

Some Thoughts on an Agenda for Historical Accounting Research in the Netherlands

(Plenary address given at the fMA-Congres, Erasmus University, Rotterdam, on 3 June 1993)

Stephen A. Zeff

One senses a growing interest in historical accounting research in the Netherlands. Although normative research has been the dominant mode of accounting inquiry during most of the century, there have been signs of an awakening interest in historical, comparative, and empirical research in accounting, in both doctoral dissertations and articles published in journals and conference proceedings (such as the *fma-kroniek*). In this paper, I will confine myself to research involving financial reporting and auditing.

Normative research, to be sure, can point the way toward improvements in practice. But historical, comparative and empirical research assists us in understanding how and why practice has changed, how and why Dutch practice differs (or has differed) from that in other national environments, and how practice has interacted with the user, preparer and auditor communities. By 'practice', I refer not only to financial reporting and auditing practices but also to regulatory practices.

In particular, historical accounting research enables practitioners, policy makers and academics to gain a deeper and systematic understanding of the dynamics of change in the discipline, including especially the interplay of legal, political and economic forces that

have shaped the change. Such research also contributes to a clearer perception of a country's accounting and auditing culture.

My purpose in this paper is to propose a number of potentially interesting research questions that can be fruitfully addressed by the use of the historical mode of inquiry. In proposing the questions, I will indicate why each question is interesting and how a historical researcher might usefully address the question.

The Questions

1 Prior to the 1960s, to what degree did company managements obtain external audits but did not reveal in their annual reports to shareholders that such audits had been conducted, or did not actually publish the auditor's reports when the existence of an audit was disclosed? What were the reasons for these practices, and why did the managements eventually decide to publish the auditors' reports?

That the managements of some major companies were not disclosing the existence of ex-

Stephen A. Zeff is Herbert S. Autrey Professor of Accounting, Rice University, Houston, and Professor of Accounting, Rijksuniversiteit Limburg. He has been editor of *The Accounting Review* and president of the American Accounting Association.

ternal audits was discovered in the course of an interview during the research phase of the *Company Financial Reporting* (CFR) project.¹ We verified that two important companies, N.V. Koninklijke Nederlandsche Petroleum Maatschappij and Werkspoor N.V., had for many years, secretly had external audits, the former from 1911 to 1949 and the latter from at least as early as 1932 to 1953 (CFR, p. 65n). There is nothing in the auditing literature to suggest that, in any other country, companies that publish annual reports to shareholders have withheld the fact that an external audit had taken place. It is not known how widespread this practice was prior to the passage of the Wet op de Jaarrekening van Ondernemingen (WJO) of 1970, and there was very little indication in the Dutch accounting and auditing literature that such a practice was even occurring. In the little time that we could devote to unearthing possible reasons for this practice, several candidates emerged:

'making an audit was regarded as an internal matter, as its purpose was to inform directors and supervisors whether the accounting department was doing its work correctly; it was believed by directors and supervisors that they did not require any assistance to be trustworthy, and they held the view that shareholders did not need to know that the company had had an audit; and there was a perception by directors and supervisors that they were of a higher social class than the auditor, and that their responsibilities to report to the shareholders should not be seen as being on the same plane' (CFR, p. 65).

Two related practices, that of disclosing the existence of an audit but not revealing the identity of the auditor or publishing the auditor's report (known as a blind report, *blinde verklaring*) or of disclosing the identity of the auditor but not publishing the auditor's report (silent report, *zwijgende verklaring*) were followed by a number of companies. In fact, the Nederlands Instituut van Accountants (NIVa) was on

record as preferring the non-disclosure of the external audit if the company was not willing to publish the auditor's report.

How could a study of the incidence of, and the reasons for, these practices be conducted? For companies that did not disclose the existence of an external audit, one could approach the companies' internal audit departments to learn whether external audits were actually carried out during some or all of the period. Our verifications for the two companies mentioned above were obtained through correspondence with the companies' internal audit departments, who cooperated fully with our inquiry. It is possible that company archives could provide clues to the reasons for all three practices. Moreover, it is not too late to interview auditors and company executives who were active prior to the 1960s, which we actually did. Because several decades have passed since the practice was last followed, any interviewing must be completed very soon, else archival material will become the only accessible source of historical data.

