus, (2) conditions for recognition and (3) value of measurement. This disclosure will present forward-looking information on possible effects of strike action and its quantitative measurement and qualitative disclosures. It was found that users of financial statements required specific disclosure of strike action in the integrated report and the users favoured stewardship (predominantly focused on reliability) over neoliberalism (predominantly focused on relevance).

**Key words:** strike, South Africa, integrated reporting, neoliberalism, stewardship.

## **Introduction**

South Africa is known to be affected by many strike actions<sup>66</sup>. The country experienced an average of 65 strike actions per annum during 2007 to 2011. Also, it experiences strikes more than the rest of the world – globally about 30.6 average days are lost per annum but in South Africa, about 507 working days are lost out of 1000 (Odendaal, 2014). Not only does strike action affect the business itself but it also affects the economy. Taking the major 2014 AMCU platinum strike into account, the first quarter of 2014's annualised GDP reduced to – 0.6% and also the manufacturing and mining faced a reduction of –4.4% and –24.7% respectively (Petterson, 2014).

These stats show that strike action has the ability to affect the operations and financial statements of an entity detrimentally. Strike actions can potentially cause lost opportunity for profit-making, create wider pools of conservative international investors, damage reputation to international and local communities and spend large sums on negotiations and settlements (Petterson, 2014). The significance of strike action on entities and its impact on the economic reality of South Africa are of great importance and the generic IFRS is not sufficient to account for these effects of strike action (Hopwood, 1987a). Therefore, the purpose of this paper is to recommend reporting the effects of strike action. This will be achieved by following the principles in the IFRS. In addition the theoretical frameworks of stewardship and neoliberalism will be used in developing the proposed accounting requirements (Murphy et al., 2013). The intention is not to make amendments to the existing accounting standards, but to apply the key principles to complement the reporting on the effects of strike action within the integrated report but *outside* the annual financial statements (Swart, 2015).

This paper is divided into sections that deal with the theoretical frameworks, development of the instrument, method, results, analysis and conclusion.

## **Literature Review**

### **Theoretical Frameworks**

The International Accounting Standards Board (IASB) has combined neoliberal and accountability paradigms to create one Conceptual Framework (The Conceptual Framework, 2010). This was to improve consistency and to achieve completeness between the theoretical frameworks (Whittington, 2008b). There is more focus to enhance decision-usefulness based on neoliberal political and economic ideology, but, arguably, the need for accounting to facilitate stewardship has remained (Murphy et al., 2013).

In terms of stewardship, accounting has its genesis in the need to 'keep account' in order to hold individuals accountable, a function which continues to be relevant in contemporary organisations (Hopwood, 1987b, Ravenscroft and Williams, 2009). From a classic agency perspective, the information asymmetry between management and shareholders can also be seen as requiring an accounting function to ensure monitoring and control (Young, 1998). In

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<sup>66</sup> Strike action is an action where employees stop working because of an argument with the employer involving disagreements in working conditions, amount of pay or termination of employment contract CAMBRIDGEDICTIONARIESONLINE. 2016. Cambridge University Press. Available: <http://dictionaries.cambridge.org> [Accessed 11 April 2016].

addition Gjesdal's (1981) view is that there is a demand for financial statements to facilitate corporate stewardship. Ravenscroft and Williams (2009) confirm this view, arguing that accounting assists an organisation by presenting facts which can be used to enhance the organisation and provide a basis for rating management's performance. This leads to a clear focus on objective measures of financial position and performance and an emphasis on determination and allocation of costs (Gjesdal, 1981, Whittington, 2008, Ravenscroft and Williams, 2009).

