

# Neutrality and “Prism Effect” of the Financial Report in the Global Contest: What Prospects?\*

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The globalization of the economy favors increasingly stringent relations between heterogeneous economic and social systems and companies that are organized and managed very differently. As a consequence, international markets are characterized by actors with different physiognomies for management styles and communication modes. It follows that there is an urgent need to agree on homogeneous standards of information, including for budget statements, traditionally considered as a primary source of disclosure to stakeholders of the company's economic and financial assets. Is it still possible to use a single budget that satisfies a so diverse and wider audience of potential users? In the accounting tradition, in many countries, especially for “practical” reasons, a principle of uniqueness and therefore of “neutrality” of the budget has been established which must be drafted to satisfy all potential recipients at the same time: it must be based on independent and impartial norms, to favor the particular needs of only certain categories of users. The paper represents this principle with the “prism effect”: a single source of information should at the same time adequately respond to the information needs of a large and varied audience of operators. Is this still possible in changing global and “glocal” realities where most economically strong nations want to impose their own accounting languages? What are the possible solutions to the changing needs of information?

*Keywords:* globalism, glocalism, neutrality, financial report, financial statement

## Introduction

Recent times are characterized by an evolution of the absolutely peculiar economic and social situation that has no precedent in the people's stories.

Global logics, increasingly markedly, inform all the manifestations of the social and economic life of man, influencing, of course, political dynamics.

In fact, the fears of a homogeneous planet derived from globalization seem unfounded because the more established local traditions resist the habit of standardizing habits and therefore consumption. Demand for goods and services remains relatively articulated, although there is a tendency to notice homogeneous profiles that share the broader international markets.

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Thus, socio-economic analysis contrasts globalizing logic with strenuous local resistance that, especially in times of crisis, supports nostalgic pragmatic selfish situations as a possible solution to growing unemployment, especially of young people.

Almost everywhere, however, it seems that societies and economies are characterized by “glocal” arrangements that mediate international thrusts to local traditions (Robertson, 1992; 1994; 1995; Bauman, 2005; de Burgh Woodman, 2014; Mourdoukoutas & Ioannidis, 2007).

In such changed contexts, it is necessary to state business, financial, and financial statements that are responsive to the information needs of the various stakeholders.

The main and most powerful nations in the world, including the USA and China, would like to affirm their own accounting languages, but they are often frustrated with different traditions, though widespread and worthy of absolute respect.

In this wide problem of searching for a balanced language that is useful to integrated economies, some particular problems arise:

RQ1: Can economic and financial communications addressed to broader, heterogeneous areas be covered by a single Financial Statement?

RQ2: In other words, is it still possible to affirm the uniqueness of a single and “neutral” budget, well represented by the “prism effect”, subsequently described, forged without favoring particular categories of users?

RQ3: What solutions can be outlined by responding to the legitimate role of more and more heterogeneous stakeholders in having clear and easily interpretable accounting information?

### **Aims, Research Approach and Paper Structure**

This contribution therefore would prove that “globalization” and “glocalization” promote a new vision of business reporting. In particular, the objectives of this paper are:

- (1) To highlight the mutations in communication modes directed at global and glocal realities;
- (2) To emphasize the importance of globalization and glocalization in supporting the economic and financial communication of companies;
- (3) To stress that globalization and glocalization are fundamental to a new education in accounting and budgeting;
- (4) To hope that globalization and glocalization can facilitate a “glocal” economic and financial communication;
- (5) To encourage the use of new accounting reporting tools.

The objectives will be achieved by studying some theoretical considerations based on literature review conceptualization. The decision to propose conceptualizations based on the qualitative research proposals from the international literature derives from the characteristics of the subject that is being analyzed.

This paper, therefore, does not propose the results of a specific quantitative or qualitative research, but wants to propose a number of critical considerations taking into account the latest developments described by the best bibliography.

In the next part, the paper discusses literature review. Moreover, it illustrates, criticizing, the characteristics of the principle of unity and neutrality of the budget by suggesting a striking and clear representation through the “prism effect”: with a single reporting account one would like to serve an extremely diverse heterogeneous audience. In the final part, some possible solutions to the problems are also proposed.