One could acquire an interesting insight into the management philosophy of Dutch companies between the 1910s and the 1950s, as well as into the business and financial climate of the time, by undertaking a study of this question. Such a study would also throw light on the evolution of the status of the auditor and of the external audit function during that period, and especially how they were viewed by the managements of the day.

2 What were the experiences of companies (e.g. Philips) and banks (e.g. the former Amro) that charged their internal audit departments with responsibility for conducting a full financial audit, with a year-end review and some remaining procedures to be performed by the external auditor? Why did the companies and banks decide on this practice, and why did some companies (e.g. Philips in 1984) abandon the practice and instead place the financial audit entirely in the hands of the external auditor?

As with the first question, the practice addressed in this question is apparently unique to the Netherlands. From what can be determined, there exists comparatively little Dutch literature on the actual experiences of the companies and banks, including the reasons why they adopted and abandoned the practice (see CFR, pp. 82-83).

While practicing auditors, both external and internal, possess extensive anecdotal evidence of this practice, there have been no systematic inquiries to enable generalizations across companies and across external auditors, both as to the practices followed and the reasons for adopting or abandoning the policy. Although an extensive literature exists on what practices *should be* followed, little is available in writing about what has actually happened.

A study of this Dutch experience would be of decided interest to leaders of the auditing profession in other countries, such as the U.K., who have given thought to involving internal audit departments more heavily in the financial audit, but lack any record of the costs and benefits of the Dutch experiment. At the same time, such a study would enable leaders of the Dutch auditing profession to assess its unique experience in both historical and contemporary lights.

There would be little difficulty finding external and internal auditors who have had first-hand experience with an internal audit department conducting a full financial audit. Company and bank finance directors can be found who could testify to its effectiveness and to the reasons for initiating or discontinuing the policy. Archival records in the companies and banks could provide documentation on the allocation of duties, and especially on the impact of this practice on the nature and scope of the external auditor's investigation.

*3 What were the considerations underlying the choice made in 1972 by the NlvRA committee on the recommended wording (**getrouw beeld**) in the standard form of the external auditor's report? In the Wet op de Registeraccountants*

*of 1962, it was stated that only **registeraccountants** were authorized to give an opinion on the **getrouwheid** of the financial statements, yet in the WJO 1970 the overriding qualitative criterion was stated as the giving of an **inzicht** into the financial position and income, with **getrouw** and **stelselmatig** occupying secondary roles.*

To an outsider, it is paradoxical that the Dutch company law cites *inzicht* as the paramount qualitative criterion for sound financial reporting, while the external auditor's report ignores *inzicht* altogether and refers instead to a secondary criterion, *getrouw beeld*. This anomaly can be understood only in its historical context. Although one might suppose that the external auditor's report was seen by the NlvRA committee in 1972 as being tied to the criterion of *getrouwheid* in the 1962 Act, most of the published reaction to the NlvRA committee's exposure draft (which used *getrouw weergeeft*, a literal transcription from Article 3 of the WJO) leads one to believe that the WJO may have been seen as the governing legislation.

No one has examined the committee's internal drafts and correspondence or interviewed its members (most of whom are probably still living) to ascertain whether the committee's deliberations were characterized by much controversy and, if so, what were the contending arguments. Was there a desire within the committee to produce a format that would strike a close comparison to that in the U.K. (*getrouw beeld* v. true and fair view)? It would also be useful to interview the auditors whose views on the committee's exposure draft were published in the June 1972 issue of *NlvRA Berichten*. Have there been any court decisions in which the wording of the auditor's opinion has been juxtaposed against the hierarchy of qualitative criteria enumerated in the company law? Has there been any concerted effort to reconsider the 1972 recommendation?