From a neoliberal perspective, financial reporting has experienced a fundamental shift characterised by a neoliberal paradigm (Ravenscroft and Williams, 2009, Murphy and O'Connell, 2013, Zhang and Andrew, 2014a). At the heart of neoliberal accounting is the 'information metaphor' which sees the primary purpose of financial reporting as the provision of useful information to users (Whittington, 2008, Ravenscroft and Williams, 2009). In addition Neoliberalism requires that the accounting reflect the future, decreasing the relevance of past transactions, prudence and cost, and increasing the emphasis on fair value and non-entity-specific market prices (Whittington, 2008). The new neoliberalism-based framework aims to reflect financial performance relative to market behaviour and the ability of the reporting entity to generate future cash flows, even if these cannot be accurately measured (Whittington, 2008b). Therefore, financialisation in the Conceptual Framework relieves uncertainty and mispricing in accounting through the use of fair values in accounting valuations (Zhang and Andrew, 2014b). This information is forward looking and is relevant in that it would assist users of the financial statements in making forward looking (future) decisions.

Future or forward looking information satisfies The Conceptual Framework's requirement that financial information should be relevant (Ravenscroft and Williams, 2009). However there should be a trade-off between relevance and reliability in order for financial statements to faithfully present the economic performance and financial position of an entity (The Conceptual Framework, 2010). Stewardship accounting does not determine future cash flows but rather predicts to use as a monitoring tool to assess management. Also, it records assets and liabilities at their historical cost and not their arms-length market values in order to enhance accuracy rather than the relevance (Whittington, 2008b). Therefore, stewardship focuses largely on reliability as it focuses on the reporting of historic costs (Whittington, 2008). In using the two frameworks to develop reporting requirements related to strike action, a more holistic and comprehensive set of reporting requirements are taken into account when developing the instrument.

### **Development of the Instrument**

A key concept in the Conceptual Framework is the materiality of information, which explains whether or not information is relevant. If the omission of information influences the decision of users, the information is considered material (IASB, 2015a). According to Mining Weekly, strike action is seen as a risk with the ability to affect the operations and financial statements of an entity detrimentally (Odendaal, 2014).

The neoliberal framework moves away from the accuracy concept of stewardship accounting where its reliability is derived from past occurrence of the transaction. However, as the neoliberal framework is based on the forward-looking information, current occurrence of strike action may not be sufficient for user benefit (Swart, 2015). Currently, most of the

companies report on strike action that actually occurred during the current period. For example, the Anglo American Plc's 2014 annual report includes the following:

- Explanation of the effect of the 5-month strike on supply of platinum
- Adjustment made to copper production
- Unit cost metrics
- Inclusion of strike costs in group's real cost cash movements
- \$0.8 billion impact on its group financials from strike action (distinguishable to other mining companies)

There is no indication, however, of the potential future strike action occurring again, even though it is evident that strike action occurs frequently in particular industry sectors. As a result, the research instrument is developed using the three underlying principles from IFRS: the period of focus, recognition and measurement.

#### Period of focus

Future operating losses are specifically excluded from accounting treatments and note disclosures in IAS 37 (IASB, 2015b). This is due to the stewardship accounting's principle that there must be a past occurrence which forms the basis of an element's recognition (Whittington, 2008b). However, from a neoliberal perspective, it is relevant information no matter the past event, as the users will be able to benefit from the knowledge of whether or not the organisation will be able to meet their future possible debts (Zhang and Andrew, 2014b). Some standards' period of focus is on the future. Swart (2015), for example, explains that in IFRS 2, the vesting of share appreciation rights need not be satisfied for a share-based payment liability to be recognised but an expectation of vesting in the future suffices (IFRS 2, 2015c). Also, in IFRS 9, for regular way purchases, it allows pre-recognition of changes in fair values of the financial asset if the settlement date accounting is chosen (IFRS 9, 2015e). This means that the past occurrence of trade date is irrelevant in recognising for the possible settlement in the future. Therefore, the period of focus can be expanded into:

- Present
- Future (next reporting period)
- Future (period covered by budgets and forecasts)

