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The Implication of Corporate Reporting in Migration from Defined Benefit to Defined Contribution Pension Schemes

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1.0. Introduction

A statement of the basic argument

Mitchell and Sikka (2006, p. 2) point out that: "A decent pension is literally a matter of life and death. Low pensions condemn people to poverty."

Over the past three decades, particularly from the mid-1980s, there have been many significant changes in the concept and detail of pension provision in both public and private sectors. These changes are occasioned by government policy and influenced by capital interests (see Gustman and Steinmeier, 1989; Ghilarducci, 1992; Clark, 2000; Clark and Hebb, 2004; Clark, 2005, 2006). Amongst the most significant changes has been the migration from the traditional DB pension scheme to the DC pension scheme (Gustman and Steinmeier, 1989; Benartzi and Thaler, 2001; Clark, 2004; Munnell, 2006). The latter scheme places more of the pension risk and related costs on the employee without guaranteeing returns or safety of investment (see Lachance *et al*., 2003). The DC scheme introduces greater uncertainty in the future cash flows of employees vis-à-vis their pensions (Bodie, 1990; Clark and Pitts, 1999; Benartzi and Thaler, 2001; Friedberg and Owyang, 2002; Lachance *et al*., 2003). Writers like Choi *et al.* (2002, p. 68) affirm that:

> "Defined contribution pension plans place the burden of ensuring adequate retirement savings square on the backs of individual employees. However, employers make many decisions about the design...of…plans that can either facilitate or hinder the employees' retirement savings prospects."

It follows that, if an employee aspires for a 'decent' pension under the DC scheme, they would then have to raise their financial contribution towards that.[1] In attempting to build up such savings, an employee faces some paradoxes (Stabile, 2002; Zelinsky, 2004; Davis, 2006; Mitchell and Sikka, 2006). For example, many of the workers, particularly those on the lower strata of organisational remuneration, may find their present circumstances in terms of level of wages or disposable income do not permit a worthwhile investment and further, that even if an investment is made the certainty of return and safety of that investment cannot be guaranteed (Stabile, 2002). It is this elimination of pension security (associated with DB schemes) that is of concern. Choi *et al*. (2002) argue vis-à-vis raising savings levels that some employees are passive and would remain locked into the default contribution unless the organisation or a State agency were to take an active interest in reviewing their contribution.

[1] The TUC (the Trades Union Congress) provides tables showing required contributions for a decent pension pot under DC plans. The TUC, the UK body representing the Unions as a whole, was very close to UK policy-making especially under Labour governments prior to Thatcher. http://www.tuc.org.uk/the_tuc/tuc-5485-f0.cfm Accessed April 6, 2012.

PPI (2012, p. 2) point out that without sufficient disposable income employees may even opt out of pension schemes altogether.

This paper explores from a critical perspective the migration from DB to DC pension schemes focusing on how the change is represented in selected corporate annual reports in the UK setting. An analysis of the narrative in relation to pension change in the annual reports of 24 UK FTSE 100 companies where some discussion of pension scheme change is apparent is presented. We consider debates in the literature to date on developments away from DB towards DC pension plans encompassing how DC has been promoted and studies that have implicated accounting in the migration. The paper builds upon the argumentation of Mitchell and Sikka (2005, 2006) with a view to further promoting critical accounting scholarship on pensions as a significant social issue. The basic aim is to draw more attention and add voice to the potential crisis emerging in relation to poverty on retirement due to inadequate pensions and to the lack of justice and integrity involved. The distinctive contribution of this paper concerns the interface of accounting and pensions whereby an attempt to justify what is in effect a distribution of wealth away from labour is made. Accounting practice is shown to uphold this bias whilst proclaiming its position as independent and neutral. The findings here are synthesised in a discussion section for insights and suggestions for future research. The next section outlines the critical perspective informing the debate here.

2.0. A critical perspective on our focus

A critical theoretical perspective (see Held, 1980; Antonio, 1981; Fairclough, 1989, 1995, Bronner, 1994; Calhoun, 1995; Cruickshank, 2004; Calhoun and Karaganis, 2006) is applied here in reflecting upon the changes in pension schemes and their consequences for beneficiaries and how corporate reporting is mobilised vis-à-vis the issues involved. The character of our perspective points to its key interest in issues of distribution and justice and how crises interface with these issues. It is a perspective challenging conventional paradigms and mainstream order (Jay 1973; Held 1980; Antonio 1981). Here, we emphasise issues of political economy. A key concern is to articulate what is at stake in the phenomenon explored for the distribution of wealth and the fairness of this (see Neimark and Tinker, 1986; Arnold, 1991; Arnold and Oakes, 1998; Froud *et al*., 1998; Sikka, 2001, 2008; Mitchell and Sikka, 2006; Shaoul, 1997a,b,2007). The challenge is intended to point to possibilities of an alternative path of social development envisaging greater justice and betterment (see Held, 1980; Geuss, 1981; Bronner, 1994). We here consider the interface of pension changes with accounting as a powerful social phenomenon and explore the struggle over resources entailed. A critical theoretical perspective in this respect sees accounting not as a neutral phenomenon but as Thomas and Williams (2009, p. 214), echoing Arnold and Oakes (1998), put it, one that is political and 'plays a major role in constructing reality rather than portraying reality' (see also Chua, 1986; Hines, 1988; Morgan, 1988; Tinker, 1988; Gallhofer and Haslam, 2003). In this regard, accounting and its dialectical nature can be located within the discourse of and manifestations concerning the social phenomenon of pensions' change. Its usage in this context carries the potential to engender poverty and social inequality for a section of society such as the retired (see Mitchell and Sikka, 2006).

The critical perspective adopted here further helps to ask questions relating to the representation of pension beneficiaries and the extent their voice is heard amongst the different constituents involved in pension management (see Aaronson and Coronado, 2005). The question of power relations amongst the key actors on pensions becomes an important one, especially how this power manifests itself in the discourse (Hastings, 1999). In this respect, Hastings (1999) argues that power can be exercised in a way that is not apparent to those involved and sees language usage as a significant resource to this end. The key players vis-à-vis pensions include the State, corporations, accountants, trade unions and media. Power relations amongst these actors are key to shaping the character of wealth distribution. Corporations, often supported by accountants, are relatively dominant players here, pursuing returns on a global scale. Mitchell and Sikka (2005, p. 2) reflect on this corporate power including over government thus:

> “In pursuit of profit, companies roam the world and owe no loyalty to any nation, community or people, but their decisions can undermine and even scupper government policies. The people have little say in their affairs.”

The trade unions also increasingly find their impact or influence inadequate especially with governments yielding to corporate power. Mitchell and Sikka (2005, p. 4) point to this conundrum:

> “The countervailing power of labour is seriously weakened and globalisation undermines national controls and allows corporations to play fast and loose with governments and regulations.”

Our critical theoretical perspective here is therefore consistent with the views of theorists who promote alternative perspectives to the hegemonic vis-à-vis the socio-economic and cultural – including promoting as Gallhofer and Haslam (2006b, p. 911) argue an ‘inclusi[ve] and reciprocal recognition of dignity that constrains the market and, in social action terms, the practice of contestation of social issues.’ Pensions are viewed as problematic to the organisations but as a beneficial yet potentially complex social phenomenon. The abandoning of ‘consensus politics’ by the Conservative government in the 1980s is seen as having set the contextual premises for the changes in pension schemes with minimal constraints (Mitchell and Sikka, 2006, p. 4). The next section explores the rhetoric of the promotion of the DC schemes.

3.0. The Rhetoric of the Promotion of DC schemes by Government and Business

The rhetoric of DC pension schemes’ promotion is anchored on the idea of the control over the pension account by the beneficiary and the flexibility and portability of the same (Bodie *et al*., 1988; Silver, 2006; Broadbent *et al*., 2006). The basis of the DC scheme is that both the employer and employee contribute to an account to build up savings for the latter’s pension benefit. The associated resultant benefits depend on the level of contribution into the account and investment earnings on it. For Bodie *et al.* (1988, p. 139):

> "Benefit levels depend on the total contributions and investment earnings of the accumulation in the account. Often the employee has some choice regarding the type of assets in which the accumulation is invested and can easily find out what its value is at any time."

A further emphasis of the rhetoric for the shift from DB to DC schemes is that, as per Broadbent *et al*. (2006, p. 48):

> "DC plans...provide employees with much more control, choice and flexibility in terms of how they manage their retirement savings and investment, and indeed how they manage their financial assets over their lifecycle."

An impression may thus be created that an employee can contribute an amount of their choice into the pension account leading to a possible unlimited benefit on retirement. This is equivalent to creating a possible financial illusion. The statements also assume knowledge of pension management on the part of employees. This argument is premised on desired mobility of labour and the portability of the pension scheme. In respect of this, Broadbent *et al*. (2006) observe that changes in demographics as well as industrial structures have incentivised more people to want to change jobs and as they do so move on with their pension assets. In this regard a DB scheme is seen as a hindrance to labour mobility because of its lack of portability. DB schemes are considered as favouring only those who prefer long-term employment with the same institution (Broadbent *et al*., 2006).