It is interesting to speculate whether the external auditor's use of *getrouw beeld*, as opposed to *inzicht*, may have influenced any of

the substantive accounting positions taken by the Tripartite Study Group (TO, Tripartiete Overleg) or the Council on Annual Reporting (RJ, Raad voor de Jaarverslaggeving), or by auditors in specific engagements. One could hypothesize that, if the NlvRA committee had instead placed primary emphasis on *inzicht*, in the context in which it appears in the WJO 1970:

'een zodanig inzicht dat een verantwoord oordeel kan worden gevormd omtrent het vermogen en het resultaat der onderneming, alsmede voor zover de aard van een jaarrekening dat toelaat, omtrent haar solvabiliteit en liquiditeit'

the scale might have tipped toward greater support of current value accounting during the great debates of the 1970s and early 1980s (CFR, pp. 224-31, 235-36, 297-302) and, in general, toward a greater reliance on subjective judgments by company managements. A 'faithful picture' of something is not necessarily equivalent to an *insight* into the same thing. Although the standard auditor's report also contains an affirmation that the financial statements comply with the law, the issue here is with the placing of emphasis on 'faithful picture' vis-à-vis 'insight'.

4 What were the motives behind the adoption of current cost accounting by a number of companies beginning in the 1940s, and what were the reasons why the majority of the most prominent adopters abandoned current cost accounting in the body of their financial statements by the early 1990s?

A growing international literature in the last 20 years supports the view that company managements employ 'economic consequences' reasoning when making accounting choices. Yet relatively little is known about the factors that have motivated the managements of Dutch companies to adopt, and later to abandon, current cost accounting.

In our research project, we were curious to learn, if possible, why Philips began basing

depreciation expense on the current cost of its fixed assets immediately following World War II. (In 1951, Philips expanded the application of current cost accounting to both its balance sheet and profit and loss statement.) From a reading of Philips' annual report for 1945-46, coupled with our interviews, we concluded that, in the light of its huge postwar rehabilitation expenditures, Philips' management would have risked large operating losses if it were to have continued its secret reserve accounting, under which the cost of its fixed asset acquisitions was immediately written down to 1 guilder by charges to profit. But the company apparently sought to continue to follow a form of conservative accounting. Current cost accounting for depreciation expense, which was being advocated on theoretical grounds by Philips' chief internal auditor, A. Goudekot, was therefore viewed as coinciding with the strategic objectives of the company's management (CFR, pp. 71, 77-78).

Also, according to the Commercial Code, a company's profit accrued to the shareholders unless specified otherwise in the articles of incorporation. Hence, for companies not having (and not desirous of having) a different specification in their articles of incorporation, a conservative measure of annual profit may have been seen as an attractive aim.

Numerous other major companies, such as A.K.U., Hoogovens, Heineken, and Wessanen, have adopted current value accounting, yet all but Heineken have since (along with Philips) abandoned the practice. During the high inflation of the 1970s, Royal Dutch Petroleum, alone among major Dutch companies, favored the use of general price-level accounting in a supplementary schedule in its annual reports (CFR, p. 228).

The interesting question is, what strategic and tactical factors have been influential in the choice of accounting practices to reflect changing relative and general prices? The reasons given in annual reports for changing (or not changing) accounting practices are plausible constructions but do not necessarily represent the real motivations underlying the choice de-

cision. They must be supplemented by interviews with the principals (company executives and both external and internal auditors) as well as by an examination of pertinent correspondence and memoranda in company archives. Particularly in regard to decisions that were made 10 or 20 years ago, the principals are likely to be sufficiently detached from the events of that day to be forthcoming and credible as interviewees.

While there are a number of published studies citing the companies in a particular year that were using current cost accounting, no one seems to have produced a 'longitudinal study', i.e., one that examines the use of current cost accounting of companies over the course of years, including the evident reasons for their choices.

*5 From the 1970s to the present, what has been the trend on the part of external auditors to undertake to persuade their client companies to adopt measurement and disclosure practices recommended in the **Beschouwingen/Richtlijnen**? To what degree and for what reasons have external auditors argued more strongly for certain measurement and disclosure practices and less strongly for others?*

There is a dearth of evidence about the role that external auditors have played in promoting improvements in the financial reporting of their client companies. In the Netherlands, the environment in which judgments have been made about whether to adopt the affirmative pronouncements (*stellige uitspraken*) in the Guidelines (*Richtlijnen*) issued by the TO and the RJ is decidedly more permissive than in such countries as the U.S., the U.K., and Canada, where there is a heavy burden on proof placed on companies that elect not to adopt the definitive recommendations issued by the standard-setting body. Attempts made in the early 1980s to impose an obligation on Dutch auditors to draw attention to deviations in the company's financial statements from affirmative pronouncements were unsuccessful (CFR, pp. 246-66, 310-16). Since Dutch companies

are not under an obligation either to adopt the affirmative pronouncements or even to disclose whether they have done so, external auditors are in a unique position to use their persuasive powers to influence the degree to which the RJ's recommendations are translated into practice.