#### Condition for recognition

For stewardship accounting, recognition of an element requires satisfaction of detailed definitions in the Conceptual Framework. With neoliberalism the condition for recognition is simple. Swart (2015) explains that this is evident in IAS 37 and IFRS 3. Provision recognition requires probability of future occurrence but IFRS 3 only requires a reliably estimated fair value for recognition. The possibility of occurrence is deemed to be enough for recognition (IAS 37, 2015b, IFRS 3, 2015d). This is also apparent in IFRS 9 where derivatives are recognised with little accuracy on the amount and possible future settlement (IFRS 9, 2015e). Therefore, broader criteria on conditions for recognition can be determined from Swart (2015, p. 9):

- Past occurrence
- Possibility of occurrence one period into the future

- Possibility of occurrence in the period covered by forecasts

### Measurement

Swart (2015) explains that measurement of liabilities can either be derived from an internally computed figure or an external fair value. To be more in line with the Framework, IFRS 9's fair value measurement will be relevant. However, for stewardship accounting, management's best estimate is available to use per IAS 37 (Swart, 2015).

Ram et al. (2016) explain that if a transaction is within the normal production of activities, the economics of the transaction is that it is more like inventory. As a result it should be measured at cost as users are more concerned about management's ability to control revenues and variable costs that are part of the operation. Ram et al. (2016) also present an alternative which is the fair value measurement basis. This states that if the intention of management was to use the transaction for speculative purposes and the changes in the fair value were placed at greater importance, cost accounting will not provide useful information. Strike action is inevitably part of the normal production activities of organisations as it directly impacts costs and revenues of the operation. However it can also be a factor to evaluate the changes in the fair values of the entity specifically due to strike action (Ram et al., 2016). The decision of choosing a valid measurement basis will depend on the specific organisation's management's judgement (Swart, 2015). Internal values of measurement include:

- Foregone revenue
- Direct costs
- Indirect costs (including opportunity costs such as foregone revenue)
- Changes in cash flows as estimated by management

External values of measurement include

- The change in fair value of the reporting entity
- A premium required to indemnify the entity against losses pertaining to a particular liability

(Per Swart, 2015, p10-11)

### Other disclosures

Other qualitative and quantitative disclosures may be suggested according to a company's needs in order to reflect the most appropriate disclosure. These disclosures have been adopted from Swart (2015) and the IIRC (2013) and modified to deal with disclosures on strike action:

- Current and future effect should be separated
- Current and future effect should be aggregated
- Effect should be discounted at the appropriate rate
- The fact that strike action is in effect
- The estimated duration of strike action
- The number of occasions on which strike action occurred
- The number of occasions on which strike action is expected to occur in the period covered by management's budgets and forecasts

- Qualitative information on how accurate management has been in predicting the occurrence of strike action
- Qualitative and quantitative information on management's plans to mitigate the effects of strike action and the success of these plans against stated performance indicators
- Qualitative and quantitative information on any legal claims against the company
- Qualitative information on union involvement