Issues of pension plan portability and tenure of employment as analysed by Blake (2003) and Broadbent *et al.* (2006, p. 6) indicate that "a typical U.K. worker who changed jobs at the average level of 6 times during their working career would suffer a loss of 25-30 per cent of the full service benefit they would have received had they remained with the same employer throughout their career...". This is a point earlier raised by Bodie *et al.* (1988). It indicates overstatement of the benefits to employees from the emphasised portability of the DC pension scheme. Further, it is imperative to question whether employees across industries are universally included in labour mobility. Whilst other authors emphasise the importance of changes in demographics and labour mobility as key factors in the movement towards DC pension schemes, Aaronson and Coronado (2005) argue that the general increase in the cost of DB plans to employers was central to the migration. These authors further observe that DB schemes were popular with heavily unionised firms, particularly manufacturing ones. The implication here is that a fragmented and weak workforce can be disadvantaged in relation to pension plans (Aaronson and Coronado, 2005). Findings from Loretto *et al.* (2000), however, indicate that workers are more motivated by a reasonable level of safety of pensions than portability. Despite the rhetoric regarding the benefits of DC schemes there are some real concerns that are considered further in the next section and later investigated in the corporate report narratives.

4.0. Some substantive issues with DC pension schemes

The migration from DB to DC pension plans, then, raises concerns on which we can expand. Kruse (1991, 1995) is worried that the migration from DB to DC is generally not fully and adequately explored and analysed. For Kruse, DC plans actually provide financial flexibility to the employer because of the possibility of linking the employers' part of the pension contribution to employee performance: i.e. a high performer might benefit from an increased employer contribution to their pension account as a reward. The DC plan more importantly exonerates the employer from the associated risks whilst passing those to the employee (Ippolito, 1995, 1997). For employers, therefore, the DC scheme is preferred because it lowers costs whilst building flexibility for controlling costs and eliminating risk within an uncertain economic environment (Kruse, 1991; Ghilarducci and Sun, 2006; Bikker and De Dreu, 2009). Broadbent *et al.* (2006) focused on the meaning of the shift from the traditional DB to DC in terms of asset allocation and risk management. They note that the move to DC schemes effectively transfers investment responsibility for pensions from the corporate sector to households. Broadbent *et al.* (2006) further argue that although employers want to exonerate themselves from the financial volatilities of the pension plans they are the ones better placed than employees to:

> "...hedge market risk by investing in fixed income securities that match the duration or cash flows, of their accrued liabilities; and if they use highly-rated fixed income securities they can also limit credit risk" (p. 5).

Others see DC plans as a crisis waiting to happen given uncertainty in respect of financial security regarding future retirees vis-à-vis minimal contributions they are to make (Samwick and Skinner, 2003, 2004). The argument here is that the future cash flows under DC schemes are not assured so that this may lead to a poverty crisis amongst retirees, which in turn may require the State to intervene placing pressure on the social security budget. This is all the more likely in that DC plans' future earnings are not guaranteed by the employer or by those whom the investment is made with. There are also concerns relating to the possibility of misapplication of funds by employees who switch jobs: instead of re-investing the lump sum in a retirement account they may be tempted to use such funds to acquire other assets (Schultz, 1995; Samwick and Skinner, 2003, 2004). Such possible decisions by employees are attributable to lack of expertise vis-à-vis assessing the safest investment options to better protect their future returns. For Samwick and Skinner (2003, p. 21), key questions still remain, such as whether "DC [pension plans] will...provide adequate retirement income security compared to the previously dominant defined benefit plans?" Others, like Bodie *et al*. (1988), suggest that much of the potential crisis of DC schemes resides in the fact that the benefits are linked directly to the total contributions and any investment earnings in the individual account of the beneficiary. To the extent that the employee contributes to a personal account, it is therefore generally accepted that the employee should have some influence and choice in how the accumulated amount in the account is invested (Byrne, 2007). It is, however, not clear what influence an employee actually has in practice on the investment aspect beyond adjusting their contribution. This gap creates concern for accountability (see Byrne, 2007**)**.

Bodie *et al.* (1988) argue that because DC schemes behave like savings accounts they do not attract much government regulation adding to their simplicity for employers.[2]

Studies point to a potential future pension crisis in the UK, the conclusion of the paper by the Third Age Employment Network (TAEN, 2006, p. 1) being typical:

> "Nearly half of the 34 million people of working age currently make no contributions, either directly or via a partner, to a pension scheme. Women especially are not saving. Caring responsibilities and broken contributions mean that 69% of women receive less than the full state pension."

The *20somethingfinance-blog* also refers to a potential crisis, expressing it as 'Today's Retirement Reality' and encourages action:

> "Most twenty-somethings have never and (unfortunately) probably will never sniff the sweet security provided by a pension plan. So what are these mysterious things called pensions that many of our parents and grandparents lean on in their retirement? Why are they disappearing? And what are our chances of ever getting one? This is an essential issue for our generation, and I encourage you to read on and actively lobby your employer should you see fit. If you want change, it has to start with someone. Why not you?"[3]

From these statements it is clear that a significant number of people are either not able to or (beyond the State's scheme) do not contribute to a pension scheme. Inherent in this situation are significant social challenges and this invites questions as to whether DC plans are the right kind of schemes to be promoted.

A further argument being advanced is that the move to DC plans means that the employer's contribution could be lower than under DB schemes given the absence of regulatory requirements, a serious case for concern with regard to employees (Bodie, 1990). Where the contributions by both employer and the employee are lower and the returns entirely dependent on financial market performance, risks for retirees are escalated (TAEN, 2006). In support of this argument, TAEN refers to Turner's Report and observations that a decent pension would require a total contribution of between 22 to 26% to gain approximately two thirds salary pensions. They further argue that today, however, the total contribution of both employer and employee under DC plans stands at between 7-11% compared to DB, which stands at 16-20%. The argument is that this shortfall will mean poverty in old age for many who are, currently, contributing to the [wealth maximisation of firms by] providing their labour and skills but cannot bequeath any or sufficient wealth to themselves in old age.

4.1. Turner Report and Hutton Report

[2] http://www.thepensionsregulator.gov.uk/docs/dc-scheme-reg-con-report-2007.pdf Accessed May 2, 2012.

[3] http://20somethingfinance.com/pensions-vs-401ks-why-you-should-care-that-pensions-are-going-extinct/ Accessed April 6, 2012.

Pension reforms have been addressed in the UK through the Turner commission[4] and Hutton commission.[5] Their reports highlight problems and recommend ways forward. The Turner commission was set up to review UK private pensions and long term savings whilst the Hutton commission focused on Public Service Pensions. The Turner Report (2004, 2005, 2006) consists of three volumes assessing the UK pension environment. It concluded that the possibility of poorer pensioners is not an acceptable option and therefore recommended that both employer and employee would have to increase contribution and pension savings and proposed improvement in State pension funding.

The Hutton Report (2011) assessed possible reforms to public service pensions. Whilst acknowledging economic and demographic challenges, it recommends DB schemes albeit on the basis of career average earnings, in this respect concluding that:

> "...it is possible for public service employees to continue to have access for the foreseeable future, to good quality, sustainable and fairer defined benefit pension schemes" (p. 3).

Hutton (2011) further makes a key point concerning engagement and trust amongst the parties involved in negotiating pension reforms. He advises that 'reform' should not turn into a race to the bottom and that Government and Trade Unions must find common ground:

> "Establishing a relationship of trust and confidence going forward will be very important. Ministers have already accepted the conclusions of my interim report that pension reform must not simply become a race-to-the-bottom...Trade unions for their part have also been willing to accept the need in the past for changes to public service pensions that address the shifting sands of economic, demographic and social change" (p. 3).

Hutton (2011) advocates a fairer distribution of risk, not the skewed risk model inherent in the DC pension schemes where employees bear much of the risk. He suggests that there is a:

> "...need to get on with the process of change if we are to maximise the benefits from reform. These benefits include certainty about the future, a fairer distribution of the enormous risks and costs involved in maintaining any form of defined benefit pension, and long term financial sustainability" (p. 3).

The Hutton Report carries some significance in that here was someone of authority arguing for the continuation of DB schemes.

The Financial Services Authority (FSA, 2005),[6] in response to the Turner Report, raises concerns regarding the rationality of employee behaviour in respect of being active and

[4] http://www.webarchive.org.uk/wayback/archive/20070802120000/http://www.pensionscommission.org.uk/about/index.html Accessed February 15, 2013.
[5] http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm Accessed February 15, 2013.