### Literature Review

The topic of this paper is not in the main databases. No author has matched the principles of globalism and glocalism with the needs of public and private sector communication. It is therefore necessary to stimulate reflections in international scientific reality. The ideas of the scholars can also help governments of nations to act thus promoting an international norm that is more responsive to the needs of the new world.

The main scientific contributions can be divided into two groups:

(1) Those that analyze the problems of economic and commercial communication in general;

(2) Those who focus their attention on the budget statement, which mainly highlights economic and financial assets.

(1) The globalization and glocalization of societies and economies progressively develop a new language and thus alternative ways of communication. The topic concerned only a few scientific contributions, especially of linguistic and/or journalistic and marketing experts. Among the experimental contributions in the field of linguistics, one should mention Sung's (2014) specialist study. The paper reports on an exploratory investigation into the perceptions of a group of second language (L2) learners of English in relation to their identities in English as an ELF communication context.

The most general theme of the challenge to teaching in the new glocal world is dealt with in the vast volume of Said and Zhang (2013) and, in particular, in the chapter on Dooly's (2013) theme: speaking like a “glocal”.

Sánchez (2014) also analyzed the dissemination of language and its influence in glocal communication, drawing on the profile of a new digital humanism. Broadcasting of a glocal language is possible through the Internet: the researches published by Mehra and Papajohn (2007) show that compared to some subjects residing far from their country of origin, the paper identifies the dual functions of the Internet considered meaningful, namely.

Grau (2016) underlined the dual responsibilities of universities at local and global scales, exploring the potential conflicts, or intrinsic difficulties, addressing both local demands of society based on the race for global competitiveness and local and global demands to contribute to a more equitable and sustainable society (at local and global scales). Rarely contributes to the economic field, especially related to the new business marketing needs in the glocal contexts. Similar topics are developed in Nichele's (2015) article. This paper aims to explore the country-of-origin effect, especially its potential impact on beer labeling, from a linguistic perspective. This project is innovative for its combination of linguistics and marketing-related aspects.

Similarly, aspects of marketing with a glocal language are proposed by Molleda and Roberts (2009) who developed, in particular, the theme of brand revitalization through “authenticity” and “glocal” strategic communications.

(2) Globalized and even glocalized reality requires change in business financial communications. The principles of balance uniqueness and neutrality are normally described and commented on in all scientific contributions to business reporting. It is therefore rather difficult to find specialist publications. Already in the late 1993, Martens and McEnroe (1993), however, posed an interesting question in their essay *Testing the Commitment to the Neutrality of Financial Statement Information: Does Non-neutral Accounting Improve a Company's Accounting Numbers?* Over 20 years ago, the problem of applying the principle of neutrality was already raised, even if the economy was much more static and certainly far less internationalized than today.

An analogous question characterizes the current literature in the publication of Suárez Fernández (2016) supported by an empirical analysis in Spanish reality: the results achieved support the hypothesis that the narrative information is oriented towards public relations, being used to try to build and project a certain image. Thus, when the companies suffer a deterioration in its financial performance, there are few objectives in the description of its performance: provide difficult to read information. Pessimistic tone is not used and does not give more bad news than good. There are also studies that have sought to verify the neutrality of the disclosure of the financial statements of listed companies. It is important for them to establish the effect of the communication on investor confidence. For example, the article by Carp and Georgescu (2015) describes, by resorting to financial and non-financial information characteristic to the companies quoted on the main section of the Bucharest Stock Exchange (BSE), the neutrality of the published information, quantified through the extent of earnings management.

### **What Financial Report for Global and Glocal Business?**

The multiplication of the number and characteristics of stakeholders in globalized and glocalised economic realities and the need inherent in the ethical principles of localism to safeguard local languages pose complex problems to accounting.

First of all, the mode of communication to be used: a universal unique accounting language could be an easy pragmatic solution, but it would elude the need for respect for local languages that survive and resist standardization and massification hypotheses. In fact, a planetary language could easily be assimilated by the big internationalized companies, but would exclude countless small businesses and a great deal of dependence on access to the report.

On the other hand, the nationalist presumptions of conservation of local normative practices hurt the needs of internationalization.

To propose a single international report to which the attachment of “local” reports appears to be a confusing and impractical solution, especially because the various prospects would expose different income and different qualitative-quantitative configurations of the assets.