In the mid-1970s, when the TO began the publication of its Statements of Considered Views (*Beschouwingen*), major auditing firms were thirsting for definitive guidance, while companies seemed to be largely indifferent to the tripartite initiative (CFR, pp. 212-13, 219-21, 235-38). By the latter 1980s, not only in the Netherlands but in other countries, external auditors seemed to be less inclined to take strong positions on accounting issues in discussions with clients. Yet, since 1980 in the tentative and final Guidelines issued by the TO and then by the RJ, affirmative pronouncements have been marked by bold facing, supposedly to draw attention to recommendations that the two bodies believed were essential for adoption.

As changes have occurred in the regulatory environment since the 1970s, what alterations can be noted in the performance of the external auditor as an agent for change and improvement in company financial reporting? Among the factors that have altered the regulatory environment have been the verdicts of the Enterprise Chamber and the adaptation of Dutch law to the Fourth and Seventh EC Directives.

The study would draw chiefly on interviews with external auditors and with the finance directors of major companies. The interviews should be designed to elicit recollections on the initiatives taken by auditors during different time periods (e.g., the mid-1970s, the latter 1970s, the early 1980s) as well as with respect to recommendations on particular subjects (e.g., current cost accounting, segmental reporting, deferred taxation, the *WIR-premie*, cash flow reporting). In the 1970s, did external auditors seek more (or less) assiduously to persuade clients of the merits of adopting the recommendations contained in the Statements of

Considered Views (*Beschouwingen*) than they have in the 1980s and 1990s with respect to the Guidelines? It would be interesting to learn whether, in general, affirmative pronouncements carried more weight than advisory recommendations (*aanbevelingen*). In their discussions with client companies, have external auditors accorded more weight to definitive Guidelines than to Draft Guidelines (*Ontwerp-Richtlijnen*)? Indeed, is any distinction drawn between exposure drafts and financial statements (see CFR, p. 374n)?

Have external auditors been more inclined to press their clients to adopt recommendations that reflected accepted practice in the U.S. or the U.K., or that coincided with recommendations of the International Accounting Standards Committee (IASC)?

A related question is, to what degree have *company managements* been influenced by whether the recommendations were (1) presented as affirmative pronouncements or advisory recommendations, (2) contained in definitive Guidelines or Draft Guidelines, and (3) based on U.S. or U.K. precedent or on utterances of the IASC?

6 What has been the impact of the Sijthoff Prize on company financial reporting, what factors have been influential (e.g., overseas developments) in shaping the succession of judging criteria over the years, and how have the deliberations in particular years been influenced by such factors?

The Henri Sijthoff Prize was announced in January 1955, in the middle of a decade in which numerous reforms or proposals for reform in company financial reporting were in evidence: the Stock Exchange Association (Vereniging voor de Effectenhandel) was pressing listed companies to be more forthcoming in reporting their financial results to shareholders, Philips announced its progressive financial reporting philosophy, the Rijkens Committee (set up by the employers federations) recommended improvements in company financial reporting that went beyond the requirements of the Com-

mercial Code, and several major companies (A.K.U., Philips, Koninklijke Petroleum Maatschappij, and KLM) entered the New York capital market and began to adopt U.S. financial reporting practices in their reporting to shareholders (CFR, chap. 3).

The Sijthoff Prize was intended to provide companies with a further incentive to improve their financial reporting. What impact did the Prize actually have on company behavior? Was the impact greater among large than medium-sized companies, or vice-versa? Did the prospect of winning the Sijthoff Prize actually serve as an active incentive for some companies to improve their financial reporting? There is evidence that the Stock Exchange Association viewed the service of its president as chairman of the Sijthoff Prize judging panel as its contribution to improving the standards of company financial reporting (CFR, p. 182): to what degree were listed companies influenced by the decisions of the panel?