[6] http://www.fsa.gov.uk/pubs/pensions/pensions_report1.pdf Accessed March 23, 2012.

making informed decisions about the investment of the pension funds. One of the behavioural issues is 'people's tendency to put off financial decisions, unless someone else, e.g. their employer or a salesperson, pushes them to make a decision' (FSA, 2005, p. 3). Such behaviour often leaves employees locked into a default pension position without adjusting it upward. Related to this is the issue of information asymmetry between employees and producers and suppliers of the financial products such as pension schemes (see Davis, 1998). The knowledge gap of employees regarding financial market products and processes is here seen as a limiting factor in attempting to maximise the return on their contributions and to minimise related risks. In this respect, the argument is that employees may not have understood pension value and therefore this change did not mean much to them, i.e. on account of financial literacy and information asymmetry employees were unable to decode what they were losing when the changes were proposed (Mastin, 1998; Luchak and Gunderson, 2000; Lusardi and Mitchelli, 2007). For the FSA (2005, p. 3), this is where regulation comes in 'to counter the incentive for some firms to exploit this information gap.' It would thus be helpful to have regulation to counter 'mis-selling' of financial products to people and better ensure that firms contribute more towards employee pensions. Better regulation could promote more honesty in reporting and more responsibility in pensions' management.

The timing of retirement has also been raised as a critical matter that can give rise to problems for retirees. The argument here is that employees who retire during an equity market downturn stand to lose more due to erosion in their cash balances and therefore will face difficulties in purchasing annuities, sometimes compounded in that DC plans do not readily provide mechanisms for pooling investment risk:

> "Given that there is typically no mechanism for pooling investment risk in DC plans, the employee is also exposed to market timing risk at the point of retirement; this applies not only to the amount of cash balances available at retirement but also to the amount of annuity that can be purchased with this sum. A market downturn at the time of retirement could substantially erode the cash balance in a DC plan. For example, DC plan members who retired during the severe bear market in global equities from 2000-2002 are likely to have retired with a much smaller plan balance than individuals who retired during the stock market boom of the late 1990s" (Broadbent *et al*., 2006, p. 8).

The departure from DB to DC plans also revises or violates a critical concept constructed in pension provision, that of the 'psychological contract' between the employer and the employee (Gough and Hick, 2009). A psychological contract is considered as an unwritten obligation and commitment in the relationship of an employer and employee arising from express or implied promises (Rousseau 1995, 2004; Gough and Hick, 2009). In this revision, therefore, pensions are seen as having lost their original purpose at least on the part of the employer where they were used as an instrument for earning employee loyalty. Given these concerns we next consider accounting's implication in the socio-economic change.

5.0. Studies implicating accounting in the migration from DB to DC pension schemes

Researchers have tended to focus more on general discourse on changes in pension provision without seeking to find accounting's implication or positioning in this area. The implication of accounting has therefore not been extensively explored in relation to migration from DB to DC schemes. Little is therefore known about how this pension change is reflected in the narrative of corporate reporting.

5.1. Beyond the rhetoric

Beyond the rhetoric there are real factors that have motivated the migration from DB to DC schemes, i.e. there are substantive reasons why the DB scheme is becoming more difficult to run. Key factors include longevity[7] and changes in legislation relating to tax treatment of pension surpluses (Bulow and Scholes, 1983; Leibfritz *et al*., 1995; Chand and Jaeger, 1996; Disney and Stears, 1996; Brown and Warshawsky, 2001; Heller, 2003; Antolin, 2007; PPI, 2012). E.g., regarding pension taxes, Occupational Pensioners' Alliance observes that:

> "Back in 1988 Nigel Lawson decided to tax pension fund "surpluses" to prevent companies using the pension funds as a money box for tax avoidance purposes. This tax threat subsequently led companies to adopt a much tighter rein on the pension funds on the grounds that they had to "use it or lose it" to the Inland Revenue."[8]

A widening participation in pensions by employees is yet another factor seen as having contributed to a larger pension bill for employers (O'Rand and Maclean, 1986; Purcell, 2002; Karamcheva and Sanzenbacher, 2010).

The employers' concerns with DB schemes substantively relate to 'investment' risk, i.e., the risk that "actual returns on the assets set aside to fund accrued pension benefits may fall short of expectations; this could force employers to raise contributions if poor asset returns leave their pension plans sufficiently underfunded" (Broadbent *et al*., 2006, p. 5). A solution to addressing these pension risks included transferring them to beneficiaries through migration from DB to DC plans (see Bodie *et al*., 1988; Gustman and Steinmeir, 1989, 1993). Motivated partly by their balance sheet figures, which reflected accumulated losses on pensions triggered by these factors and suggesting future risks, firms gradually disengaged from DB and began promoting DC schemes. Besley and Prat (2003, p. 2) here refer to pension deficits, indicating that:

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[7] "When final salary pension schemes were first conceived they were based on a much shorter life expectancy than exists today. They were designed to reward employees for a lifetime of service whilst also ensuring their loyalty and the retention of skills and experience. People are now living much longer and expecting to retire earlier. Pensions were never meant to last for 30 or 40 years." http://www.opalliance.org.uk/decline.htm Accessed May 2, 2012.

[8] http://www.opalliance.org.uk/decline.htm Accessed May 2, 2012. Nigel Lawson was Chancellor of the Exchequer under the Thatcher government (see http://www.speakerscorner.co.uk/speaker/nigel-lawson Accessed February 4, 2013).

> "The Pension Benefit Guaranty Corporation (PBGC) estimates that US companies have accumulated pension deficits of around 300 billion dollars. In the UK, Morgan Stanley estimates that the aggregate pension deficit of the FTSE 100 companies [at] the end of 2002 is 65 billion pounds. Serious deficits are also reported in private occupational plans in Germany and the Netherlands."

Mitchell and Sikka (2006, p. 3) argue, however, that UK companies could have used the reduction in corporation tax 'from 52% in 1982/83 to 35% in 1986/87' to mitigate such deficits and generally improve pensions, but instead such reduction boosted profits, which ended up as bonuses for executives and retained earnings. This was more of a benefit to the companies and/or their wealthy executives. The authors amplify and point out the lack of social consideration by companies, where emphasis is on profits, shareholder wealth and executive compensation. This profit orientation is therefore thought to be a contributory factor to the migration from DB to DC plans. Mitchell and Sikka (2006, p. 3) thus further argue that much of the pension crisis "springs from [an] obsession with reporting higher corporate profits, returns and performance related executive salaries."

5.2. The implication of accounting

Accounting has been shown to be implicated in many other socio-economic changes. It has been evidenced how accountancy in its various facets is implicated in other dimensions of the neo-liberal agenda for example, where the State offloads public enterprises under a privatisation dispensation arguing a case for efficiency and cost control. Some studies have shown how accounting can be employed as part of the explanation of potential and ostensibly actual efficiencies (Broadbent *et al*., 1991; Shaoul, 1997a, 1997b; Cole and Cooper, 2006; Craig and Amernic, 2004, 2006, 2008; Gallhofer and Haslam, 2006b, 2007; Rahaman *et al*., 2007; Uddin and Hopper, 2001, 2003). In this regard, private sector ownership is promoted as more beneficial to the economy because it engenders efficiencies and cost savings. These accounting notions are used as part of an argument premised on public choice, agency and property theories (Coase, 1937; Demsetz, 1966, 1967, 1969, 1988; Jensen and Meckling, 1976; Kim and Mahoney, 2005). Accounting is thus often used to promote wealth maximisation against other social interests. The consequence of such argument, given the context, is that in practice it tends to privilege one group over others, and particularly capital over the social. One of the problematic assumptions of this theoretical disposition is the claim of universality in which contexts and particularities are not given prominence (see Gallhofer and Haslam, 1991, 2003, 2006b). The other assumption is that resources can only be applied where there is a high financial yield or where high profitability is justified giving strength to the wealth maximisation concept. These are mainstream views that discard alternative positions that embrace social consideration. Some authors have indicated that such mainstream positions tend to be dominant and difficult to argue against and to displace (Gallhofer and Haslam, 1991, 2006a). This dominance of mainstream thought means that there will be resistance by capital to alternative views embracing more social considerations; this is despite that capital operates within and benefits society. We observe this notion in the factors outlined in the changes in pension provisions, where organisations attempt to escape all associated risks in efforts to preserve capital and maximise return on it at the expense of future retirees. Shaoul (1997a) argues that whilst accounting is often implicated in many of the socio-economic changes, there is limited research from accounting academics to represent this narrative. In this regard, Shaoul (1997a) is concerned that accounting research is often silent and where it is not the conventional positivist and technical character tends to be dominant with little contribution from critical accounting which can provide critique and challenge the existing dominant economic order. Shaoul (1997a, p. 383) encourages accounting academics to have a voice on public policy issues and refers to the silence – albeit within the context of privatisation – thus:

> "It is instructive to consider the background to this silence of the accounting academics on a key issue of public policy in the formulation of which their expertise was salient. Since the 1960s, mainstream financial accounting research has analysed problems and issues in a positivist or technical way in which the basic values of the model are not questioned. Neither are the techniques considered in relation to the operational characteristics of the business activity or the social and institutional arrangements of the sector for example the current cost debate and the formulation of accounting standards."