### **Research Method**

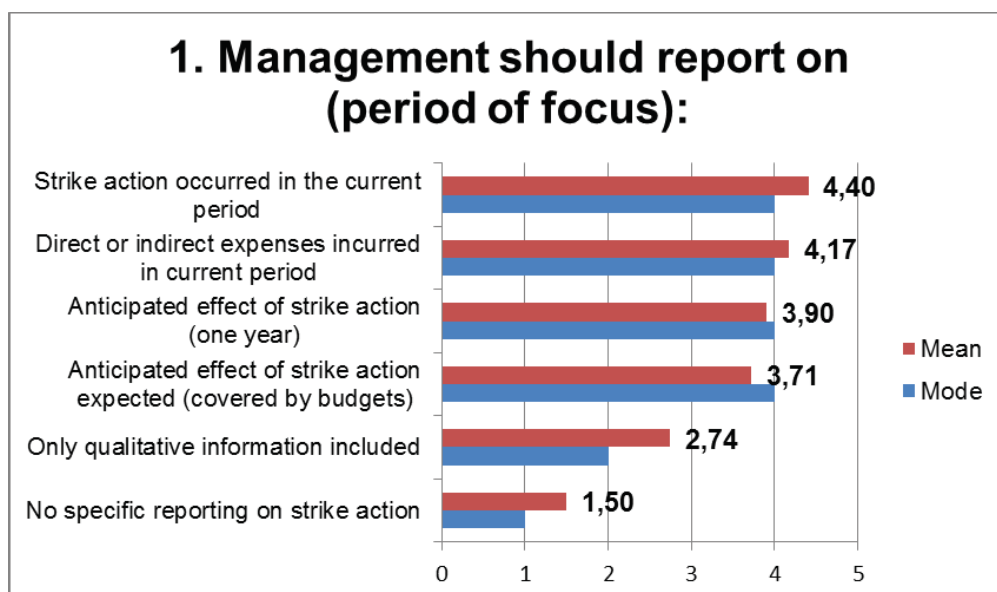
The research was designed using an online survey similar to the approach followed by Swart (2015, p. 13) and Rensburg and Botha (2014). The focus for this survey was on practitioners in the accounting field in order for them to understand the three underlying accounting principles discussed above were used as the basis for the development of the survey. Respondents were required to choose an option between 1 (strongly disagree) and 5 (strongly agree) for each of the reporting options provided in the preceding section. Ethical clearance was obtained so that respondents could give consent before completing the survey. The clearance obtained was in line with the Universities standard practice.

Descriptive statistics were used to evaluate the results. The survey was sent to post-graduate students, professionals and lecturers in the accounting field and forty-two responses were received. They are all from renowned institutions, therefore, characteristics such as level of experience or place of employment have not been taken into account when analysing the survey. The differences in the results may have been from respondents' preference over stewardship accounting and neoliberalism, knowledge of IFRS and other individual characteristics.

### **Results and Analysis**

The results are presented in the graphs and have been analysed with unrepresented statistical analysis showing the following:

#### Period of focus

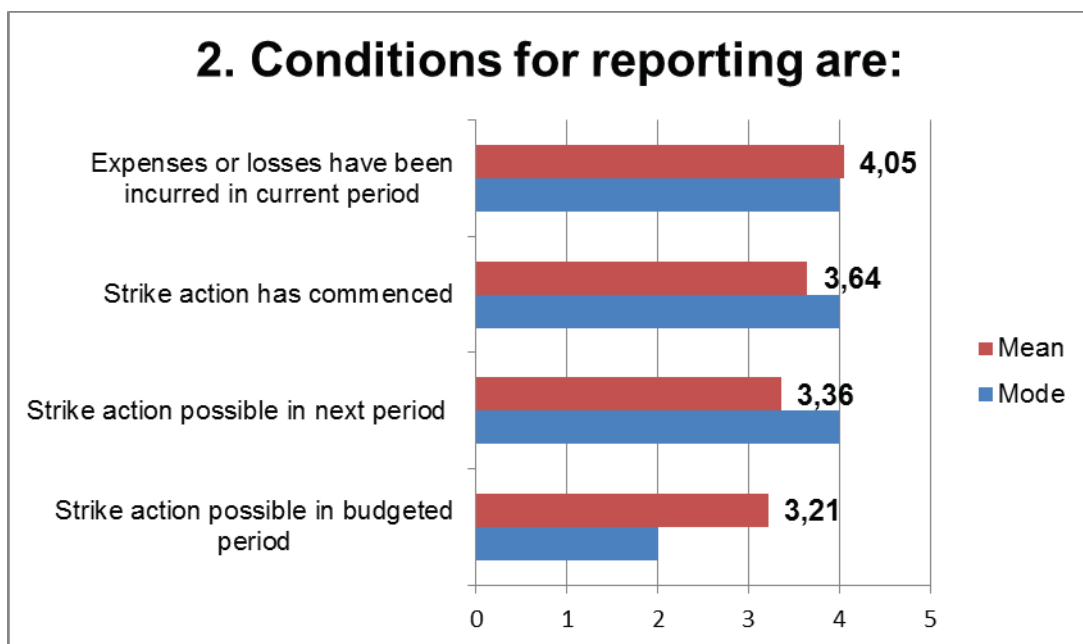


**Figure 1: Period of focus in presenting effects of strike action**

Sixty-five per cent of the respondents either disagreed or strongly disagreed with the inclusion of only qualitative information (Mean score = 2.74), which means that quantitative information is necessary. There was a preference over the current effect (Mean score = 4.40) than the anticipated effect within the next period (Mean score = 3.90) and the anticipated effect over the period covered by managements' budgets (Mean score = 3.71). The results in figure 1 determine that the respondents want information of strike action close to the current period as possible.

This contrasts with the neoliberal conclusion reached in section 2.1, however, is in line with the stewardship accounting focus. By analysing the mean scores, the respondents who preferred stewardship accounting (Mean score = 4.02, Mode = 4) would have decided on the current period effect as it can be reliably determined that it occurred (Whittington, 2008b). The respondents also showed that they believed anticipating information was useful (Mean score = 3.45, Mode = 4). The results portray exactly what the current standards are based on. As discussed in section 2.1, the current standards present both stewardship accounting and neoliberalism and the survey results determine exactly that.

Condition for recognition



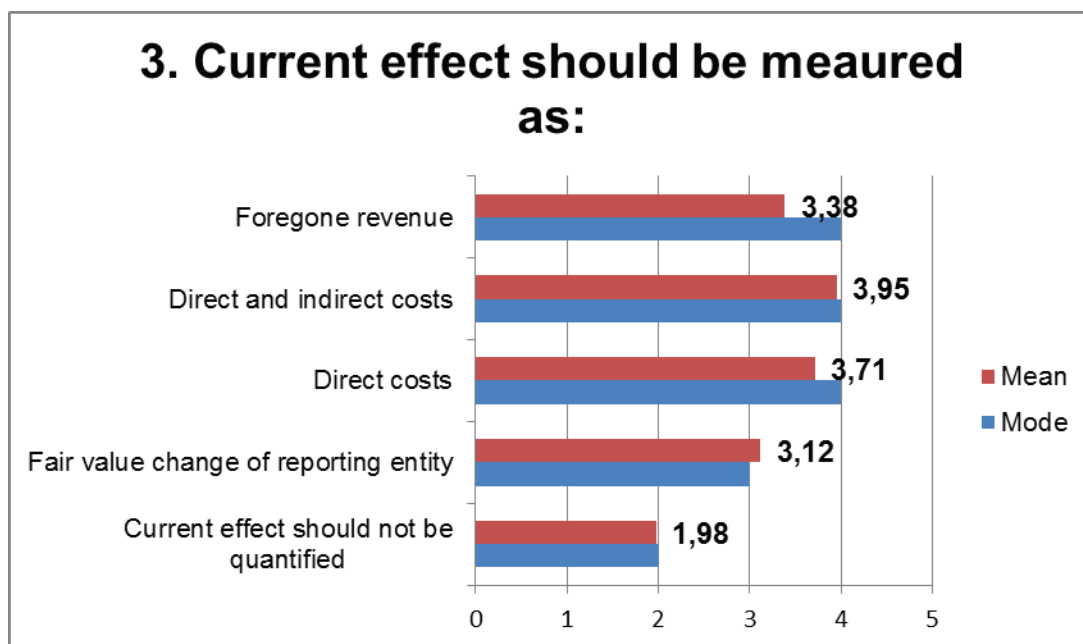
**Figure 2: Recognition criteria to present effect on strike action**

The costs incurred due to the strike action effect had the highest amount of selections (Mean score = 4.05, Mode = 4) and the commencement of strike action had the second highest (Mean score = 3.64, Mode = 4). This proves that the respondents decided that an amount actually incurred is more useful than the possibility of occurrence. However, the strike action possible in the next period (Mean score = 3.36, Mode = 4) and the strike action possible over the managements' budgets (Mean score = 3.21, Mode = 2) were not much different from the first. Consistent with the purpose of financial accounting, both stewardship and neoliberal

focus was made in respect of the recognition criteria. However, it seems as though it is ideal to present the strike action effect closer to the current period.