Forging, on the other hand, an accounting language that mediates the various instances seems very complex, if not impossible, considering the unmistakable distance between the different competing settings.

In accounting, therefore, at first approximation, the problem appears to be unresolved, unless it is intended, as outlined above, to overcome the principle of neutrality represented by the “prism effect” of the report and to propose an “open” report.

### **The Principle of Neutrality**

The principle of “neutrality”, also called “impartiality” of the financial statements, is well defined by the OIC Foundation (Italian Accounting Organization), which is the national setter (<http://www.fondazioneoic.eu/>). In its Principle No. 11 (OIC 11, Purposes and Postulates of the Financial Statements, 2005), it is stated that the report must be drawn up for all potential recipients and must be based on independent and impartial accounting principles. It must therefore not meet the information needs of some stakeholders. In other words, it must be avoided by distortions preconceived in the application of accounting principles or informational discrepancies to the benefit of only some recipients.

Neutrality must characterize all the report formation process and, above all, the many subjective estimates that characterize many items.

The presence of subjective elements of estimation is therefore not a reason to avoid impartiality, reasonableness and verifiability.

Accounting impartiality must be understood as the competent and honest application of the report formation process, which requires discernment, reasoning and judgment as regards the subjective elements.

A significant aspect of neutrality is: the incompatibility of the purpose of the financial statements with the inclusion of Prospective Investor Ratings. Therefore, it does not fall within the scope of the financial statements to disclose transfer valuations or to reflect the acquirer’s conclusions.

### The “Prism” Effect of the Report

Isaac Newton discovered the properties of the glass prism: crossing it from a seemingly white beam of sunlight, it divides into the different colors of the rainbow, each deviated in different directions.

In the field of international marketing, the prism effect is instead deforming the assessments of the potential foreign consumer caused by environmental variables affecting product placement (Valdani, 2003).

In the studies of Accounting, the image of the optical prism can be used to represent the described principle of report neutrality, which leads to the choice of choosing a single report that meets the different needs of different stakeholders: a single flow of information should assume different tones and values in relation to the different needs of the public concerned (see Figure 1).

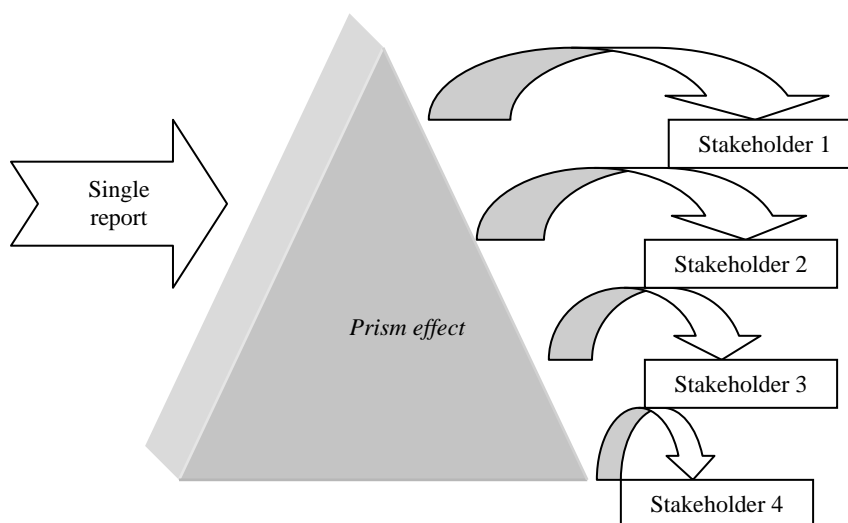


Figure 1. The “prism” effect of the report.

The limits of this choice are obvious: it is virtually impossible to meet all in the same way, so there will be one or more categories of facilitated and privileged users who, better than others, will benefit from the type of report communication chosen. Over time, while being aware of the penalties of some operators, it has always opted for a single report, considering the complexity of using alternative forms that would have a wider range of users.

But can this choice still be preserved for global and glocal companies, considering the extension of the categories of public concerned and especially their greater and more pronounced differentiation?

Tolerable limits nowadays appear to be in need of different and more fulfilling solutions, also considering the spread of economic-business culture and that available technologies allow for quick processing of unprecedented accounting data.