Shaoul is highlighting the silence of accounting academics on public policy issues here and elaborates this through the case of water privatisation in the UK. Similarly this concern regarding the contribution of critical accounting is the premise of this paper to provide an illustration of the silence or visibility of accounting in the changes within the pension provision sector by employers and how public policy was influenced by accounting (*cf*. Thomas and Williams, 2009) and whether these changes were colonised and influenced by accounting and in what way (see Broadbent *et al*., 1991).

5.3. Accounting disclosure in relation to pensions

Much of the accounting research concerning pensions has focused on the historical development and complexities of standard-setting and application in accounting for DB schemes in particular (Daley, 1984; Landsman, 1986; Barth, 1991; Blake *et al*., 2008). In these instances of standard-setting, a basic assumption is made of accounting neutrality and, to this; there is also an opposing view that sees accounting as a political phenomenon that constructs reality (Chua, 1986; Hines, 1988; Morgan, 1988; Young, 2003). Focusing upon the FASB standard-setting process, Young (2003, p. 621) observes that:

> "...the [re are] persuasive efforts that are employed in...official...accounting standards. These documents do more than simply detail new technical accounting requirements. The texts have been shaped to express a particular point of view about the significance of events and activities that occurred [the due process of standard-setting with input from influential stakeholders] during the standard-setting process and contain numerous efforts to persuade readers to accept this perspective."

Napier (1986, 2009) considers the history and development of accounting for pensions in substantial depth, focusing on the complexities thereof in terms of emphasis between income statement and balance sheet and the effect of this emphasis. The outlook for accounting for pensions according to Napier (1983, 2009) has changed over time from focusing on measuring income and profits to recognition and measuring of assets and liabilities. Once the focus moved from the income statement to the balance sheet, the pension liabilities seem to have become more of a concern to firms, possibly amplifying the impairment of the balance sheet and magnifying the risk perception. When organisations begin to experience an increased disclosure of liabilities in the balance sheet it will more often lead to concerns of financial viability and leverage (see Reiter and Omer, 1992; John, 1993; Barclay *et al*., 1995; O'Brien, 2007; Swinkels, 2011). For example, changes in the accounting treatment of pensions through the introduction of FRS17[9] in which pension surpluses and deficits were to be disclosed on the face of the balance sheet are also implicated (Broadbent *et al*., 2006; Hoevenaars *et al*., 2009; Napier, 1983, 2009). The Occupational Pensioner's Alliance (OPA) observed the debate around this accounting standard's development thus:

> "The new Financial Reporting Standard 17 phased in from 2000-2003 required companies for the first time to declare the extent of their pension fund assets and liabilities in their annual accounts...It's since been replaced by the very similar international standard, IAS19...These standards have been heavily criticised because they require companies to use discount rates based on AA rated bonds which is very misleading as this *understates* the liabilities and deficits. Moreover exposing a pension scheme's deficit on the company's annual balance sheet initially reduces a company's profits and...restricts its ability to pay dividends. In stable market conditions, the future effect of the pension scheme on the company accounts would be small. When, on the other hand, stock market conditions or interest rates fluctuate during an accounting period, a company's reported results could be grossly affected by its defined benefits pension scheme. Thus, many companies felt it might be best for their long term viability to discontinue this type of pension scheme altogether and replace it with a Defined Contribution (DC) scheme where all the investment risk falls on the individual."[10]

Prior to FRS17, surpluses and deficits were basically off-balance sheet items. Once pensions were disclosed on the face of the balance sheet, firms worried that deficits disclosed thus would reflect financial weakness. This concern motivated firms to move from DB to DC pension schemes, which are accounted for in much simpler terms as the items are only expensed in the latter and do not carry associated actuarial risks compared to DB schemes (Amen, 2008; Fasshauer *et al*., 2008; Amir *et al*., 2010).

Not only liabilities provoke questions about pensions. Surpluses may do so too. Where pension schemes are performing well in the markets, often there is a struggle over who owns the surpluses[11] amongst key stakeholders such as employers, employees and fund managers (Bulow and Scholes, 1983; Napier, 1986). Effectively there are plenty of battles over

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[9] http://www.opalliance.org.uk/decline.htm Accessed May 2, 2012.
[10] http://www.opalliance.org.uk/decline.htm Accessed May 2, 2012.
[11] It could be argued that such surpluses should provide insurance.

pensions shaped by accounting disclosures in the financial statements either of losses/surpluses or assets/liabilities. This begins to illustrate the political as well as the technical (and the emancipatory) characteristics and dimensions of pension scheme accounting (Paisey and Paisey, 2006). For Thomas and Williams (2009), the neutrality of accounting in respect of pensions here is brought into question more clearly. Accounting can be used here to illustrate the losses and deficits associated with pensions and to serve the argument that there is a need for pension scheme reform. Issues of pension affordability and sustainability to companies are raised and suggestions made that pensions be revised in the direction e.g. of greater affordability. At this argument's centre is the tension between funding pensions and maintaining cash residuals for continued pension capitalisation requirements (see Haslam *et al*., 2012). For Bunn and Trivedi (2005), any further investment needed to fund DB schemes reduces dividends. This issue concerning pension contribution and negative impact on dividends is affirmed by Liu and Tonks (2012). Next, cutting through the complexity, we highlight an inherent bias of distribution away from labour in difficult times.

5.4. Developing a critical interpretive perspective on accounting for pensions vis-à-vis pension changes

Accounting practice emphasises pensions as costs thus helping pressurise firms to minimise pensions and engendering related anxiety. The alternative view to the one directing mainstream accounting that is often ignored is that the employer has escaped risks and left the employee with possible financial difficulties in their retirement (with very little to fall back on). This is facilitated through framing and presenting a legitimising rhetoric using accounting and finance language such as cost saving, individual choice and efficiency for organisations (see Hopwood, 1984; Gandy, 1992). DC schemes present more challenges for employees than DB schemes. The key to understanding this conundrum for employees lies in understanding the rhetoric of simplicity and neutrality of accounting inherent within standard-setting and presented by the employers. Thomas and Williams (2009, p. 233) challenge this neutrality claim by arguing, e.g., that:

> "The Financial Accounting Standards Board has consistently portrayed the role of accounting as a neutral one. In its Conceptual Framework, the FASB states that...neutrality means that, either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest."

The conventional view of accounting that emphasises its neutrality in this sense (see Solomons, 1991) is challenged by others who argue that it is used as a legitimising rhetoric for capital interests promoting cost control and profitability (see Hopwood, 1985, 1994; Chua, 1986; Morgan, 1988; Hines, 1988, Shaoul, 1997a, 1997b; Young, 2003; Thomas and Williams, 2009). Accounting is used to exclude those stakeholders without a direct capital interest. Vis-à-vis pensions, employees are key stakeholders of the organisation. In this regard, employees' interests vis-à-vis pensions are reduced to firm costs and liabilities (Thomas and Williams, 2009). Once this characterisation of pensions has been successfully entrenched, an effort is then made to minimise and control them in order to maximise return on capital and reduce liabilities that impair balance sheet equity. Pensions are here perceived firmly as an impediment to profits and wealth maximisation. Drawing from Kelly (2001), Thomas and Williams (2009, p. 234) use a simple formula to illustrate this powerful point that drives decisions away from employee interests vis-à-vis pensions:

> "...preference for one constituency is embedded in the way rule makers valorize profit in the simple profit equation, Profit = Revenues − Expenses. Profit is understood by accounting rule makers as synonymous with "capital income." Since employee income (including pension benefits) is regarded as an expense, the profit model that informs the [standard-setters'] alleged neutrality becomes: Capital income = Revenues − (Employee income + other factor costs). However, simple algebra permits us to retain the arithmetic identity by rearranging terms to yield, Employee income = Revenues − (Capital income + other factor costs). That is, maximizing employee income could be as equally valid an objective for corporate management as maximizing shareholder income."

This argument represents an alternative understanding of accounting to that of the dominant and conventional tradition and considers employee well-being as a legitimate competing objective to the maximisation of shareholder wealth. It implies that rather than seeing the maximisation of profits as a priority, a concern to prioritise workers' benefits might be promoted. In holding to the position of neutrality and a 'tell it as it is' perspective on accounting, the standard setters promote an idealised context in which conflicts of constituents are not addressed (Arnold and Oakes, 1998; Thomas and Williams, 2009). In this idealised context the hegemonic character of capital and markets are therefore perpetuated (Gallhofer and Haslam, 2007). In the next section, the reporting and narrative of pensions in corporate annual reports is critically reviewed.