The results in figure 2 shows that the respondents believe both current and anticipated future effects should be shown but to the extent that the information is reliable. The determination of reliability will depend on the management's history of correctness of their budget and how much a specific investor is willing to trust the agent's estimates. As accounting has developed in such a way that it is for the greater of general utility and not of specific individual organisations, it is up to individual entities to decide on these specifics (Hopwood, 1987a).

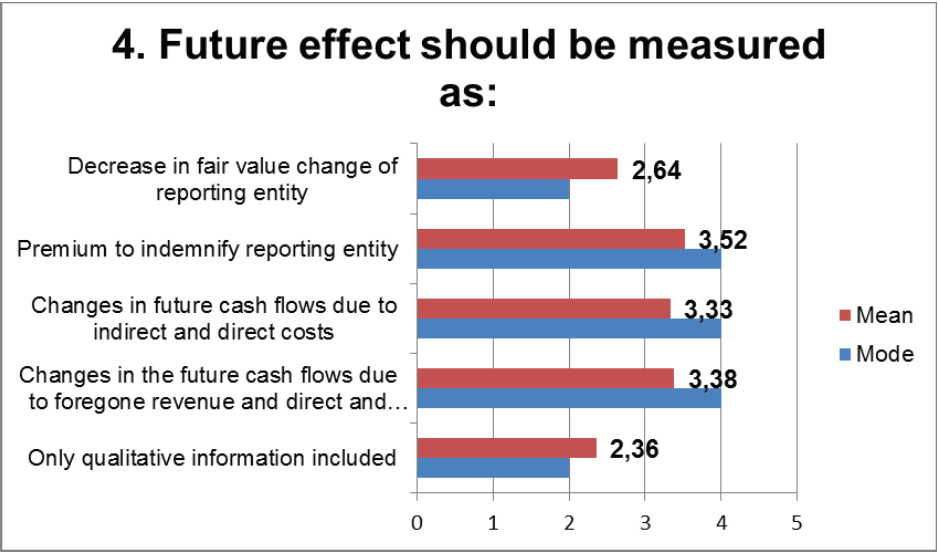
Value of measurement



**Figure 3: Measurement of current effect on strike action**

For the disclosure of current period effect as per figure 3, the mean score shows that direct and indirect costs should be used to present the quantified effect on strike action as it had the highest mean score of 3.95. The mean score of other provided options in consecutive order was: direct costs only (3.71), foregone revenue (3.38) and fair value changes of reporting entity (3.12). Not quantifying the results was not an option as seventy-nine per cent of the respondents either disagreed or strongly disagreed. By interpreting the results, respondents prefer a reliable amount to be used and as the mean scores do not differ significantly; it can be interpreted that an amount available to the reporting entity should be used (Hopwood, 1987a).