**Towards an “Open” Report?**

Reflections should be made on the effective development of an “open” financial report (Capaldo, 1975; 1995; 1998), made up of a basic schedule and various appendices of data potentially useful to a wide range of users.

In reality, the practice of appending a schedule of patrimonial assets together with other useful accounting data is commonly found in the documentation of many companies.

This is often mandatory so as to comply with national regulations which impose more frequent, articulated and comprehensive communication. It would not be difficult to impose such practice in international contexts.

This would then create uniform criteria for full financial reporting, diversified on the basis of the main categories of users.

A basic schedule for reporting both objective and estimated data along with any supplementary information in accordance with the purpose of the open financial report is shown in Figure 2.

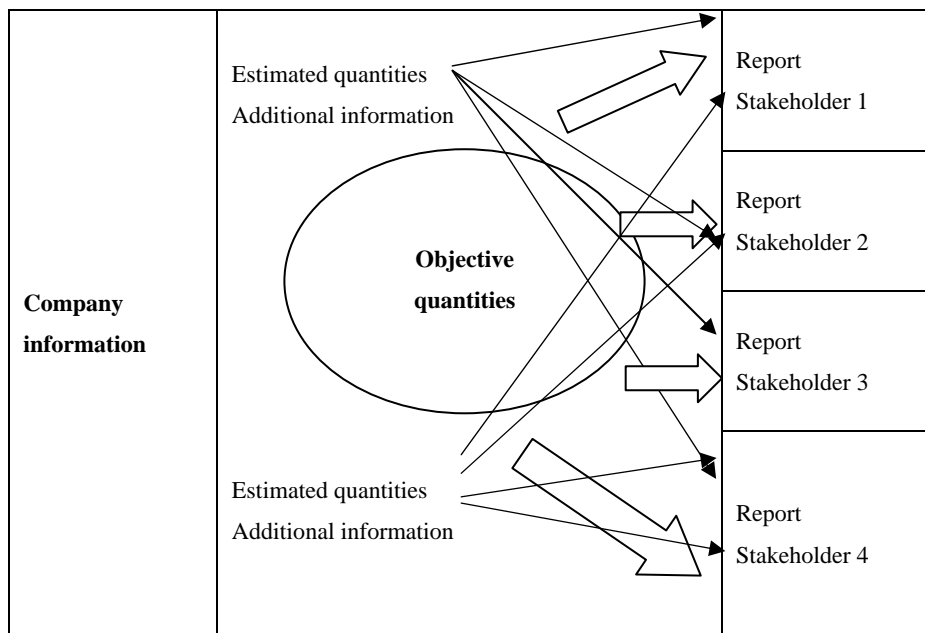


Figure 2. The disclosure dynamics of open report.

Naturally, a transitional period would have to accompany such radical innovation in financial accounting for specialist operators and beneficiaries of the information to become familiar with it. The redundancy of the prism effect of the financial statement consequently would appear to be quite complicated, but technically possible.

### Conclusion and Implications

It is difficult to imagine what the future developments of current societies and economies are. Certainly, it is difficult to stop the process of globalization, which is increasingly associated with considerably heterogeneous realities. Nevertheless, the socioeconomic model seems to prevail over the intuitive standardization requirements with the preservation of local customs and habits.

The changed socio-economic contexts pose serious problems of communication, vital food, also of financial and commercial exchanges. In this context, also the findings of the accounting systems should find a common moment of convergence (Migliaccio, 2004; 2007).

The widening of the stakeholder groups calls into question the possibility of affirming, in the future, a single neutral report that at the same time meets the information needs of all. The principles of uniqueness and neutrality weaken in the face of new and wider and varied needs. The described prism effect seems not to have the same effectiveness as the years gone by.

Part of the best Italian doctrine therefore proposes to provide an open report in which to indicate only the objective quantities and to provide, in turn, all the other indications to enable the various stakeholders to complete the prospectuses, adapting them to their information needs.

The hypothesis has always appeared suggestive but hardly practicable in practice especially to prevent confusing interpretations. Nevertheless, the most pressing needs of the globalized and localized world, and above all the developments in modern IT technologies applicable in the accounting field, could make a hypothesis up to now considered brilliant but difficult to realize.

Nevertheless, scientific contributions can lead to a more complete disclosure of wealth, economic and financial data, which appears to be the absolute necessity of markets now without borders.

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