6.0 Corporate reporting and narratives in respect of pension changes

6.1. Sample choice

This section presents a focused analysis of narrative vis-à-vis pension changes in the annual reports of 24 companies within the UK FTSE 100. These companies (see Table 1) are chosen because of their significant size in terms of capital, turnover and relative contribution to the economy as top FTSE companies.[12] FTSE 100 companies, representing a significant market value and contribution to UK GDP, account for over 16% of UK employment.[13] Nearly half of the companies under assessment here are often in the top 10 of the FTSE 100. We anticipated that these companies are likely to at least have had DB schemes and would have given consideration to pension changes; but as big corporations with considerable reputation we expected that they would be sensitive to the issues discussed. We further expected these

[12] http://www.ftse.com/Indices/UK_Indices/Downloads/UKX.pdf Accessed February 15, 2013.
[13] http://www.havingtheircake.com/content/2_Our%20financial+industrial%20system/6_FTSE%20100/description/Top%20companies.php Accessed February 5, 2013.

companies to be actively discussing pension changes. We also tried to include companies operating across different countries. The sample of 24 was deemed manageable for purposes of an effective focused analysis. We review the online annual reports of these companies and assess whether they still offer the DB scheme as before, or have made adjustments to it instead of completely closing it down. We also assess whether closures relate only to new entrants and whether existing employees are being encouraged to migrate to DC schemes. We reflect upon whether this encouragement amounts to coercion. The nature of the discourse at the time of closing the scheme is analysed in terms of what is being disclosed in the annual reports in order to enhance understanding.

Table 1 Companies Analysed for pension changes

Company	**Defined Benefit Closed?**[14]
Anglo-American plc	Yes
AstraZeneca plc	Yes
Aviva plc	Yes
British Airways plc	Yes
Barclays plc	Yes
BAT plc	Yes
BHP BILLITON plc	Yes
BP plc	Yes
BT plc	Yes
Centrica plc	Yes
BAE plc	To be closed effect from 1 April 2012
Diageo plc	Yes
GSK plc	Yes
HSBC Holdings plc	Yes
J. Sainsbury plc	Yes
LLOYDS TSB plc	Yes
National Grid plc	Yes
RBS plc	Yes
Royal Dutch Shell plc	To be closed from 2013
Tesco plc	No. Adjusted DB to career earnings average
Unilever plc	Yes
Vodafone plc	Yes
Wolseley plc	Yes
WPP Group plc	Yes

6.2. DB pension schemes in operation

The analysis shows that most of the 24 companies migrated from DB to DC schemes. Tesco plc was the exception. In terms of the narrative, Tesco plc explicitly stresses the importance of pensions as part of human resource strategy in terms of loyalty and retention of employees:

> "Pension provision is central to our ability to foster loyalty and retain experience, which is why Tesco wants to ensure that the Tesco PLC Pension Scheme is a highly valued benefit."[15]

[14] In all cases the DB pension scheme was closed for new employees only.
[15] http://www.tescoplc.com/files/pdf/reports/tesco_annual_report_2012.pdf Accessed June 29, 2012.

Tesco plc suggests that it is out of this recognition that the DB scheme was not abandoned but instead adjusted from final salary to career average earnings. Whilst this move by Tesco plc may be seen as better than abandoning the DB scheme (it retains some security over future pension receipts), it is important to note that adjusting pensions from final salary to career average earnings amounts to a serious reduction of pension benefit and this is what should be noticed. Doing it retrospectively would amount to a fraud to those affected. Revision of pensions in retrospect is a dishonouring of contracts (see Tinker and Ghicas, 1993). Tesco plc also raised the retirement age from 65 to 67 among the pension scheme members, whilst it has been reported that the Tesco Chief executive officer retired at 55.[16]

The other companies that have migrated refer to a number of factors influencing their decision.

6.3. Taxation

GSK plc, much like Tesco plc, stresses in narrative the importance of pensions vis-à-vis human resources strategy:

> "Pensions have been, and continue to be, an important tool for creating a long-term culture and promoting employee retention. Therefore, the Committee decided that existing pension promises would be honoured and employees with pensions impacted by the changes would have the opportunity for their pension above the new limit to be delivered via GSK's existing unfunded scheme."[17]

At the same time, GSK plc closed its DB schemes to new employees highlighting taxation issues as part of the reasoning for changing its pension scheme and warning of further changes to its pension provision again necessitated by taxation changes:

> "During 2010, the UK Government announced a series of changes to the taxation of pensions which continue to impact the pensions of employees within GSK. The taxation changes will have significant negative consequences and the effectiveness of pensions will be much reduced."[18]

6.4. Defined contribution scheme considered superior - Flexibility

Others, like Lloyds TSB plc, portray their DC schemes as superior despite that they are transferring risk to employees. Lloyds TSB plc states:

[16] http://www.ft.com/cms/s/0/e1ade082-6d03-11e1-a7c7-00144feab49a.html#axzz2Kdd03Wzn Accessed February 8, 2013.

[17] http://www.gsk.com/investors/reps11/GSK-Annual-Report-2011.pdf Accessed April 7, 2012.

[18] http://www.gsk.com/investors/reps11/GSK-Annual-Report-2011.pdf Accessed April 7, 2012.

> "We implemented our new Defined Contribution pension scheme, 'Your Tomorrow', which was awarded the Pension Quality Mark Plus – the highest quality mark available from the National Association of Pension Funds."[19]

Further promoting DC schemes, Lloyds TSB plc indicates their flexibility – a contentious notion:

> "This year has seen the design and implementation of an award winning new Defined Contribution pension scheme – Your Tomorrow which gives considerable flexibility to employees to plan for retirement."[20]

BT plc closed its DB schemes to new employees in 2001. BT also emphasises flexibility of DC plans along with reduced costs (and their determination) as factors justifying migration:

> "This change is in line with the practice increasingly adopted by major UK groups and is designed to be more flexible for employees and enable the group to determine its pension costs more precisely than is the case for defined benefit schemes. The financial impact of this change is not expected to be significant in the next several years but it should reduce pension costs in the longer term."[21]

Flexibility of DC schemes is promoted as a valid factor for change of pension plans. The company reports little about costs to employees.

6.5. Local context

BAT plc brings in a different dimension of context arguing that their pension schemes take local conditions into account:

> "The Group's subsidiary undertakings operate around 175 retirement benefit arrangements worldwide. These arrangements have been developed in accordance with local practices in the countries concerned. The majority of scheme members belong to defined benefit schemes, most of which are funded externally and many of which are closed to new entrants. The Group also operates a number of defined contribution schemes."[22]

BT plc also refers to the relevance of local context to the type of pension schemes that can be provided, as follows:

> "…BT provides retirement plans for staff in over 50 countries. The largest of these plans is the BT Pension Scheme (BTPS), a defined benefit plan in the UK...The BTPS was closed to new members on 31 March 2001...We also offer the BT Retirement

[19] http://www.lloydsbankinggroup.com/media/pdfs/investors/2012/2011_LBG_RandA.pdf Accessed April 6, 2012.
[20] http://www.lloydsbankinggroup.com/media/pdfs/investors/2012/2011_LBG_RandA.pdf Accessed April 6, 2012.
[21] http://www.btplc.com/report/2000-2001/fin_rev/pensions/index.htm Accessed March 31, 2012.
[22] http://www.bat.com/ar/2011/financial-statements/group-financial-statements/notes-on-the-accounts/retirement-benefit-schemes/index.html#contentTop Accessed March 31, 2012.

> Saving Scheme (BTRSS), a defined contribution plan for eligible UK employees, which has around 17,500 active members. It is a contract based, defined contribution arrangement provided by Standard Life, a leading UK insurance company. The scheme members receive benefits at retirement linked to contributions paid, the performance of each individual's chosen investments and the annuity rates at retirement."[23]

Such moves could in significant instances amount to exploitation of lax environments and poor regulations in particular countries, leading to the provision of poor pensions or none at all. It could equally mean that where governments are actively concerned about pensions and employee welfare then properly negotiated pension schemes could be offered. Governments can therefore have an important role in pension design.