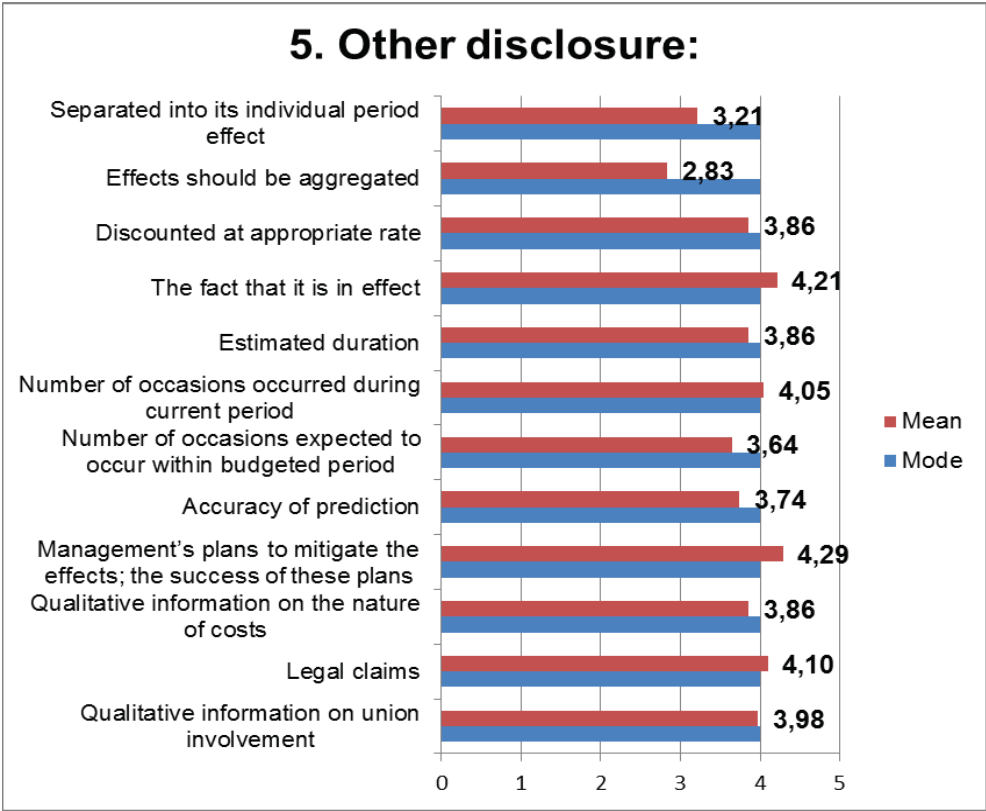




**Figure 4: Measurement of future effect on strike action**

In the analysis of the future period effect as per figure 4, the mean score shows that premium to indemnify the entity is most preferred (Mean score = 3.52). However, there were insignificant differences between the favoured one and the others: the changes in future cash flows from foregone revenue and direct and indirect costs had 3.38 and changes in future cash flows from direct and indirect costs had 3.33. Also, all three criteria had a mode of 4 which means that again the respondents agree with these options but the presentation will depend on the specific reporting entity (Hopwood, 1987a).

Other disclosures



### Figure 5: Other suggested disclosure for effects of strike action

All the possible disclosures presented to the respondents had the mode of 4 (agree). The disclosure of management’s plans to mitigate the effects of strike action and the success of these plans had the highest mean of 4.29 – ninety-five per cent of the respondents agreed or strongly agreed with this statement.

There are not significant differences between the 9 disclosures provided to the respondents. These, in consecutive order of mean score, are: the fact strike action is in effect (4.21), legal claims (4.10), number of strike actions occurred in the current period (4.05), qualitative information on union involvement (3.98), estimated duration of strike action (3.86), qualitative information on nature of costs of strike action (3.86), accuracy of management’s prediction (3.74) and number of strike action expected to occur over the management’s budget (3.64). This reveals that once again, respondents do agree with the following disclosures but it will depend on the type, size and the information available to the specific reporting entity as can be interpreted from figure 5.

#### The need for disclosure on strike action

As discussed when developing the instrument, the importance of the disclosure of strike action effect was imperative to investors. Respondents were asked whether or not they agreed that management should not specifically report on strike action. Ninety-three per cent of the respondents either disagreed or strongly disagreed that there should be no specific reporting of strike action (Mean score = 1.50).