Did the passage of the WJO 1970 alter the role played by the Prize in influencing company reporting behavior? Following approval of the WJO, serious consideration was given to terminating the Prize, but so many requests were received to have it continue that the idea was dropped (CFR, p. 222).

The judging criteria for the Sijthoff Prize were first announced in 1956, and revisions were published in 1969, 1974 and 1983 (CFR, pp. 112-14, 182, 222-23, 307n). Moreover, in the issue of *Het Financieele Dagblad* in which each year's Prize winners are announced, a speech by one of the members of the judging panel is reproduced, in which the judges' views on the desired qualities of financial reporting are given expression. In 1990, the speeches for the years 1986-89 were reproduced and distributed in booklet form.

As far as is known, no in-depth study has been conducted of the judging process or of the reasons for the changes in judging criteria, even though the Sijthoff Prize may have served as a stimulus, perhaps even a potent stimulus, for improved company financial reporting for more than 35 years.

It would be interesting to know what factors influenced the setting of the judging criteria. To what degree did the judges look to IASC standards or to financial reporting in North America and the United Kingdom for exemplars?

The study would be based on the published judging criteria and the speeches of the members of the judging panel, as well as on interviews with members of the judging panel, company finance directors, external and internal auditors, bankers and financial analysts. An examination of the winning annual reports would, of course, be an essential part of the research.

*7 In what way has the content of accounting instruction in the **doctoraal** courses in the six universities and in the NlvRA course changed over the years, and in response to what forces and under whose leadership?*

It would be interesting to examine the contrasting educational ideologies (both in terms of curriculum content and mode of instruction) at each of the six universities and to identify the courses of intellectual influence upon each of the accounting curricula. At the NlvRA, what has been the evolution of the content and mode of accounting instruction, and who have been the leading figures in shaping the curriculum? When and in what ways did Limperg's (and his disciples') influence over the curriculum begin to wane, and in what respects were the subsequent curricula different? To what degree have textbooks published overseas (e.g., in the U.S. or in the U.K.) played a role in curriculum reform? In what sense can any of the curriculum reforms of the 1970s and the 1980s be traced to changes in the regulation of financial reporting in the 1970s both in the Netherlands and overseas (e.g., the passage of the WJO 1970, the issuance of Considered Views and Guidelines, the worldwide impact of the statements issued by the U.S. Financial Accounting Standards Board and the U.K./Irish Accounting Standards Committee, the verdicts of the Enterprise Chamber, the recom-

mendations issued by the IASC, and the adaptation of Dutch law to the EC's Fourth and Seventh Directives) (CFR, pp. 20-23)? The accounting education of students in *bedrijfs-economie* programs as well as of new entrants into the auditing profession is a central element in the accounting heritage of the country.

In addition to inspecting course syllabi, articles written by educators, and reports in which new curricula or teaching approaches are proposed, the researcher should interview active and retired accounting professors, the NlvRA's educational policy makers, and representative groups of students from different institutions and different time periods. To what extent did educational reforms reflect overseas trends and developments? The curricular philosophies reflected in the principal textbooks assigned for the courses would be need to be studied and compared.

Other interesting research questions can be posed, addressing, for example, the impact over time of the positions espoused by the Dutch delegations to the IASC and to the Groupe d'Etudes, which was concerned with drafting the EC's Fourth and Seventh Directives; and the change over the years in the role and interpretation of *goed koopmansgebruik* as a mediator between the norms for income tax reporting and the norms for external financial reporting. The Netherlands has had a long and rich history of accounting and auditing theory, practice, education, and institutional regulation, and the current generation of accounting researchers should be encouraged to improve our understanding of the evolution of the field and its culture.

Noot

1 Stephen A. Zeff, Frans van der Wel and Kees Camfferman. *Company Financial Reporting: A Historical and Comparative Study of the Dutch Regulatory Process* (Amsterdam: North-Holland, 1992). Citations in the text to CFR will henceforth refer to this work.