6.6. Cost implications

Most companies in Table 1 have migrated from DB to DC schemes citing risks and costs in support. Companies argue that they have accumulated liabilities in respect of pensions that require restructuring and more funding, holding that going forward this cannot be affordable. Lloyds TSB plc explicitly points out that pension schemes are exposed to high risk levels:

> "The Group's defined benefit staff pension schemes are exposed to significant risks from the constituent parts of their assets and from the present value of their liabilities, primarily equity and real interest rate risk."[24]

The closure of Vodafone plc's DB pension scheme and the cost factor is articulated thus:

> "Measurement of the Group's defined benefit retirement obligations are particularly sensitive to changes in certain key assumptions including the discount rate. An increase or decrease in the discount rate of 0.5% would result in a £156 million decrease or a £178 million increase in the defined benefit obligation respectively."[25]

Subsequent to this statement (which indicates the potential role and significance of a strongly subjective and controversial approach to the measurement involved) Vodafone plc does not provide further details in the annual reports about this change if indicating that: "The Group's principal defined benefit pension scheme in the United Kingdom was closed to new entrants from 1 January 2006 and closed to future accrual by current members on 31 March 2010."[26]

AVIVA plc argues that migration to DC schemes reduces costs, summarising as follows:

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[23] http://www.btplc.com/Sharesandperformance/Annualreportandreview/pdf/2011_BTGroupAnnualReport_smart.pdf Accessed April 7, 2012.
[24] http://www.lloydsbankinggroup.com/media/pdfs/investors/2012/2011_LBG_RandA.pdf Accessed April 7, 2012.
[25] http://www.vodafone.com/content/dam/vodafone/investors/annual_reports/annual_report_accounts_2011.pdf Accessed July 4, 2012.
[26] http://www.vodafone.com/content/dam/vodafone/investors/annual_reports/annual_report_accounts_2011.pdf Accessed July 4, 2012.

> "The consequential reduction in the liabilities of both schemes, arising from projecting forward salaries using estimates of inflation rather than salary inflation, together with additional contributions to affected members' defined contribution accounts and implementation costs, resulted in an overall gain on closure of £286 million, which was accounted for in 2010. Closure of the schemes has removed the volatility associated with adding future accrual for active members, and has also led to lower service costs and their cash funding since April 2011."[27]

Lloyds TSB plc points out that the DB scheme exposes the company to risk:

> "The Group's defined benefit staff pension schemes are exposed to significant risks from the constituent parts of their assets and from the present value of their liabilities, primarily equity and real interest rate risk."[28]

These risks that companies are concerned about are also the risks that employees will face under the new schemes. One wonders whether employees are properly equipped to shoulder these risks. The companies reviewed here in general converge on the issue of pension risk and cost consequences and cite these in their annual reports as key reasons for pension reform. They do not explicitly highlight profitability but this is implicit in the cost concerns.

BAE plc also expresses concern about DB scheme deficits and competing needs for company resources or cash.

> "The amount of the deficits may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in pension scheme deficits may require the Group to increase the amount of cash contributions payable to these schemes, thereby reducing cash available to meet the Group's other operating, investing and financing requirements."[29]

In response to this perceived problem BAE plc closed DB schemes:

> "In future, the growth of the defined benefit liabilities is expected to be curtailed as new employees in the UK will be offered membership of a defined contribution pension scheme with effect from 1 April 2012, rather than the current defined benefit/ defined contribution hybrid scheme. Current members of the Group's legacy plans will be unaffected by this change."[30]

6.7. Engagement with stakeholders

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[27] http://www.aviva.com/library/pdfs/reports/2011/aviva-2011-annual-report.pdf Accessed April 7, 2012.

[28] http://www.lloydsbankinggroup.com/media/pdfs/investors/2012/2011_LBG_RandA.pdf Accessed April 7, 2012.

[29] http://bae-systems-investor-relations-v2.production.investis.com/~/media/Files/B/BAE-Systems-Investor-Relations-V2/PDFs/results-and-reports/reports/2012a/ar-2011.pdf Accessed April 7, 2012.

[30] http://bae-systems-investor-relations-v2.production.investis.com/~/media/Files/B/BAE-Systems-Investor-Relations-V2/PDFs/results-and-reports/reports/2012a/ar-2011.pdf Accessed April 7, 2012.

This change in pension provision is a major event and it is of interest to understand how companies handled dialogue with workers as key stakeholders and the extent this is picked up in annual reports. Analysis shows that regarding engagement between workers and companies over pension changes the annual reports are generally silent on the matter. There is no significant corporate narrative coming through in the annual reports on the closing of DB schemes and employee engagement. Instead, a singular statement is made in the annual reports stating that the company will no longer offer DB schemes to new entrants, without providing much detail. For example, WPP GROUP plc states that:

> "The Group has a policy of closing defined benefit plans to new members. This has been implemented across a significant number of the pension plans."[31]

Aviva plc, however, unlike other companies, notes that there were consultations with employees before the DB scheme closures. This is captured in Aviva's 2011 annual report:

> "In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme (ASPS) and the smaller RAC (2003) Pension Scheme, the obligation to which was retained after the sale of RAC Limited in September 2011. New entrants join the defined contribution section of the ASPS, as the defined benefit section is closed...On 20 October 2010, following formal consultation, the Group confirmed its decision to close the final salary sections of both UK schemes with effect from 1 April 2011, with entry into the defined contribution sections being offered to the staff members affected...Closure of the schemes has removed the volatility associated with adding future accrual for active members, and has also led to lower service costs and their cash funding since April 2011."[32]

Raising the issue of volatility may thus be seen as a corporate pretext to move away from DB schemes. In this context, it is of note that corporations have often expressed commitment to fair value accounting, which actually imports volatility (see Barth *et al*., 1995; Boyer, 2000, 2007; Barth, 2004; Gwilliam and Jackson, 2008; Barth and Landsman, 2010).

Most companies assessed here are not explicit about stakeholder engagement. They do not allude to related problems arising. It is difficult to assess whether the voice of the employees emerged and to what extent as there is no disclosure on the level of engagement. The need for engagement is also de-emphasised by the fact that the change to the pension scheme typically does not affect existing employees as the DB variant is only closed to new entrants. This potentially reduces appetite for protracted negotiations from existing employees as there is no direct disadvantage to them. That existing employees are not immediately adversely affected by the changes and typically new entrants are at the point of entry at least not well placed to demand that which is not offered by the company might have affected the employees' voice.

6.8. Directors on DB pensions Schemes?

[31] http://www.wpp.com/annualreports/2010/downloads/WPP_AR10_Report.pdf Accessed March 31, 2012.
[32] http://www.aviva.com/library/pdfs/reports/2011/aviva-2011-annual-report.pdf Accessed April 7, 2012.

Exploring issues of directors or executives vis-à-vis DB schemes would be an interesting case going forward including in relation to new directors joining after the change. The type of contracts designed for new directors to compensate for loss of the DB pension option will be an issue worth exploring. As of now, some directors depending on their individual contracts and jurisdictions remain in DB schemes. For example, BP plc indicates that:

> "Executive directors should participate in the normal pension and benefit schemes applying in their home countries. Both UK and US executive directors remain on defined benefit pension plans reflecting respective national norms. UK directors, as for all UK employees who exceed the annual allowance set by legislation, may receive a cash supplement in lieu of future service pension accrual."[33]

AstraZeneca plc states that:

> "In relation to pension arrangements, the CEO's pension entitlement is provided through a combination of the AstraZeneca US Defined Benefit Pension Plan and US defined contribution arrangements...The Committee increased the CEO's shareholding requirement in January 2012 from 200% to 300% of base salary...the CFO receives a payment equivalent to 24% of his base salary... as a cash alternative to participation in a defined contribution pension scheme."[34]

Some directors at Barclays plc received cash in lieu of pension. This is captured thus:

> "There were no pension contributions paid to defined contribution schemes on behalf of Directors (2010: £13,588). There were no notional pension contributions to defined contribution schemes (2010: £nil). As at 31 December 2011, there were no Directors accruing benefits under a defined benefit scheme (2010: one Director)...The executive Directors received an annual cash allowance in lieu of membership of a Barclays pension plan. This was 50% and 25% of salary for Bob Diamond and Chris Lucas respectively."[35]

Executives may build various options into their contracts and remuneration that could offset any losses occasioned by shift from DB to DC schemes (*cf*. Gallhofer and Haslam, 2006b), including perhaps share options and bonuses. Their ability to negotiate individual contracts is an option beyond the general workforce. Future executive contracts will thus be worth exploring.

7.0. Labour issues beyond corporate annual reports

[33] http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/set_branch/STAGING/common_assets/bpin2011/downloads/BP_Annual_Report_and_Form_20F_2011.pdf Accessed February 15, 2013.

[34] http://www.astrazeneca-annualreports.com/2011/documents/pdfs/annual_report_pdf_entire.pdf Accessed February 15, 2013.

[35] http://group.barclays.com/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadername2=MDT-Type&blobheadervalue1=inline%3B+filename%3D2011-Barclays-PLC-Annual-Report-%28PDF%29.pdf&blobheadervalue2=abinary%3B+charset%3DUTF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1330686323829&ssbinary=true Accessed February 15, 2013.