This proves that continuous omission of the effects of strike action goes against the true purpose of the financial statements. The mere inclusion of the effect, as discussed in section 2.2, is inappropriate, if such costs are not explicitly disclosed in the financial statements (figure 2).

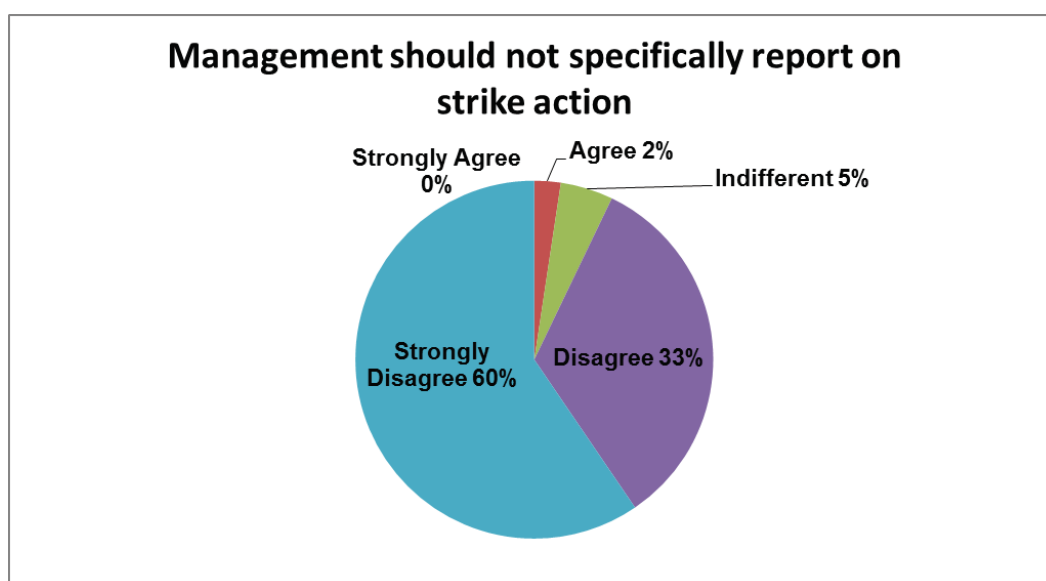


Figure 6: Specific reporting on strike action

## **Conclusion**

This paper does not suggest any changes to IFRS, but aims to stimulate discussion on additional note disclosures in relation to strike action. This is supported by the data in Figure 6. This paper found that the users require more detailed disclosures on the effects of strike action in the reporting entity. The results indicated that the effect of the strike action, in the current year, be the focus of the disclosure. This indicates that the respondents selected stewardship as the theoretical framework where most of the disclosures are to be derived from. Stewardship focuses on the reliability of financial information and not necessarily its relevance (Ravenscroft and Williams, 2009). Neoliberalism focuses on forward looking information as it is relevant (Whittington, 2008). The respondents were of the opinion that the forward looking information lacked reliability and the inference is that stewardship-derived disclosures would provide more useful information.

The users' need for the disclosure is due to potential benefits they may receive. Information on strike action will allow users to decide whether or not to invest in the entity by interpreting the future growth, possible damage in profits and reputation, and the analysis of the management's ability to expect future consequences. This is why accounting practitioners require that reporting the effects of strike action is imperative – not only because of potential benefits to the users but because of their duty to comply with the requirements of IFRS. Such disclosure would not simply be a ticking of a “compliance box” (Raemaekers et al., 2016).

The research study was sent to over 200 respondents and only 42 responses were received. This response rate is low and is a limitation to the study as a greater sample would've been desirable to reach a point of saturation. Therefore the responses may not represent the views of the population as a whole, but are an indication of their opinions.

This paper only suggests the initial outline of the possible disclosures. The research done in this paper is a guideline for future development and more research must be done to expand this topic. The decision on how entities will obtain the required information and the practicality of the three underlying principles needs to be discussed and explored in more detail.

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