Whilst the annual reports are generally silent on engagement with employees, giving the impression that there were no issues arising vis-à-vis pension changes, beyond company reports it is clear that there are issues and that unions were prominent in raising them. Issues are evident in other fora such as media beyond the corporate annual report narrative. E.g., the closure of Vodafone plc's DB scheme is covered in another arena to indicate the importance of workers being unionised to better represent their interests in the changes. ZDnet, a business technology news website, captures the scenario thus:

> "The Vodafone spokesperson said the company is not heavily unionised, and that the consultation with employees over the pension scheme had not involved any union representation."[36]

This statement vis-à-vis the report indicates that where labour organisation is weak there is less meaningful engagement and limited bargaining strength hence silencing workers' voice (see Aaronson and Coronado, 2005; Ghilarducci, 2006). Media reports into the proposed changes from DB to DC schemes suggest workers unhappy and sometimes threatening industrial action. E.g., ZDNet notes that in 2009: "...HP engineers in the Unite union...voted to…strike over the potential loss of pension benefits and pay reductions. The timing and duration…have yet to be decided."[37] Unilever plc also attracted anger from its workforce by closing its DB scheme, which resulted in industrial action captured in the media thus:

> "Unilever faces further strikes after pension scheme closure: Unions push for further stoppages after multinational consumer giant bid to close final salary scheme."[38]

The labour unions also raised concerns, for example, regarding pension changes at Royal Dutch Shell plc, captured by the Guardian as follows:

> "...the Unite union, which has led a vigorous campaign against cuts to public sector pensions, condemned Shell for "turning the screw on workers"...Unite's general secretary, said: 'This is a disgraceful act, nothing less than greed on the part of one of the world's richest and most powerful corporations. They have no need whatsoever to close this scheme and in the process deny their employees the safe retirement they were promised they could save for. "Shame on Shell, for where they lead, other corporates will follow."[39]

From these media excerpts, it is clear that there are issues that need engagement between employees and companies around this change. The corporate annual reports, however, are silent on these concerns, reflecting their political allegiance.

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[36] http://www.zdnet.co.uk/news/regulation/2009/11/27/vodafone-to-drop-final-salary-pension-scheme-39909135/ Accessed March 31, 2012.
[37] http://www.zdnet.co.uk/news/regulation/2009/11/19/hp-engineers-vote-to-strike-39890511/ Accessed March 31, 2012.
[38] http://www.guardian.co.uk/business/2012/jan/07/unilever-strikes-pension-closure Accessed April 7, 2012.
[39] http://www.guardian.co.uk/business/2012/jan/05/shell-closes-final-salary-pension Accessed April 7, 2012.

8.0. The Accounting profession's defence and promotion of DC pension Schemes

The accounting profession has been actively involved and implicated in the changes in pension schemes. The profession as represented by accountancy firms provides advisory and consultancy services to pension stakeholders. Accountancy firms provide their service to both sides, i.e. the companies and pension trustees. They thus have a clearer view of both situations and may be conflicted in their roles. In this respect, accountancy firms make observations about the problems of DC schemes in terms of future financial crisis. E.g., PricewaterhouseCoopers (PwC) attribute crisis to turbulent financial markets and see this leading to erosion of pension values. Given this scenario, PwC and other accountancy firms see themselves as able to assist clients in identifying areas that need to be addressed:

> "The stock market decline of recent years and the turmoil and uncertainty in the markets have negatively impacted defined contribution balances and significantly reduced pension assets for the majority of employers, creating an immediate need to address: Pension risks, Cash constraints, investment returns, value for the money spent and impact of delayed retirement for employees."[40]

Deloitte also engages with how DC schemes may be better managed. Regarding this, the firm claims it offers strategies on cost, efficiency and governance of investment.[41] KPMG for their part indicate they "...formed a specialist group to help businesses take a holistic view of their pension provision, and...launched a platform to help guide employers through the necessary considerations."[42] KPMG, aware of potential conflicts, emphasise their independence as important in providing their advice to help clients reduce and mitigate pension risks:

> "Maximising returns and minimising risk from pension scheme investments continues to be a priority for clients as they attempt to reduce pension contributions and manage funding levels. As a truly independent advisor, we offer genuinely impartial advice on how to tackle constantly evolving and challenging markets."[43]

KPMG also acknowledge providing pension advice to both trustees and companies:

> "We advise both Trustee and Corporate clients on their pension schemes' investment policies and objectives for both defined benefit and defined contribution pension schemes."[44]

The involvement of the accountancy profession with both parties might mean potential conflict of interest. This illustrates how pervasive accountancy is on these matters. The much

[40] http://www.pwc.com/us/en/hr-management/retirement-benefit-services.jhtml Accessed April 6, 2012.
[41] http://www.deloitte.com/view/en_GB/uk/services/consulting/actuarial-pensions/3f9b4eb489c5e210VgnVCM3000001c56f00aRCRD.htm Accessed May 2. 2012.
[42] http://www.kpmg.com/UK/en/WhatWeDo/Tax/Pensions/Pages/auto-enrolment-the-kpmg-approach.aspx Accessed May 2, 2012.
[43] http://www.kpmg.com/UK/en/WhatWeDo/Tax/Pensions/Pages/InvestmentAdvicePensions.aspx Accessed August 10, 2012.
[44] http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/ManagingPensionsFundinginRecovery.aspx Accessed August 10, 2012.

emphasised independence is doubtful given that the accountancy firms emphasise, in public statements, shareholder orientation. For example, KPMG indicate that:

> "Larger deficits are emerging in many schemes. The working population is living longer, while the credit crisis and subsequent recession has seen the value of pension schemes fall by 30 to 40 percent."[45]

If the corporate annual reports scarcely refer to any need for consultation with workers on the pension changes, one of the big 4 firms, KPMG, at least indicates the necessity of engagement but in the context of suggesting that reduced pension benefits are 'inevitable':

> "The closure of defined benefit schemes presents a real challenge for employee relations and for many companies, requires negotiation with trade unions. However, such action has become inevitable. The cost of providing pensions has increased inexorably as the working population lives longer, something which has been recognised by the UK government which has announced plans to raise the state pension age."[46]

Part of this 'reality' is that, according to KPMG, some companies are considering dramatic reductions in pension provisions:

> "...employers are now "thinking the unthinkable" and considering a marked reduction in benefits or the full closure of their existing pension schemes.[47]

The involvement of accountancy firms reflects partly how accounting is implicated in the changes. Accountancy firms are part of this change through offering their expertise, as a result creating business opportunities for themselves and in the process influencing the direction of pensions. The corporate annual reports, however, do not disclose whether they received any such advice from accountancy firms.

We have here seen that accountancy firms are actively involved in the discourse of reforming pensions and offering their assistance and services. Accountancy firms are therefore involved in shaping the pension agenda, this reflecting a facet of accounting and how it has been implicated in pension changes. Accountancy firms tend to see things from corporate interests even if they also work for trustees.

9.0. Policy-making in relation to pensions

[45] http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/ManagingPensionsFundinginRecovery.aspx Accessed August 10, 2012.

[46] http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/ManagingPensionsFundinginRecovery.aspx Accessed August 10, 2012.

[47] http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/ManagingPensionsFundinginRecovery.aspx Accessed August 10, 2012.

The FSA (2005) holds that the failure to make adequate provision for future retirees as occasioned by the migration to DC from DB plans must be seen as a public policy issue for Government. Mitchell and Sikka (2006) also argue that proper government policy on pensions is required to address issues emerging from this pension change. The new DC schemes place the burden of risk on employees who are expected to understand and internalise the associated costs, risks as well as the time horizons of the financial products they invest in despite concerns relating to financial literacy and general passive behaviour towards investment (FSA, 2005).

Given the many concerns vis-à-vis DC pension plans, policy makers are challenged to play a significant enabling role in assisting employees with a better investment environment promoting transparency and effectiveness. For Broadbent *et al.* (2006, p. 48):

> "In terms of financial market efficiency there is a role for policy-makers and regulators to ensure that there is sufficient market transparency and a lack of regulatory barriers to encourage an efficient DC pension market. There may be a further role for governments to play in strengthening the annuities market in ways that support the efficiency of both the annuities market and the DC pension market."

From this viewpoint, the government can further interrogate the notion of pension portability as promoted vis-à-vis DC pensions to assess its validity measured against the possibility of real poverty for retirees. For Gustman and Steinmeier (1993), compensation premium at the work place contributes to low turnover rather than non-portability of pension schemes. Thus the argument that DC plans are portable and flexible only creates an impression of emancipating the employee from some bondage thus conferring legitimacy for such schemes, when actually that only helps organisations avoid responsibility. Others argue that changes in pension provision allowing corporations to escape responsibility do not contribute to social justice and fairness. Mitchell and Sikka (2006, p. 2) argue that such changes can only:

> "...help to increase company profits, but do nothing for social cohesion, justice and fairness. Companies are closing or diluting good pension schemes, while their executives enjoy bumper pension pots."

Further, within the policy framework pensions could be centrally managed through a set scheme even administered by government, thus eliminating portability problems. Employees can then change employment without worrying about pension portability.

DC plans demand that individuals make worthwhile contributions to their pension accounts to build healthy balances for retirement. Mitchell and Sikka (2006, p. 2) argue that many people given limited disposable income, with other demands on that income such as "high cost of housing, gas, electricity, water, transport and council tax," find it very challenging to maintain investment in pensions. Policy development therefore could embrace and acknowledge these competing demands on people's incomes in comparison to the requirement of making a significant contribution to pensions. This, however, can be very complicated for policy makers especially in government given the power of corporations to influence a more neo-liberal agenda. Cole and Cooper (2006, p. 611) argue that often there is a complex interconnected relationship between government and those in the corporate world:

> "...the leading personnel of the state, capital and the accounting and legal professions are not "autonomous" in any clear sense of that term. They have close personal ties and share the same interests, backgrounds and political values...The 'state' and the various 'capitals' are concrete complexes of social relationships..."

These relationships between capital interests and policy makers responsible for social justice make it difficult to promote an enabling environment for social well-being (see Gallhofer and Haslam, 2003). Given the complexity of relationships amongst key socio-economic players it is increasingly clear that corporate accountability and responsibility in relation to pensions is challenged and capitalist hegemony is re-instated and 'reinforced' (see Unerman and Bennett, 2004). In this regard, the voice of the employee seems to be lost or silenced and outweighed by a more resilient mainstream ideology of neo-liberalism (Gallhofer and Haslam, 2006b; Merino *et al*., 2010) as more corporations abandon DB schemes for DC schemes.

Government could also insist on changing the nature and structure of firms ranging from tackling the limited liability concept to regulating the size and complex ownership structures promoted as part of globalisation that are used to transfer and conceal funds around the world (see Mitchell and Sikka, 2005).

9.1. Corporate Governance codes

Corporate governance codes are typically silent on responsibility to employees. They have generally been emphatic about good corporate governance practice to protect investors (Shleifer and Vishny, 1997; Core *et al*., 1999; Mallin *et al*., 2005; Thomsen, 2006; Sikka, 2008; Solomon, 2011). In the same light, it is important that employee welfare and concerns must be accorded space and be a key feature of corporate operations especially in terms of pensions (see Thomsen, 2006). Remuneration committees in companies generally prioritise executive pay above satisfaction of other stakeholders. For example, Lloyds TSB emphasises that:

> "The remuneration policy and philosophy will cover the whole company but will pay particular attention to those colleagues defined...below. In discharging this overarching purpose, the [Remuneration] committee's principal responsibilities are to: ...(a) determine and approve the contracts of employment and the terms of service, including all aspects of remuneration in respect of: i) the Chairman and Deputy Chairman of the Company, the Group Chief Executive [and] the Company Secretary."[48]

This skewed focus of corporate governance practice can be changed at national government level or at regional level (e.g. for the EU) to account for employee remuneration inclusive of

[48] http://www.lloydsbankinggroup.com/about_us/corporate_governance/remuneration_committee.asp Accessed February 15, 2013.

pensions with intent to avoid poverty on retirement (*cf*. Clark and Hebb, 2004; Clark and Salo, 2008; Sikka, 2008). Whilst corporations rightly provide a summary and or details of executive remuneration, it would be equally important to have a report on employee remuneration. A summary report on corporate remuneration showing disparities and relationships between executive pay and the general workforce could keep things in perspective. Such a disclosure requirement with a comparative ratio could be helpful. Corporate governance codes could also encourage democratisation of internal company processes (see Mitchell and Sikka, 2005; Sikka, 2008). This would extend voting rights beyond shareholding to employees as stakeholders. This would result not only in distribution of power but of wealth and risk.

Corporate governance practice could also focus on employee relations as much it encourages investor relations. We have also seen how corporate annual reports handle the narrative on pension changes. A brief narrative is provided that almost conceals the magnitude and implications of the changes. Especially with online reporting, firms can provide a detailed narrative of the implications of such change and what this might mean for future retirees. A more detailed narrative on employee relations not just a paragraph would be possible.

9.2. Accountancy profession going forward

It is important to expose and highlight the biases of accounting practice and accountancy profession (Mitchell and Sikka, 2006, 2006) more so, because the accountancy profession, particularly auditing, is considered the vanguard of public confidence in corporate activities. This has not often been the case as they are compromised through complex relationships with their clientele for fee purposes. The problematic fee link with clientele could be reviewed together with the appointment of auditors and their accountability. The auditors could be appointed by parliament and report to parliament on their findings. The idea that auditors provide an opinion only to their client in an increasingly stakeholder oriented environment seems inadequate. Parliament, rather than wait for briefings, reviews and commission after the crises, could play a more active oversight role. In terms of the over-arching neoliberalism’s influence in much of social issues, a rebalancing, re-distribution of power and promotion of consensus politics could curtail many of the abuses within the economy and bring about a better re-distribution of resources both at the micro and macro-level.

10.0. Insights and conclusion

This study sought to understand from a critical theoretical perspective the pension reforms represented by migration from DB to DC schemes. The objective is to reflect on how accounting is implicated in this change and further how this change was captured and represented in corporate annual report narratives. There are key insights that are evidenced and can be drawn from this study, firstly that a crisis in terms of poverty for the retired based on the new DC pension schemes is slowly building up. This is a crisis that government might then have to address through a welfare programme when it becomes clearer in years to come when those who are now embarking on the DC schemes retire. This means government might have to assume the responsibility that corporations are abandoning now. These changes are effectively reductions in pensions and sometimes retrospective but these are glossed over/ignored/seen through rose tinted spectacles in corporate reports - emphasising the interested character of the reports.

Secondly, this departure from DB schemes could be a prelude to the end of pension provision or participation in pensions by companies. We are likely to witness a situation where employees are expected to build their own pensions from private arrangements without involvement of their employers. Regulation may be required to address this potential problem. The third insight is that corporations are able to avoid the need for significant and meaningful engagement with current employees by letting them continue with DB pension schemes albeit adjusted from final salary to career average earnings basis, a move that reduces their entitlement. This creates a less significant incentive on the part of existing employees to actively seek engagement to halt this migration. By creating a wedge between existing employees and new entrants, companies technically render, at least to some extent, current employees non stakeholders in the pension change as they are not directly affected. If existing employees were actively coerced to transfer to the new DC scheme then that would encourage them to be more vocal in opposition to the change. In this context the silence of the workers' voices has been induced in subtle terms. Surprisingly the existing workers seem to ignore or fail to appreciate the disadvantage associated with the retrospective adjustment to their pension benefit from final salary to average earnings within the DB scheme. Perhaps given that the adjustment occurs within the scheme it conceals the loss of benefit as well as the fact that the corporation is reneging on a contract. Whilst beyond the corporate annual report narrative we have seen the concerns from labour emerging, it would seem they are not as robust and have rarely shaken companies to reconsider their position. Many of the companies do not explicitly state whether the changes have been retrospective.

It also emerges from this study that accounting played a part in the pension change. For example the way pensions were accounted for as per FRS 17 and IAS 19, leading to particular disclosures in the balance sheet, motivated the change. Companies were concerned about the impact of the liabilities disclosed on the face of the balance sheet arising from pension deficits and the image this portrayed of financial stability. The funding of pension deficits under the DB scheme was also a concern to companies together with the related actuarial risks as it was seen as weakening their financial position. Could these accounting standards have been initiated in order to create a pretext and platform to argue for this change? The decision to tax pension surpluses created a place for contest between firms and policy makers and it clearly formed a building block for companies to argue for this change in pension provision. Taxes are clearly part of the accounting implication as they are based on adjustments to accounts. The change as gleaned from literature and corporate annual reports was framed as beneficial to members because the new pension provided choice, portability and flexibility to beneficiaries. These concepts are applied as a way of framing an image beneficial to workers whilst the actuality of the change is the opposite. The study has also suggested that silences in corporate annual report narratives about contests over pension changes is designed to create an impression of consensus amongst the parties involved.

Going forward, it is imperative that a critical theoretical perspective be extended to accountings and pensions to highlight their interface. Pensions are increasingly becoming a more pronounced social issue and gaining currency in recent times. An effort to understand the interface of this development with accounting is important. This understanding will encourage efforts to democratise internal processes of companies towards a more just stakeholder perspective particularly with regard to their wealth creators, employees. A further suggestion that is not mutually exclusive is emphasised in Gallhofer and Haslam (2003). They advocate a 'counter accounting' that takes a position against the hegemonic forces. Thus, they would advocate, for example, taking the perspective of labour in relation to accounting for pensions. Gallhofer and Haslam (2003) advocate a radical democracy in which communication, including 'accounting' communication, can play its part in emancipatory change. In its own way, it is hoped that this article itself is a contribution to redressing the balance.

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